

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of  
Long Island American Water  
Case 11-W-0200  
September 2011

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Prepared Exhibits of:

Andrew Leung  
Senior Auditor  
Office of Accounting and Finance  
State of New York  
Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

**Long Island American Water  
Statement of Operating Income  
For the Rate Year Ending March 31, 2013**

	Per Company As Initially Filed	Adj. No.	Staff Adjustments	As Adjusted by Staff	Rate Increase	As Adjusted by Staff After Increase
<b><u>Operating Revenues</u></b>						
Water Sales	\$ 48,871,673		\$ -	\$ 48,871,673	\$ 493,747	\$ 49,365,420
Other Revenue	191,486		-	191,486	1,564	193,050
<b>Total Operating Revenues</b>	<b>49,063,159</b>		<b>-</b>	<b>49,063,159</b>	<b>495,311</b>	<b>49,558,470</b>
<b>O &amp; M Expenses (from page 2)</b>	<b>23,943,730</b>	<b>1</b>	<b>(2,156,437)</b>	<b>21,787,293</b>	<b>4,220</b>	<b>21,791,513</b>
<b>Depreciation Expense</b>	<b>4,373,069</b>	<b>2</b>	<b>(6,419)</b>	<b>4,366,650</b>	<b>-</b>	<b>4,366,650</b>
<b><u>Taxes Other Than Income Taxes</u></b>						
Property Taxes	14,365,278	3	(3,504,649)	10,860,629	-	10,860,629
Payroll Taxes	538,791	4	(38,638)	500,153	-	500,153
Other Taxes	-		-	-	-	-
<b>Total Taxes Other Than Income Taxes</b>	<b>14,904,069</b>		<b>(3,543,287)</b>	<b>11,360,782</b>	<b>-</b>	<b>11,360,782</b>
<b>Total Operating Revenue Deductions</b>	<b>43,220,868</b>		<b>(5,706,143)</b>	<b>37,514,725</b>	<b>4,220</b>	<b>37,518,945</b>
<b>Net Operating Income Before SIT</b>	<b>5,842,291</b>		<b>5,706,143</b>	<b>11,548,434</b>	<b>491,091</b>	<b>12,039,525</b>
<b>State Income Tax Expense</b>	<b>129,790</b>	<b>5</b>	<b>507,890</b>	<b>637,681</b>	<b>42,381</b>	<b>680,062</b>
<b>Net Operating Income Before FIT</b>	<b>5,712,501</b>		<b>5,198,252</b>	<b>10,910,753</b>	<b>448,710</b>	<b>11,359,463</b>
<b>Federal Income Tax Expense</b>	<b>766,848</b>	<b>6</b>	<b>1,714,695</b>	<b>2,481,543</b>	<b>152,562</b>	<b>2,634,105</b>
<b>Net Income Available for Return</b>	<b>\$ 4,945,653</b>		<b>\$ 3,483,557</b>	<b>\$ 8,429,210</b>	<b>\$ 296,148</b>	<b>\$ 8,725,358</b>
<b>Rate Base</b>	<b>\$ 126,945,552</b>	<b>7</b>	<b>\$ (3,853,481)</b>	<b>\$ 123,092,071</b>	<b>-</b>	<b>\$ 123,092,071</b>
<b>Rate of Return</b>	<b>3.90%</b>			<b>6.85%</b>		<b>7.09%</b>

**Long Island American Water**  
**Schedule of Operating and Maintenance Expenses**  
**For the Rate Year Ending March 31, 2013**

<u>Operating &amp; Maintenance Expenses</u>	<u>Per Company As Initially Filed</u>	<u>Adj. No. 1</u>	<u>Staff Adjustments</u>	<u>As Adjusted by Staff</u>	<u>Rate Increase</u>	<u>As Adjusted by Staff After Increase</u>
Payroll	\$ 7,033,860	a	\$ (617,231)	\$ 6,416,629	\$ -	\$ 6,416,629
Productivity Adjustment	(100,619)	b	6,734	(93,885)	-	(93,885)
Purchased Power	2,396,573		-	2,396,573	-	2,396,573
Fuel	432,344		-	432,344	-	432,344
Chemicals	1,101,987		-	1,101,987	-	1,101,987
Invoices	2,566,311	c	(183,231)	2,383,080	-	2,383,080
Leased Vehicles	565,426	d	(136,777)	428,649	-	428,649
Service Company	5,374,394	e	(940,929)	4,433,465	-	4,433,465
Postage	333,023		-	333,023	-	333,023
Rents	16,826		-	16,826	-	16,826
Group Insurance	866,875		-	866,875	-	866,875
OPEBs	498,777	f	2,343	501,120	-	501,120
Pension	884,674	g	4,156	888,830	-	888,830
401k Expense	132,786	h	(9,853)	122,933	-	122,933
Deferred Contribution Plan	96,315	i	(11,042)	85,273	-	85,273
Insurance Other Than Group	800,189		-	800,189	-	800,189
Uncollectible Accounts	307,892		-	307,892	3,111	311,003
PSC Assessment	117,312		-	117,312	1,109	118,421
Employee Stock Purchase Plan	3,163	j	(3,163)	-	-	-
Retiree Medical	6,642		-	6,642	-	6,642
Customer Outreach and Education Program	84,821		-	84,821	-	84,821
Amort. of Deferred Rate Case costs	233,333	k	(171,000)	62,333	-	62,333
Amort. of Deferred Tank Painting costs	32,884		-	32,884	-	32,884
Amort. of Deferred Pension/OPEB expense	-		-	-	-	-
Amortization of Actuarial Studies	96,444	l	(96,444)	-	-	-
Audit Fees	61,498		-	61,498	-	61,498
<b>Total O &amp; M Expenses</b>	<b>\$ 23,943,730</b>		<b>\$ (2,156,437)</b>	<b>\$ 21,787,293</b>	<b>\$ 4,220</b>	<b>\$ 21,791,513</b>

**Long Island American Water**  
**Calculation of State Income Tax Expense**  
**For the Rate Year Ending March 31, 2013**

	Per Company As Initially Filed	Adj. No. 5	Staff Adjustments	As Adjusted by Staff	Rate Increase	As Adjusted by Staff After Increase
Net Operating Income Before SIT	\$ 5,842,291	a	\$ 5,706,143	\$ 11,548,434	\$ 491,091	\$ 12,039,525
<b><u>Additions/Deductions</u></b>						
Interest Expense	(4,278,065)	b	118,747	(4,159,318)	-	(4,159,318)
Depreciation Differences	(705,249)		-	(705,249)	-	(705,249)
Amortization of Rate Case	-		-	-	-	-
Amortization of Tank Painting	-		-	-	-	-
Amortization of Deferred Pension/OPEBs	-		-	-	-	-
Amortization of Pension Actuarial Study	-		-	-	-	-
Reduction to Taxable Income for Repairs Expense	(422,944)	c	(671,682)	(1,094,626)	-	(1,094,626)
Excess Deferred SIT	-		-	-	-	-
<b>Total Adjustments for SIT</b>	<b>(5,406,258)</b>		<b>(552,935)</b>	<b>(5,959,193)</b>	<b>-</b>	<b>(5,959,193)</b>
<b>Taxable Income for SIT</b>	<b>436,033</b>		<b>5,153,208</b>	<b>5,589,241</b>	<b>491,091</b>	<b>6,080,332</b>
Current SIT Expense @ 7.1%	30,958	d	365,878	396,836	34,867	431,704
MTA Surcharge on SIT @ (9% of 17%)	6,671	e	78,844	85,515	7,514	93,029
<b>Current SIT w/ MTA Surcharge</b>	<b>37,630</b>		<b>444,722</b>	<b>482,351</b>	<b>42,381</b>	<b>524,733</b>
<b><u>Deferred SIT Expense</u></b>						
Depreciation Differences	60,863		-	60,863	-	60,863
Amortization of Rate Case	20,137	f	(20,137)	-	-	-
Amortization of Tank Painting	2,838	f	(2,838)	-	-	-
Amortization of Deferred Pension/OPEBs	-		-	-	-	-
Amortization of Pension Actuarial Study	8,323	f	(8,323)	-	-	-
Reduction to Taxable Income for Repairs Expense	-	g	94,466	94,466	-	94,466
Excess Deferred SIT	-		-	-	-	-
<b>Deferred SIT Expense</b>	<b>92,161</b>		<b>63,169</b>	<b>155,329</b>	<b>-</b>	<b>155,329</b>
<b>Total State Income Tax Expense</b>	<b>\$ 129,790</b>		<b>\$ 507,890</b>	<b>\$ 637,681</b>	<b>\$ 42,381</b>	<b>\$ 680,062</b>

**Long Island American Water**  
**Calculation of Federal Income Tax Expense**  
**For the Rate Year Ending March 31, 2013**

	Per Company As Initially Filed	Adj. No. 6	Staff Adjustments	As Adjusted by Staff	Rate Increase	As Adjusted by Staff After Increase
Net Operating Income Before FIT	\$ 5,712,501	a	\$ 5,198,252	\$ 10,910,753	\$ 448,710	\$ 11,359,463
<b><u>Additions/Deductions</u></b>						
Deferred State Income Tax	92,161	b	63,169	155,329	-	155,329
Interest Expense	(4,278,065)	c	118,747	(4,159,318)	-	(4,159,318)
Depreciation Differences	(4,983,026)		-	(4,983,026)	-	(4,983,026)
Amortization of Rate Case	-		-	-	-	-
Amortization of Tank Painting	-		-	-	-	-
Amortization of Deferred Pension/OPEBs	-		-	-	-	-
Amortization of Pension Actuarial Study	-		-	-	-	-
Reduction to Taxable Income for Repairs Expense	(422,944)	d	(671,682)	(1,094,626)	-	(1,094,626)
Excess Deferred FIT	-		-	-	-	-
Total Adjustments for FIT	(9,591,874)		(489,766)	(10,081,640)	-	(10,081,640)
Taxable Income for FIT	(3,879,374)		4,708,486	829,112	448,710	1,277,822
Current FIT Expense @ 34%	(1,318,987)	e	1,600,885	281,898	152,562	434,460
<b><u>Deferred FIT Expense</u></b>						
Deferred State Income Tax	(31,335)	f	(21,477)	(52,812)	-	(52,812)
Depreciation Differences	1,694,229		-	1,694,229	-	1,694,229
Amortization of Flow Through Tax Depr	324,519	g	(113,581)	210,938	-	210,938
Amortization of Rate Case	79,333	h	(79,333)	-	-	-
Amortization of Tank Painting	11,181	h	(11,181)	-	-	-
Amortization of Deferred Pension/OPEBs	-		-	-	-	-
Amortization of Pension Actuarial Study	32,791	h	(32,791)	-	-	-
Reduction to Taxable Income for Repairs Expense	-	i	372,173	-	-	372,173
Excess Deferred FIT	(9,883)		-	(9,883)	-	(9,883)
Deferred FIT Expense	2,100,835		113,810	2,214,645	-	2,214,645
Amortization of ITC	(15,000)		-	(15,000)	-	(15,000)
Total Federal Income Tax Expense	\$ 766,848		\$ 1,714,695	\$ 2,481,543	\$ 152,562	\$ 2,634,105

**Long Island American Water  
Rate Base Summary  
For the Rate Year Ending March 31, 2013**

	Per Company As Initially Filed	Adj. No. 7	Staff Adjustments	As Adjusted by Staff	Rate Increase	As Adjusted by Staff After Increase
<b><u>Net Utility Plant</u></b>						
Water Plant in Service	\$ 194,615,892	a	\$ (520,000)	\$ 194,095,892	\$ -	\$ 194,095,892
Non-Interest Bearing CWIP	262,553		-	262,553	-	262,553
Plant Held For Future Use	110,933		-	110,933	-	110,933
Less Accumulated Depreciation	(52,188,969)	b	5,070	(52,183,899)	-	(52,183,899)
<b>Total Net Utility Plant</b>	<b>142,800,409</b>		<b>(514,930)</b>	<b>142,285,479</b>	<b>-</b>	<b>142,285,479</b>
 Customer Advances for Construction	 (65,427)		 -	 (65,427)	 -	 (65,427)
<b><u>Working Capital</u></b>						
Cash Allowance	2,886,976	c	(213,953)	2,673,023	139	2,673,162
Materials and Supplies	617,481		-	617,481	-	617,481
Prepayments	1,562,789		-	1,562,789	-	1,562,789
<b>Total Working Capital</b>	<b>5,067,246</b>		<b>(213,953)</b>	<b>4,853,293</b>	<b>-</b>	<b>4,853,293</b>
<b><u>Regulatory Deferrals</u></b>						
Tank Painting (net of tax)	148,729		-	148,729	-	148,729
Rate Case Expense (net of tax)	231,166	d	(137,192)	93,974	-	93,974
Deferred Pensions/OPEB expense	-		-	-	-	-
Pension Actuarial Study (net of tax)	145,400	e	(145,400)	-	-	-
<b>Total Regulatory Deferrals</b>	<b>525,295</b>		<b>(282,592)</b>	<b>242,703</b>	<b>-</b>	<b>242,703</b>
 Accumulated Deferred Income Taxes	 (20,181,145)	f	 524,546	 (19,656,599)	 -	 (19,656,599)
 Earnings Base Capitalization Adj.	 (1,200,826)	g	 (3,366,552)	 (4,567,378)	 -	 (4,567,378)
 <b>Total Rate Base</b>	 <b>\$ 126,945,552</b>		 <b>\$ (3,853,481)</b>	 <b>\$ 123,092,071</b>	 <b>\$ -</b>	 <b>\$ 123,092,071</b>

**Long Island American Water  
Summary of Cash Working Capital Allowance  
For the Rate Year Ending March 31, 2013**

	Per Company As Initially Filed	Staff Adjustments	As Adjusted by Staff	Rate Increase	As Adjusted by Staff After Increase
<b>Total O &amp; M Expenses</b>	\$ 23,826,418	\$ (2,039,125)	\$ 21,787,293	\$ 4,220	\$ 21,791,513
<b><u>Adjustments:</u></b>					
Uncollectible Accounts Expense	(367,949)	60,057	(307,892)	(3,111)	(311,003)
Amort. of Deferred Rate Case costs	(233,333)	171,000	(62,333)	-	(62,333)
Amort. of Deferred Tank Painting costs	(32,884)	-	(32,884)	-	(32,884)
Amort. of Deferred Pension/OPEB exp	-	-	-	-	-
Amort. of Pension Actuarial Study	(96,444)	96,444	-	-	-
<b>Total Adjustments</b>	(730,610)	327,501	(403,109)	(3,111)	(406,220)
<b>Sub-total for Cash W/C allowance</b>	23,095,808	(1,711,624)	21,384,184	1,109	21,385,293
<b>Weighted Billing factor - 1/8 (45 days)</b>	12.50%	12.50%	12.50%	12.50%	12.50%
<b>Total Cash W/C Allowance</b>	\$ 2,886,976	\$ (213,953)	\$ 2,673,023	\$ 139	\$ 2,673,162

