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Via Hand Delivery

October 5, 2007

Hon. Jaclyn A. Brilling
Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 07-W-0508: Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Long Island Water Corporation for Water Service.

Dear Secretary Brilling:

Enclosed please find five (5) copies of the rebuttal testimony submitted on behalf of Long Island American Water in the above-referenced proceeding. The following individuals are submitting rebuttal testimony:

Mr. William Varley	Mr. John M. Watkins
Mr. Frank X. Simpson	Mr. David Hunter
Mr. Robert G. Rosenberg	Mr. John N. Casillo
Mr. Steven J. Tambini	Mr. H. Edward Rex

Very truly yours,

READ AND LANIADO, LLP
Attorneys for Long Island American Water

Steven D. Wilson

Enclosures

cc: Active Parties List (*via* overnight delivery)
Hon. Raphael Epstein, ALJ (*via* hand delivery)
Department of Public Service Staff (*via* e-mail)
Saul Rigberg, Esq. (*via* hand delivery)
Ruth Ames (*via* hand delivery)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 07-W-0508: Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Long Island Water Corporation for Water Service.

CERTIFICATE OF SERVICE

I hereby certify that I have, this 5th day of October, 2007, served copies of Long Island American Water Company's rebuttal testimony, in the above-referenced proceeding, upon all parties on the attached Active Parties List.

Theresa Cenci

Theresa Cenci

Case 07-W-0508
Long Island American Water Corporation

Active Parties List As Of:
July 05, 2007

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Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF FRANK X. SIMPSON

October 5, 2007

1. Q. Are you the same Frank X. Simpson who filed direct testimony in this proceeding?

A. Yes, I am.

2. Q. What are the areas you will address in your rebuttal testimony?

A. First, I will summarize and identify those Staff adjustments that the Company accepts; those adjustments that the Company does not agree with, but will not contest for purposes of this proceeding; those adjustments that the Company agrees with in principle, but need to be recalculated based on the most current data or adjustments that may have surfaced as a result of the discovery request process; and finally, those adjustments which the Company disagrees with. For ease of reference, I will utilize Mr. Higgins' Exhibit _(KHJ-1), Schedule 2, and identify our position and the witness rebutting such adjustment by his numbers. I will then support Exhibit (FXS-1), which will depict the Company's current position, reflecting the relevant Staff adjustments and incorporating additional updates and more recently-available information. I will then address Staffs' testimony with respect to consolidated capital structure, cost of debt, return on equity, and the level of equity in the capital structure. I will then address Staff's testimony with respect to specific adjustments to the Invoice component of O&M. I will conclude by addressing the Association of Fire Districts Nassau County's concern regarding public fire hydrants.

<u>Staff Adjustments to Operation & Maintenance Expense, Depreciation Expense, and Taxes Other Than Income</u>

3. Q. What is the Company's position with respect to Staff's proposed adjustments to Operations & Maintenance Expense, Depreciation Expense, and Taxes Other Than Income?

A. Please see Exhibit (FXS-2), which lists all of Staff's proposed adjustments and the Company's position with respect to such. The Company has indicated on Exhibit (FXS-2) the witness for each adjustment that is being rebutted.

Staff Adjustments to Rate Base

4. Q. What is the Company's position with respect to Staff's proposed adjustments to Rate Base?

A. Please see Exhibit (FXS-3), which lists all of Staff's proposed adjustments and the Company's position with respect to such. The Company has indicated on Exhibit (FXS-3) the witness for each adjustment that is being rebutted.

Staff Adjustments to State and Federal Income Taxes

5. Q. What is the Company's position with respect to Staff's proposed adjustments to State and Federal Income Taxes?

A. Please see Exhibit (FXS-4), which lists all of Staff's proposed adjustments and the Company's position with respect to such. The Company has indicated on Exhibit (FXS-4) the witness for each adjustment that is being rebutted.

CAPITAL STRUCTURE

Long-Term Debt

6. Q. Please summarize Staff's position on long-term debt.

A. Staff is utilizing the consolidated capital structure of American Water to assign the cost of long-term debt and preferred stock for LIAW.

7. Q. Do you agree with Staff's utilization of the consolidated capital structure of American Water?

A. No, I do not. The determination should be based on LIAW's actual capital structure, not an imputed cost based on debt and preferred stock that may be on the books of sister companies in California or Pennsylvania. The cost of debt for LIAW is known, and real. The Company should be regulated on the weighted average cost of debt to which its assets are pledged as collateral. Staff has lowered the Company's cost of long-term debt from 6.44% (updated in Staff IR-3) to 6.11%, a reduction in revenue requirement of approximately $162,000. On the other hand Staff' increased the cost of preferred stock from 4.5% to 7.71%, increasing the Company's revenue requirement by approximately $64,000. From a revenue requirement standpoint the utilization of the consolidated cost of long-term and preferred nets to a revenue reduction of approximately $100,000. This reduction is significant form the standpoint of the Company, but not material as the adjustments to return of equity of approximately $1.4 million and the equity ratio of approximately $0.3 million. In this particular proceeding the cost of debt on a consolidated basis of 6.11% and 6.44% on a stand-alone bases are not significantly different. Suppose the consolidated cost of debt was 6.11%, but the stand-alone was only 3.00% as a result of its entire portfolio being tax-free, would the Commission consider a positive adjustment $1,5 million in the Company's favor sound regulatory policy?

8. Q. Does Staff properly reflect the stand-alone cost of debt for LIAW?

A. No. The cost of debt was updated from 6.18% to 6.44% in conjunction with the Company's response. Please see attached as Exhibit (FXS-6) the Company's response to Staff IR-3.

Return on Equity

9. Q. Does the Company agree with Staff's proposed Return on Equity of 9.10%?

A. No. I will leave the Company's rebuttal to Staff's return on equity testimony to our witness Mr. Robert Rosenburg. This exceedingly low return will only contribute to keeping the Company's financial performance at levels that are totally unacceptable from the market's perspective. The Company has not been able to earn its allowed return on equity for a number of years now, and based on many of the adjustments presented in Staff's initial case, I would have to say the prospect of this continuing is more than likely. The Company's actual return on equity for the last three calendar years 2004, 2005 and 2006 was 0.82%, 5.76% and a negative -2.52%, respectively; this equates to an average return of 1.35%. LIAW must compete for capital from American Water Works Company. These returns hobble the Company's ability to compete. Returns of this level are simply not acceptable to the market or our investors.

10. Q. Do you agree with Staff's equity ratio of 45%?

A. No, the Company does not agree with the proposed equity ratio of 45%. American Water has made a commitment in the IPO that its equity at issuance will be a minimum of 45% and LIAW has stated that its percentage will be 50%. We will provide an actual common equity ratio if the IPO is consummated prior to the close of this proceeding. Company's witness Mr. Rosenburg will address this matter.

OPERATING EXPENSE

11. Q. If Staff is going to impute a consolidated capital structure for the Company, is it appropriate to utilize a 34% federal income tax rate?

A. No. If the Staff is recommending the utilization of a consolidated capital structure, it should also utilize the 35% federal income tax rate that would be applicable to a consolidated filing as compared to the 34% for a stand-alone filing.

12. Q. Are you now recommending a consolidated capital structure?

A. No.

13. Q. Would the Company support a multi-year rate plan?

A. Yes. We believe an appropriate multi-year rate plan could be in the public interest and we expect to discuss that matter with the parties. We are optimistic that the parties can craft a plan that would meet the Commissions' goals. Such a plan must allow the Company to recover its prudently incurred costs and allow the Company to compete successfully for the enormous amount of capital it needs to renew Long Island American Water Company's infrastructure.

The multi-year settlement reached in the last case did not meet that standard. Continued sub-par earning or outright losses are not sustainable. In a multi-year plan the Company should be afforded the opportunity to recover its increased operating expenses and a return on it increase in rate base resulting from the on-going capital program. Attached to this rebuttal please find Exhibit (FXS-5), which depicts the increases in operating expense for the out-years of a multi-year rate plan. To derive the out-years the Company started with its adjusted operating expenses for the rate year ended March 31, 2009 and increased each category by the projected change in operating expenses for calendar year 2008 as compared to 2007.

14. Q. **Do you agree with Staff's elimination of the entire $58,252 of software related costs in the Invoice category of O&M?**

A. I am in agreement with the majority of his adjustment and stated such in my response to Staff IR-180. However, even though we may not have any expenses related specifically to SAP software licenses in the pro forma year; we will incur other software type expenditures. For example, American Water has recently purchased and implemented Hyperion 9, which we will be utilizing for reporting and budgeting purposes. Hyperion 9 and the related costs such as licenses do not come free; there will be a cost to LIAW. In the current age of technology, where changes and efficiencies are happening at an ever accelerating pace, it would not be practical to assume that we will not be incurring any additional software related costs. This is an example of a category of recurring costs made up of different costs each year. In my response to Staff IR-180 I recommended a reduced amount of $16,000 ($17,796 including inflation) as a more appropriate level of expense. I believe this is more likely considering the magnitude of ongoing software change and the fact American Water is currently implementing Hyperion 9.

15. Q. **Do you believe it is appropriate to update various revenue, expense and rate base amounts to reflect the most recent and best available information as the proceeding progresses?**

A. Yes, I believe it is sound policy, especially in a future looking test year, to update the case to reflect the most recent and best available information.

16. Q. Did Staff reflect an adjustment to security costs as a result of the Company's response to Staff IR-180?

A. No, Staff did not adjust the $29,143 of security costs in the base year to reflect the known and subsequent increases in security costs of $15,231 that were included in the response to StaffIR-180. Subsequent to the base year the Company increased security at the Lynbrook office and operational facility in the amount of $15,231 per annum. Please see Exhibit (FXS-7).

17. Q. Does the Company agree with Staff's proposed adjustment to remove business services project costs recovered though the RAC?

A. Yes, but only if the RAC continues. If the RAC is eliminated as suggested by Mr. Van Cook then this amount, offset by the annual demutualization, needs to be replaced with inflation through the end of the pro forma year.

18. Q. What is the status of Case 05-W-0339, the Company's open Pension / OPEB proceeding?

A. Staff has issued its Audit Report and is awaiting the Company's official response. The audit report goes through December 31, 2003 and depicts what Staff believes the internal reserve balance and the deferred debit balance (difference between what is allowed in rates and the actual expense) should be. The Company is in agreement with Staff's calculations through the end of 2003 and has brought forward the calculation through the end of 2006. This calculation through the end of December 31, 2006 was supplied in the Company's response to Staff –198 and 199. The Company's Audited financial statements as of December 31, 2006 includes a liability to the ratepayers of approximately $2.8 million for the internal reserve, which is available to be refunded. It is the Company's desire to work with Staff and agree on the most efficient, effective and timely method of refunding this liability.

19. Q. Does the Company wish to comment on the Association of Fire Districts Nassau County position with respect to public fire hydrants?

A Yes. The cost of service associated with providing public fire service entails much more than the direct costs related to hydrant testing and repairs, replacements and service upgrades. Most of the costs are associated with the capital investment in the extra capacity of the distribution system necessary to provide fire demands. These distribution system investments include the additional cost for the larger mains required for fire flows as well as the extra capacity designed in pumping and storage facilities. It is common in base extra capacity allocations to allocate anywhere from 10% to 30% of these distribution facilities to fire protection depending on the size of the system and the population of the areas served. The allocation of rate base associated with these facilities in turn allocates a portion of income for return and related income taxes to the fire protection classification. This income and income tax allocation added to the direct operating and maintenance costs generally supports an annual fire hydrant rate well in excess of $500.

20. Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Pro Forma Statement of Income

Long Island American Water
Case No:
Witness Responsible: F. X. Simpson

Base Year: Twelve Months Ended: 12/31/06
Exhibit 9

Line No.	Description	Exh. 9 Ref Pg. No.	Actual 12/31/2006	Adjustment	12 Months Ended 12/31/07 Forecast	Adjustment	12 Months Ended 12/31/08 Forecast	Adjustment	Twelve Months Ended 3/31/2009 Present Rates	Adjustment	Proposed Rates
1											
2	Operating Revenues	2-8	$39,292,737	$99,984	$39,392,721	$3,838,032	$43,230,753	($1,103,103)	$42,127,650	$8,544,341	$50,671,991
3											
4	O & M Expenses	13-38	19,373,244	2,494,456	21,867,700	1,020,185	22,887,884	483,966	23,371,851	60,407	23,432,258
5											
6	Depreciation	39-40	2,654,440	244,592	2,899,032	137,444	3,036,476	36,854	3,073,330	0	3,073,330
7	Amortization		525	0	525	(350)	175	(175)	0	0	0
8											
9	Taxes Other Than Income	41-45	12,774,455	(336,010)	12,438,445	72,737	12,511,182	11,077	12,522,259	27,688	12,549,947
10											
11	State Income Tax	46	(71,108)	18,436	(52,672)	180,795	128,123	(145,907)	(17,784)	702,714	684,930
12											
13	Federal Income Tax	47	(261,741)	92,173	(169,568)	815,683	646,115	(506,374)	139,740	2,636,201	2,775,941
14	Amort of ITC		(15,000)	0	(15,000)	0	(15,000)	0	(15,000)	0	(15,000)
15											
16	Total Operating Expenses		34,454,815	2,513,646	36,968,461	2,226,494	39,194,955	(120,559)	39,074,396	3,427,010	42,501,406
17											
18	Utility Operating Income		$4,837,922	($2,413,662)	$2,424,260	$1,611,538	$4,035,798	($982,544)	$3,053,254	$5,117,331	$8,170,585
19											
20											
21	Rate Base		$80,169,797		$86,334,606		$92,934,366		$94,403,761		$94,403,761
22											
23	Return on Rate Base		6.03%		2.81%		4.34%		3.23%		8.65%
24											
25	Return on Equity		-0.50%		-0.98%		2.18%		-0.10%		11.00%
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											

Exhibit (FXS-1)

Long Island Water Corporation
Summary of Staff Adjustments
For the Rate Year Ending March 31, 2009

EXHIBIT (FXS-2)