**Long Island American Water  
Cost of Capital  
For the Rate Year Ending March 31, 2013**

	<u>Percent</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Pre-Tax Return</u>
<b>Long-Term Debt</b>	56.19%	5.68%	3.19%	3.19%
<b>Preferred Stock</b>	0.05%	4.50%	0.00%	0.00%
<b>Common Equity</b>	43.76%	8.90%	3.89%	6.49%
<b>Totals</b>	<u>100.00%</u>		<u>7.09%</u>	<u>9.69%</u>

**Long Island American Water  
Computation of Revenue Requirement  
For the Rate Year Ending March 31, 2013**

	<b>Rate Year Per Staff</b>
Average Rate Base	\$ 123,092,071
Rate of Return on Rate Base	7.09%
Required Net Income	<u>8,725,359</u>
Net Income before Revenue Requirement	8,429,210
Earnings Deficiency	<u>296,149</u>
Retention Factor	59.98%
Revenue Increase	<u><u>\$ 493,747</u></u>

<b><u>Calculation of Retention ("Gross-Up") Factor:</u></b>	<b><u>Percentages</u></b>	<b><u>Rate Year Revenue Requirement</u></b>
Sales Revenues	100.00%	\$ 493,747
Late Payment Charges	0.32%	1,564
PSC Assessment	0.22%	1,109
Uncollectible Accounts Expense	0.63%	3,111
Retention Factor before Income Taxes	<u>99.46%</u>	<u>491,091</u>
SIT Expense @7.1% plus (9% times 17%) MTA Surcharge on SIT	8.58%	42,381
FIT Expense @ 34%	30.90%	152,562
Retention Factor	<u><u>59.98%</u></u>	<u><u>\$ 296,149</u></u>

**Long Island American Water  
Summary of Staff Adjustments  
For the Rate Year Ending March 31, 2013**

<u>Adj No.</u>		<u>Witness</u>	<u>Amount</u>
1	<b><u>Operating &amp; Maintenance Expenses</u></b>		
a.	<b><u>Payroll</u></b>		
	1) To reflect the removal of three vacant union employee positions	Leung	\$ (211,353)
	2) To reflect payroll adjusted for general inflation	Leung	(187,367)
	3) To reflect HTY overtime (OT) adjusted for general inflation	Leung	(121,031)
	4) To remove incentive compensation	Leung	(260,010)
	5) To adjust payroll with HTY capitalized payroll percentage	Leung	162,530
	Total Adjustments to Payroll		<u>\$ (617,231)</u>
b.	<b><u>Productivity Adjustment</u></b>		
	Tracking Staff's adjustments to payroll	Leung	6,734
c.	<b><u>Invoices</u></b>		
	To reflect Staff's adjustments to invoices expense	Bailey	(183,231)
d.	<b><u>Leased Vehicles</u></b>		
	To reflect Staff's adjustments to leased vehicles expense	Simpson	(136,777)
e.	<b><u>Service Company Expense</u></b>		
	To reflect Staff's adjustments to service company expense	Bailey	(940,929)
f.	<b><u>Post-Retirement Other than Pensions (OPEBs)</u></b>		
	To adjust OPEBs expense with HTY capitalized payroll percentage	Bailey	2,343
g.	<b><u>Pension Expense</u></b>		
	To adjust pension expense with HTY capitalized payroll percentage	Bailey	4,156
h.	<b><u>401(k) Plan Expense</u></b>		
	Tracking Staff's adjustments to payroll	Leung	(9,853)
i.	<b><u>Defined Contribution Plan (DCP)</u></b>		
	Tracking Staff's adjustments to payroll	Leung	(11,042)
j.	<b><u>Employee Stock Purchase Plan (ESPP)</u></b>		
	To remove ESPP costs from operating expense	Leung	(3,163)

**Long Island American Water  
Summary of Staff Adjustments  
For the Rate Year Ending March 31, 2013**

<u>Adj No.</u>		<u>Witness</u>	<u>Amount</u>
1	<b><u>Operating &amp; Maintenance Expenses</u></b>		
k.	<b><u>Amortization of Deferred Rate Case Expense</u></b> To adjust the forecast of rate case expense amortized over three years	Simpson	(171,000)
l.	<b><u>Amortization of Actuarial Studies</u></b> To disallow the amortization of expense to perform stand-alone pension and OPEB	Bailey	(96,444)
	<b>Total Adjustments to Operating &amp; Maintenance Expense</b>		<b><u><u>(2,156,437)</u></u></b>
2	<b><u>Depreciation Expense</u></b> To reflect Staff's adjustments to book depreciation expense	Horan	(6,419)
	<b><u>Taxes Other Than Income Taxes</u></b>		
3	<b><u>Property Taxes</u></b> To adjust property tax forecast to reflect latest known amounts plus inflation	Bailey	(3,504,649)
4	<b><u>Payroll Taxes</u></b> Tracking Staff's adjustments to payroll	Leung	(38,638)
	<b>Total Adjustments to Taxes Other Than Income Taxes</b>		<b><u><u>(3,543,287)</u></u></b>

**Long Island American Water  
Summary of Staff Adjustments  
For the Rate Year Ending March 31, 2013**

<u>Adj No.</u>		<u>Witness</u>	<u>Amount</u>
5	<u>State Income Taxes</u>		
a.	<u>Net Operating Income before SIT</u> To reflect Staff's adjustments to operating revenues and expenses		<u>\$ 5,706,143</u>
	<u>Adjustments to Taxable Income</u>		
b.	<u>Interest Expense</u> To reflect Staff's calculation of interest expense including interest on IBCWIP	Leung	118,747
c.	<u>Reduction to Taxable Income for Repairs Expense</u> To reflect LIAW's correction to the repairs expense deduction	Leung	(671,682)
	<b>Total Adjustments to Taxable Income - SIT</b>		<u><u>(552,935)</u></u>
d.	<u>State Income Tax</u> To reflect state income tax expense at the current rate of 7.1%		<u>365,878</u>
e.	<u>MTA Tax Surcharge</u> To reflect MTA tax surcharge at the current rate of 17%		<u>78,844</u>
	<u>Deferred State Incomes Taxes</u>		
f.	<u>Removal of Deferred SIT for Rate Case, Tank Painting and Pension Study</u> To remove deferred SIT from items that are not supported by tax deductions	Leung	(31,298)
g.	<u>Amortization of Deferred Repairs Expense Deduction</u> To correct omission of deferred SIT on repairs expense deduction	Leung	94,466
	<b>Total Deferred SIT</b>		<u><u>63,169</u></u>

**Long Island American Water  
Summary of Staff Adjustments  
For the Rate Year Ending March 31, 2013**

<u>Adj. No.</u>		<u>Witness</u>	<u>Amount</u>
6	<u>Federal Income Taxes</u>		
a.	<u>Net Operating Income before FIT</u> To reflect Staff's adjustments made to operating revenues and expenses		<u>\$ 5,198,252</u>
	<u>Adjustments to Taxable Income</u>		
b.	<u>Deferred State Income Tax</u> Tracking Staff's deferred state income tax calculation		63,169
c.	<u>Interest Expense</u> To reflect Staff's calculation of interest expense including interest on IBCWIP	Leung	118,747
d.	<u>Reduction to Taxable Income for Repairs Expense</u> To reflect LIAW's correction to the repairs expense deduction	Leung	(671,682)
	<b>Total Adjustments to Taxable Income - FIT</b>		<u><u>(489,766)</u></u>
e.	<u>Federal Income Tax</u> To reflect federal income taxes at the current 34% tax rate		<u>1,600,885</u>
	<u>Deferred Federal Incomes Taxes</u>		
f.	<u>Deferred State Income Taxes</u> Tracking Staff's adjustment of deferred SIT		(21,477)
g.	<u>Amortization of Flow-Through Tax Depreciation</u> To correct deferred FIT on the amortization of flow-through tax depreciation	Leung	(113,581)
h.	<u>Removal of Deferred FIT for Rate Case, Tank Painting and Pension Study</u> To remove deferred FIT from items that are not supported by tax deductions	Leung	(123,305)
i.	<u>Amortization of Deferred Repairs Expense Deduction</u> To correct omission of deferred FIT on repairs expense deduction	Leung	372,173
	<b>Total Deferred FIT</b>		<u><u>113,810</u></u>

Long Island American Water  
Summary of Staff Adjustments  
For the Rate Year Ending March 31, 2013

<u>Adj No.</u>		<u>Witness</u>	<u>Amount</u>
7	<u>Rate Base</u>		
a.	<u>Water Plant In Service</u> To reflect Staff's correction to Water Plant in Service based on IR-171, MVH-15	Horan	\$ (520,000)
b.	<u>Accumulated Provision for Depreciation</u> Tracking Staff's plant in service adjustments	Horan	5,070
	<u>Working Capital</u>		
c.	<u>Cash Allowance</u> Tracking the Staff's adjustments to O & M expenses		(213,953)
	<u>Regulatory Deferrals</u>		
d.	<u>Deferred Rate Case Expense</u> Tracking Staff's recommended rate year amortization	Simpson	(137,192)
e.	<u>Deferred Pension Actuarial Study</u> Tracking Staff's recommended rate year amortization	Bailey	(145,400)
	Total Adjustments to Regulatory Deferrals		<u>(282,592)</u>
f.	<u>Accumulated Deferred Income Taxes (ADIT)</u> Tracking Staff's correction to Water Plant in Service based on IR-171, MVH-15	Horan	524,546
g.	<u>Earnings Base vs. Capitalization Adjustment (EBCap)</u>		
	1) To reflect Staff's adjustment to capitalization	Leung	(458,006)
	2) To reflect Staff's corrections to HTY accumulated deferred income taxes	Leung	<u>(2,908,546)</u>
	Total Adjustments to EBCap		(3,366,552)
	Total Adjustments to Rate Base		<u><u>(3,853,481)</u></u>

**Long Island American Water  
Case 11-W-0200  
Payroll Expense Adjustment  
For the Rate Year Ended March 31, 2013**

Classification (1)	Actual Calendar Year YE 12/31/2008 (2)	Actual Calendar Year YE 12/31/2009 (3)	Actual Test Year YE 12/31/2010 (4)	LIAW Forecast YE 12/31/2011 (5)	LIAW Forecast YE 12/31/2012 (6)	LIAW Forecast RY 3/31/2013 (7)	Adj. No. (8)	Staff Adjustments (8)	Staff Adjusted Forecast RY 3/31/2013 (9)
<b>Payroll</b>									
<u>Union</u>									
Number of Employees	67.0	66.4	67.7	70.5	70.5	70.5	1	(3.0)	67.5
<u>Total Salary</u>	<u>\$ 5,370,724</u>	<u>\$ 5,269,386</u>	<u>\$ 5,379,890</u>	<u>\$ 5,774,668</u>	<u>\$ 5,996,310</u>	<u>\$ 6,030,509</u>		<u>\$ (491,626)</u>	<u>\$ 5,538,883</u>
Regular	4,397,514	4,348,883	4,526,084	4,791,117	4,977,906	5,002,267	2	(368,834)	4,633,433
Shift Premium	31,314	31,908	35,802	37,038	38,271	38,515	3	(586)	37,929
Pay Adjusted Above Normal Rates	12,667	17,070	20,401	21,117	21,858	22,624	4	(999)	21,625
Longevity Payment	26,625	28,175	26,600	26,600	28,000	28,700		-	28,700
Union Overtime	902,604	843,350	771,003	898,796	930,275	938,403	5	(121,208)	817,195
<u>Nonunion</u>									
Number of Employees	22.5	22.5	22.3	24.5	24.5	24.5		-	24.5
<u>Total Salary</u>	<u>2,030,940</u>	<u>2,105,310</u>	<u>2,133,385</u>	<u>2,330,678</u>	<u>2,400,600</u>	<u>2,418,618</u>		<u>(288,135)</u>	<u>2,130,483</u>
Regular	1,843,142	1,811,632	1,863,772	2,071,980	2,134,140	2,150,154	6	(28,302)	2,121,852
Incentive Compensation	179,872	260,989	232,283	233,751	240,765	242,576	7	(242,576)	-
Long Term Incentive	-	25,740	29,139	16,800	17,304	17,434	8	(17,434)	-
Nonunion Overtime	7,926	6,949	8,191	8,147	8,391	8,454	9	177	8,631
Mileage	3,600	-	1,993	1,993	1,993	1,993		-	1,993
Meals	31,779	13,452	21,368	21,368	21,368	21,368		-	21,368
Total Payroll	<u>7,437,043</u>	<u>7,388,148</u>	<u>7,536,636</u>	<u>8,128,707</u>	<u>8,420,271</u>	<u>8,472,488</u>		<u>(779,762)</u>	<u>7,692,726</u>
Percent Chargeable to Capital and Other	17.50%	16.85%	16.59%	16.98%	16.98%	16.98%	10a	-0.39%	16.59%
Amount Chargeable to Capital and Other	<u>1,301,483</u>	<u>1,244,903</u>	<u>1,250,328</u>	<u>1,380,254</u>	<u>1,429,762</u>	<u>1,438,628</u>	10b	<u>(162,531)</u>	<u>1,276,097</u>
Payroll Chargeable to Operating Expenses	<u>\$ 6,135,560</u>	<u>\$ 6,143,245</u>	<u>\$ 6,286,308</u>	<u>\$ 6,748,453</u>	<u>\$ 6,990,509</u>	<u>\$ 7,033,860</u>		<u>\$ (617,231)</u>	<u>\$ 6,416,629</u>
Capital Expenditures - Total	<u>\$ 12,276,492</u>	<u>\$ 11,304,118</u>	<u>\$ 15,484,519</u>	<u>\$ 22,153,325</u>	<u>\$ 13,449,764</u>	<u>\$ 10,813,450</u>		<u>\$ -</u>	<u>\$ 10,813,450</u>
Capital Expenditures - Ongoing	8,574,337	8,423,924	8,831,427	9,954,792	10,855,700	10,813,450			10,813,450
Capital Expenditures - Major Investment	3,702,155	2,880,194	6,653,092	12,198,533	2,594,064	-			-

Summary of Adjustments

- 1 Three employee positions were removed from union salary, as explained in Kevin Manz's testimony
- 2 Tracks removal of three union employee positions from union salary adjusted for general inflation
- 3 Adjusted for general inflation
- 4 Adjusted for general inflation
- 5 Adjusted union overtime (OT) salary to match the 2010 Historic Test Year (HTY) OT cost adjusted for general inflation
- 6 Non-union salary is adjusted for general inflation
- 7 To remove incentive compensation from payroll
- 8 To remove incentive compensation from payroll
- 9 Adjusted non-union OT salary to match the 2010 HTY OT cost adjusted for general inflation
- 10a Decreased capitalized payroll percentage to match the 2010 HTY capitalized payroll percentage
- 10b Decreased capitalized payroll dollar amount to match the capitalized payroll percentage decrease