Adj No.		Amount	LIWC Agreed in DR Process	LIAW Disagrees, Will Not Contest	LIAW Adjs to Filed Position	Witness
1	Operating & Maintenance Expenses					
a.	Payroll					
	1) To adjust union payroll based on pay increases at GDP.	($82,857)	0	0	0	Watkins
	2) To adjust union payroll to reflect only three months of 2009 wage increase.	(104,135)	0	0	(116,008)	Watkins
	3) To adjust OT based on 2-year average without AMR (2004-2005).	(153,086)	0	0	(50,435)	Watkins
	4) To adjust non-union salaries based on pay increase at GDP.	(29,510)	0	0	0	Watkins
	5) To remove incentive pay from the company's payroll forecast.	(197,238)	0	0	0	Watkins
	6) To adjust the percent charged to capital based on the HTY without AMR.	(223,604)	0	0	(6,264)	Watkins
	7) To adjust productivity for all of Staff's payroll adjustments.	7,904	0	0	1,727	Watkins
	8) To adjust productivity to include fringe benefits and payroll taxes.	(28,985)	0	0	0	Watkins
	Total Adjustments to Payroll	(811,511)	0	0	(170,980)	
b.	Purchased Power					
	To reflect staff's forecast of rate year purchased power expense.	(140,218)	0	0	0	Casillo
c.	Fuel					
	To reflect staff's forecast of rate year fuel expense.	(123,549)	0	0	(97,826)	Casillo
d.	Invoices					
	1) To remove non-recurring severance pay from the company's forecast (IR 180).	(36,592)	(29,898)	0	0	Simpson
	2) To remove non-recurring software program expense from the (IR 182).	(58,252)	(36,373)	0	0	Simpson
	3) To remove business services project costs recovered via the RAC (IR 16).	(139,811)	(125,700)	0	0	Simpson
	4) To remove HTY safety award program payments (IR 147).	(51,164)	(46,000)	0	0	Simpson
	5) To remove unsupported non-recurring HTY adjustment (IR 179).	(40,661)	(36,657)	0	0	Simpson
	6) To normalize to maintenance expense based on a 4-year average.	(176,987)	0	0	196,000	Varley
	7) To reflect Staff's forecast of GDP on remaining HTY invoices.	(78,821)	0	(144,857)	0	Simpson
	Adjustment to Security Expense (Staff-180)				15,231	Simpson
	Total Adjustments to Invoices	(582,288)	(274,629)	(144,857)	211,231	
e.	Leased Vehicles					
	To reflect staff's forecast of rate year leased vehicles expense.	(69,653)	0	(69,653)	6,012	
f.	Service Company Expense					
	1) To reflect Staff's forecast of labor & labor related benefits for offices other than the NER.	(180,472)	0	0	(30,069)	Watkins
	2) To reflect Staff's rate year forecast of non-labor expense.	(37,842)	0	0	(37,842)	Watkins
	3) To reflect Staff's rate year forecast of NER office labor & labor related benefits	(313,447)	0	0	(99,949)	Watkins
	Total Adjustments to Service Company Expense	(531,761)	0	0	(167,860)	
g.	Postage					
	To remove the company's proposed increase in postage expense.	(183,337)	0	0	4,664	Watkins
h.	Group Insurance Expense					
	1) To reflect group insurance based actual HTY cost per employee plus GDP.	(224,946)	0	0	0	Watkins
	2) To reflect Staff's percentage charged to capital.	(29,169)	0	0	(4,311)	Watkins
	Total Adjustments to Group Insurance Expense	(254,115)	0	0	(4,311)	
i.	401(k) Plan Expense					
	To reflect rate year 401(k) plan expense based on 2-year average plus GDP.	(33,566)	0	0	(2,731)	Watkins
j.	Defined Contribution Plan (DCP)					
	To reflect rate year DCP expense based on HTY expense plus GDP.	(42,498)	0	0	(1,370)	Watkins
k.	Insurance Expense Other Than Group Insurance					
	To reflect Staff's rate year forecast of insurance expense other than group insurance.	($530,879)	0	0	(192,849)	Hunter
l.	Amortization of Deferred Rate Case Expenses					
	To reflect Staff's forecast of rate case expense amortized over three years.	(173,328)	0	(173,328)	0	Hunter
m.	Amortization of Deferred Pension/OPEB Expense					
	To eliminate the company's proposed amortization until fully supported.	105,561	0	105,561	0	
n.	Amortization of Deferred RAC/PTC Costs					
	To remove deferred RAC/PTC costs in the company's rate filing.	28,507	0	28,507	0	
o.	Amortization of Deferred Asbestos Removal Costs					
	To reflect Staff's forecast of asbestos removal costs amortized over three years.	21,000	21,000	0	0	
p.	Low Income Program					
	To remove the company's proposed low income program from base rates.	(127,500)	0	(127,500)	90,000	Varley
q.	Audit Fees					
	To remove "SOX" start-up costs from the company's rate year forecast (IR 3)	(301,497)	(301,497)	0	0	
r	Amortization of CPS	0	0	0	38,080	Rex
	Total Adjustments to Operating & Maintenance Expense	($3,750,632)	($555,126)	($381,270)	($287,940)	

EXHIBIT (FXS-3)

Long Island Water Corporation
Summary of Staff's Adjustments
For the Rate Year Ending March 31, 2009

Adj No.		Amount	LIWC Agreed In DR Process	LIAW Disagrees, Will Not Contest	LIAW Adjs to Filed Position	Witness
9	Rate Base					
a.	Water Plant in Service					
	1) To reflect Staff's proposal related to CPS costs.	($190,400)	0	(190,400)	0	Rex
	2) To reflect Staff's adjustment related to routine main/network renewal.	(487,450)	0	0	0	Tambini
	3) To reflect Staff's adjustment removing 20" Trans. Main - Plt 12 to So. Baldwin.	(1,264,000)	0	0	0	Tambini
	Total Adjustments to Water Plant in Service	(1,941,850)	0	(190,400)	0	
b.	Accumulated Provision for Depreciation					
	1) Tracking Staff's plant in service adjustment related to routine main/network renewal.	6,320	0	0	0	Rex
	2) Tracking Staff's adjustment removing 20" Trans. Main - Plt 12 to So. Baldwin.	2,438	0	0	0	Rex
	3) Depreciation related to the removal of the CPS from rate base			1,038		Rex
	Total Adjustments to Accumulated Provision for Depreciation	8,758	0	1,038	0	
c.	Working Capital					
	Cash Allowance					
	Tracking staff's adjustment to O & M expenses	($440,159)	0	0	(135,886)	Rex
d.	Prepayments					
	To remove deferred vacation pay and special deposits from the company's forecast.	(99,007)	(99,007)	0	0	Rex
	Total Adjustments to Working Capital	(539,166)	(99,007)	0	(135,886)	
	Regulatory Deferrals					
e.	Deferred Rate Case Expense					
	Tracking Staff's recommended rate year amortization.	(259,971)	0	(259,971)	0	Rex
f.	Deferred Asbestos Removal Costs					
	Tracking Staff's recommended rate year amortization.	(16,722)	(16,722)	0	0	Rex
g.	Deferred RAC/PTC Costs					
	To remove deferred RAC/PTC costs from the company's rate base forecast.	(1,572,685)	0	(1,572,685)	0	Rex
h.	Deferred Pension/OPEB Expense					
	To remove deferred pension/OPEB expense from the company's rate base forecast.	263,902	0	263,902	0	Rex
i.	Deferred Property Tax Refund					
	To remove deferred property tax refund from the company's rate base forecast.	2,683,333	0	2,683,333	0	Rex
i-2	Deferred CPS Costs	0	0	0	171,360	Rex
	Total Adjustments to Regulatory Deferrals	1,097,857	(16,722)	1,114,579	171,360	
j.	Accumulated Deferred Income Taxes					
	To reflect Staff's forecast of rate year ADIT.	(1,966,710)	0	0	0	Rex
	SIT			(585,334)		Rex
	FIT			(1,381,376)		Rex
k.	Earnings Base vs. Capitalization Adjustment					
	To reflect Staff's EBCap adjustment calculation.	2,272,052	0	2,561,869	1,871,240	Rex
	SIT Difference					
	Unamortized Tank Painting				1,168	Rex
	Unamortized Asbestos Removal			542		Rex
	Unamortized Demutualization				(1,084)	Rex
	Unamortized Rate Case expense				(8)	Rex
	Inflation Difference					
	Material and Supplies			(13,404)		Rex
	Prepayments				(5,828)	Rex
	Total Adjustments to Rate Base	($1,069,059)	($115,729)	$1,507,514	$1,900,962	

EXHIBIT (FXS-4)

Long Island Water Corporation
Summary of Staff's Adjustments
For the Rate Year Ending March 31, 2009

Adj No.		Amount	LIWC Agreed In DR Process	LIAW Disagree, Will Not Contest	LIAW Adjs to Filed Position	Witness
5	State Income Taxes					
a.	Net Operating Income before SIT Reflect staff's adjustments to operating revenues and expenses.	$3,978,842	$661,335	$383,174	$303,411	
	Adjustments to Taxable Income					
b.	Interest Expense To reflect staff's calculation of rate year interest expense.	($196,771)	0	0	0	Rex
c.	Depreciation Differences Tracking staff's adjustment to book depreciation.	(88,166)	0	0	0	Rex
d.	Medicare Part D subsidy To reflect the tax benefits to be realized by the company in the rate year.	(34,317)	0	0	0	Rex
e.	Amortization of Rate Case Expenses To reflect staff's amortization of rate case expenses.	173,328	0	0	0	Rex
f.	Amortization of Deferred Pension/OPEB Expense To reflect staff's removal of deferred pension/OPEB expense from the rate case.	(105,561)	0	0	0	Rex
g.	Amortization of Deferred RAC/PTC Costs To reflect staff's removal of deferred RAC/PTC costs from the rate case.	(28,507)	0	0	0	Rex
h.	Amortization of Deferred Asbestos Removal Costs To reflect staff's amortization of asbestos removal costs.	(21,000)	0	0	0	Rex
	Total Adjustments to Taxable Income	($280,994)	$0	$0	$0	
i.	State Income Tax To reflect state income tax expense at the current rate of 7.1%.	$270,440	0	0	0	Rex
j.	MTA Tax Surcharge To reflect MTA tax surcharge at the current rate of 17%.	$46,074	0	0	0	Rex
	Deferred State Incomes Taxes					
k.	Depreciation Differences To reflect deferred SIT on the adjustment to book depreciation.	$2,197	0	0	0	Rex
l.	Amortization of Rate Case Expenses To reflect deferred SIT on the amortization of rate case expenses.	(15,786)	0	0	0	Rex
m.	Amortization of Tank Painting To reflect deferred SIT on the amortization of tank painting costs.	(156)	0	0	0	Rex
n.	Amortization of Deferred Pension/OPEB Expense To remove deferred SIT on deferred pension/OPEB expense.	9,268	0	0	0	Rex
o.	Amortization of Deferred RAC/PTC Costs To remove deferred SIT on deferred RAC/PTC costs.	2,503	0	0	0	Rex
p.	Amortization of Deferred Asbestos Removal Costs To reflect deferred SIT on the amortization of asbestos removal costs.	1,560	0	0	0	Rex
q.	Amortization of Deferred Excess SIT To reflect Staff's proposal to amortize deferred SIT over a three period.	(24,154)	0	0	0	Rex
	Total Deferred SIT	($24,567)	$0	$0	$0	

PSC Case No. 07-W-0508

EXHIBIT (FXS-4)

Long Island Water Corporation
Summary of Staff's Adjustments
For the Rate Year Ending March 31, 2009

Adj. No.		Amount	LIWC Agreed In DR Process	LIAW Disagrees, Will Not Contest	LIAW Adjs to Filed Position	Witness
6	Federal Income Taxes					
a.	Net Operating Income before FIT To reflect Staff's adjustments to operating revenues and expenses.	$3,686,895	$661,335	$383,174	$303,411	
	Adjustments to Taxable Income					
b.	Deferred State Income Tax Tracking's Staff's deferred state income tax calculation.	($24,567)	0	0	0	Rex
c.	Interest Expense To reflect Staff's calculation of rate year interest expense.	(196,771)	0	0	0	Rex
d.	Tax Depreciation Tracking Staff's adjustment to book depreciation.	(88,166)	0	0	0	Rex
e.	Domestic Production Credit Deduction To reflect a rate year deduction for the domestic production credit.	(126,942)	0	0	0	Rex
f.	Medicare Part D Subsidy To reflect the estimated rate year tax benefits to be realized by the company.	(34,317)	0	0	0	Rex

EXHIBIT (FXS-4)

Long Island Water Corporation
Summary of Staff's Adjustments
For the Rate Year Ending March 31, 2009

Adj No.		Amount	LIWC Agreed in DR Process	LIAW Disagrees, Will Not Contest	LIAW Adjs to Filed Position	Witness
g.	Amortization of Rate Case Expenses To reflect Staff's amortization of deferred rate case expenses.	173,328	0	0	0	Rex
h.	Amortization of Deferred Pension/OPEB Expense To reflect staff's removal of deferred pension/OPEB expense from the rate case.	(105,661)	0	0	0	Rex
i.	Amortization of Deferred RAC/PTC Costs To reflect staff's removal of deferred RAC/PTC costs from the rate case.	(26,507)	0	0	0	Rex
j.	Amortization of Deferred Asbestos Removal Costs To reflect staff's amortization of deferred asbestos removal costs.	(21,000)	0	0	0	Rex
	Total Adjustments to Taxable Income	($432,603)	0	0	0	
k.	Federal Income Tax To reflect federal income taxes at the current 34% tax rate.	$1,106,493	0	0	0	Rex
	Deferred Federal Incomes Taxes					
l.	Deferred State Income Taxes Tracking staff's adjustment of deferred SIT.	$8,353	0	0	0	Rex
m.	Depreciation Differences To reflect deferred SIT on the adjustment to book depreciation.	23,176	0	0	0	Rex
n.	Amortization of Rate Case Expenses To reflect deferred FIT on the amortization of deferred rate case expenses.	(58,932)	0	0	0	Rex
o.	Amortization of Deferred Pension/OPEB Expense To remove deferred SIT on deferred pension/OPEB expense.	35,891	0	0	0	Rex
p.	Amortization of Deferred RAC/PTC Costs To remove deferred SIT on deferred RAC/PTC costs.	9,692	0	0	0	Rex
q.	Amortization of Deferred Asbestos Removal Costs To reflect deferred SIT on the amortization of deferred asbestos removal costs.	7,140	0	0	0	Rex
	Total Deferred FIT	$25,321	$0	$0	$0	