**Long Island American Water**  
**Case 11-W-0200**  
**401(k) Savings Plan Expense Adjustment**  
**For the Rate Year Ended March 31, 2013**

<u>Rate Year Ended March 31, 2013</u>	<u>Company Proposed 401(k) Expense</u>	<u>Staff Adjusted 401(k) Expense</u>	<u>Adjustment</u>
Union 401(k) Expense	\$ 117,028	\$ 105,029	\$ (11,999)
Non-union 401(k) Expense	42,916	42,352	(564)
Total 401(k) Expense	<u>159,944</u>	<u>147,381</u>	<u>(12,563)</u>
Capitalized Payroll Percentage	16.98%	16.59%	-0.39%
Capitalized Payroll Amount	<u>27,158</u>	<u>24,448</u>	<u>(2,710)</u>
401(k) Chargeable to Operating Expenses	<u>\$ 132,786</u>	<u>\$ 122,933</u>	<u>\$ (9,853)</u>

**Long Island American Water**  
**Case 11-W-0200**  
**Defined Contribution Plan (DCP) Expense Adjustment**  
**For the Rate Year Ended March 31, 2013**

<u>Rate Year Ended March 31, 2013</u>	<u>Company Proposed DCP Expense</u>	<u>Staff Adjusted DCP Expense</u>	<u>Adjustment</u>
Union Base Pay for DCP	\$ 1,488,269	\$ 1,235,229	\$ (253,040)
Non-Union Base Pay for DCP	721,526	712,038	(9,488)
Total Base Pay	2,209,795	1,947,267	(262,528)
Contribution %	5.25%	5.25%	5.25%
 Total DCP Expense	 116,014	 102,232	 (13,783)
Capitalized Payroll Percentage	16.98%	16.59%	-0.39%
Capitalized Payroll Amount	19,699	16,959	(2,741)
 DCP Chargeable to Operating Expenses	 <u>\$ 96,315</u>	 <u>\$ 85,273</u>	 <u>\$ (11,042)</u>

**Long Island American Water  
Case 11-W-0200  
Payroll Tax Expense Adjustment  
For the Rate Year Ended March 31, 2013**

<u>Rate Year Ended March 31, 2013</u>	<u>Company Proposed Payroll Tax</u>	<u>Staff Adjusted Payroll Tax</u>	<u>Staff Adjustments</u>
Earnings Subject to Tax:			
FICA	\$ 8,130,360	\$ 7,527,784	\$ (602,576)
FUTA	668,500	647,500	(21,000)
SUTA	811,750	786,250	(25,500)
Excess Medicare	318,767	141,581	(177,186)
Tax Rate:			
FICA	7.65%	7.65%	0.00%
FUTA	0.80%	0.80%	0.00%
SUTA	2.10%	2.10%	0.00%
Excess Medicare	1.45%	1.45%	0.00%
Tax:			
FICA	621,973	575,876	(46,097)
FUTA	5,348	5,180	(168)
SUTA	17,047	16,511	(536)
Excess Medicare	4,622	2,053	(2,569)
Total Payroll Tax Expense	648,989	599,620	(49,370)
Percent Charged to Capital and Other	16.98%	16.59%	-0.39%
Amount Chargeable to Capital and Other	110,198	99,467	(10,731)
Net Payroll Tax Expense	<u>\$ 538,791</u>	<u>\$ 500,153</u>	<u>\$ (38,638)</u>

**Long Island American Water**  
**Case 11-W-0200**  
**Earning Base Versus Capitalization Adjustment**  
**For Historic Test Year Ended December 31, 2010**

	<u>HTY 2010</u> <u>Per Company</u>	<u>Adj.</u> <u>No.</u>	<u>Staff</u> <u>Adjustments</u>	<u>As Adjusted</u> <u>by Staff</u>
<b><u>EARNINGS BASE</u></b>				
Rate Base	\$ 100,971,909	1	\$ 2,908,546	\$ 103,880,455
Interest-Bearing CWIP	7,229,023		-	7,229,023
Total Earnings Base	<u>108,200,932</u>		<u>2,908,546</u>	<u>111,109,478</u>
<b><u>CAPITALIZATION</u></b>				
Common Stock	\$ 10,000,000		-	\$ 10,000,000
Paid-in-Capital	15,715,457	2	(149,596)	15,565,861
Retained Earnings	18,194,222		-	18,194,222
Preferred Stock	1,125,000		-	1,125,000
Long Term Debt	49,576,077	3	(720,943)	48,855,134
Short Term Debt	10,711,313	4	597,893	11,309,206
Total Capitalization	<u>105,322,069</u>		<u>(272,646)</u>	<u>105,049,423</u>
<b><u>Adjustments</u></b>				
Unamortized Debt Expense	(1,959,489)	5	(185,360)	(2,144,849)
Unamortized ITC	276,322		-	276,322
Non-Utility Property	(63,368)		-	(63,368)
Accrued Revenues (net of tax)	(1,577,266)		-	(1,577,266)
Revenue Adjustment Clause (net of tax)	(2,200,823)		-	(2,200,823)
Property Tax Clause (net of tax)	865,698		-	865,698
Dividends Declared	8,762		-	8,762
Unamortized Demutualization	(63,134)		-	(63,134)
Property Tax Refund	2,751,679		-	2,751,679
Pension/OPEB Internal Reserve	3,639,655		-	3,639,655
Total Capitalization as Adjusted	<u>107,000,105</u>		<u>(458,006)</u>	<u>106,542,099</u>
Earning Base Versus Capitalization Adjustment	<u>\$ (1,200,827)</u>		<u>\$ (3,366,552)</u>	<u>\$ (4,567,379)</u>

**Summary of Adjustments**

- 1 Rate Base adjusted to reflect corrections to LIAW's HTY Accumulated Deferred Income Taxes (ADIT)  
Details on the adjustment are found in Exhibit (ACL-7), Exhibit (ACL-8), and Exhibit (ACL-9)
- 2 Paid-In Capital adjusted to reflect average daily balance
- 3 Long Term Debt adjusted to reflect average daily balance
- 4 Short Term Debt adjusted to reflect average daily balance
- 5 Unamortized Debt Expense adjusted to correct LIAW's errors

**Long Island American Water  
Case 11-W-0200  
Accumulated Deferred Income Tax (ADIT) Adjustment  
For the Rate Year Ended March 31, 2013**

Summary of Staff Adjustments to HTY 2010 ADIT

	<u>Staff Adjusted</u> <u>RY 3/31/2013</u>	<u>Company</u> <u>RY 3/31/2013</u>	<u>Difference</u>
Federal	15,144,324	18,658,726	3,514,402
State	<u>2,128,275</u>	<u>1,522,419</u>	<u>(605,856)</u>
Total	17,272,599	20,181,145	2,908,546

**LONG ISLAND AMERICAN WATER**  
**ADIT Balances @ 2010**  
Prepared for 2011 Rate Case

	2009	2010											13 month total	13 month average	
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov			Dec
<b>FEDERAL</b>															
As Recorded: Deferred Tax Liability-FIT	\$20,175,949	\$19,966,012	\$20,044,590	\$20,495,193	\$20,875,214	\$21,171,166	\$21,465,693	\$20,879,826	\$21,022,812	\$23,229,848	\$23,105,548	\$22,957,757	\$18,144,524	\$273,534,130	\$21,041,087
Less: FAS 109 Balances (see details below)	(5,780,211)	(5,765,098)	(5,751,842)	(5,740,005)	(5,730,270)	(5,724,617)	(5,720,853)	(5,718,220)	(5,716,426)	(5,714,488)	(5,714,669)	(5,715,644)	(5,716,599)	(74,508,943)	(5,731,457)
Less: Temp. Difference-Tank Painting	(104,711)	(103,880)	(103,008)	(102,157)	(101,306)	(100,454)	(99,603)	(98,752)	(97,901)	(97,049)	(96,198)	(95,347)	(94,495)	(1,294,841)	(99,603)
Less: Temp. Difference-2007 Rate Expense	(46,599)	(43,492)	(40,386)	(37,279)	(34,172)	(31,066)	(27,959)	(24,853)	(21,746)	(18,639)	(15,533)	(12,426)	(9,320)	(363,470)	(27,959)
Less: Temp. Difference-Asbestos Removal	(17,991)	(16,792)	(15,592)	(14,393)	(13,194)	(11,994)	(10,795)	(9,595)	(8,396)	(7,197)	(5,997)	(4,798)	(3,598)	(140,332)	(10,795)
Exclude: Non-Rate Base-Accum Deferred ITC	88,172	87,783	87,395	87,007	86,618	86,230	85,842	85,453	85,065	84,677	84,288	83,900	83,512	1,115,942	85,842
Exclude: Non-Rate Base- Revenue Adj. Clause	(948,093)	(908,762)	(944,108)	(1,080,280)	(1,147,109)	(1,454,404)	(1,571,644)	(1,223,189)	(1,284,289)	(1,123,605)	(1,108,507)	(938,690)	(1,006,168)	(14,738,847)	(1,133,757)
Exclude: Non-Rate Base-Property Tax Clause	183,288	224,121	265,038	306,044	352,975	400,003	446,096	492,285	538,568	584,946	631,420	664,418	708,352	5,797,553	445,966
Exclude: Non-Rate Base- Pension/Opeb	1,253,365	1,252,421	1,250,023	1,250,616	1,252,062	1,251,476	1,253,431	1,253,969	1,254,150	1,254,928	1,253,861	1,260,046	1,264,451	16,304,800	1,254,215
Total Balance Deferred Tax Liability-FIT	\$14,803,168	\$14,692,334	\$14,792,110	\$15,164,746	\$15,540,819	\$15,586,339	\$15,820,207	\$15,636,925	\$15,771,836	\$18,193,421	\$18,134,214	\$18,199,215	\$13,370,659	\$205,705,993	\$15,823,538
<b>STATE</b>															
As Recorded: Deferred Tax Liability-SIT	\$1,569,316	\$1,512,663	\$1,533,868	\$1,666,681	\$1,644,649	\$1,724,515	\$1,810,431	\$1,652,329	\$1,690,915	\$1,828,916	\$1,795,372	\$1,653,018	\$1,928,559	\$22,011,232	\$1,693,172
Less: FAS 109 Balances (see details below)	(32,928)	(30,733)	(28,538)	(26,342)	(24,147)	(21,952)	(19,757)	(17,562)	(15,367)	(13,171)	(10,976)	(8,781)	(6,586)	(256,840)	(19,757)
Less: Temp. Difference-Tank Painting	(28,088)	(28,852)	(28,615)	(28,379)	(28,142)	(27,906)	(27,670)	(27,433)	(27,197)	(26,960)	(26,724)	(26,487)	(26,251)	(359,704)	(27,670)
Less: Temp. Difference-2007 Rate Expense	(12,945)	(12,082)	(11,219)	(10,356)	(9,493)	(8,630)	(7,767)	(6,904)	(6,041)	(5,178)	(4,315)	(3,452)	(2,589)	(100,971)	(7,767)
Less: Temp. Difference-Asbestos Removal	(4,998)	(4,665)	(4,332)	(3,998)	(3,665)	(3,332)	(2,999)	(2,666)	(2,332)	(1,999)	(1,666)	(1,333)	(1,000)	(38,984)	(2,999)
Exclude: Non-Rate Base-Accum Deferred ITC	24,494	24,386	24,278	24,170	24,062	23,954	23,847	23,739	23,631	23,523	23,415	23,307	23,199	310,006	23,847
Exclude: Non-Rate Base- Revenue Adj. Clause	(263,378)	(252,452)	(262,271)	(300,099)	(318,664)	(404,030)	(436,599)	(339,799)	(356,772)	(312,135)	(307,940)	(260,766)	(279,511)	(4,094,414)	(314,955)
Exclude: Non-Rate Base-Property Tax Clause	50,917	62,260	73,627	85,018	98,056	111,120	123,924	136,755	149,613	162,497	175,407	184,574	196,778	1,610,546	123,888
Exclude: Non-Rate Base- Pension/Opeb	348,182	347,919	347,253	347,418	347,820	347,657	348,200	348,350	348,400	348,616	348,319	350,038	351,261	4,529,432	348,418
Total Balance Deferred Tax Liability-SIT	\$1,649,571	\$1,618,445	\$1,644,052	\$1,754,113	\$1,730,475	\$1,741,396	\$1,811,611	\$1,766,810	\$1,804,850	\$2,004,108	\$1,990,893	\$1,910,117	\$2,183,862	\$23,610,302	\$1,816,177
<b>Activity</b>															
federal adit	14,803,168	(110,834)	99,776	372,636	376,073	45,520	233,868	(183,282)	134,911	2,421,585	(59,207)	65,001	(4,828,557)		
federal adit - amt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
state adit	1,649,571	(31,126)	25,607	110,061	(23,638)	10,921	70,215	(44,802)	38,040	199,258	(13,215)	(80,775)	273,745		
<b>INPUT AND CALCULATIONS</b>															
<b>federal</b>															
253301 Def FIT-Flow Through Depreciation(c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
253301 Def FIT-Normalized Property(cr)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
253301 Def FIT-Other(cr)	20,175,949	19,966,012	20,044,590	20,495,193	20,875,214	21,171,166	21,465,693	20,879,826	21,022,812	23,229,848	23,105,548	22,957,757	18,144,524	273,534,130	21,041,087
subtotal	20,175,949	19,966,012	20,044,590	20,495,193	20,875,214	21,171,166	21,465,693	20,879,826	21,022,812	23,229,848	23,105,548	22,957,757	18,144,524	273,534,130	21,041,087
<b>state</b>															
253701 Def SIT-Other(cr)	1,569,316	1,512,663	1,533,868	1,666,681	1,644,649	1,724,515	1,810,431	1,652,329	1,690,915	1,828,916	1,795,372	1,653,018	1,928,559	22,011,232	1,693,172
total ADIT	21,745,265	21,478,675	21,578,457	22,161,874	22,519,863	22,895,681	23,276,124	22,532,155	22,713,727	25,058,764	24,900,921	24,610,774	20,073,083	295,545,362	22,734,259
<b>fas 109 adj</b>															
186030 Reg Asset-Afudc Equity CWIP(dr)	78,536	38,533	45,550	53,985	64,521	78,221	94,545	112,000	130,294	148,443	168,713	189,776	210,818	1,413,935	108,764
186035 Reg Asset-Afudc Equity Plant(dr)	440,029	485,190	485,190	485,190	485,190	485,190	485,190	485,190	485,190	485,190	485,190	485,190	485,190	6,262,310	481,716
186040 Reg Asset-Plant Flow Through Diff(d)	5,726,940	5,706,343	5,685,745	5,665,148	5,644,551	5,623,953	5,603,356	5,582,759	5,562,161	5,541,564	5,520,967	5,500,370	5,479,772	72,843,630	5,603,356
186055 Reg Asset-Accum Amortization(cr)	(32,256)	(33,317)	(34,378)	(35,439)	(36,501)	(36,643)	(37,520)	(38,397)	(39,275)	(40,152)	(41,029)	(41,907)	(42,784)	(489,598)	(37,661)
256212 Reg Liab-Exc Def Depr FIT(cr)	(433,039)	(431,652)	(430,265)	(428,878)	(427,492)	(426,105)	(424,718)	(423,331)	(421,945)	(420,558)	(419,171)	(417,784)	(416,398)	(5,521,334)	(424,718)
fas 109 totals	5,780,211	5,765,098	5,751,842	5,740,005	5,730,270	5,724,617	5,720,853	5,718,220	5,716,426	5,714,488	5,714,669	5,715,644	5,716,599	74,508,943	5,731,457
<b>fas 109 adj-State</b>															
256232 Reg Liab-Exc Def Depr SIT(cr)	(32,928)	(30,733)	(28,538)	(26,342)	(24,147)	(21,952)	(19,757)	(17,562)	(15,367)	(13,171)	(10,976)	(8,781)	(6,586)	(256,840)	(19,757)