EXHIBIT (FXS-5)

	Company Witness	Per Company Filing	Current Company Position	% Change Calendar Year 2008 vs. 2007	Estimated Rate Year Ended 31-Mar-10	Estimated Rate Year Ended 31-Mar-11
O&M Expense:						
Payroll	Watkins	6,815,489	6,644,509	4.25%	6,926,598	7,220,662
Purchased Power	Casillo	2,794,578	2,794,578	5.99%	2,961,972	3,139,394
Fuel	Casillo	415,685	317,859	7.20%	340,746	365,280
Chemicals	Casillo	776,906	776,906	5.18%	817,149	859,477
Invoices	Simpson	2,991,058	2,782,803	**3.00%**	2,866,287	2,952,276
Leased Vehicles	Pierse	642,721	579,080	**3.00%**	596,452	614,346
Service Company	Watkins	4,384,693	4,216,833	2.52%	4,323,157	4,432,162
Postage	Watkins	323,606	328,270	0.00%	328,270	328,270
Rents	Pierse	107,598	107,598	3.09%	110,924	114,354
Group Insurance	Watkins	1,049,079	1,044,768	11.76%	1,167,582	1,304,834
OPEB's	Casillo	744,272	741,401	5.00%	778,472	817,396
Pension	Casillo	927,047	923,471	5.00%	969,645	1,018,128
401K Expense	Watkins	127,923	125,192	4.24%	130,499	136,031
DCP	Watkins	70,818	69,448	1.59%	70,554	71,678
Insurance Other Than Group	Hunter	1,384,068	1,191,219	5.89%	1,261,348	1,335,606
Uncollectible Accounts	Watkins	297,159	297,159	9.81%	326,314	358,330
Regulatory Commission Expense (PSC fee)	Watkins	143,376	143,376	9.25%	156,632	171,114
Amort of Deferred Rate Case	Hunter	293,328	120,000	**0.00%**	120,000	120,000
Amort of Deferred Tank Painting	Simpson	32,884	32,884	**0.00%**	32,884	32,884
Amort of Deferred Pension/OPEB	Casillo	(105,561)	0	**0.00%**	0	0
Amort of Deferred RAC/PTC	Watkins	(28,507)	0	**0.00%**	0	0
Amort of Deferred Asbestos	Varley	39,000	60,000	**0.00%**	60,000	60,000
LIPP	Simpson	127,500	90,000	0.00%	90,000	90,000
Safety Award Program	Watkins	24,976	24,976	8.00%	26,974	29,132
Audit Fees	Simpson	366,317	64,820	**3.00%**	66,765	68,768
AMORTIZATION OF CPS			38,080	0.00%	38,080	38,080
		24,746,013	23,515,230		24,567,306	25,678,201
Depreciation Expense		3,077,485	3,073,330	4.74%	3,219,038	3,371,654
Taxes Other Than Income:						
Property	Casillo	11,863,851	11,863,851	0.35%	11,905,468	11,947,231
Payroll	Watkins	463,128	515,032	3.84%	534,795	555,317
Village	Watkins	171,333	0	4.00%	0	0
		12,498,312	12,378,883		12,440,263	12,502,548
TOTAL OPERATING EXPENSE		40,321,810	38,967,443		40,226,607	41,552,403

Case # 07-W-0508
Long Island American Water
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF-3 (BMS-3)
Requested By:	Brian Summers
Date of Request:	May 17, 2007
Reply Date:	May 28, 2007
Subject:	**Capital Structure/Debt**

In Case 06-W-0490, Thames Water Aqua has proposed a sale of American Water Works though an initial public offering. What is the expected capital structure of American Water Works after the sale? Please provide the cost of debt and preferred stock for the new American Water Works following the stock sale.

A. Please note that, this matter has been substantially addressed by the Commission's July 26, 2007 Order Authorizing Reorganization and Associated Transactions in Case No. 06-W-0490. As noted at page 5 of the Commission's Order:

> Thames GmbH and RWE have assured Staff that it intends to infuse equity into American Water prior to the IPO. Thames GmbH states that the equity infusion should result in an IPO sale price consistent with at least a targeted 45% common equity ratio for American Water.

Order at 5.

The Order also notes the commitment of Thames GmbH and RWE to make an equity infusion, if necessary, in order to assure a common equity ratio of at least 45% at the time of the IPO. This is consistent with the Company's proposed capital structure for LIAW in this proceeding.

Please note that LIAW's existing debt and/or preferred stock will be redeemed in accordance with their respective terms. Sources of future financing needs will include (but are not limited to) American Water Capital Corp. ("AWCC") and the use of the New York State Environmental Facilities Corp. ("EFC"). At the time of the issuance or refinancing of any debt, the available options will be assessed. As noted in the Commissions' Order referenced above, LIAW

> will continue to have access to EFC tax-exempt financing and, while [American Water Capital Corporation (AWCC)] will remain a financing option, [LIAW] is

> not anticipated to require financing through AWCC. In addition, it is American Water's intention to capitalize AWCC and [LIAW] to maintain, at minimum, an investment grade rating.

(Order at 5.)

Attached to this response is a schedule showing the actual debt of American Water Works as of December 31, 2006, as incorporated into the rate of return calculation for LIAW. With respect to the proposed capital structure for LIAW as proposed in this proceeding, the Company would like to modify the effective cost of its original debt calculation and overall rate of return provided in the filing. It has been brought to the Company's attention that the Staff has accepted a different methodology in other water cases and we would like to modify our filing to be consistent with such. The attached response is a revised copy of our rate of return calculation.

As noted above for LIAW, any AWW existing debt and/or preferred stock will be redeemed in accordance with their respective terms and the terms of any refinancing, if any, are expected to be consistent with the Commission's Order referenced above. Page 2 of the attachment shows the existing long term debt of American Water Works held by American Water Capital Corp.

Respondent: Frank X. Simpson

Date: May 25, 2007
Revised: July 31, 2007

Cost of Debt for Long Island American Water:

	Amount Outstanding	%	Unamortized Exp	Net Proceeds	Stated Interest	Annual Interest	Annual Amort Exp	Annual Cost	Embedded Cost Rate	Weighted Cost	
8.46 % Series Due 12/01/2022	$9,000,000		145,315.60	$8,854,684	8.46%	$761,400	$6,844	$768,244	8.68%	1.77%	
5.25 % Series Due 08/01/2027	13,930,000		706,946.00	13,223,054	5.25%	731,325	38,565	769,890	5.82%	1.77%	
4.9% Series Due 10/01/2034	16,000,000		1,273,487.26	14,726,513	4.90%	784,000	57,009	841,009	5.71%	1.93%	
Proposed Series at 5.77% (15-Yr.)	7,000,000		300,000	6,700,000	5.77%	403,900	20,000	423,900	6.33%	0.97%	
				0		0		0		0.00%	
				0		0		0		0.00%	
				0		0		0		0.00%	
				0		0		0		0.00%	
Total Long-Term Debt	$45,930,000	50%	$2,425,749	$43,504,251		$2,680,625	$122,417	$2,803,042		6.443%	3.219%
Preferred	1,125,000	1%	$0	1,125,000	4.50%	50,625	$0	50,625	4.50%	4.50%	0.108%
TOTAL Debt	$47,055,000	51%	$2,425,749	$44,629,251		$2,731,250	$122,417	$2,853,667			3.327%
EQUITY	44,870,000	49%	0	44,870,000	11.000%					11.000%	5.369%
Total Capital Structure	$91,925,000	100%	(agrees with Exhibit 7, page 5 of 5)								8.70%

Cost of Debt for American Water Works Company @ 12/31/2006:

	Issue Date	Maturity Date	Amt Outstanding	Unamortized Exp	Net Proceeds	Stated Interest	Annual Interest	Annual Amort Exp	Annual Cost	Embedded Cost Rate	Weighted Cost	
AWCC L/T Debt	12/1/2003	12/1/2008	$100,000,000		$100,000,000	4.000%	$4,000,000	$0	$4,000,000	4.00%	1.89%	
AWCC L/T Debt	12/21/2006	12/21/2021	$82,000,000	271,390	81,728,610	5.770%	4,731,400	$18,093	4,749,493	5.81%	2.24%	
AWCC L/T Debt	3/29/2001	3/29/2011	$30,000,000		30,000,000	6.870%	2,061,000	$0	2,061,000	6.87%	0.97%	
					0		0		0		0.00%	
					0		0		0		0.00%	
					0		0		0		0.00%	
					0		0		0		0.00%	
Total Long-Term Debt			$212,000,000	$271,390	$211,728,610		$10,792,400	$18,093	$10,810,493		5.1058%	0.551%
Preferred			$1,750,000,000	$0	1,750,000,000	5.900%	103,250,000	$0	103,250,000	5.90%	5.9000%	5.263%
TOTALS			$1,962,000,000	$271,390	$1,961,728,610		$114,042,400	$18,093	$114,060,493			5.81%

Please note that as of the date of this filing, audited financial statements for 2006 have not been issued.

Case 07-W-0508
Long Island Rate Case
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF - 180 (BLB - 37)
Requested By:	Basil Bailey
Date of Request:	July 13, 2007
Reply Date:	July 23, 2007
Subject:	**Invoices**

In response to Staff 16 (BLB-10), $125,700 will be removed from the invoice category. Also in response to Staff 147 (ACL 5), $46,000 will be removed from the invoice category. Other possible charges that should be removed are $32,899 and $52,373 in general office expenses related to misc charges – p13880 (acct 575889, 575881). The additional security cost of $29,143 is also being flagged.

- Please review the invoice category and identify other listed expenses that should be removed because they are, or should be, accounted for in other areas of the company's presentation.
- Do you agree or disagree with the other possible expenses listed above that may be removed?

A. The Company will review this category for any other possible reclassifications or removals and report back to Staff. The Company has previously agreed to the removal of $125,700 in Staff 16 (BLB-10), which was taken care of in the RAC, and conditionally agreed to the removal of $46,000 in Staff 147 (ACL-5) if the Safety Award Program is allowed. As to the additional amounts listed above, the Company has investigated such and now recommends that the majority of the $52,373, representing SAP software licenses, be removed, recognizing that the new SAP system was never implemented. However, even though the system was never implemented the Company strongly believes that these expenditures were prudent, and that other software licenses and related technology expenditures will continue to take place as the Company grows and looks to implement more efficient and effective means of operating our business. The Company would propose that the $52,373 be reduced by 70% to a level of approximately $16,000 per annum. The $32,899, representing severance cost, is most likely higher than what will occur in 2006 and future years, but some level of severance is likely. Severance pay will most likely be in the range of $3,000 annually, which represents one event per year. A copy of the Severance Policy has been attached to this response. The $29,143 represents security costs in the base year and should not be removed. Although the Company has included security in the annual RAC calculation in the past, we are proposing in this proceeding to not do so, and have not included security costs in the 2008 revenue in RAC calculation. Additionally, with respect to security costs please be aware that the $29,143 base year does not include the additional security cost that is currently being installed at our Lynbrook office and operational facility in the amount of $15,231 per year, bringing the revised security cost to $44,374.

Respondent: Frank X. Simpson **Date:** July 27, 2007

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF WILLIAM VARLEY

October 5, 2007

1. Q. Mr. Varley, did you submit prefiled testimony in this proceeding?

A. Yes.

2. Q. Have there been any management changes at Long Island American Water Company since the filing of the case?

A. Yes. I became President of the Company, succeeding Walter Lynch, as of July 1, 2007.

3. Q. Please summarize your testimony.

A. I will address Staff's adjustments to labor and invoice expense and Staff's recommendations that the Company initiate a customer outreach program and join LIPA's Peak Reduction Program ("PRP").

4. Q. Are you sponsoring any exhibits as part of your testimony?

A. Yes. In support of my testimony I am attaching two exhibits; the Company's response to Staff information request 178 which is Exhibit (WV-1), and a notice from the Village of Lawrence which is Exhibit (WV-2).

<u>Labor Expense</u>

5. Q. Did staff make any adjustments to labor expense?

A. Yes. Staff has reduced labor expense by approximately $200,000 to eliminate "incentive compensation." (Davi, pp. 13-14)

6. Q. Does the Company accept that adjustment?

A. No. One of the critical tools in attracting and retaining talented employees is the ability to use incentive compensation. Our incentive compensation plan is called the Annual Incentive Plan ("AIP") and it is designed to give us compensation levels that are on par with those offered by our peers in the water industry, as well as other utilities in the region. As discussed in the prefiled direct and rebuttal testimony of Mr. Watkins, the incentive compensation plan we use places a great emphasis on customer service, operational targets, personal development and appropriate financial measures that demonstrate discipline and efficiency.

This plan is what makes our overall compensation package competitive with what is offered in our industry. If we are not able to offer incentive compensation, we will be at a disadvantage in the employment marketplace, and we will lose the ability to attract and retain talented people. Our incentive compensation plan is not an addition to reasonable compensation. It makes our compensation reasonable. Incentive compensation is not extraordinary compensation; it is the at-risk component of the employee's annual compensation. It is now a generally accepted management tool.

Invoice Expense

7. Q. Did Staff make any adjustments to rate year invoice expense?

A. Yes. Staff proposed a "normalizing" adjustment of approximately $177,000 to reduce rate year invoice expense for maintenance.

8. Q. Is that projection reasonable?

A. No. The Company's forecast was based on the base year 2006 expense increased by inflation (LIAW Direct Testimony, Exh. 9, p. 17). The Staff panel proposed using a four-year average rather than 2006 actuals as the base from which to project the rate year. The Staff average is not really a four-year average, because Staff used an imputed amount for 2006, rather than the actual 2006 expense. Staff should not ignore the actual 2006 cost. On the Production side of expenses in 2006 and going forward, we will see spending on redevelopment of production wells and non-capitalized structural repairs to our facilities. As stated in testimony iron levels have increased throughout our territory. As a result of naturally occurring iron production wells become plugged with iron deposits resulting in drastic reductions in production capacity. In order to mitigate this condition the wells must be chemically and mechanically redeveloped. The redevelopment restores the well's capacity and restores the useful life. These are labor-intensive projects that are not capitalized. In 2006, the redevelopment cost of one of our wells was $50,000. In 2007, we redeveloped nine of our fifty suction wells at our main Plant 5 at a total cost of approximately $60,000. Additional wells at Plant 5 in the coming years will be redeveloped as well as large production wells at our 23 other facilities. These redevelopment practices are not an anomaly but rather a normal cost of business that will be accelerated in the coming years. Another additional expense is structural repairs to our facilities. In 2006, at one facility, Plant 5, a filter tank repair was conducted totaling almost $15,000. At several of our outlying pump stations there are parapet repairs and structural repairs required that must be addressed beginning late 2007 and forward. These items will be significant repetitive costs that will be accelerated compared to the 2006 maintenance dollars.