LONG ISLAND AMERICAN WATER  
ADIT Balances @ 2010  
Prepared for 2011 Rate Case

	2009	2010												13 month total	13 month average
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
<b>Tank Painting Adjustment</b>	\$337,062	\$334,322	\$331,581	\$328,841	\$326,101	\$323,360	\$320,620	\$317,880	\$315,139	\$312,399	\$309,659	\$306,918	\$304,178	\$4,168,060	\$320,620
sit @ 8.63%	29,088	28,852	28,615	28,379	28,142	27,906	27,670	27,433	27,197	26,960	26,724	26,487	26,251	359,704	27,670
fed base	307,974	305,470	302,966	300,462	297,958	295,454	292,950	290,447	287,943	285,439	282,935	280,431	277,927	3,808,356	292,950
fit @ 34%	\$104,711	\$103,860	\$103,008	\$102,157	\$101,306	\$100,454	\$99,603	\$98,752	\$97,901	\$97,049	\$96,198	\$95,347	\$94,495	\$1,294,841	\$99,603
<b>2007 Rate Case Exp Adj</b>	\$150,000	\$140,000	\$130,000	\$120,000	\$110,000	\$100,000	\$90,000	\$80,000	\$70,000	\$60,000	\$50,000	\$40,000	\$30,000	\$1,170,000	\$90,000
sit @ 8.63%	12,945	12,082	11,219	10,356	9,493	8,630	7,767	6,904	6,041	5,178	4,315	3,452	2,589	100,971	7,767
fed base	137,055	127,918	118,781	109,644	100,507	91,370	82,233	73,096	63,959	54,822	45,685	36,548	27,411	1,069,029	82,233
fit @ 34%	\$46,599	\$43,492	\$40,386	\$37,279	\$34,172	\$31,066	\$27,959	\$24,853	\$21,746	\$18,639	\$15,533	\$12,426	\$9,320	\$363,470	\$27,959
<b>Asbestos Removal</b>	\$57,913	\$54,052	\$50,191	\$46,330	\$42,470	\$38,609	\$34,748	\$30,887	\$27,026	\$23,165	\$19,305	\$15,444	\$11,583	\$451,723	\$34,748
sit @ 8.63%	4,998	4,665	4,332	3,998	3,665	3,332	2,999	2,666	2,332	1,999	1,666	1,333	1,000	38,984	2,999
fed base	52,915	49,387	45,860	42,332	38,805	35,277	31,749	28,222	24,694	21,166	17,639	14,111	10,583	412,740	31,749
fit @ 34%	\$17,991	\$16,792	\$15,592	\$14,393	\$13,194	\$11,994	\$10,795	\$9,595	\$8,396	\$7,197	\$5,997	\$4,798	\$3,598	\$140,332	\$10,795

LONG ISLAND AMERICAN WATER  
DEFERRED INCOME TAXES - BALANCES  
Prepared for 2011 Rate Case

Exhibit 12  
Tab 31

A/C's	DESCRIPTION	2009	2 0 1 0												Total	13 Month Average
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec		
283	Def FIT	\$14,803,168	\$14,692,334	\$14,792,110	\$15,164,746	\$15,540,819	\$15,586,339	\$15,820,207	\$15,636,925	\$15,771,836	\$18,193,421	\$18,134,214	\$18,199,215	\$13,370,659	\$205,705,993	15,823,538
283	Def FIT AMT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
283	Def SIT	1,649,571	1,618,445	1,644,052	1,754,113	1,730,475	1,741,396	1,811,611	1,766,810	1,804,850	2,004,108	1,990,893	1,910,117	2,183,862	23,610,302	1,816,177
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	BALANCE	\$16,452,739	\$16,310,779	\$16,436,162	\$16,918,859	\$17,271,294	\$17,327,735	\$17,631,818	\$17,403,735	\$17,576,685	\$20,197,529	\$20,125,107	\$20,109,333	\$15,554,521	\$229,316,295	17,639,715
A/C's	DESCRIPTION	2010	2 0 1 1												Total	13 Month Average
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec		
283	Def FIT	\$13,370,659	\$13,363,625	\$13,356,591	\$13,349,557	\$13,342,523	\$13,335,489	\$13,328,456	\$13,321,422	\$13,314,388	\$13,307,354	\$13,300,320	\$13,293,286	\$13,286,252	\$173,269,922	13,328,456
283	Def FIT AMT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
283	Def SIT	2,183,862	2,181,006	2,178,150	2,175,294	2,172,438	2,169,582	2,166,726	2,163,871	2,161,015	2,158,159	2,155,303	2,152,447	2,149,591	28,167,444	2,166,726
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	BALANCE	\$15,554,521	\$15,544,631	\$15,534,741	\$15,524,851	\$15,514,962	\$15,505,072	\$15,495,182	\$15,485,292	\$15,475,402	\$15,465,513	\$15,455,623	\$15,445,733	\$15,435,843	\$201,437,366	15,495,182
A/C's	DESCRIPTION	2011	2 0 1 2												Total	13 Month Average
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec		
283	Def FIT	\$13,286,252	\$13,473,459	\$13,660,666	\$13,847,873	\$14,035,080	\$14,222,287	\$14,409,494	\$14,596,701	\$14,783,908	\$14,971,115	\$15,158,322	\$15,345,529	\$15,532,736	\$187,323,426	14,409,494
283	Def FIT AMT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
283	Def SIT	2,149,591	2,147,669	2,145,748	2,143,826	2,141,904	2,139,983	2,138,061	2,136,139	2,134,218	2,132,296	2,130,375	2,128,453	2,126,531	27,794,794	2,138,061
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	BALANCE	\$15,435,843	\$15,621,129	\$15,806,414	\$15,991,699	\$16,176,985	\$16,362,270	\$16,547,555	\$16,732,841	\$16,918,126	\$17,103,411	\$17,288,697	\$17,473,982	\$17,659,268	\$215,118,219	16,547,555
A/C's	DESCRIPTION	2 0 1 2												Total	13 Month Average	
		Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb			Mar
283	Def FIT	\$13,847,873	\$14,035,080	\$14,222,287	\$14,409,494	\$14,596,701	\$14,783,908	\$14,971,115	\$15,158,322	\$15,345,529	\$15,532,736	\$16,095,228	\$16,657,720	\$17,220,211	\$196,876,207	15,144,324
283	Def FIT AMT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
283	Def SIT	2,143,826	2,141,904	2,139,983	2,138,061	2,136,139	2,134,218	2,132,296	2,130,375	2,128,453	2,126,531	2,115,896	2,105,261	2,094,626	27,667,569	2,128,275
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	BALANCE	\$15,991,699	\$16,176,985	\$16,362,270	\$16,547,555	\$16,732,841	\$16,918,126	\$17,103,411	\$17,288,697	\$17,473,982	\$17,659,268	\$18,211,124	\$18,762,981	\$19,314,837	\$224,543,776	17,272,598

LONG ISLAND AMERICAN WATER  
DEFERRED INCOME TAXES - ACTIVITY

Exhibit 12  
Tab 31

A/C's	DESCRIPTION	2009	2 0 1 0											13 Month Average				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov		Dec	Total		
283	Def FIT		(\$110,834)	\$99,776	\$372,636	\$376,073	\$45,520	\$233,868	(\$183,282)	\$134,911	\$2,421,585	(\$59,207)	\$65,001	(\$4,828,557)	(\$1,432,509)			
283	Def FIT AMT		0	0	0	0	0	0	0	0	0	0	0	0	0			
283	Def SIT		(31,126)	25,607	110,061	(23,638)	10,921	70,215	(44,802)	38,040	199,258	(13,215)	(80,775)	273,745	534,291			
	Total		(141,960)	125,383	482,697	352,435	56,442	304,083	(228,083)	172,951	2,620,844	(72,423)	(15,774)	(4,554,812)	(898,218)			
	BALANCE	\$16,452,739	\$16,310,779	\$16,436,162	\$16,918,859	\$17,271,294	\$17,327,735	\$17,631,818	\$17,403,735	\$17,576,685	\$20,197,529	\$20,125,107	\$20,109,333	\$15,554,521	\$229,316,295	17,639,715		
A/C's	DESCRIPTION	2010	2 0 1 1											13 Month Average				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov		Dec	Total		
283	Def FIT		(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$7,034)	(\$84,406)		
283	Def FIT AMT		0	0	0	0	0	0	0	0	0	0	0	0	0			
283	Def SIT		(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(2,856)	(34,271)			
	Total		(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(9,890)	(118,678)			
	BALANCE	\$15,554,521	\$15,544,631	\$15,534,741	\$15,524,851	\$15,514,962	\$15,505,072	\$15,495,182	\$15,485,292	\$15,475,402	\$15,465,513	\$15,455,623	\$15,445,733	\$15,435,843	\$201,437,366	15,495,182		
A/C's	DESCRIPTION	2011	2 0 1 2											13 Month Average				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov		Dec	Total		
283	Def FIT		\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$2,246,484			
283	Def FIT AMT		0	0	0	0	0	0	0	0	0	0	0	0				
283	Def SIT		(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(23,060)				
	Total		185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	2,223,424			
	BALANCE	\$15,435,843	\$15,621,129	\$15,806,414	\$15,991,699	\$16,176,985	\$16,362,270	\$16,547,555	\$16,732,841	\$16,918,126	\$17,103,411	\$17,288,697	\$17,473,982	\$17,659,268	\$215,118,219	16,547,555		
A/C's	DESCRIPTION	2 0 1 2											2 0 1 3			13 Month Average		
		Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total			
283	Def FIT		\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$187,207	\$562,492	\$562,492	\$562,492	\$3,372,338
283	Def FIT AMT		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
283	Def SIT		(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(1,922)	(10,635)	(10,635)	(10,635)	(49,200)
	Total		185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	185,285	551,857	551,857	551,857	3,323,138
	BALANCE	\$15,991,699	\$16,176,985	\$16,362,270	\$16,547,555	\$16,732,841	\$16,918,126	\$17,103,411	\$17,288,697	\$17,473,982	\$17,659,268	\$18,211,124	\$18,762,981	\$19,314,837	\$224,543,776	17,272,598		

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**  
LONG ISLAND AMERICAN WATER

Request No.: STAFF-66 ACL-12  
Requested By: Andrew Leung  
Date of Request: June 6, 2011  
Response Due: June 16, 2011  
Witness: John M. Watkins  
Subject: Federal Income Taxes

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Please refer to line 14 of Exhibit 9, page 46. Please provide information on the contents and purpose of the "**Reduction to Taxable Income for Repairs Expense**" item. Include workpapers and other supporting documentation to support this item.

**Response:**

In 2008, American Water Works Company, Inc. filed a change in tax accounting method with the IRS related to repairs and maintenance costs on its utility assets. The request includes Long Island American Water as part of the consolidated group.

The Company requested permission to currently deduct routine repair and maintenance expenses of its network assets, pursuant to IRC 162, rather than capitalizing and depreciating them over the tax life of the asset, as is done for book accounting. The IRS has since approved the change in tax accounting method.

The amounts on line 14 of Exhibit 9, page 46 should represent the current year tax deduction estimate related to repairs and maintenance but actually show the after tax amounts. Please see the first page of the attachment for the calculation of the repairs expense. The column entitled "Gross-Repairs 15% of Qualified Additions" should be the number on line 14 of Exhibit 9, page 46. Please note that the amount for columns 3 and 4 of line 14, Exhibit 9, page 46 should be \$1,131,188 as listed on the attached workpaper. This correction also changes columns 3 and 4 of line 13, Exhibit 9, page 45. Please note that columns 1 and 2 change to \$1,481,970 and \$1,388,655, respectively, on pages 45 and 46 of Exhibit 9. The Company has revised 5 pages of the workpaper for Exhibit 12, Tab 31 that were affected by this change and highlighted the corrected amount on pages 2-5.

**Long Island American Water Co.  
Repairs Expense WorkSheet 2010-2013**

**Exhibit 12  
Tab 31  
Repairs Exp.**

<u>Year(s)</u>	<u>Book Additions</u>	<u>CAC/CIAC</u>	<u>Net Additions</u>	<u>Less:Upgrade Replacement****</u>	<u>Net Additions- Basis for Repairs Deduction</u>	<u>Gross-Repairs 15% of Qualified Additions</u>	<u>Federal Repairs</u>	<u>State Repairs</u>	<u>Total Repairs</u>
2010	\$8,384,665	\$0	\$8,384,665	\$56,726	\$8,327,939	\$1,249,191	\$399,485	\$107,805	\$507,290
2011	22,153,325	0	22,153,325	12,273,524	9,879,801	1,481,970	473,927	127,894	601,821
2012	13,449,764	0	13,449,764	4,192,064	9,257,700	1,388,655	444,085	119,841	563,926
Rate Year 3/31 2013						1,131,188			
2013	2,671,675	0	2,671,675	279,750	2,391,925	358,789	114,739	30,963	145,702
Total Repairs (not including the Rate Year)						4,478,605	1,432,235	386,504	1,818,739

35%                      8.63%

\*\*\*\*- Less additions not eligible for the bonus, items other than T & D and Pumping Equipment.