9. Q. Are there other factors that will have an impact on costs?

A. Yes. The primary driver of maintenance costs in the transmission and distribution ("T&D") department are main breaks, service leaks and the associated paving costs. However, from the standpoint of changes in the total maintenance category, the most dramatic change has been in the Company's paving costs. We expect a substantial increase in paving costs going forward. As submitted in our rate filing, the paving costs associated with these routine breaks for 2006 was $260,432. In 2007, we have seen a dramatic increase in paving costs as a result of two specific events; the first being a change in outside contractors and the second resulting from a number of our villages enacting new patching and road restoration requirements which have substantially increased the size of the patch and restoration needed for each repair. Additionally, the actual leaks for 2006 in the months of January, February and March were substantially lower than the 4-year average for the same periods in 2004, 2005, 2006, and 2007, as indicated below:

2004	123 leaks
2005	62 leaks
2006	40 leaks
2007	94 leaks
Average	79.5 leaks

As illustrated, 2006 leaks were only one half of the four-year average. This is one reason we believe the maintenance cost will increase over 2006.

10. Q. Have you discovered an error in 2006 expense?

A. Yes. In conjunction with the issuance of the 2006 audited financial statements, it was discovered that $106,000 in paving expense recorded in 2007 should have been a 2006 charge. This expense was moved back to 2006 in the audit process, but was not submitted as part of our original filing. The issue of paving expense is further addressed in our response to STAFF - 178 (BLB – 35) (See attached Exhibit 1) (WV-1).

11. Q. Are there other reasons that future expense may be greater?

A. Yes. We were recently served with notice that the Village of Lawrence is increasing its road opening permit fees from $50 to $1,500 ($500 of which is a deposit). Please see attached Exhibit 2 (WV-2) for details of the information received from the village.

12. Q. Is the Company revising its rate year expense forecast?

A. Yes. Our rate year forecast was for restoration expenses (invoices) was about $260,000. As I explained above, subsequent to the filing we found that $106,000 of paving expenses in 2006 was improperly booked to 2007. In addition, paving requirements have increased, and the cost of road opening permits from the municipalities has increased. Paving restoration expenses in 2007 (adjusted) already exceed 2006 expenses and exceed the original projection for the rate year. As explained in Exhibit (WV-1), Staff IR 178, correcting for the accounting mistake and accommodating the increased requirements results in a rate year expense of $455,000.

<u>Customer Outreach</u>

13. Q. Does the Company agree with Staff's recommendation to develop and implement a customer outreach and education plan?

A. Yes. We have developed a preliminary rate year plan and budget of $90,000. As requested by Staff, the Company will submit a detailed plan to Staff within 30 days after the beginning of the rate year.

<u>LIPA's PRP</u>

14. Q. Does the Company concur in Staff's recommendation to join LIPA's PRP?

A. We are analyzing the issue again and will submit the report requested by Staff in connection with the RAC submission.

15. Q. Does this complete your prefiled rebuttal testimony?

A. Yes.

Case 07-W-0508
Long Island Rate Case
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF - 178 (BLB - 35)
Requested By:	Basil Bailey
Date of Request:	July 13, 2007
Reply Date:	July 23, 2007
Subject:	**Invoices**

In response to Staff 14 (BLB-8), the invoices from Bancker Construction Corp. for $18,820 and $10,960 showed the expenses are for road restoration. Since the company is not capitalizing these costs and obviously the restoration may last for several years, please explain why they should not be normalized by removing them from the base year as non-recurring charges.

A. There is a significant amount of expense related road restoration projects conducted LIAW on a regular basis. These expense projects are routine in nature and occur every year as a result of distribution system breaks, leaks and emergencies throughout our system. These projects (leaks) cannot be capitalized since we are simply clamping the leak and not replacing sections of distribution main. For leaks and emergencies where we are forced to replace a portion of the main we are capitalizing these and retiring the main that is being replaced. The Company believes this to be the correct accounting treatment and will continue to expense distribution system restoration projects where we are not replacing a portion of the main.

As submitted in our rate filing, the paving costs associated with these routine breaks for 2006 was $260,432. In 2007 we have seen a dramatic increase in paving costs as a result of two specific events; the first being a change in outside contractor and the second resulting from a number of our villages enforcing new patching and road restoration requirements which have substantially increased the size of the patch and restoration needed for each repair. In August of 2006 the Company made the decision to terminate its contractor that was performing poorly and not providing the service that we believe is required for our customers. The contractor was not responsive and was creating a backlog of restoration projects that needed to be completed, and were simply sitting there unaddressed. The Company solicited bids and awarded the contract to the lowest bidder, who was a union contractor and resulted in pricing that was substantially higher than the contractor we terminated, Even though the price was higher than the terminated contractor, it was the lowest of the bids received and the Company had no choice but to address the legal obligation and potential liability that was created as a result of poor performance. The other event that created the upswing in paving costs was that a number of the Villages were not requiring patches from curb to curb, whereas in the past the patches were isolated to the specific area.

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Long Island Rate Case
Water Rates

Staff-178 (continued)

The combination of the two changes above, the termination of our prior contractor and the increased curb to curb patching requirements have substantially impacted our restoration expense as compared to the base year. For example, as of June 30, 2007 we have already incurred $471,068 of expensed (not capitalized) paving costs and anticipate this to be approximately $530,000 by year's end. Some of this increased expense is a result of the backlog caused by our prior contractor, which we are still trying to eliminate, but a good portion of it is directly related to the two changes previously noted. On a going forward basis, that is 2008 and 2009, we believe the annual expense will be approximately $455,000 per year, as a result of the backlog being eliminated.

The 2007 data illustrates a significant increase in leaks resulting from the cold weather in late January and February as compared to the prior two years which does partially explain the cost increase; however, based on the above referenced bulleted items, in particular, the contractor costs, we anticipate our annual paving cost for non capital work to be approximately $455,000, significantly higher than the $260,432 test year value.

Respondent: Frank X. Simpson **Date:** July 27, 2007

Exhibit (WV-2)

VILLAGE OF LAWRENCE
Building Department

JACK LEVENBROWN, M.D.
MAYOR

BUILDING INSPECTOR
DANIEL J. HERRON

196 CENTRAL AVENUE
P.O. BOX 337
LAWRENCE, NEW YORK 11559
516-239-3987
FAX 516-239-9657
www.villageoflawrence.org

September 17, 2007

Ms. Joan Wooster
Distribution Department
Long Island American Water Corporation
733 Sunrise Highway
Lynbrook, NY 11563

Re: Street/sidewalk opening permits
Fees and bond

Dear Ms. Wooster:

Please be advised that at the July 12, 2007 Village of Lawrence Board of Trustees meeting the Trustees voted to increase the permits fees to obtain a street or sidewalk opening permit from the Village of Lawrence.

Within the Village of Lawrence, for opening a public street or sidewalk, by a utility, the fee shall be $1,000 plus a separate $500 closing fee. In addition each utility shall provide the Village of Lawrence with a $5,000 revolving surety bond.

After the completion of the street or sidewalk restoration the utility must contact the Village of Lawrence for a final inspection of the site. The $500 closing fee will be refunded only after the street or sidewalk opening has been restored to the satisfaction of the Village.

Should you have any questions regarding these new fees please contact my office.

Respectfully,

D J Herron tr

Daniel J. Herron
Deputy Village Administrator

Djh/tr

cc: Jungle Lasers, LLC
201 Main Street
Allenhurst, NJ 07711

Case 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF ROBERT G. ROSENBERG

October 2007

INDEX

I. <u>INTRODUCTION</u>

1. Q. Are you the same Robert G. Rosenberg who previously submitted direct testimony in this case?

A. Yes, I am.

2. Q. What is the purpose of this rebuttal testimony?

A. The purpose of this testimony is three-fold. First, I will update my direct testimony by examining the changes in interest rates between the recent six-month period and the six-month period of analysis employed in my direct testimony. Second, I will present rebuttal to the capital structure recommendation of Staff witness Brian M. Summers. Third, I will present rebuttal to Mr. Summers' testimony concerning return on equity.

3. Q. Have you prepared an exhibit in conjunction with your testimony?

A. Yes, in support of my testimony I have prepared Exhibit___(RGR-1), Schedules 1 and 2.

4. Q. Was this exhibit prepared by you or under your supervision?

A. Yes, it was.

II. CHANGES IN INTEREST RATES

5. Q. Please discuss changes in interest rates since you presented your direct testimony.

A. I examined changes in interest rates between the recent six-month period (ended August 2007) and the six-month period used in my direct testimony (ended February 2007). Below I present a comparison of Treasury bond yields and utility bond yields for these two time periods:

	Treasury Bond Yields			Moody's Utility Bond Yields			
	10-Year	20-Year	Long-Term	Aa	A	Baa	Public Utility
Average, 6-Month Ended:							
02 / 07	4.68	4.89	4.79	5.73	5.91	6.14	5.93
08 / 07	4.80	5.04	4.96	5.96	6.10	6.35	6.14
Difference	0.12	0.15	0.17	0.23	0.19	0.21	0.21

As can be seen above, yields on Treasury and utility bonds have increased about 10-20 basis points. Changes in the cost of equity may not mirror changes in interest rates on a one-for-one basis. The two types of interest rates cited above have exhibited general stability, but with a slight increase. Based on the above comparisons, it is my opinion that the cost of equity analysis in my direct testimony is still relevant, and, in fact, even conservative, today.

III. REBUTTAL CONCERNING CAPITAL STRUCTURE RECOMMENDATION

6. Q. Please briefly describe Mr. Summers' recommendation concerning capital structure in this case.

A. Rather than employing the stand-alone capitalization of Long Island Water Corporation ("LIWC"), Mr. Summers recommends adoption of a pro forma consolidated capital structure of its parent company, American Water Works ("American"). Per Mr. Summers, at page 9, line 9, the equity ratio at the start of the IPO will be established at 45 percent, a level that Mr. Summers suggests is not unreasonable for LIWC.

7. Q. Do you agree with Mr. Summers' recommendation concerning the capital structure?

A. No, I do not. The common equity ratio he is recommending for LIWC is too low and could weaken the Company's financial integrity.

8. Q. As a threshold matter, was Mr. Summers correct in his assertion that the equity ratio at the start of the IPO will be established at 45 percent?

A. No, he was not. In its July 31, 2007 revised reply to Staff-3 (BMS-3), the Company indicated that it would assure a common equity ratio of at least 45% at the time of the IPO. Thus, Mr. Summers has based his recommendation upon the lowest end of the target equity range.

9. Q. Has Standard & Poor's ("S&P") indicated concern regarding the financial position of American Water Works Corporation?

A. Yes, it has. In a report issued September 19, 2007, S&P assigned a negative outlook to American and indicated that the Company's financial metrics are weak for the current rating. S&P further indicated that a downgrade could occur if pending rate cases do not allow for adequate rate relief to **improve** the company's financial profile. S&P also cautioned about any possible steady increase in debt leverage over the intermediate term. Mr. Summers' recommending a lower common equity ratio for LIWC than the current level of equity ratio would certainly more likely exacerbate, rather than ameliorate, S&P's concerns.

10. Q. How does Mr. Summers' proxy group common equity ratio compare with the 45 percent figure he is recommending for LIWC?

A. The proxy group equity ratio is about 4 percentage points higher, as I show below.[1] Although Mr. Summers showed an average equity ratio of 46.1 percent for his proxy group on Exhibit___(BMS-1), page 2, that figure is not appropriate for comparison with the common equity ratio of LIWC recommended by Mr. Summers in this proceeding. The average equity ratio shown on Exhibit___(BMS-1), page 2, includes short-term debt, whereas the capital structure recommended by Mr. Summers in this proceeding, shown at page 17 of his testimony, does not include short-term debt. Thus, an appropriate "apples-to-apples" comparison would be to compare the permanent capitalization level, excluding short-term debt.

I note that when Staff in the ongoing Consolidated Edison proceeding, Case 07-E-0523, examines the common equity ratios for its proxy group,

[1] Staff has often used an "Hamada Adjustment" in order to adjust the cost of equity for differences in common equity ratios between the proxy group and the subject company. Doing this adjustment here to account for the 4 percentage point difference between the higher common equity of the proxy group and the 45 percent equity ratio that Mr. Summers recommends for LIWC, Mr. Summers' cost of equity would be adjusted upward by 37 basis points.

which is almost identical to the proxy group Mr. Summers uses here, they show an average common equity ratio of 49.3 percent. Those common equity ratios in the Consolidated Edison proceeding were taken by Staff from Value Line, which reports common equity ratios excluding short-term debt. Staff in the Consolidated Edison proceeding is also recommending a capital structure excluding short-term debt for Consolidated Edison. Therefore, to put the comparison of equity ratios in this proceeding on an apples-to-apples basis and to make it consistent with what Staff examined in the Consolidated Edison proceeding, on Exhibit___(RGR-1), Schedule 1, I present the long-term capitalization of Mr. Summers' proxy companies taken from Value Line, *i.e.*, excluding short-term debt. Exhibit___(RGR-1), Schedule 1, shows that the average common equity ratios for the proxy companies in 2007, 2008 and 2010-2012 are 49.3, 48.9 and 50.5 percent. These figures are well above the 45.0 percent common equity that Mr. Summers recommends for LIWC in this proceeding.

In addition, on Exhibit___(RGR-1), Schedule 2, I show that the average allowed common equity ratio for Mr. Summers' proxy group utility subsidiaries over the past two and one-half years has been over 50 percent.

11. Q. Has Staff recommended common equity ratios higher than 45 percent in the past?

A. Yes, it has. Staff witness Hogan, testifying in a Sea Cliff Water Company proceeding, Case 02-W-1564, recommended a common equity ratio of 50 percent, coupled with a recommended return on equity of 10.0 percent.

12. Q. How would LIWC compare with other water utilities if Mr. Summers' capital structure were adopted?

A. Mr. Summers' 45 percent common equity recommendation would put LIWC below the level of many other water utilities. The eleven water utilities followed in the *AUS Monthly Utility Report* of September 2007 have an average common equity of 48 percent.[2] Value Line of July 27, 2007 indicates that the water utility industry composite common equity ratio is at the 50.0 percent level. Of the twelve water companies covered by S&P, I was able to obtain financial reports for five of these companies and have determined that the average common equity ratio for this group is about at the 51 percent level. Thus, Mr. Summers' common equity ratio recommendation would put LIWC's common equity ratio in the neighborhood of 5 percentage points below that of other water companies.

13. Q. What is your conclusion concerning the appropriate common equity ratio for LIWC in this proceeding?

A. Given that: (1) the proxy companies have a higher common equity ratio than the 45 percent Mr. Summers recommends for LIWC; (2) water utilities have higher common equity ratios than the 45 percent that Mr. Summers recommends for LIWC; and (3) Standard & Poor's is concerned about American's weak financial metrics and, specifically, is looking for rate case outcomes that help improve American's financial position, a common equity ratio of higher than 45 percent should be allowed LIWC in this proceeding.

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[2] This figure includes short-term debt. Excluding short-term debt would raise the level above 48 percent.

The Company's requested 48.8 percent common equity ratio is reasonable in the context of the discussion presented above.

IV. REBUTTAL CONCERNING THE COST OF EQUITY

14. Q. Please briefly describe the testimony of Mr. Summers.

A. Mr. Summers performs two cost of equity calculations—the Discounted Cash Flow ("DCF") and the Capital Asset Pricing Model ("CAPM")—on a group of 28 electric utilities and derives a recommended return on equity of 9.1 percent for LIWC. Mr. Summers' first calculation is a two-stage DCF analysis that produces an 8.35 percent cost of equity estimate. His second calculation is a CAPM analysis that produces a cost of equity estimate of 10.46 percent. He weights these results 2/3 DCF and 1/3 CAPM to produce a cost of equity estimate for his proxy group of 9.1 percent. This is the figure that Mr. Summers recommends for LIWC's cost of common equity.

15. Q. How will your rebuttal concerning return on equity be organized?

A. First I will describe tests of reasonableness for the recommendation of Mr. Summers that shows his recommendation is understated. Next, I review the anomalies and calculational deficiencies associated with the cost of equity analyses of Mr. Summers and reply to certain comments that he made concerning my analyses. I then turn to the topic of issuance costs. Finally, I discuss the possibility of a stayout premium in this proceeding.

Tests of Reasonableness of Staff's Cost of Equity

16. Q. Did you perform any test of reasonableness on Mr. Summers' results?

A. Yes. Mr. Summers derives a cost of equity estimate for his electric proxy group of 9.1 percent. This is well below the return on equity allowed to other electric utilities recently. According to Regulatory Research

Associates July 3, 2007 report entitled *Major Rate Case Decisions*, the average allowed returns for electric utilities in 2005, 2006 and the first six months of 2007 were 10.54, 10.36 and 10.27 percent, respectively. These figures are well above the recommended 9.1 percent return of Mr. Summers.

Second, according to *AUS Monthly Utility Report*—a source employed by Mr. Summers—companies in his proxy group were allowed an average return on equity of close to 11 percent. (While some of these returns were allowed a few years ago, they do reflect what companies are allowed to earn on their common equity today.)

Third, on Exhibit___(RGR-1), Schedule 2, I present a tabulation of the returns on equity and equity ratios allowed to the utility subsidiaries of the companies in Mr. Summers' proxy group in 2005, 2006 and the first six months of 2007. As indicated on that schedule, the average and median allowed returns of these utility subsidiaries were about 10.5 percent.[3]

Fourth, per *AUS Monthly Utility Report*, the water utilities it follows have an average allowed return on equity of 10.35 percent.

Standard & Poor's in its February 2, 2004 report entitled "A Fresh Look at U.S. Utility Regulation" stated that:

> The entire range of regulatory actions and inactions are examined in assessing the regulatory support of credit quality, but inevitably it is the analysis of rate case decisions that provides the key indicator of the level of that support....The analysis of the rate case fundamentally explores a two-fold question: **are the new rates based on a fair and adequate rate of return**, and is the utility being afforded a legitimate

[3] The average and median excluding settlements and multi-year rate plans were 10.7 percent and 10.8 percent, respectively.

> opportunity to actually earn that rate of return? On the former question, **the analyst looks to equity returns being authorized to other utilities** and the capital structure employed to arrive at the overall rate of return being used to set rates. [Emphasis added.]

A rating analyst would see that the proposed recommendations in this proceeding consisted of (1) a return on equity well below that being allowed to other utilities and (2) a reduction in the common equity ratio below LIWC's actual level.

In addition, Mr. Summers' recommendations would notionally provide LIWC the opportunity to earn a return of 9.1 percent. According to data shown on the exhibit of Mr. Summers, his proxy group is projected to earn a median return of 10.7 percent—well above the return that Mr. Summers recommends LIWC be allowed to earn in this proceeding.[4]

17. Q. Did Mr. Summers' DCF analysis produce anomalous results?

A. Yes, it did. Mr. Summers' DCF results ranged between 6.44-15.08 percent—a range of 864 basis points.

Mr. Summers' DCF analysis for his proxy group produced a cost of equity estimate of 8.35 percent. Per Mr. Summers, the proxy group has a median bond rating of Baa1/BBB+. The recent average yield on Baa utility bonds has been in the neighborhood of 6.3 percent. Thus, there is only a 205 basis point spread between Mr. Summers' DCF result and the recent level of utility bond yields. This 205 basis point risk premium is below the 250 basis

[4] While admittedly allowed returns and projected earned returns are not directly comparable, LIWC would have to earn about 160 basis points above the return that Mr. Summers would have the Commission allow the Company in order to match the average expected earned return on equity for his proxy group.

point level of risk premium employed for **low-end** sensitivity testing in the financial integrity portion of the Generic Financing Case ("GFC") in New York, Case No. 91-M-0509. In fact, 17 of the 28 DCF cost of equity estimates are below this low-end sensitivity testing level for Mr. Summers' proxy companies.

Mr. Summers calculates a cost of equity of 7.42 percent for Consolidated Edison. In a September 2007 order in Case 06-G-1332, Consolidated Edison's return on equity allowance was 9.7 percent—228 basis points above Mr. Summers' estimate for that company.[5]

Of the five highest-rated companies in Mr. Summers' group (those rated Aa/AA or A/A by Moody's and S&P, respectively), four of the five have DCF cost of equity estimates above the median for the proxy group. One would expect that these companies would have cost of equity estimates well below the median of the proxy group.

The two companies that are rated lowest in the proxy group (Pinnacle and Westar Energy at Baa3/BBB-) have costs of equity well below the median of the proxy group. One would expect the riskiest companies to have costs of equity well above the median of the proxy group.

18. Q. Please summarize the tests of reasonableness you have performed and indicate what conclusion you draw from them.

A. The highlights of the tests of reasonableness presented above will be reviewed here. First, the return on equity recommended by Mr. Summers is

[5] Admittedly, the Consolidated Edison allowed return incorporates a stayout premium. However, it is inconceivable that the stayout premium accounts for the huge differential between the allowed return and Mr. Summers' DCF cost of equity estimate for Consolidated Edison.

low in comparison with (1) returns allowed to utilities around the country, (2) the proxy group employed by Mr. Summers and (3) other water utilities. I am not suggesting that the Commission used these allowed returns to merely "follow the others." This Commission should decide the allowed return based on the record of this proceeding. However, these allowed returns for utilities, in general, and for the Staff proxy group, in particular, provide a reality check for the Commission on the level of the cost of equity estimates being recommended in this proceeding.

Second, the wide variation within the DCF results of Mr. Summers' proxy group should give pause.

Third, the DCF results of Mr. Summers provide for an insufficient premium above the cost of debt and produce anomalous results, as described above.

Given the above-described problematic results, I recommend that the Commission consider three alternatives. First, the Commission should give strong consideration to, and adopt, my DCF and CAPM cost of equity estimates. Second, the Commission should also consider, in addition to the DCF and CAPM approaches, other methodologies such as the risk premium approach. Third, given the concerns relating to the DCF method presented above, I recommend that the Commission reconsider its 2/3 DCF and 1/3 CAPM weighting.

DCF Analysis

19. Q. Turning to the specifics of the DCF approach, did Mr. Summers correctly calculate the near-term stream of dividends?

A. No, he did not. Mr. Summers claims to follow the DCF approach from the GFC but he does not in connection with the estimation of the near-term dividend. Mr. Summers has used a DCF pricing period of six months ended July 2007. Staff noted on page 22 of its June 25, 1993 reply comments in the GFC that:

> The proposed DCF methodology uses a six month average price (i.e. April to September, or October to March) and then uses a dividend for the twelve month period beginning 3 months after the pricing period to establish the flow of expected dividends (i.e. the annual dividend starting in January or June).

Staff in the ongoing Consolidated Edison proceeding, Case 07-E-0523 employs a 2008 dividend per share as the first cash flow in its DCF calculation. Mr. Summers, in his DCF calculations, uses an insufficiently forward-looking dividend stream in his calculations. Employing the correct forward-looking dividend, starting in 2008, Mr. Summers' DCF analysis for his proxy group produces a median cost of equity estimate of 8.50 percent, which is higher than the 8.35 percent figure indicated in his testimony.

CAPM Analysis

20. Q. Please comment on the Staff CAPM models used in this proceeding.

A. Mr. Summers employs two CAPM formulations—the "traditional CAPM" and the "zero-beta CAPM."

In the zero-beta CAPM approach, Mr. Summers employed a 75/25 weighting of utility-specific and market-in-general risk premium factors, respectively. However, in testimony in the Nine Mile Point 2 sale proceeding (Case No. 01-E-0011), filed in April 2001, a Staff Policy Panel indicated at page 36 that it chose to use a 50/50 weighting rather than a 75/25 weighting because it will "tend to produce less volatile results." In the recent Central Hudson Gas & Electric proceeding, Case Nos. 05-E-0934 and 05-G-0935, Staff employed a 50/50 weighting for the zero-beta CAPM, noting that this was within the range of previously-accepted weightings. Use of the 50/50 weighting in this proceeding would raise the zero-beta CAPM results of Mr. Summers by 11 basis points.

21. Q. Please comment on Mr. Summers' estimate of the expected market risk premium.

A. Mr. Summers relies solely on the projected market return from Merrill Lynch in deriving his CAPM expected market risk premiums. However, Merrill Lynch's projection only reflects the opinion of one firm, and does not reflect the diversity of opinion that may exist in the financial marketplace. In addition, and most importantly, the Merrill Lynch publication relied upon by Staff is not publicly available.[6] In his testimony, Mr. Summers references the GFC approach for estimating the cost of equity. A Recommended Decision ("RD") was issued in the GFC. Staff witness

[6] I have called Merrill Lynch offices in New York City and Albany and requested a copy of the source employed by Mr. Summers to estimate the expected return on the market. In both instances, I was told that this publication is not publicly available, but, was, instead, available only to Merrill Lynch clients.

Henry, at page 21 of his testimony in the recent Consolidated Edison proceeding, Case 06-G-1332, indicated that:

> While the GFC RD utilized historic risk premium data from *Ibbotson Associates*, it noted that its acceptance of the Ibbotson data would not preclude the use of a current assessment of the market's required return **provided that information was widely available to investors.** [Emphasis added.]

The Merrill Lynch data, being only available to Merrill Lynch clients, does not meet the GFC RD "widely available" criterion.[7] That being the case, Merrill Lynch projections cannot be thought of having a wide influence on the return expectations of the investing public, in general.

I note that the expected market risk premium in my CAPM analyses is higher than that derived by Mr. Summers employing the Merrill Lynch figure to estimate the market risk premium. My market risk premium estimates were based on Ibbotson data and a DCF calculation for the S&P 500. The Consensus Document in the GFC, to which Staff was a signatory,[8] employs the Ibbotson risk premium and that risk premium was used in the RD of the ALJs in that proceeding. In 2003, in Case Nos. 02-E-0198 and 02-G-0199 regarding Rochester Gas & Electric, the Commission reached its recommended return by relying, in part, on a market risk premium approach similar to that which I employ in my direct testimony. The Commission

[7] Tellingly, a few years ago, Staff suggested that its lack of access to Ibbotson data was the reason it used other estimates of the market risk premium rather than the Ibbotson approach specified in the GFC.

[8] In a June 7, 1993 letter to the Co-Facilitators in the GFC, the Water Utility Industry Group, Staff and the Public Utility Law Project of New York essentially concurred in the Electric and Gas Industry Group return on equity Consensus Document.

noted on page 72 of its Opinion that it adopted "...the Judge's recommendations to rely on an average of the Company's Ibbotson-based study and Staff's Merrill Lynch-based study...."[9] Furthermore, a Staff witness in the Central Hudson proceeding, Case Nos. 05-E-0934 and 05-G-0935, characterized my Ibbotson-based estimate as "a reasonable approach."

22. Q. Please comment on Mr. Summers' claim, at page 5 of his testimony, that the Commission has rejected the use of risk premium and comparable earning approaches.

A. While the Commission has often relied on a combination of the DCF and CAPM cost of equity estimates, Mr. Summers' claim is too broad. In its March 24, 2005 Order in a Consolidated Edison proceeding, Case 04-E-0572, the Commission stated that it was "patently unreasonable" to assume that no weight be given to cost of equity evidence introduced by parties other than Staff as support for a cost of equity allowance higher than Staff's litigation position.[10]

I note that the comparable earnings approach was part of the methodologies specified in the Consensus Document in the Generic Financing Case, to which Staff was a signatory. Staff, in its June 25, 1993 Reply Comments, in that proceeding stated that:

[9] In that proceeding, when the ALJ averaged the Company's CAPM analysis with that of the Staff, the Company analysis included both an historic Ibbotson-based approach and an S&P 500 DCF approach, similar to that employed in my direct testimony.