Long Island American Water  
Projected Federal and State Tax Depreciation

Exhibit 12  
Tab 31

		2010	2011	2012	2013	tax depreciation rates					Life Years	
		1	2	3	4	5						
Tax Depreciation Expense on UPIS 2009 (2)		2,929,116	2,827,921	2,729,733	2,605,681							
<b>2010</b>												
<b>Additions w/Reduced Bonus Basis</b>												
304200	structures & improvements	\$30,974	\$397	\$794	\$794	\$794	1.28%	2.56%	2.56%	2.56%	2.56%	39
304300	structures & improvements	18,437	236	473	473	473	1.28%	2.56%	2.56%	2.56%	2.56%	39
304500	structures & improvements	206,290	2,645	5,289	5,289	5,289	1.28%	2.56%	2.56%	2.56%	2.56%	39
304600	structures & improvements	0	0	0	0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39
304700	structures & improvements	0	0	0	0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39
307200	wells	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
310000	power generation equipment	2,419	48	97	97	97	2.00%	4.00%	4.00%	4.00%	4.00%	25
310200	Boiler Plant Equipment	(8,345)	(167)	(334)	(334)	(334)	2.00%	4.00%	4.00%	4.00%	4.00%	25
311200	electric pumping equipment	4,097	82	164	164	164	2.00%	4.00%	4.00%	4.00%	4.00%	25
311300	diesel pumping equipment	29,198	584	1,168	1,168	1,168	2.00%	4.00%	4.00%	4.00%	4.00%	25
311400	Pump Equip Hydraulic	4,245	85	170	170	170	2.00%	4.00%	4.00%	4.00%	4.00%	25
320200	wt equipment non media	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
320110	wt equipment purification	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
330200	Dist Reservoirs-Ground Level	1,898	38	76	76	76	2.00%	4.00%	4.00%	4.00%	4.00%	25
331003	td mains	87,284	1,746	3,491	3,491	3,491	2.00%	4.00%	4.00%	4.00%	4.00%	25
331100	td mains	36,911	738	1,476	1,476	1,476	2.00%	4.00%	4.00%	4.00%	4.00%	25
331230	td mains	1,383,368	27,667	55,335	55,335	55,335	2.00%	4.00%	4.00%	4.00%	4.00%	25
332000	td mains	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
333000	services	649,080	12,982	25,963	25,963	25,963	2.00%	4.00%	4.00%	4.00%	4.00%	25
334100	meters	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
334130	meters	4,822	96	193	193	193	2.00%	4.00%	4.00%	4.00%	4.00%	25
334200	meter installations	6,247	125	250	250	250	2.00%	4.00%	4.00%	4.00%	4.00%	25
335000	hydrants	154,161	3,083	6,166	6,166	6,166	2.00%	4.00%	4.00%	4.00%	4.00%	25
339600	other p/e cps	73,995	7,399	14,799	14,799	14,799	10.00%	20.00%	20.00%	20.00%	20.00%	5
340100	office furniture & equipment	0	0	0	0	0	14.29%	24.49%	17.49%	12.49%	8.93%	7
340200	computers & periph equipment	1,468	294	470	282	169	20.00%	32.00%	19.20%	11.52%	11.52%	5
340300	computer software	1,181	118	236	236	236	10.00%	20.00%	20.00%	20.00%	20.00%	5
340400	data handling equipment	0	0	0	0	0	20.00%	32.00%	19.20%	11.52%	11.52%	5
342000	store Equipment	2,465	49	99	99	99	2.00%	4.00%	4.00%	4.00%	4.00%	25
343000	tools, shop & garage equipment	3,980	80	159	159	159	2.00%	4.00%	4.00%	4.00%	4.00%	25
343100	tools, shop & garage equipment	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
346100	communication equipment	1,049	21	42	42	42	2.00%	4.00%	4.00%	4.00%	4.00%	25
347000	miscellaneous equipment	0	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
346190	Remote Control & Instrument.	3,994	80	160	160	160	2.00%	4.00%	4.00%	4.00%	4.00%	25
346200	Comm Equip-Telephone	3,994	80	160	160	160	2.00%	4.00%	4.00%	4.00%	4.00%	25
252120	customer advances	198,971	3,979	7,959	7,959	7,959	2.00%	4.00%	4.00%	4.00%	4.00%	25
	2010 property retirements	(466,069)	(9,321)	(18,643)	(18,643)	(18,643)	2.00%	4.00%	4.00%	4.00%	4.00%	25
	Repair Expense Adjustment-2010	(1,249,191)	(24,984)	(49,968)	(49,968)	(49,968)	2.00%	4.00%	4.00%	4.00%	4.00%	25
	Bonus-2010 50% Bonus	2,447,511	2,447,511				100.00%					
	Bonus-2010 100% Bonus	3,233,942	3,233,942				100.00%					

Long Island American Water  
Projected Federal and State Tax Depreciation

Exhibit 12  
Tab 31

		2010	2011	2012	2013						
2011											
301000	Organization	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	0.00%	0.00%	
302000	Franchises	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
303200	Land & Ld Rights SS	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
303300	Land & Ld Rights P	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
303500	Land & Ld Rights TD	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
303501	Land TD	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
303600	Land & Land Rights AG	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	
304200	Struct & Imp P	167,500	2,147	4,295	4,295	1.28%	2.56%	2.56%	2.56%	2.56%	39
304300	Struct & Imp WT	3,048,125	39,077	78,154	78,154	1.28%	2.56%	2.56%	2.56%	2.56%	39
304500	Struct & Imp AG	0	0	0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39
304600	Struct & Imp Offices	53,655	688	1,376	1,376	1.28%	2.56%	2.56%	2.56%	2.56%	39
304700	Struct & Imp Store,Shop,Gar	0	0	0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39
307000	Wells & Springs	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
307200	Wells Only (LI)	3,336,952	66,739	133,478	133,478	2.00%	4.00%	4.00%	4.00%	4.00%	25
310000	Power Generation Equip Other(3101C	762,031	15,241	30,481	30,481	2.00%	4.00%	4.00%	4.00%	4.00%	25
310200	Boiler Plant Equipment	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
311200	Pump Equip Electric	677,745	13,555	27,110	27,110	2.00%	4.00%	4.00%	4.00%	4.00%	25
311300	Pump Equip Diesel	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
311400	Pump Equip Hydraulic	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
320100	WT Equip Non-Media	4,342,004	86,840	173,680	173,680	2.00%	4.00%	4.00%	4.00%	4.00%	25
320110	WT Equip Purification (LI)	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
320200	WT Equip Filter Media	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
330000	Dist Reservoirs & Standpipe	125,993	2,520	5,040	5,040	2.00%	4.00%	4.00%	4.00%	4.00%	25
330200	Dist Reservoirs-Ground Level	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
331003	TD Mains Paving (LI)	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
331100	TD Mains 4in & Less	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
331230	TD Mains 6in & Grtr (LI)	6,347,018	126,940	253,881	253,881	2.00%	4.00%	4.00%	4.00%	4.00%	25
332000	Fire Mains	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
333000	Services	1,545,392	30,908	61,816	61,816	2.00%	4.00%	4.00%	4.00%	4.00%	25
334100	Meters	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
334130	Meters Other	820,646	16,413	32,826	32,826	2.00%	4.00%	4.00%	4.00%	4.00%	25
334200	Meter Installations	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
335000	Hydrants	489,000	9,780	19,560	19,560	2.00%	4.00%	4.00%	4.00%	4.00%	25
339600	Misc. Intangible Plant-CPS	0	0	0	0	10.00%	20.00%	20.00%	20.00%	20.00%	5
340100	Office Furniture & Equip	13,414	1,917	3,285	2,346	14.29%	24.49%	17.49%	12.49%	8.93%	7
340200	Comp & Periph Equipment	45,000	9,000	14,400	8,640	20.00%	32.00%	19.20%	11.52%	11.52%	5
340300	Computer Software	0	0	0	0	10.00%	20.00%	20.00%	20.00%	20.00%	5
340400	Data Handling Equipment	0	0	0	0	20.00%	32.00%	19.20%	11.52%	11.52%	5
340500	Other Office Equipment	0	0	0	0	14.29%	24.49%	17.49%	12.49%	8.93%	7
341100	Trans Equip Lt Duty Trks	69,000	13,800	22,080	13,248	20.00%	32.00%	19.20%	11.52%	11.52%	5
341300	Trans Equip Autos	55,000	11,000	17,600	10,560	20.00%	32.00%	19.20%	11.52%	11.52%	5
341200	Trans Equip Heavy Duty Trks	130,000	26,000	41,600	24,960	20.00%	32.00%	19.20%	11.52%	11.52%	5
341400	Trans Equip Backhoes	0	0	0	0	20.00%	32.00%	19.20%	11.52%	11.52%	5
342000	Stores Equipment	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
343000	Tools,Shop,Garage Equip	124,848	2,497	4,994	4,994	2.00%	4.00%	4.00%	4.00%	4.00%	25
343100	Tools,Shop,Garage Equip Oth	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
344000	Laboratory Equipment	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
345000	Power Operated Equipment	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
345100	Power Oper Equip Other	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
346100	Comm Equip Non-Telephone	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
346190	Remote Control & Instrument.	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
346200	Comm Equip-Telephone	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
347000	Misc Equipment	0	0	0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25
252120	customer advances	98,713	1,974	3,949	3,949	2.00%	4.00%	4.00%	4.00%	4.00%	25
	2011 property retirements	(435,500)	(8,710)	(17,420)	(17,420)	2.00%	2.00%	4.00%	4.00%	4.00%	25
	Repair Expense Adjustment-2011	(1,481,970)	(29,639)	(59,279)	(59,279)	2.00%	4.00%	4.00%	4.00%	4.00%	25

Long Island American Water  
Projected Federal and State Tax Depreciation

Exhibit 12  
Tab 31

	2010	2011	2012	2013							
	<u>2012</u>										
301000 Organization	\$0		\$0	\$0	0.00%	0.00%	0.00%	0.00%	0.00%		
302000 Franchises	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
303200 Land & Ld Rights SS	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
303300 Land & Ld Rights P	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
303500 Land & Ld Rights TD	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
303501 Land TD	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
303600 Land & Land Rights AG	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%		
304200 Struct & Imp P	45,000		577	1,154	1.28%	2.56%	2.56%	2.56%	2.56%	39	
304300 Struct & Imp WT	0		0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39	
304500 Struct & Imp AG	0		0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39	
304600 Struct & Imp Offices	60,000		769	1,538	1.28%	2.56%	2.56%	2.56%	2.56%	39	
304700 Struct & Imp Store,Shop,Gar	0		0	0	1.28%	2.56%	2.56%	2.56%	2.56%	39	
307000 Wells & Springs	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
307200 Wells Only (LI)	157,500		3,150	6,300	2.00%	4.00%	4.00%	4.00%	4.00%	25	
310000 Power Generation Equip Other(3101C	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
310200 Boiler Plant Equipment	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
311200 Pump Equip Electric	234,500		4,690	9,380	2.00%	4.00%	4.00%	4.00%	4.00%	25	
311300 Pump Equip Diesel	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
311400 Pump Equip Hydraulic	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
320100 WT Equip Non-Media	204,500		4,090	8,180	2.00%	4.00%	4.00%	4.00%	4.00%	25	
320110 WT Equip Purification (LI)	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
320200 WT Equip Filter Media	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
330000 Dist Reservoirs & Standpipe	60,000		1,200	2,400	2.00%	4.00%	4.00%	4.00%	4.00%	25	
330200 Dist Reservoirs-Ground Level	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
331003 TD Mains Paving (LI)	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
331100 TD Mains 4in & Less	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
331230 TD Mains 6in & Grtr (LI)	2,979,065		59,581	119,163	2.00%	4.00%	4.00%	4.00%	4.00%	25	
332000 Fire Mains	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
333000 Services	780,035		15,601	31,201	2.00%	4.00%	4.00%	4.00%	4.00%	25	
334100 Meters	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
334130 Meters Other	363,750		7,275	14,550	2.00%	4.00%	4.00%	4.00%	4.00%	25	
334200 Meter Installations	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
335000 Hydrants	271,500		5,430	10,860	2.00%	4.00%	4.00%	4.00%	4.00%	25	
339600 Misc. Intangible Plant-CPS	0		0	0	10.00%	20.00%	20.00%	20.00%	20.00%	5	
340100 Office Furniture & Equip	7,500		1,072	1,837	14.29%	24.49%	17.49%	12.49%	8.93%	7	
340200 Comp & Periph Equipment	62,500		12,500	20,000	20.00%	32.00%	19.20%	11.52%	11.52%	5	
340300 Computer Software	1,297,032		129,703	259,406	10.00%	20.00%	20.00%	20.00%	20.00%	5	
340400 Data Handling Equipment	0		0	0	20.00%	32.00%	19.20%	11.52%	11.52%	5	
340500 Other Office Equipment	0		0	0	14.29%	24.49%	17.49%	12.49%	8.93%	7	
341100 Trans Equip Lt Duty Trks	49,500		9,900	15,840	20.00%	32.00%	19.20%	11.52%	11.52%	5	
341300 Trans Equip Autos	43,000		8,600	13,760	20.00%	32.00%	19.20%	11.52%	11.52%	5	
341200 Trans Equip Heavy Duty Trks	0		0	0	20.00%	32.00%	19.20%	11.52%	11.52%	5	
341400 Trans Equip Backhoes	100,000		20,000	32,000	20.00%	32.00%	19.20%	11.52%	11.52%	5	
342000 Stores Equipment	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
343000 Tools, Shop, Garage Equip	62,000		1,240	2,480	2.00%	4.00%	4.00%	4.00%	4.00%	25	
343100 Tools, Shop, Garage Equip Oth	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
344000 Laboratory Equipment	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
345000 Power Operated Equipment	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
345100 Power Oper Equip Other	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
346100 Comm Equip Non-Telephone	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
347000 Misc Equipment	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
252120 customer advances	0		0	0	2.00%	4.00%	4.00%	4.00%	4.00%	25	
2012 property retirements	(197,500)		(3,950)	(7,900)	2.00%	2.00%	2.00%	2.00%	2.00%	25	
Repair Expense Adjustment-2012	(1,388,655)		(27,773)	(55,546)	2.00%	4.00%	4.00%	4.00%	4.00%	25	
Bonus-2012 50% Bonus	6,672,382		6,672,382		100.00%						