[10] In that proceeding, Staff's initial litigation position was for a return on equity of 9.0 percent, whereas a 10.3 percent cost of equity, including a stayout premium, was adopted in the Order. The Commission particularly noted risk premium evidence that I had presented which was higher than the results that Staff obtained in its cost of equity analyses.

> While the DCF, CAPM and several other approaches are models that attempt to determine the unobservable, the CE approach goes directly to the issue by considering the ROEs obtained and expected for comparable competitive companies with which the utilities must compete for capital. While the opponents may question the mechanics of the CE, they would be hard pressed, however, to dispute the reality of the marketplace reflected in this approach.

In the Generic Financing Case, the Staff excepted to the Judges' elimination of the comparable earnings method and stated that, "...the Comparable Earnings approach is a direct effort to meet the standard established by the U.S. Supreme Court to provide utilities with an opportunity to earn a fair return...."

Additional Factors to Consider in Setting the Allowed Return on Equity

23. Q. Are there other factors to consider in this proceeding to determine an appropriate return on equity to allow to LIWC?

A. Yes, there are two: (1) a cost of issuance adjustment and (2) a stayout premium.

24. Q. Please address the question of a cost of issuance allowance.

A. It is traditional regulatory practice in New York to allow a cost of issuance adjustment to the cost of equity when a company is planning to issue common stock. In this proceeding, Mr. Summers recommends the use of the **consolidated** capital structure and American is about to issue a very large amount of common stock through the IPO. While the details of the issuance are not yet known, I note that Staff in the ongoing Consolidated Edison proceeding, Case 07-E-0523, employed a 20 basis point issuance cost adjustment that can either be used as a placeholder or as a proxy for the offering of American.

Even when regarded on a stand-alone basis, LIWC has received, and will receive substantial equity infusions from American. In 2006, American provided an equity infusion into LIWC of $10.5 million. In 2007 and 2008, American will infuse another $8 million of equity into LIWC. Given the facts discussed above, a cost of issuance adjustment should be added to the cost of common equity determination in this proceeding.

25. Q. How would the reasonableness of Staff's cost of equity recommendation be affected by a settlement with a multi-year rate plan?

A. If the parties were to agree to a multi-year rate plan, LIWC would face the risk that the cost of equity may go up during the course of the rate plan, without the Company having an opportunity to reset the allowed return to reflect such an increase. Interest rates currently are lower than they have been in many years. It seems that upward changes in interest rates may be more likely than downward changes. In the past, the Commission has used the differential between 3-year and 1-year Treasury securities (for a 3-year rate plan) to provide guidance as to what the "stayout" premium in such circumstances should be. For the five years ended August 2007, the average differential between 3-year and 1-year Treasury securities was 40 basis points, while the median was 51 basis points.[11] Under current circumstances, where the yield curve had been inverted for a few months but

[11] For the five years ended August 2007, the average differential between 2-year and 1-year Treasury securities was 20 basis points, while the median differential was 28 basis points.

has currently reversed, the median figure cited above is more appropriate to use in determining the stayout premium, rather than the average. Thus, should a multi-year agreement be reached in this proceeding, a stayout premium would have to be added to whatever the base cost of equity figure would be.

26. Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

PROXY GROUP CAPITAL STRUCTURE
Per Value Line

	2007			2008			2010-2012		
Company	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Allete	39.5 %	0.0 %	60.5 %	42.5 %	0.0 %	57.5 %	41.5 %	0.0 %	58.5 %
Alliant Energy Corporation	37.0	6.0	57.0	40.0	5.0	55.0	43.5	4.0	52.5
Ameren Corporation	44.5	1.5	54.0	45.0	1.5	53.5	45.5	1.5	53.0
American Electric Power	57.5	0.0	42.5	58.0	0.0	42.0	55.5	0.5	44.0
Cleco Corp.	45.0	0.0	55.0	51.0	0.0	49.0	50.5	0.5	49.0
Consolidated Edison, Inc.	49.0	1.5	49.5	49.0	1.0	50.0	48.5	1.0	50.5
DPL Inc.	64.5	1.0	34.5	59.0	2.5	38.5	54.5	1.0	44.5
DTE Energy Co.	55.5	0.0	44.5	56.5	0.0	43.5	57.5	0.0	42.5
Edison International	50.5	5.0	44.5	50.0	4.5	45.5	48.0	4.0	48.0
Empire District Electric	52.0	0.0	48.0	52.5	0.0	47.5	51.5	0.0	48.5
Entergy	51.5	2.5	46.0	51.5	2.0	46.5	47.5	1.5	51.0
Exelon Corp.	49.0	0.5	50.5	50.0	0.0	50.0	40.0	0.0	60.0
FPL Group	49.0	0.0	51.0	49.5	0.0	50.5	49.0	0.0	51.0
Hawaiian Electric Industries	51.0	1.5	47.5	51.0	1.5	47.5	48.5	1.5	50.0
IDACORP	45.5	0.0	54.5	45.5	0.0	54.5	48.0	0.0	52.0
MGE Energy Inc.	39.5	0.0	60.5	39.0	0.0	61.0	39.0	0.0	61.0
NiSource	51.5	0.0	48.5	50.5	0.0	49.5	48.5	0.0	51.5
Northeast Utilities	50.5	2.0	47.5	51.0	1.5	47.5	49.0	1.5	49.5
NSTAR	56.0	1.5	42.5	55.0	1.0	44.0	43.5	1.0	55.5
PG&E Corporation	45.5	1.5	53.0	45.5	1.5	53.0	45.0	1.0	54.0
Pinnacle West Capital	48.5	0.0	51.5	48.5	0.0	51.5	49.0	0.0	51.0
Portland General Electric	50.0	0.0	50.0	53.5	0.0	46.5	51.0	0.0	49.0
Progress Energy	51.0	0.5	48.5	51.0	0.5	48.5	49.5	0.5	50.0
Southern Company	51.5	2.5	46.0	52.0	2.5	45.5	54.0	2.0	44.0
Vectren Corp.	47.0	0.0	53.0	48.0	0.0	52.0	49.0	0.0	51.0
Westar Energy	51.0	1.0	48.0	51.5	0.5	48.0	51.0	0.5	48.5
Wisconsin Energy Corporation	54.5	0.5	45.0	55.5	0.5	44.0	52.0	0.5	47.5
Xcel Energy	51.5	0.5	48.0	52.0	0.5	47.5	52.5	1.0	46.5
Average	49.6 %	1.1 %	49.3 %	50.1 %	0.9 %	48.9 %	48.7 %	0.8 %	50.5 %
Median	50.5 %	0.5 %	48.5 %	51.0 %	0.5 %	48.3 %	49.0 %	0.5 %	50.3 %

Note: Value Line does not report preferred equity ratios. The preferred equity ratios shown above were derived by subtracting the debt and common equity ratios from 100 percent.

Source: *The Value Line Investment Survey,* May 11, June 1 and June 29, 2007.

ALLOWED RETURNS AND COMMON EQUITY RATIOS
FOR SUMMERS PROXY GROUP UTILITY SUBSIDIARIES
2005-2007

Decision Date	Company	Electric/ Gas	State	ROE	Common Equity Ratio
3/10/2005	Empire District Electric	Electric	MO	11.00 %	49.14 %
3/24/2005	Consolidated Ed of NY	Electric	NY	10.30	48.00
4/7/2005	Arizona Public Service	Electric	AZ	10.25	45.00
4/13/2005	Vectren Energy Del OH	Gas	OH	10.60	48.10
4/28/2005	Michigan Consol. Gas	Gas	MI	11.00	39.31
5/17/2005	AmerenIP	Gas	IL	10.00	53.06
5/18/2005	Entergy Louisiana	Electric	LA	10.25	48.73
5/25/2005	Savannah Elec & Pwr	Electric	GA	10.75	na
7/6/2005	Entergy Gulf States	Gas	LA	10.50	47.52
7/19/2005	Wisconsin P&L	Electric	WI	11.50	61.75
7/19/2005	Wisconsin P&L	Gas	WI	11.50	61.75
8/11/2005	Northern States Power	Gas	MN	10.40	50.24
8/15/2005	AEP Texas Central	Electric	TX	10.13	40.00
10/14/2005	Interstate P&L	Gas	IA	10.40	49.35
11/30/2005	Bay State Gas	Gas	MA	10.00	53.95
12/12/2005	Madison G&E	Electric	WI	11.00	56.65
12/12/2005	Madison G&E	Gas	WI	11.00	56.65
12/16/2005	Pacific Gas & Electric	Electric	CA	11.35	52.00
12/16/2005	Pacific Gas & Electric	Gas	CA	11.35	52.00
12/16/2005	Southern Cal Edison	Electric	CA	11.60	48.00
12/28/2005	Kansas Gas & Electric	Electric	KS	10.00	44.59
1/5/2006	Northern States Power	Electric	WI	11.00	53.66
1/5/2006	Northern States Power	Gas	WI	11.00	53.66
1/25/2006	Wisconsin Elec Power	Gas	WI	11.20	56.34
1/25/2006	Wisconsin Gas	Gas	WI	11.20	50.20
2/3/2006	Public Service of Col.	Gas	CO	10.50	55.49
3/3/2006	Interstate P&L	Electric	MN	10.39	49.10
7/26/2006	Appalachian Power	Electric	WV	10.50	na
7/26/2006	Commonwealth Edison	Electric	IL	10.05	42.86
9/1/2006	Northern States Power	Electric	MN	10.54	51.67
10/20/2006	Orange & Rockland	Gas	NY	9.80	48.00
11/21/2006	Central Illinois Light	Electric	IL	10.12	45.57
11/21/2006	Central Illinois P.S.	Electric	IL	10.08	48.92
11/21/2006	Illinois Power	Electric	IL	10.08	51.56
12/1/2006	Public Service of Col.	Electric	CO	10.50	60.00
12/21/2006	Empire District Electric	Electric	MO	10.90	49.74
1/12/2007	Portland Gen Elec	Electric	OR	10.10	50.00
1/19/2007	Wisconsin P&L	Electric	WI	10.80	54.13
1/19/2007	Wisconsin P&L	Gas	WI	10.80	54.13
3/22/2007	Rockland Electric	Electric	NJ	9.75	46.51
5/15/2007	Appalachian Power	Electric	VA	10.00	41.11
5/22/2007	Union Electric	Electric	MO	10.20	52.22
6/13/2007	Northern States Power	Gas	ND	10.75	51.59
6/15/2007	Entergy Arkansas	Electric	AR	9.90	32.19
6/18/2007	Public Service of Col.	Gas	CO	10.25	60.17
6/22/2007	Wheeling Power	Electric	WV	10.50	42.88
6/28/2007	Arizona Public Service	Electric	AZ	10.75	54.50
Average				10.56 %	50.27 %
Median				10.50 %	50.20 %

Source: RRA, Major Rate Case Decisions, 1/30/07 and 7/3/07.

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF STEVEN J. TAMBINI, P.E.

October 5, 2007

1. **Q. Please state your name, title and business address.**

A. My name is Steven J. Tambini I am the Director, Engineering for the Northeast Region of American Water and my current business address is 213 Carriage Lane, Delran, NJ 08075.

2. **Q. Have you previously submitted testimony in this proceeding?**

A. Yes, I have filed prepared direct testimony concerning the forecasted additions to rate base.

3. **Q. What is the purpose of your testimony at this time?**

A. I am submitting rebuttal testimony in connection with positions taken by Mr. Kevin Manz for the Department of Public Service.

4. **Q. Mr. Manz has proposed that an adjustment of $974,900 be made to LIWC's proposed 2008 investment resulting in a proposed decrease in the 13-month average UPIS by $487,450 . Do you agree with that proposal?**

A. No, I do not. The proposed 2008 investment for mains replacement and renewal is neither excessive nor improbable. The proposed level of investment of $2.5 million is consistent with prior year's investment levels that have been achieved by the Company. As noted on Mr. Manz' Exhibit KAM-2, in 2006 the Company successfully completed and placed into service about $2.9 million of mains improvements. The proposed investment for 2008 is below this historically achievable investment. In addition, Mr. Manz has recognized in his direct testimony (Page 11, Lines 4 -6), that "...there has been an acceleration of the distribution system replacement with the company...", yet he has used a historical average method to suggest what the level of investment should be going forward. The trend is clearly increasing and the Company has proposed a level of investment in 2008 consistent with the high end of the trend. The proposed investment of $2.5 is reasonable and achievable and there should be no reduction in UPIS.

5. Q. **Mr. Manz has suggested that the 20-inch transmission main project from Plant 12 to So. Baldwin should be removed from the rate case in should be included in DSIC. Do you agree?**

A. No. Mr. Manz is implying that the 20-inch transmission project might slip in schedule and might not be completed and placed in service within the rate year. He has implied that if that happens that the Company would recover the costs both in this case and in the DSIC. The project, or a comparable project, will be completed within the rate year. The Company has a good track record of project delivery, especially for transmission and distribution projects. The investment of $2,528,000 should not be removed from the Company's 13-month average UPIS.

6. Q. **You have indicated in your direct testimony, in your rebuttal testimony, and in other responses in this case that significant capital expenditures and significant capital investment will continue to be needed to meet asset needs. What are the expected plant additions are estimated to be needed in the near future?**

A. Assuming that a multi-year rate determination is accepted the Company estimates that plant additions for the 12 months ending 3/31/2010 and 3/31/2011 would be as follows:

Estimated Plant Additions Year Ending 3/31/2010:

Total DSIC	$4.51 Million
Total SIC	$4.00 Million
Total Other	$3.56 Million
TOTAL	$12.07 Million

Estimated Plant Additions Year Ending 3/31/2011:

Total DSIC	$9.39 Million
Total SIC	$1.30 Million
Total Other	$2.40 Million
TOTAL	$13.09 Million

7. Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF
JOHN M. WATKINS

October 5, 2007

1. **Q. Did you file direct testimony in this proceeding?**

A. Yes.

2. **Q. What are the areas you will address in your rebuttal testimony?**

A. First, I will respond to the testimony of Mr. Davi with respect to his adjustments to Payroll, Group Insurance and Payroll Taxes. I will then address the testimony of Mr. Higgins with respect to his adjustments to 401 (k) expense, Defined Contribution Plan (DCP), Service Company and NER Service Company expense. I will next address the testimony of Mr. Alch in regards to postage. My next section will address the testimony of Mr. Van Cook in regards to the RAC/PTC.

<u>OPERATING EXPENSES</u>

<u>PAYROLL</u>

3. **Q. Please summarize Staff's position on Payroll.**

A. Staff makes several adjustments to payroll including wage increases, for both union and non-union employees, incentive compensation, overtime and capital ratio.

4. **Q. Please describe Staff's adjustment to wage increases for the union employees.**

A. Actual union increases effective 7/1/2005, 7/1/2006 and 1/1/2007 were all 3%. Staff proposed to use 2.2% for 2008 and 2.1% for 2009. It is unrealistic to think that the Company's skilled union employees would accept these increases. The Company will provide an update as soon as a new contract is available but in lieu of this the Company believes its filed estimates are reasonable and should be used.

5. **Q. Does the Company agree to change the calculation for the union rate year payroll per Mr. Davi's adjustment?**

A. Yes, the rate year union payroll should have used 9 months of the 1/1/2008 rate and 3 months of the 1/1/2009 rate.

6. **Q. Does Staff adjust the non-union wage increases?**

A. Yes, Staff is proposing to use the GDP deflator of 2.2% for the 4/1/2008 non-union payroll increase.

7. **Q. Is this in line with actual history of non-union wage increases?**

A. No. The latest non-union increase of 4.24% was effective 3/26/2007. The non-union increases effective 4/1/04, 4/1/05 and 3/27/06 were 3.03%, 3.32% and 2.92%, respectively.

8. **Q. If the Commission does not use the Company's proposed non-union increases, what do you recommend for non-union payroll?**

A. The minimum should be the weighted average of the last three years which is 3.53%. Please see the below chart.

	Base Payroll Before Inc Adjusted	Payroll After Inc Adjusted	Adjusted Percent Increase
2005	$1,317,310	$1,361,085	3.32%
2006	$1,163,150	$1,197,119	2.92%
2007	$1,360,550	$1,418,304	4.24%
	$3,841,010	$3,976,508	3.53%

The Company must be able to compensate its non-union employees in a range that will retain those employees. If the Company increased compensation by the 2.2% recommended by the Staff, many of the Company employees would start looking for other jobs and cause instability within the Company, or those employees could become disgruntled and their productivity would decrease. In the long term, providing employees with a good working environment which includes reasonable wage increases, helps the Company by retaining key employees which help to run the Company effectively and efficiently.

9. **Q. Does Staff make an adjustment to Incentive Compensation?**

A. Yes, Staff is proposing to disallow all incentive compensation.

10. Q. Does the Company agree with this adjustment?

A. No, this would put LIAW at an operating disadvantage. Incentive Compensation is an effective, well documented and highly recommended tool that the Company utilizes to ensure that the customers receives the best customer service and safe potable water (both through the operational component). It also ensures a safe working environment for employees (through the operational component), holds a portion of the employee's compensation at risk based on the individuals performance (through the individual component), and motivates the employees to continually look for operating efficiencies and to make sure the Company is run efficiently (through the financial component). All of the above results in a portion of an employee's pay being put at risk. Companies that do not offer incentive compensation pay higher wages and their employees are guaranteed to receive their pay regardless of the performance of the individual, the operation or the Company. Please also refer to the rebuttal testimony of Mr. Varley.

11. . Q. Does Staff make an adjustment to the capitalized percentage of Labor costs?

A. Yes, Staff is proposing to use the historical test year capitalized payroll percentage. Staff goes on to "take exception" that the Company "erroneously left" the AMR capital in the base of the total payroll.

12. Q. Do you agree with Staff's method and comments?

A. No, the Company does not agree with Staff's calculation or comments. The Company did not erroneously leave AMR capitalized labor in the base. By eliminating the $1,397,392 of capital payroll associated with the AMR program, Staff is suggesting that we eliminated positions in LIAW's union. As stated in the response to Staff-60 (RMD-15):

The majority of the AMR program was done during normal working hours by employees or positions that are still in the Company. Since this project is over, these employees will move onto other jobs. By eliminating their payroll you are understating the work they do by over estimating the capitalization percentage.

13. Q. Should the Company adjust out the overtime that was removed in the calculation of overtime hours from the capitalization percentage?

A. Yes, the Company should adjust only the overtime dollars for the years in the actual average used to determine overtime hours. It should not adjust the base pay of employees out of the calculation. For example, given the Company's adjusted overtime calculation we should remove only $260,861, $92,142 and $91,621 for 2006, 2005 and 2004, respectively. The Company would also suggest removing the $133,395 in 2006 for the adjustment per Staff-156 (RMD-23). The total of these numbers is $578,019 which is $819,373 lower than Staff's proposal of removing $1,397,392. Stated another way Staff is proposing to remove $819,373 of base pay for employees. This base pay did not disappear because the Company has not reduced its level of employees from the historic test year to the pro forma year.

14. Q. What is the result of this adjusted capital percentage?

A. The result of this adjusted capital percentage is 12.19%, based on the three-year average. The calculation is shown in Exhibit (JMW-1). I also want to identify that the stand-alone 2006 capitalization rate is 14.59% and that the two-year average of 2004-2005 is 10.91%.

15. Q. Why are you identifying the historical test year average and two-year capitalization rates?

A. Staff is proposing to use the historical test year in addition to removing the total AMR, so we have corrected this to exclude only the overtime AMR and the additional overtime addressed in Staff-156 (RMD-23). The Company is including the two-year average because this matches Staff's overtime calculation.

16. Q. Does the Company believe there is a correlation between overtime and capital percentage?

A. Yes, there is a relationship between capital percentage and overtime. It would be incorrect to use a two-year average of overtime and not use the same period to determine the capital percentage because the work that drives the overtime also can influence the capital. We must be consistent and match the time period for capital ratio and overtime hours.

17. Q. How does the Company's position and Staff's differ for capital percentage and overtime?

A. The Company used a three-year average for both the capital percentage and total overtime hours. This is because both items influence the other. Staff, in the last LIAW rate case, Case 04-W-0577, maintained this relationship by using both overtime hours from the historic test year and the capital ratio from the historic test year 2003. Staff in this case is proposing to use a two-year average of overtime hours based on 2004-2005 but is using the adjusted historical test year (2006) for their capitalization ratio. This is inconsistent because 2006 has the highest overtime hours and the highest capitalization ratio but Staff is only using the capitalization ratio. Staff does not maintain the relationship of the lower capitalization ratio as shown in Exhibit (JMW-1) which is 10.91% for the two year average.

18. Q. Does Staff address any other concerns with the capital ratio?

A. Yes, Staff states that the "total construction costs are projected to remain at levels similar to previous years" and therefore "a request to use a three-year average of capital payroll without AMR is without merit and should be denied."

19. Q. Does the Company agree with this statement?

A. No. The AMR program was performed by internal labor with very little outside contractor costs. The majority of the construction projects forecasted on Exhibit 8 will be performed by outside contractors. Outside contractors do not affect the internal capital ratio. The idea that construction costs remaining the same means the capital ratio should remain the same is false.

20. Q. Did the Company revise its overtime calculation of hours?

A. Yes, the Company revised 2006 overtime hours in the response to Staff-156 (RMD-23). The Company removed 3,080 hours and $133,394.80 in overtime, adjusting the three-year average to 19,088.25 hours. Please see Exhibit (JMW-2) which is the response to Staff-156 (RMD-23).

21. Q. What is the current amount of overtime hours in 2007?

A. As of the end of August, the actual year to date overtime hours are 16,126, with actual overtime of $721,806.49. The current August year to date information is 16,126 hours which implies overtime for 2007 will be 24,190 (20,126 + 4 x (16,126/8). Please refer to Exhibit (JMW-3) for the overtime hours and dollars for 2004-2007. This exhibit is an update of the response to Staff-21 (RMD-22) parts d and e.

22. Q. Based on this information what is the Company recommending?

A. The Company is recommending consistency and the recognition of the correlation between overtime hours and the capital percentage that exists for LIAW. Since the Staff is recommending a labor capitalization ratio based on an adjusted historic test year, then the adjusted 2006 historic test year overtime hours should be used for the overtime calculation to be consistent.

23. Q. Does the Company believe this to be reasonable ongoing level of overtime hours?

A. Yes, the adjusted overtime hours for 2006 are 22,294.75 (without AMR) which is less than the estimated 2007 overtime hours of 24,190.

24. Q. Please summarize the Company's payroll position.

A. The Company has a history of above GDP increases for payroll and believes it should not be penalized with the below market wage increase forecasted by Staff. The Company strongly believes incentive compensation is an integral part of attracting and retaining competent employees and that it should be allowed in this proceeding. The Company believes there is a strong relationship between capital ratio and overtime hours and therefore it suggests using the adjusted capital ratio of 14.59% along with the adjusted overtime hours as presented in Staff-156 (RMD-23) of 22,294.75 hours if the adjusted three-year average of the capital ratio of 12.19% and the three-year average of overtime hours of 19,088.25 is not used. If Staff believes that using the two-year average of overtime hours is correct then the capital ratio should be 10.91%.

<u>Group Insurance</u>

25. Q. What is Staff's adjustment to Group Insurance?

A. Staff has proposed a $254,115 adjustment, or an approximately 24% reduction, to group insurance. Staff's projection is based on a computation of base year cost per employee, escalated by general inflation.

26. Q. Is Staff's projection reasonable?

A. No. Group insurance is medical, dental and life insurance. The Company projected the expense by using actual 2007 premiums, escalated into the rate year by the average cost increase over the past three years. Staff's computations ignore actual 2007 costs, and rely on a base that is stale. Staff's cost per employee approach is not only stale but inherently unreliable. One reason is that Group Insurance is calculated on a monthly basis which is dependent on the number of employees who are eligible that month. Using an average can skew the data based on eligibility status. Staff's projection for the rate year is a full $46,277 less than the Company's actual 2007 expense. The Company's costs have been going up over 10% per year based on a three-year growth rate. Certainly everyone is familiar with the startling escalation in health insurance costs. A proper projection must include the latest costs as well as a reasonable escalation. The escalation in health care costs has consistently exceeded general inflation. The Company will provide an update to reflect 2008 premiums when the information is available.

27. Q. Is the information in Exhibit (RMD-5) correct as presented?

A. No the information in Staff Exhibit (RMD-5) for 2005 is incorrect. Please refer to the attached Exhibit (JMW-4) which is the response to Staff-105 (RMD-18). The 2005 Group Insurance total expenditure is $838,077, not the $938,788 presented in Staff's case.

<u>401(k) Plan</u>

28. Q. Please summarize Staff's testimony on 401(k) expense.

A. Staff is proposing to use a two-year average of 401(k) expense, which lowers the expense by $33,566.

29. Q. Do you agree with Staff's recommendations?

A. Not entirely. The Company used actual individual participation levels from the base year and applied that to the rate year payroll, adjusting the result for capitalization. The Company did estimate the level of participation for vacant positions. As such the

Company's rate year projection is more accurate. Also, Staff's recommendation does not take into account the change in the future capitalization rate.

30. Q. Could you adjust Staff's position to account for this change in capitalization rates?

A. Yes, please see Exhibit (JMW-5) attached to my rebuttal. This exhibit adjusts the expense numbers for 2005 and 2006 by their corresponding capital ratios to obtain the gross 401(k) matching contributions. The two-year average of this is $110,411. I then adjusted this number by the one-year adjusted capital ratio of 14.59%, as shown in my rebuttal testimony in the section for Labor. Next I adjusted this amount by Mr. Higgins' recommended GDP price deflator of 5.98%. The result is a rate year expense of $99,941. If the two-year average of overtime is used, then the capital ratio should be adjusted to 10.91% instead of using the 14.59% which would increase the expense. If the three-year average of overtime is used, then the capital ratio should be adjusted to 12.19% instead of using the 14.59% which would increase the expense.

31. Q. Which method is the Company proposing?

A. The Company believes that the $127,923 is the best projection of 401(k) expense for the rate year because it takes into account the actual individual contribution rates and applies those rates to the rate year payroll. If this method is not used, then the Company believes that Exhibit (JMW-5) is the next best method because it adjusts the Staff position for the change in capitalization.

<u>Defined Contribution Plan</u>

32. Q. Did Staff make an adjustment to the DCP?

A. Yes. Staff reduced the rate year forecast by about $42,498, or 60%. Staff's projection is based on the 2006 base year amount escalated by general inflation.

33. Q. Is Staff's projection reasonable?

A. No. I have provided Exhibit (JMW-5) which sets out the actual expense for 2006 and 2007. Because participation is growing, the 2006 base year amount is stale. Once again, Staff's rate year projection of $28,320 is less than the Company's actual year to date August 2007 expense of $30,822.

34. **Q. Please summarize Staff's testimony on DCP expense.**

A. Staff is proposing to use the historical test year and adjust if for inflation.

35. **Q. Do you agree with Staff's recommendations?**

A. No. The Company used the rate year payroll levels for employees hired after 1/1/06 for all non-union employees and 1/1/01 for all union employees. This would be the best forecast for the rate year DCP expense. Staff's recommendation, also does not take into account the change in the future capitalization rate.

36. **Q. Are you proposing an alternative?**

A. Yes, please see Exhibit (JMW-6) which shows the actual 2006 and 2007 expenses. As you can see from this exhibit the expense level is increasing throughout 2006. Please also note that the year to date August 2007 expense is $30,822 which is higher than the 2006 expense. Annualized year to date August numbers show an expense level of $46,234. Increasing this by Staff's GDP level of 5.98% results in a rate year expense of $48,998. The Company believes its original filed DCP is the correct number to use to forecast the rate year expense, but if this approach is not taken then Exhibit (JMW-5) should be used.

Service Company (other than Northeast Region (NER))

37. **Q. Please summarize Staff's position.**

A. Staff made adjustments to the Labor & Related Expenses and the Expense Other than Labor & Related. The Labor & Related expenses that were addressed were labor internal recharge ($19,508), labor expats ($8,018), IP Annual ($50,239), IP Long Term ($39,746), EIP ($29) and inflation adjustments ($62,932) for a total of $180,427. The Expense Other than Labor & Related were uncollectible expense ($11,927) and inflation adjustments ($25,915) for a total of $37,842.