Long Island American Water  
Projected Federal and State Tax Depreciation

Exhibit 12  
Tab 31

		2010	2011	2012	2013					
	<u>2013</u>									
301000	Organization	\$0			\$0	0.00%	0.00%	0.00%	0.00%	0.00%
302000	Franchises	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
303200	Land & Ld Rights SS	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
303300	Land & Ld Rights P	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
303500	Land & Ld Rights TD	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
303501	Land TD	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
303600	Land & Land Rights AG	0			0	0.00%	0.00%	0.00%	0.00%	0.00%
304200	Struct & Imp P	11,250			144	1.28%	2.56%	2.56%	2.56%	2.56%
304300	Struct & Imp WT	0			0	1.28%	2.56%	2.56%	2.56%	2.56%
304500	Struct & Imp AG	0			0	1.28%	2.56%	2.56%	2.56%	2.56%
304600	Struct & Imp Offices	15,000			192	1.28%	2.56%	2.56%	2.56%	2.56%
304700	Struct & Imp Store,Shop,Gar	0			0	1.28%	2.56%	2.56%	2.56%	2.56%
307000	Wells & Springs	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
307200	Wells Only (LI)	81,250			1,625	2.00%	4.00%	4.00%	4.00%	4.00%
310000	Power Generation Equip Other(3101C	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
310200	Boiler Plant Equipment	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
311200	Pump Equip Electric	117,250			2,345	2.00%	4.00%	4.00%	4.00%	4.00%
311300	Pump Equip Diesel	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
311400	Pump Equip Hydraulic	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
320100	WT Equip Non-Media	102,250			2,045	2.00%	4.00%	4.00%	4.00%	4.00%
320110	WT Equip Purification (LI)	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
320200	WT Equip Filter Media	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
330000	Dist Reservoirs & Standpipe	30,000			600	2.00%	4.00%	4.00%	4.00%	4.00%
330200	Dist Reservoirs-Ground Level	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
331003	TD Mains Paving (LI)	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
331100	TD Mains 4in & Less	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
331230	TD Mains 6in & Grtr (LI)	1,522,657			30,453	2.00%	4.00%	4.00%	4.00%	4.00%
332000	Fire Mains	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
333000	Services	441,268			8,825	2.00%	4.00%	4.00%	4.00%	4.00%
334100	Meters	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
334130	Meters Other	196,250			3,925	2.00%	4.00%	4.00%	4.00%	4.00%
334200	Meter Installations	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
335000	Hydrants	114,500			2,290	2.00%	4.00%	4.00%	4.00%	4.00%
339600	Misc. Intangible Plant-CPS	0			0	10.00%	20.00%	20.00%	20.00%	20.00%
340100	Office Furniture & Equip	3,750			536	14.29%	24.49%	17.49%	12.49%	8.93%
340200	Comp & Periph Equipment	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
340300	Computer Software	0			0	10.00%	20.00%	20.00%	20.00%	20.00%
340400	Data Handling Equipment	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
340500	Other Office Equipment	0			0	14.29%	24.49%	17.49%	12.49%	8.93%
341100	Trans Equip Lt Duty Trks	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
341300	Trans Equip Autos	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
341200	Trans Equip Heavy Duty Trks	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
341400	Trans Equip Backhoes	0			0	20.00%	32.00%	19.20%	11.52%	11.52%
342000	Stores Equipment	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
343000	Tools,Shop,Garage Equip	36,250			725	2.00%	4.00%	4.00%	4.00%	4.00%
343100	Tools,Shop,Garage Equip Oth	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
344000	Laboratory Equipment	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
345000	Power Operated Equipment	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
345100	Power Oper Equip Other	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
346100	Comm Equip Non-Telephone	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
347000	Misc Equipment	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
252120	customer advances	0			0	2.00%	4.00%	4.00%	4.00%	4.00%
	2013 property retirements	(88,125)			(1,762)	2.00%	2.00%	2.00%	2.00%	2.00%
	Repair Expense Adjustment-2013	(358,789)			(7,176)	2.00%	4.00%	4.00%	4.00%	4.00%
	<b>TOTAL FEDERAL TAX DEPRECIATION EXPENSE</b>		<b>8,638,750</b>	<b>3,322,852</b>	<b>10,564,730</b>	<b>4,006,689</b>				
ADD	State tax depreciation @ 12/31/09 (2)		3,167,748	3,056,597	2,950,285	2,820,079				
ADD	Federal tax depreciation (excl. bonus)		28,181	494,931	1,162,616	1,401,008				
ADD	Federal Bonus Depreciation		224,722	510,186	509,766	500,685				
	<b>TOTAL STATE TAX DEPRECIATION EXPENSE</b>		<b>3,420,651</b>	<b>4,061,714</b>	<b>4,622,667</b>	<b>4,721,771</b>				



PUBLIC SERVICE COMMISSION

CASE 11-W-0200

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**  
**LONG ISLAND AMERICAN WATER**

Request No.: STAFF-67 ACL-13  
Requested By: Andrew Leung  
Date of Request: June 6, 2011  
Response Due: June 16, 2011  
Witness: John M. Watkins  
Subject: Federal Income Taxes

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- 1) Please refer to page 21, lines 20 to 21 of your testimony. You indicate that the annual amortization of previously flowed-through tax benefits is **\$160,659** for the rate year. Did you mean the **\$324,519** amortization of flow through tax recorded under Present Rates on line 28 of Exhibit 9, page 46?
- 2) Please provide workpapers to support the \$324,519 amortization for the rate year.

**RESPONSE:**

- 1) The \$160,659 was the amortization of previously authorized flow-through tax benefits allowed for the 12 months ending March 31, 2009, 2010 & 2011, per Case 07-W-0508.

The \$324,519 is the amortization for the 12 months ending March 31, 2013, grossed up for taxes. The non-grossed up amortization amount is \$210,938, which is comparable to the \$160,659 allowed in 2009 - 2011. The Company inadvertently included the grossed up amount on line 28 of Exhibit 9, page 46. The correct amount should be \$195,038 (\$40,165 + \$154,873) for 2011, \$210,102 (\$52,526 + \$157,577 for 2012, and \$210,938 (\$157,577 + \$53,361) for the twelve months ended 3/31/2013. These amounts tie into Exhibit 12, Tab 31, second to last page.

- 2) Please refer to the answer to part 1 above which supports the correct numbers as filed in the workpaper.

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**  
LONG ISLAND AMERICAN WATER

Request No.: STAFF-108 ACL-23  
Requested By: Andrew Leung  
Date of Request: June 30, 2011  
Response Due: July 11, 2011  
Witness: John M. Watkins  
Subject: Federal Income Taxes

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Please refer to the "Deferral Base FIT" on line 22 in Exhibit 9, page 46 of 46. Please explain why a deferral tax was not set up for "Reduction to Taxable Income for Repairs Expense".

**Response:**

The Company inadvertently left the "Reduction to Taxable Income for Repairs Expense" out of the calculation in Exhibit 9, page 45 and page 46.

Please see the attachment for the revised Exhibit 9, pages 45 and 46.

**State Income Tax**  
**Forecast of the Twelve Months Ended December 2011, 2012 and March 2013**

Long Island American Water  
Case 11-W-\_\_\_\_\_  
Witness Responsible: J. M. Watkins

Test Year: Twelve Months Ended: 12/31/10  
Exhibit 9  
Page 45 of 46

Line No. Description	Twelve Months Ended 12/31/2011	Twelve Months Ended 12/31/2012	Twelve Months Ended 3/31/2013	
			Present Rates	Proposed Rates
1	(1)	(2)	(3)	(4)
2 Operating Revenues	\$49,412,288	\$52,132,611	\$49,063,159	\$58,626,305
3 Less:				
4 Operation & Maintenance Expense	22,698,267	23,340,839	23,463,755	23,523,812
5 Depreciation Expense	3,872,961	4,362,990	4,373,069	4,373,069
6 Taxes Other Than Income	12,339,385	14,668,236	15,021,381	15,042,858
7 Amortization of Rate Case Expense 9 / 29	30,000	175,000	233,333	233,333
8 Amortization of Tank Painting 9 / 32	32,884	32,884	32,884	32,884
9 Amortization of Asbestos Removal 9 / 36	11,583	0	0	0
10 Amortization of Pension Actuarial Study 9 / 38	0	72,333	96,444	96,444
11 Interest Charges (1)	3,833,578	4,227,106	4,286,223	4,286,223
12 Excess of Tax Depreciation Over Book	387,336	600,518	617,996	617,996
13 Reduction to Taxable Income for Repairs Expense	1,481,970	1,388,655	1,131,188	1,131,188
14 Total Deductions	44,687,962	48,868,561	49,256,274	49,337,808
15				
16 State Taxable Income	4,724,326	3,264,050	(193,115)	9,288,497
17				
18 State Income Tax Rate	7.10%	7.10%	7.10%	7.10%
19 MTA Tax	1.53%	1.53%	1.53%	1.53%
20 Total State Income Tax Rate	8.63%	8.63%	8.63%	8.63%
21				
22 Pro Forma State Income Tax Current	\$407,709	\$281,688	(\$16,666)	\$801,597
23				
24 Deferred State Income Tax:				
25 Excess tax depreciation over book plus amortizations	\$1,943,772	\$2,269,390	\$2,111,846	\$2,111,846
26 Tax rate	8.63%	8.63%	8.63%	8.63%
27	167,748	195,848	182,252	182,252
28 Excess Deferred Tax Amortization	(24,154)	(6,039)	0	0
29 Deferred S.I.T.	\$143,594	\$189,809	\$182,252	\$182,252
30				
31 Total State Income Tax	\$551,303	\$471,497	\$165,586	\$983,849
32 Note (1) Interest synchronization calculation:				
33 Rate Base	\$113,756,019	\$125,433,402	\$127,187,628	\$127,187,628
34 Weighted Cost of Debt	3.37%	3.37%	3.37%	3.37%
35 Interest Charges	\$3,833,578	\$4,227,106	\$4,286,223	\$4,286,223

**Federal Income Tax**  
Forecast of the Twelve Months Ended December 2011, 2012 and March 2013

Long Island American Water  
Case 11-W-\_\_\_\_\_  
Witness Responsible: J. M. Watkins

Test Year: Twelve Months Ended: 12/31/10  
Exhibit 9  
Page 46 of 46

Line No. Description	Twelve Months Ended 12/31/2011	Twelve Months Ended 12/31/2012	Twelve Months Ended 3/31/2013	
			Present Rates	Proposed Rates
1	(1)	(2)	(3)	(4)
2 Operating Revenues	<u>\$49,412,288</u>	<u>\$52,132,611</u>	<u>\$49,063,159</u>	<u>\$58,626,305</u>
3 Less:				
4 Operation & Maintenance Expense	22,698,267	23,340,839	23,463,755	23,523,812
5 Depreciation Expense	3,872,961	4,362,990	4,373,069	4,373,069
6 Taxes Other Than Income	12,339,385	14,668,236	15,021,381	15,042,858
7 State Income Tax	407,709	281,688	(16,666)	801,597
8 Amortization of Rate Case Expense 9 / 29	30,000	175,000	233,333	233,333
9 Amortization of Tank Painting 9 / 32	32,884	32,884	32,884	32,884
10 Amortization of Asbestos Removal 9 / 36	11,583	0	0	0
11 Amortization of Pension Actuarial Study 9 / 38	0	72,333	96,444	96,444
12 Interest Charges (1)	3,833,578	4,227,106	4,286,223	4,286,223
13 Excess of Tax Depreciation Over Book	(351,526)	6,542,581	4,895,773	4,895,773
14 Reduction to Taxable Income for Repairs Expense	<u>1,481,970</u>	<u>1,388,655</u>	<u>1,131,188</u>	<u>1,131,188</u>
15 Total Deductions	<u>44,356,810</u>	<u>55,092,312</u>	<u>53,517,385</u>	<u>54,417,182</u>
16 Taxable Income	5,055,479	(2,959,701)	(4,454,226)	4,209,123
17 Tax Rate	34.00%	34.00%	34.00%	34.00%
18 Federal Income Tax (current)	<u>\$1,718,863</u>	<u>(\$1,006,298)</u>	<u>(\$1,514,437)</u>	<u>\$1,431,102</u>
19 Deferred Federal Income Tax:				
20 Excess tax depreciation over book plus amortizations	\$1,204,910	\$8,211,453	\$6,389,623	\$6,389,623
21 Deferred S.I.T.	<u>143,594</u>	<u>189,809</u>	<u>182,252</u>	<u>182,252</u>
22 Deferral Base F.I.T.	1,061,316	8,021,644	6,207,371	6,207,371
23 Tax rate	34.00%	34.00%	34.00%	34.00%
24 Net	360,848	2,727,359	2,110,506	2,110,506
25 Excess Deferrred Tax Amortization	<u>(9,883)</u>	<u>(9,883)</u>	<u>(9,883)</u>	<u>(9,883)</u>
26 Deferred F.I.T.	<u>\$350,965</u>	<u>\$2,717,476</u>	<u>\$2,100,623</u>	<u>\$2,100,623</u>
27 Deferred Federal Income Tax:				
28 Amortization of flow through tax	<u>\$195,038</u>	<u>\$210,102</u>	<u>\$210,938</u>	<u>\$210,938</u>
29				
30 Total Federal Income Tax	<u>\$2,264,866</u>	<u>\$1,921,280</u>	<u>\$797,124</u>	<u>\$3,742,663</u>
31 Note (1) Interest synchronization calculation:				
32 Rate Base	\$113,756,019	\$125,433,402	\$127,187,628	\$127,187,628
33 Weighted Cost of Debt	3.37%	3.37%	3.37%	3.37%
34 Interest Charges	<u>\$3,833,578</u>	<u>\$4,227,106</u>	<u>\$4,286,223</u>	<u>\$4,286,223</u>
35				

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**  
LONG ISLAND AMERICAN WATER

Request No.: STAFF-119 ACL-33  
Requested By: Andrew Leung  
Date of Request: July 5, 2011  
Response Due: July 15, 2011  
Witness: Sean Burke  
Subject: Annual Incentive Plan

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Please provide an official copy of the Company's Annual Incentive Plan (AIP).

**Response:**

Please see attached.

# 2011 Annual Incentive Plan

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## THE 2011 AMERICAN WATER ANNUAL INCENTIVE PLAN

### Your Performance — Your Award

*At American Water, your performance counts. We rely on our employees' knowledge and skills to help the Company achieve its business objectives.*

The American Water 2011 Annual Incentive Plan (AIP) is designed to give eligible exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contributions to the Company's success. We continue to make adjustments to the AIP design to reinforce the link between Company and individual performance and award payouts. This means that Company and individual performance are both taken into account to determine cash awards under the plan. Keeping up our momentum in 2011:

- We are continuing the funding approach that was used in 2010, which directly ties the amount of available cash for AIP payouts to Company performance against specific metrics. AIP funding for all eligible, exempt employees will depend on the Company's achieving its financial and non-financial goals.
- Your **individual performance continues to play a large role in determining the amount of your payout.** Employees who exceed their performance targets could receive higher payouts. Conversely, employees who under-perform and do not meet their performance targets could receive lower payouts or no payout at all. In short, *your* performance directly impacts the amount of *your* award.

The 2011 AIP is designed to challenge and motivate you to perform at your highest level, and promote the creation of value to the customer and shareholder. Read this brochure to learn about how the 2011 plan works and what it means for you.

The 2011 AIP	
Elements of the Program	
<ul style="list-style-type: none"> <li>■ AIP award pool funding is based on overall corporate performance against specific financial and non-financial goals (represented by the Corporate Multiplier), then allocated across organizational groups/functional areas — at senior management's discretion — depending on organizational group/functional area results.               <ul style="list-style-type: none"> <li>○ AIP funding for <b>all eligible exempt employees</b> depends on the Company achieving its financial as well as non-financial goals.</li> <li>○ A pre-determined financial threshold for Company performance must be met in order for funding and any award to be provided under the AIP.</li> </ul> </li> <li>■ Individual award payouts will be based on individual performance against specific goals (represented by the Individual Performance Factor) and paid from available organizational group/functional area funding.</li> <li>■ For 2011, the Individual Performance Factor range is <b>0%-200%</b>. Individual payouts will be capped at 200% of AIP target award.</li> </ul>	<ul style="list-style-type: none"> <li>■ Award opportunity (Target Award) is expressed as a percentage of base salary. (See Attachment B).               <ul style="list-style-type: none"> <li>○ Actual payout may be lower or higher than target depending on Company and individual performance against specific goals.</li> </ul> </li> <li>■ Individual performance is assessed by your manager and measured against your pre-determined performance goals.</li> <li>■ Your AIP will be distributed as a cash award in March.               <ul style="list-style-type: none"> <li>○ You must be actively employed with American Water on the date awards are made to receive your 2011 AIP payout. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not "for cause") or a divestiture occurred after June 30, 2011. Involuntary termination for cause would not be eligible.</li> </ul> </li> <li>■ The American Water Board or its Designee has the right to adjust the award determination(s) and/or award payouts(s) at its discretion.</li> </ul>

## Eligibility

- You are eligible for an AIP award opportunity if you are a regular, full-time exempt employee of American Water.
  - Regular, full-time exempt employees who join American Water on or before September 30, 2011 are also eligible to participate in the AIP on a prorated basis.
  - Employees transferred from nonexempt to exempt status on or after September 30<sup>th</sup> are not eligible in the current plan year.
- You must be an active employee with American Water on the date the payout is made in order to receive the award. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not "for

cause”) or a divestiture occurred after June 30, 2011. Involuntary termination for cause would not be eligible.

- If you are promoted during the plan year to a position with a *higher* AIP target level, or if you are reclassified/transferred to a position with a *lower* AIP target level, your award payout will be based on your new target level as of December 12, 2011, except ML4s and above who will be prorated at each salary and target level.
- If you transfer from exempt status to nonexempt status during the current plan year or your job was reclassified to nonexempt status, you are not eligible for a 2011 AIP award.
- If your performance rating is “Unacceptable” or “Too Soon to Rate,” you will not receive a payout. If you have not complied with the company’s annual Code of Ethics certification, you will not receive an incentive payment.

#### Why Is the Plan Based on Individual Performance?

Since the value (as reflected in our share price and our return to shareholders) and success of our business depend on the achievement of annual Company and individual performance goals, American Water recognizes the need to differentiate and reward the performance of employees who enable us to reach these goals. The 2011 AIP is designed to ensure that award payouts are directly tied to measurable contributions — both Company and individual — to American Water’s success.

## DETERMINING AIP AWARDS

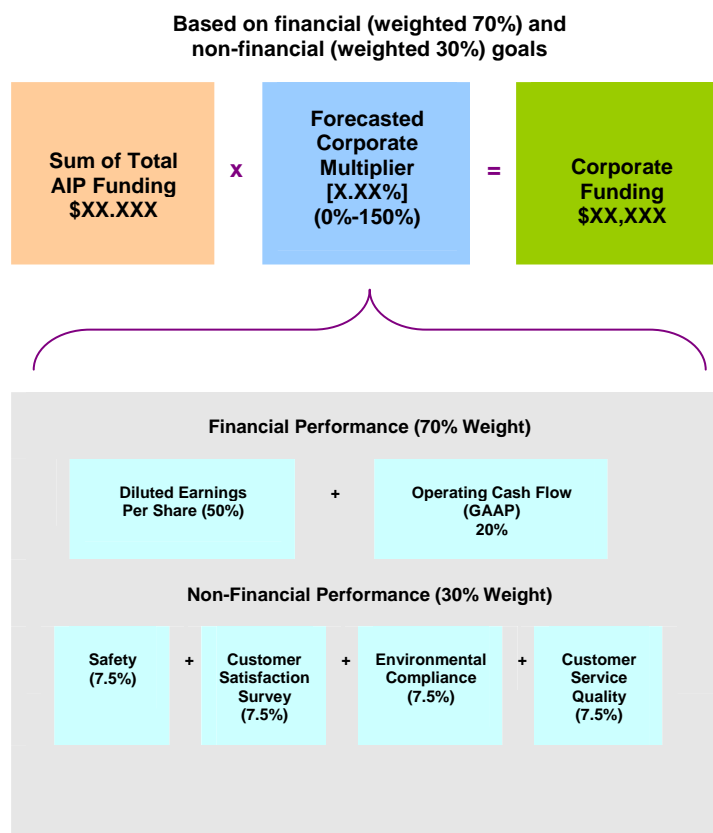
*AIP award payouts depend on individual performance; they also depend on overall corporate performance and organizational group/functional area results (which determine award pool funding).*

AIP awards will be determined according to the following three-step process:

Step 1:	Establish initial award pool based on overall corporate performance
Step 2:	Allocate overall corporate funding to organizational groups/functional areas, and adjust specific organizational group/functional area funding to reflect results
Step 3:	Determine AIP award based on individual performance; awards are paid from available organizational group/functional area funding

Step 1: Establish initial award pool based on overall corporate performance

Each year, American Water establishes funding for the AIP award pool. In 2011, the funding will be directly tied to Company performance and represented by the **Corporate Multiplier**. The Corporate Multiplier can range from 0% to 150% depending on how well the Company performed against the financial and non-financial goals described below. Note that a pre-determined **threshold** for Company performance - **2011 Diluted Earnings Per Share (EPS) must be at least 90.6% of target** - must be met in order for funding and any award to be provided under the AIP for Operating Cash Flow (20%) and Non-Financial Performance Factors (30%). 2011 Diluted Earnings Per Share (EPS) must be at least 90.6% of target for any EPS funding (25%) and award to be provided under the AIP.



■ **Financial Metrics (Weighted 70%) (See Attachment A)**

- *Diluted Earnings Per Share (50%)* is a widely tracked measure of financial performance/profitability, and is calculated as follows:

$$\begin{array}{r} \text{Net Income to Common Stockholders} \\ \div \\ \text{Average Outstanding Shares (including dilutive securities such as} \\ \text{stock options)} \\ = \\ \text{Diluted Earnings per Share} \end{array}$$

- *Operating Cash Flow (GAAP) (20%)* reflects the amount of cash generated from our operations and is used as an additional measure of profitability. Operating cash flow is calculated as follows:

$$\begin{array}{r} \text{Net Income} \\ + \\ \text{Depreciation and Amortization} \\ - \\ \text{Deferred Expenses} \\ +/- \\ \text{Changes in Payables and Receivables} \\ = \\ \text{Operating Cash Flow} \end{array}$$

■ **Non-Financial Metrics (Weighted 30%)\***

- Environmental Compliance Notices of Violation (NOVs) (7.5%)
- Safety Performance (7.5%)
- Customer Satisfaction Survey (7.5%)
- Customer Service Quality Survey (7.5%)

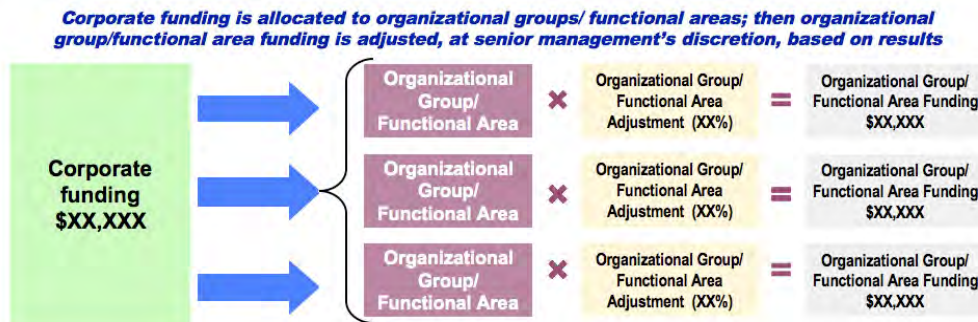
*\*These outcomes are based on a combination of surveys, end-of-year results, data and other annual reports (see Attachment A at the back of this brochure).*

Please note that AIP funding for all employees will depend on how well the Company achieves its financial goals as well as non-financial goals. A pre-determined financial threshold for Company performance must be met in order for funding and any award to be provided under the AIP.

The financial and non-financial metrics are added together to determine the Corporate Multiplier. So, even if certain metrics are not achieved, the funding may be reduced, but not eliminated altogether. However, if the Company’s financial performance does not meet the threshold, the Corporate Multiplier will be reduced to zero, which would eliminate your award payout (as indicated in the examples on page 10). The Corporate Multiplier (and thus funding for payouts) may be adjusted to take into account “uncontrollable events” including — but not limited to — severe weather conditions that significantly impact financial results (i.e., hurricanes), impairment charges, dissolution or acquisition of businesses or costs related to public offerings.

Step 2: Allocate overall corporate funding to organizational groups/ functional areas, and adjust specific organizational group/functional area funding to reflect results

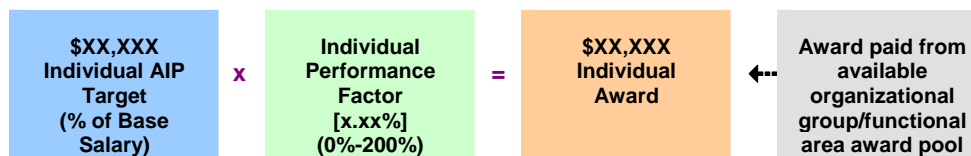
Once the overall corporate funding is determined as described under Step 1, senior management will allocate the Corporate funding to American Water’s organizational groups and functional areas. The funding for each organizational group/functional area may be increased or decreased, at senior management’s discretion, to reflect specific organizational group/functional area results.



Step 3: Determine individual AIP award based on (a) individual performance, and (b) available organizational group/functional area funding; awards are paid from available organizational group/functional area award pool

Your **AIP target award** (i.e., your award opportunity) is based on your job with the Company and is expressed as a percentage of your base salary. Your actual award payout may be higher or lower than target depending on whether individual and Company performance goals have been met, and your organizational group's/functional area's results. Contact your manager for information on your individual AIP Target Award.

Your individual performance factor is based on (a) your performance against specific targets, and (b) the amount of organizational group/functional area funding available



The sum of individual awards for a specific organizational group/functional area must not exceed the funding allocated to that organizational group/functional area

The **Individual Performance Factor** represents how well you achieve your annual individual performance goals. Your Individual Performance Factor (IPF) can range from 0% to 200%, depending on your performance for the plan year and the amount of organizational group/functional area funding available. This performance factor will then be multiplied by your Target Award to determine your 2011 AIP award payout. Individual payouts will be capped at 200% of AIP target award.

Individual AIP awards are then paid from the available organizational group/functional area award funding, which may impact the original (IPF%) determination. The sum of all individual awards within a given organizational group/functional area must not exceed its allocated pool of dollars.

## WHAT THE 2011 AIP MEANS FOR YOU

### Performance Ratings

Most people are motivated to do their best; therefore the better you perform, the greater your potential award will be under the Plan. It is your responsibility to maximize your award opportunity by achieving or exceeding your goals.

Each year, you and your manager identify four to six high priority and challenging performance targets, which represent where you can directly impact the Company's success. These performance targets and their weightings should be specific, measurable and aligned with the Company's performance targets. During your year-end performance review, you and your manager will discuss how well you performed against the established targets, and rate your performance using one of the following performance ratings:

2011 Performance Rating Scale	
Rating	Description
<b>Exceptional</b>	Contributions are widely recognized as extraordinary. Results far exceed all defined expectations, producing important and substantial impact on the Company, Division, Operating Company, Line of Business or Function.
<b>Significant</b>	Contributions are widely recognized as distinguished. Results exceed all or most expectations, producing a tangible and material impact on the Company, Division, Operating Company, Line of Business or Function.
<b>Commendable</b>	Contributions are widely recognized as meaningful. Results meet, and in some cases exceed expectations, producing a positive and desirable impact on the Company, Division, Operating Company, Line of Business or Function.
<b>Needs Improvement</b>	Contributions are widely recognized as limited. Results generally meet but in some cases fall slightly short of expectations, producing inconsistent and marginal impact on the Company, Division, Operating Company, Line of Business or Function.
<b>Unacceptable</b>	Contributions are widely recognized as unsatisfactory. Results fall considerably short of expectations, producing negligible or no impact on the Company, Division, Operating Company, Line of Business or Function.
<b>Too Soon to Rate</b>	Contributions cannot be measured at this time because more time is needed to see a result.

Later, during the AIP process, your manager will use your rating to determine your Individual Performance Factor. Depending on how you performed during the year, you could potentially earn a higher payout than in previous years — or you could earn a lower payout or no payout at all (as the examples on the following page demonstrate). In other words, the AIP design gives you more power to impact the size of your award. It also means that you are more accountable for meeting your goals.

### Award Payout Examples

Let's calculate possible award payouts for a sample AIP participant, under four possible scenarios:

AIP Participant Assumptions				
Salary Level	L07			
Annual Base Salary	\$90,000			
Individual AIP Target	\$13,500 (15% of Base Salary)			
Total AIP Funding *	\$20,000,000			
Total AIP Funding for Organizational Group*	\$2,000,000			
* The total is the sum of the target awards for the eligible employees.				
	Performance			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
■ Company	Above Target	Target	Threshold	Below Threshold
— Financial Performance Factor	1.39	0.94	0.50	0.00
— Non-Financial Performance Factor	0.77	1.12	0.50	0.00
■ Individual	Needs Improvement	Exceptional	Significant	Commendable
— Individual Performance Factor	0.25	1.50	1.05	.90

American Water

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	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<b>STEP 1: Establish corporate funding based on overall corporate performance</b>				
Total of AIP Targets (A)	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000
Financial Performance Factor (i) (70% weight)	$1.39 \times 0.70 =$ <b>0.97</b>	$0.94 \times 0.70 =$ <b>0.66</b>	$0.50 \times 0.70 =$ <b>0.35</b>	$0.00 \times 0.70 =$ <b>0.00</b>
Non-Financial Performance Factor (ii) (30% weight)	$0.77 \times 0.30 =$ <b>0.23</b>	$1.12 \times 0.30 =$ <b>0.34</b>	$0.50 \times 0.30 =$ <b>0.15</b>	$0.00 \times 0.30 =$ <b>0.00</b>
i + ii = Corporate Multiplier (B)	<b>1.20</b>	<b>1.00</b>	<b>0.50</b>	<b>0.00</b>
A × B = Corporate Funding	$\$20,000,000 \times 1.20 =$ <b>\$24,000,000</b>	$\$20,000,000 \times 1.00 =$ <b>\$20,000,000</b>	$\$20,000,000 \times 0.50 =$ <b>\$10,000,000</b>	$\$20,000,000 \times 0.00 =$ <b>\$0</b>
<b>STEP 2: Allocate overall corporate funding to organizational groups/functional areas; adjust specific organizational group/functional area funding to reflect results</b>				
Organizational Group Pool (C) ( <i>Allocated from corporate funding</i> )	\$2,400,000	\$2,000,000	\$1,000,000	\$0
Organizational Group Adjustment (D)	1.00 (Target)	.80 (Below Target)	1.20 (Above Target)	1.00 (Target)
C × D = Organizational Group Pool ( <i>adjusted based on results</i> )	$\$2,400,000 \times 1.00 =$ <b>\$2,400,000</b>	$\$2,000,000 \times 0.80 =$ <b>\$1,600,000</b>	$\$1,000,000 \times 1.20 =$ <b>\$1,200,000</b>	$\$0 \times 1.00 =$ <b>\$0</b>
<b>STEP 3: Determine individual award based on individual performance and available organizational group/functional area funding; awards are paid from available organizational group/functional area award pool</b>				
Individual AIP Target (E)	\$13,500	\$13,500	\$13,500	\$13,500
Individual Performance Factor (F) ( <i>Range of 0 – 1.50</i> )	0.25 (Needs Improvement)	1.50 (Exceptional)	1.05 (Significant)	.90 (Commendable)
E × F = Individual Award	$13,500 \times 0.25 =$ <b>\$3,375</b> <i>(25% of AIP target)</i>	$13,500 \times 1.50 =$ <b>\$20,250</b> <i>(150% of AIP target)</i>	$13,500 \times 1.05 =$ <b>\$14,175</b> <i>(105% of AIP target)</i>	$13,500 \times .90 =$ <b>\$12,150</b> <i>However, payout will be \$0, since award pool = \$0</i>

*As you can see, both Company and individual performance can significantly impact your final payout. Also, remember that the sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.*

*Note: The American Water Board or its Designee has the right to adjust the award determination(s) and/or award payouts(s) at its discretion.*

Please discuss the AIP with your manager to ensure you clearly understand how the formula works and how your performance impacts your potential award payout.

#### Receiving Your AIP Award

Awards will be paid in cash no later than March 15, 2012. If you are eligible for an award payout, please keep in mind that:

- The payout will be based on your annual base salary as of December 12, 2011 and subject to all federal, state and local income tax withholdings.
- The American Water Board or its Designee has the right to adjust the award determination(s) and/or award payouts(s) at its discretion.

*Remember, it's your performance — and your award: The contributions you make to American Water's success throughout the year ultimately impact the size of your payout. Be sure to carefully review this brochure; then speak with your manager about the AIP and about what you can do to improve your performance and share the financial rewards of American Water's success.*

## FREQUENTLY ASKED QUESTIONS

Question	Answer
How does the plan reward performance?	The AIP allows us to differentiate and reward the performance of employees who contribute to the achievement of the Company's goals. The 2011 AIP directly ties award payouts to measurable contributions (Company, organizational group/ functional area and individual) to American Water's success.
Who is eligible for the AIP?	All regular, full-time exempt employees are eligible to participate. If you join American Water on or before September 30, 2011, you are also eligible to participate in the plan on a prorated basis.
What do I have to do to receive an AIP award?	<p>Any payout will depend largely on your performance, as well as on Company, organizational group/ functional area performance (including financial and non-financial), which determines funding.</p> <p>If your performance is rated "Needs Improvement" or higher, you may receive an award payout — but only if threshold Company performance metrics have been met. If your performance rating is "Unacceptable" or "Too Soon to Rate," you will not receive a payout. To maximize your award opportunity, it's important to meet with your manager to establish meaningful performance goals, then work hard throughout the year to achieve those goals.</p> <p>The American Water Board or its Designee has the right to adjust the award determination(s) and/or award payout(s) at its discretion.</p>
How is my AIP target award opportunity determined? How can I find out what it is?	Your AIP target award opportunity is based on your job and expressed as a percentage of your base salary. Please see your manager to learn more about your target award opportunity for 2011.

Question	Answer
How will my AIP award payout be calculated?	<p>The size of the pool which funds your award is determined based on overall corporate performance and adjusted to reflect specific organizational group/functional area results. AIP funding for all eligible employees, will depend on the Company and/or organizational group/functional area achieving its non-financial as well as financial goals. Once individual awards are calculated, they are paid from the organizational group/functional area funding.</p> <p>The American Water Board or its Designee has the right to adjust the award determination(s) and/or award payouts(s) at its discretion.</p>
What is the minimum and maximum that could be paid under the plan (as a percent of target)?	AIP award payouts can range from zero, to a maximum of an Individual Performance Factor of 200%. Payouts are capped at 200% of AIP target award.
Will I receive an award payout if I meet my individual performance goals but the Company <i>does not</i> achieve minimum (threshold) performance?	No. A pre-determined financial threshold for Company performance must be met in order for funding and any award to be provided under the AIP.
What happens if I leave American Water before I receive my award payout?	To receive the award payout, you must be actively employed with American Water on the date the payment is to be made. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not "for cause") or a divestiture occurred after June 30, 2011. Involuntary termination for cause would not be eligible.
What happens if I change job positions within American Water during the plan year?	Your award payout will be based on your base salary and target level percentage as of December 12, 2011.

This brochure is the 2011 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment.

## 2011 AIP FINANCIAL PAYOUT CURVE

DILUTED EARNINGS PER SHARE (EPS) (50%)

<u>% Target Achieved</u>	<u>% Payout</u>
104.7%	150.0%
103.5%	137.5%
102.4%	125.0%
101.2%	112.5%
100.0%	100.0%
97.6%	81.3%
95.3%	62.5%
92.9%	43.8%
90.6%	25.0%
<90.6%	0%

\* For 2011, the EPS target is within the range of our earnings guidance of \$1.65 to \$1.75.

OPERATING CASH FLOW (20%)

<u>% Target Achieved</u>	<u>% Payout</u>
106.4%	150.0%
105.4%	136.7%
104.5%	123.3%
102.5%	110.0%
100%	100.0%
98.7%	85.0%
97.5%	70.0%
96.2%	55.0%
94.9%	40.0%
93.6%	25.0%
<93.6%	0%

## 2011 AIP NON-FINANCIAL MEASURES

### Environmental Compliance (7.5%)

For determining environmental compliance, AW will count Notices of Violation (NOV) for which the Company is responsible as described in the Environmental Non-Compliance Reporting Practice. For 2011 AW's NOV target is 17.

NOVs	Award
13	150.0%
14	137.5%
15	125.0%
16	112.5%
<b>17</b>	<b>100.0%</b>
18	87.5%
19	75.0%
20	62.5%
21	50.0%
>21	0%

### Safety Performance (7.5%)

Safety performance will be determined using the total OSHA Recordable Incident Rate (ORIR) which measures all injuries and illnesses requiring treatment beyond first aid for every 200,000 hours worked. For 2011 the goal has been set at 3.75 which is 8.5% below the Bureau of Labor Statistics (BLS) Water Utility Average ORIR of 4.1 and will be evaluated against the graduated award scale below.

ORIR	Award
3.10	150%
3.23	140%
3.36	130%
3.49	120%
3.62	110%
<b>3.75</b>	<b>100%</b>
3.88	90%
4.01	80%
4.14	70%
4.27	60%
4.40	50%
>4.40	0%

## 2011 AIP NON-FINANCIAL MEASURES

### Service Quality (7.5%)

This metric is measured by the Service Quality Survey (SQS) which is conducted throughout the year for customers requesting service resulting in completion of a service order by a Field Service Representative (FSR). The score is based on the survey question: "Overall, how satisfied were you with the outcome of your service contact?" taking the top two response categories of a 5 point response scale (5. Extremely Satisfied, 4. Very Satisfied, 3. Somewhat Satisfied, 2. Somewhat Dissatisfied, 1. Very Dissatisfied). The AW goal for 2011 is 85% and the graduated award scale is provided below.

SQS %	Award
90	150%
89	140%
88	130%
87	120%
86	110%
<b>85</b>	<b>100%</b>
84	90%
83	80%
82	70%
81	60%
80	50%
< 80	0%

### Customer Satisfaction (7.5%)

This metric measures overall customer satisfaction through a random customer survey containing the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages in the top three categories are indicative of overall customer satisfaction levels and a 90% target has been set.

CSS%	Award
95	150%
94	140%
93	130%
92	120%
91	110%
<b>90</b>	<b>100%</b>
89	90%
88	80%
87	70%
86	60%
85	50%
<85	0%

## 2011 ANNUAL INCENTIVE PLAN TARGETS

EXEMPT POSITIONS	
Grade	AIP %
ML4	30%
L5 – L6	20%
L7	15%
L8-L9	10%
L10 – L12	5%

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**

LONG ISLAND AMERICAN WATER

Request No.: STAFF-120 ACL-34  
Requested By: Andrew Leung  
Date of Request: July 5, 2011  
Response Due: July 15, 2011  
Witness: Sean Burke  
Subject: Annual Incentive Plan

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- 1) Please identify and quantify the amount of rate year savings and/or benefits associated with the Company's Annual Incentive Plan (AIP).
- 2) Please identify where the savings/benefits are reflected in the Company's forecasted rate year revenue requirement. Show all calculations and include the specific Company workpaper or exhibit reference.

**Response:**

- 1) The Company has investigated the feasibility of performing studies and/or analyses to quantify rate year savings and benefits attributable to the Company's Annual Incentive Plan ("AIP"). The Company has been unable to locate any examples of such specific studies or identify a procedure for quantifying savings attributable to AIP. The results of the Company's investigation are consistent with Commission findings. The Commission stated, "performance indicators that address goals for safety, environmental protection, and customer service cannot readily be measured by dollar savings; others might further performance requirements for reliability and customer service that benefit ratepayers. Some of these types of performance measures might provide the kind of difficult to identify or quantify savings intended to be captured by the productivity imputation. We do not see that it would be categorically unjust or unreasonable for ratepayers to bear the costs of an incentive plan limited to such factors and not including financial parameters. (Cases 08-E-0539 and 08-M-0618: *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric*

**CASE 11-W-0200****LIAW - RATES**

Service, Order Setting Electric Rates (April 24, 2009). The Company has, however, discussed the matter with its Human Resources consultant, Towers Watson. As a result, the Company is of the belief that such a study, if at all possible, would be costly, complex to perform, would require the design of a new data gathering and would involve a significant period of time to collect and analyze data. Accordingly, the Company has not requested a proposal to perform such a study given the limitations and the likely expense of obtaining a quantitative study.

As discussed in more detail in the testimony of Sean Burke, the Company measures performance relative to a number of objective factors. These are also described more fully at pages 4-6 of the AIP program booklet, previously provided in response to IR-119 ACL-33. As noted in Attachment A to the plan booklet, the Company's Environmental Compliance, Safety Performance, Customer Satisfaction, Service Quality, Business Transformation and Diversity are all monitored and become the basis for the Operational Component of the plan award calculation. These key performance indicators are incorporated into each employee's incentive plan targets. While these measures may not be readily convertible to a dollar value to customers, they are important measures of the Company's performance relative to the customers and the community served.

- 2) The requested data cannot be quantified as requested for the reasons set forth in the response to part one.

**STAFF OF THE DEPARTMENT OF PUBLIC SERVICE**  
**INTERROGATORY/DOCUMENT REQUEST**  
**LONG ISLAND AMERICAN WATER**

Request No.: STAFF-156 ACL-40  
 Requested By: Andrew Leung  
 Date of Request: July 26, 2011  
 Response Due: August 6, 2011  
 Witness: Robert A. Engle  
 Subject: Payroll

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Please refer to page 12 of 13 of Exhibit 12, Tab 4. The Union Overtime schedule shows a decrease in overtime hours for the following job positions:

Job Title	2008 OT Hours	2009 OT Hours	2010 OT Hours
Equipment Operator	1,754.50	1,501.00	1,434.00
Senior Utility Man A	2,152.00	1,904.50	1,674.50
Utility Man - Meter Service	3,536.50	2,679.00	1,500.50
Utility Man I	4,412.00	3,485.50	2,606.50

- 1) For each job position listed above, please explain why the overtime hours have decreased between 2008 and 2009.
- 2) For each job position listed above, please explain why the overtime hours have decreased between 2009 and 2010.

**Response:**

- 1) Regarding the decrease in overtime hours between 2008 and 2009 for the Equipment Operator, Senior Utility Man A and Utility Man I positions is explained as follows. In 2008, more of the capital work had been worked on by in-house crews consisting of Senior Utility Man A, Utility Man 1 and Equipment Operators. In 2009, more of this work was allocated to

**CASE 11-W-0200****LIAW - RATES**

outside resources, such as contractors, due to the volume and scope of work. In addition to routine work, smaller-scope capital improvement jobs remained to be worked on by in-house crews, as is the case today.

Utility Man Meter Service - The AMR (Automatic Meter Reader) replacement program was completed during the 2008 year during which the previously inaccessible accounts' meters were installed during and after business hours, when customers would provide access. Appointments were set up and accounts were followed up with. As a result the number of meters requiring change-out diminished as well as the man-hours needed to perform the necessary work.

- 2) The decrease in overtime hours during 2009-2010 for the Equipment Operator, Senior Utility Man A and Utility Man I positions is explained as follows - In 2010 the Company continued the capital work allocation to outside resources as started in 2009, and as explained in the response to Question 1, above. In addition, LIAW curtailed working extended hours on routine jobs and projects, thereby controlling overtime.

Utility Man Meter Service - As the AMR program was completed, the Company has experienced less billing complaints due to the reduced number of estimated bills and more accurate billing. This resulted in fewer service calls related to meter reading and a reduction in the man-hours needed to perform this work. At the end of 2009, in order to maximize the AMR program efficiencies, the meter reading routes were optimized and converted into monthly billing. These changes reduced reading time and account follow up in 2010.

LIAW will be ramping up the AMR program starting in 2012. Meter replacements will be restarted based on age and registration requirements as required by PSC guidelines. As such, it is expected that the required overtime will be back in line with historical years when the AMR program was implemented. Overtime for the Utility Man Meter Service position in 2004 and 2005 was 2,767 and 3,456 hours, respectively, resulting in an average of 3,111 hours. The 2010 overtime of 1,500 hours for the Utility Man Meter Service is under-stated and will be increasing to an estimated level of 3,111 hours.

The Company uses a three year average for both the capitalization percent and overtime hours to smooth the fluctuations from year to year and position to position due to

**CASE 11-W-0200****LIAW - RATES**

the many factors that affect the amount of overtime and the amount of capital work each year. Please note that an adjustment to either the OT hours or the capitalization percentage will cause an adjustment in the other factor.