38. Q. Is the Company accepting Staff's proposed changes?

A. The Company is not contesting some of the changes. The Company is not contesting the adjustment to Expense Other than Labor & Related of $37,842. The Company will also not contest the adjustments in regards to internal recharge and labor expats in the combined amount of $27,526 or $30,069 with inflationary adjustments. The Company does not agree with the adjustments to incentive compensation and inflationary adjustments to labor and related expenses as discussed in the Payroll and Northeast Region (NER) Service Company of my rebuttal testimony.

Northeast Region (NER) Service Company

39. Q. Please summarize Staff's position.

A. Staff made adjustments to the NER Service Company to eliminate incentive compensation, reflect a lower NER headcount, use a lower benefit overhead factor, revise the allocation of expenses and adjusted the expense for GDP price deflator.

40. Q. Does the Company agree with Staff's recommendations?

A. The Company agrees with the reduction in the benefit overhead factor from 50% to 42%. The Company also agrees to the change in the allocation factors to include a portion of the VPs and up to Liberty, Edison and ETS and to also allocate a portion of the salary of the former NE Region President and his Executive Assistant to the newly formed Eastern Division.

41. Q. What is the Company's position in regards to incentive compensation and the use of GDP price deflator?

A. As stated previously, the Company believes that incentive compensation is a vital part of compensation and is needed to hire and retain competent employees. The Company believes that the use of GDP deflator for wage increases is not a valid representation and that historical increases should be used instead.

42. Q. Does the Company agree with the adjustment to headcount?

A. No. Staff relied on information in the response to Staff-245 (KJH-67) to calculate its adjustment.

43. Q. What has changed since that response?

A. The Company has added to its staffing level since the response to Staff-245 (KJH-67) as of the August 24, 2007. The Company filled the positions of Paralegal and Assoc Counsel II Regional. The start date of the Paralegal position was 9/10/2007 and the start date of the Assoc Counsel II Regional was 9/19/2007.

44. Q. Does the Company have any "temp to perm" employees?

A. Yes, currently the Company has three "temp to perm" employees. These employees are not actual employees of the Company at this time but they are filling positions that were considered vacant in the adjustment. The Company did not inform Mr. Higgins about these employees and should have included them in the response to Staff-245 (KJH-67). The three "temp to perm" employees are filling 2 of the Senior Financial Analyst positions and the HR Generalist position. One of these employees has been with the Company since 9/29/2006 in the role of Senior Financial Analyst. The other Senior Financial Analyst and the HR Generalist started working for the Company on 9/18/2007 and 8/6/2007, respectively.

45. Q. Why is the Company using temp to perm employees?

A. The Company has had a difficult time attracting and retaining competent employees at a caliber that the Company needs. This is in part due to the competitive market for professional employees. This is yet another reason why incentive compensation is important for the Company to attract and retain high caliber employees.

46. Q. Has the NER made any offers to potential employees?

A. Yes the NER Service Company has made an offer to fill the position of Manager Financial Performance Planning and Reporting. This offer was accepted and the start date is November 1, 2007. The NER is also expecting to make an offer to a Legal Secretary before 10/12/2007 as interviews are currently ongoing.

47. Q. Please summarize the changes in headcount.

A. The NER has started two legal employees since the last update. The NER has three temp to perm employees that were left out of the headcount. The NER has had one offer accepted and is preparing to make another offer. In total the NER has increased its headcount by 6 employees in comparison to Staff's adjustment and could increase this by one more shortly.

48. Q. What is the salary in the NER exhibits of the remaining 3 vacant positions?

A. The salary in 2007 for the three remaining vacant positions is $306,861. Of this only 10.54% is allocated to LIAW.

Postage

49. Q. What is Staff's position on Postage?

A. Staff is proposing to disallow the additional postage due to the monthly billing conversion.

50. Q. Does the Company agree with Staff proposal and reasons for the proposal?

A. No the Company does not agree with Staff's proposal. The Company will incur an additional expense of $183,337. Staff stated that the Company was allowed to retain the program's savings. The only savings associated with the AMR program, however, were labor savings. The Company eliminated all of the positions in the last rate case associated with these savings. The Company maintained its level of employees and therefore the customers are the beneficiaries of the savings that were provided in the last rate case due to a lower level of employees. The AMR cost analysis showed savings of $1,356,436 that the customers have or will receive. There are no savings that the Company has retained.

51. Q. If the Company does not recover this cost, will it still provide monthly billing?

A. No. The Company will not be able to offer monthly billing if it cannot recover the costs to perform monthly billing.

<u>RAC and Property Tax Reconciliation Clause (PTC)</u>

52. Q. What is Staff's recommendation for the RAC/PTC?

A. Staff has recommended that the RAC/PTC be discontinued if there is a one-year rate case decision.

53. Q. Does the Company agree with Staff's recommendation?

A. No. The Company believes the RAC and the PTC benefit the customers and therefore the Company would recommend that the RAC/PTC been continued regardless of the outcome will respect to the time frame in this case.

54. Q. Does the Company want to hold the balance of the RAC/PTC on it books till 3/31/2008?

A. No, the Company would prefer to refund it prior to that. Currently the Company has balances in three separate accounts which equal a refund to the customers of approximately $251,158 as of September 30, 2007. The Company currently has Case 05-W-0339 which could offer a refund to their customers. The Company believes that if such a refund were to occur prior to March 31, 2008, that the RAC/PTC balance should be refunded with it. This would allow the Company to clean up the three accounts and only have the balance that represents the rate year ended 3/31/2008 in those accounts.

55. Q. Is the Company making any recommendations to change the RAC/PTC?

A. Yes, in discussions with Staff it was proposed to the Company that the terms of the refund/recovery of the RAC and PTC should be identical. We believe Staff agrees with linking the refund/recovery periods (LIAW-5 part 4). The Company believes that a one-year period of recovery/refund is appropriate.

56. Q. How would the Company propose to recover/refund the balance at the end of each year?

A. If the Company owes money to the customers, it would propose to refund the money in a lump sum. This benefits the customers by providing any refunds as soon as possible. If the Company were in a position to surcharge the customer, it would prefer to recover it in a short time span. The Company does not want to surcharge the customers in a way that would produce a large impact but believes that Staff's recommendation is too low at $4 per month. The Company would suggest to recovery based on a monthly charge of at least $10 per month unless the recovery would be more than one year in which case a 1/12 of the surcharge should be used. This would insure that the Company received recovery within a year.

57. Q. Did the Company propose any other adjustments to the RAC or PTC that were not addressed?

A. Yes. The Company proposed that the recovery and the give back of the PTC should be at 100%. Currently the Company refunds 100% of any decreases in property taxes but only receives 85% recovery of increases in property tax. The Company believes it has demonstrated its diligence in pursuing property tax reductions in Case 06-W-0069 where we have refunded over $5.9 million ($2.8 million directly to our customers and

$3.1 million was used as an offset to the RAC balance due to the Company) to our customers in 2007 alone.

Payroll Taxes

58. Q. Do you agree with Staff's adjustment to Payroll Taxes?

A. The Company agrees in part. The Company agrees to add the overtime wages to the FICA taxes. The Company believes the adjusted three-year average of overtime hours in the response to Staff-156 (RMD-23) should be used with the corresponding three-year average of the capital ratio; or the historic test year overtime hours and capital ratio should be used. The Company agrees that payroll should be adjusted for the final payroll numbers, please see the Payroll section for the Company's position in regards to Payroll.

59. Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Exhibit (JMW-1)

As filed

	Total Payroll	Capitalized & other Payroll without AMR Capital	
2004	$6,547,940	$676,173	**10.33%**
2005	6,441,576	720,575	**11.19%**
2006	*7,254,915*	*1,001,214*	**13.80%**
2004-2006	$20,244,431	$2,397,961	**11.85%**

	AMR OT Payroll
2004	$91,621
2005	92,142
2006	*260,861*

	Adjustment to OT
2006	$133,395

Adjusted 3 Year Average

	Total Payroll	Capitalized & other Payroll without AMR Capital	
2004	$6,456,319	$676,173	**10.47%**
2005	6,349,434	720,575	**11.35%**
2006	6,860,659	1,001,214	**14.59%**
2004-2006	$19,666,412	$2,397,961	**12.19%**

Adjusted 2 Year Average

	Total Payroll	Capitalized & other Payroll without AMR Capital	
2004	$6,456,319	$676,173	**10.47%**
2005	6,349,434	720,575	**11.35%**
2004-2005	$12,805,753	$1,396,747	**10.91%**

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF - 156 (RMD - 23)
Requested By: Richard Davi
Date of Request: June 22, 2007
Reply Date: July 2, 2007
Subject: **Payroll**

In response to Staff 23 (RMD-4), the company identified the following as actual overtime payroll for years 2004-2006:

	OT dollars
2004	$ 824,270
2005	812,891
2006	1,345.241

The amount of OT labor dollars has increased by more than $500,000 from 2005 to 2006. Specifically, what do you attribute to this significant increase in the amount of OT?

A. The increase of overtime labor dollars from 2005 to 2006 ($812,891 vs. $1,345,242) can be attributed to several factors, please refer to Staff-23 for the attachment that supports the numbers. The completion of the AMR program accounted for $260,861, or 51% of the $512,350 increase, and the overtime applicable to such will not be incurred in 2008 and 2009. Therefore, the adjusted overtime for 2006, excluding the anomaly related to the completion of the AMR program is $1,084,380. The additional overtime costs incurred in 2006, exclusive of the AMR overtime described above, is approximately $363,632 more than the prior year.

There were two other factors in 2006 that had a major impact on the amount of overtime hours incurred by the Company as compared to prior years; 1) four vacant positions for the majority of 2006 in the T&D Department as a result of sickness and people leaving the business; and 2) two T&D positions were temporarily moved to the AMR program and their normal work was done with overtime.
The four vacant positions in the T&D Department for 2006 were:

- Utility Person I
- Utility Person I
- Utility Meter Service
- Utility Meter Service

The Company estimates that the loss of these positions and the related work required from each in 2006 resulted in backfilling from other positions and the incurrence of approximately 3,080 of additional overtime, or $133,395 (3,080 X $43.31).

Staff-156 (Continued)

The increase in maintenance and compliance work accounted for the remaining overtime differential. The Company incurred a considerable increase in various maintenance and compliance tasks in 2006 as compared to 2005. These tasks were incurred primarily to maintain the integrity of the system and to provide the level of customer service that is expected of a Class A water utility. This increase as compared to 2005 can be depicted as follows:

- Service renewals up by 32%
- Curb box repairs up by 24%
- Hydrant repairs up by 52%
- Mark outs up by 19%
- Water quality flushing up by 12.5%

In summary, the Company attributes the increase in overtime in 2006 excluding AMR to the vacancy of positions and the temporary movement of two T&D employees of $133,395. The remaining amount i.e. the difference between the noted OT increase of $363,632 and the (3,080 hrs) $133,395 = $230,237 and can be allocated to the increased work volume in the noted categories. Based on the above information, please see the attached revised OT workpaper.

Respondent: William Varley/John M. Watkins **Date:** July 2, 2007

OT

Job Title	Data	2006	2005	2004	Average	Total Overtime
Auto Mechanic	Hours	156.00	29.00	13.50		
	Amount	$7,983.20	$1,383.78	$590.29		
Boom Truck Operator	Hours	764.50	204.50	402.50		
	Amount	$33,652.97	$8,759.34	$17,168.17		
Business Clerk	Hours	416.50	218.75	197.50		
	Amount	$16,978.55	$8,595.98	$7,695.98		
Car Washer	Hours	143.00	18.00	2.00		
	Amount	$5,735.35	$693.41	$67.89		
Comm Investigator	Hours	817.50	81.50	480.25		
	Amount	$34,201.60	$3,288.18	$19,100.45		
Customer Service Analyst	Hours	3.00	36.50	58.50		
	Amount	$138.88	$1,626.57	$2,665.39		
Daylist Clerk	Hours	544.00	203.25	82.50		
	Amount	$21,530.41	$7,734.29	$3,094.45		
Distribution Clerk	Hours	411.50	108.25	79.00		
	Amount	$14,649.42	$3,749.59	$2,678.28		
Equipment Operator	Hours	2,013.00	1,140.50	1,364.50		
	Amount	$96,605.04	$53,518.54	$63,270.19		
M & S Storekeeper	Hours	300.00	168.75	75.00		
	Amount	$13,108.00	$7,188.67	$3,112.71		
Maintenance Mechanic	Hours	271.50	255.50	121.00		
	Amount	$12,621.25	$11,590.75	$5,355.57		
Maintenance Mechanic B	Hours	338.50	280.00	91.00		
	Amount	$14,635.33	$11,697.90	$3,691.14		
Meter Reader	Hours	86.50	100.25	141.00		
	Amount	$2,854.67	$4,301.61	$5,081.19		
Meter Tester	Hours	122.00	33.50	240.00		
	Amount	$4,965.81	$1,319.50	$9,254.77		
Oiler-Plant Helper	Hours	3,179.50	2,709.50	2,469.00		
	Amount	$123,765.68	$101,938.41	$92,178.75		
Senior Meter Mechanic	Hours	785.50	408.50	592.00		
	Amount	$35,187.51	$17,743.62	$25,684.15		
Senior Utility Man A	Hours	2,932.00	1,679.50	2,023.00		
	Amount	$139,257.87	$78,531.97	$93,373.56		
Station Attendant A	Hours	2,461.00	2,173.00	2,068.25		
	Amount	$112,248.47	$96,508.59	$90,297.72		
Station Attendent B	Hours	1,610.00	1,521.00	1,380.50		
	Amount	$69,352.16	$64,018.40	$58,097.29		
Utility Man - Meter Service	Hours	5,351.00	3,456.75	2,767.25		
	Amount	$221,977.77	$139,557.65	$108,935.27		
Utility Man I	Hours	5,091.00	2,137.50	2,332.50		
	Amount	$216,669.57	$89,215.94	$95,800.85		
Utility Man II, Util/Meter SV	Hours	3,805.00	2,537.50	3,068.00		
	Amount	$147,122.05	$99,930.13	$119,180.51		
Total OT Hours		31,602.50	19,499.50	20,066.75		
Total OT Dollars		$1,345,241.54	$812,890.82	$824,270.57		
AMR Hour		6,227.75	2,285.00	2,311.25		
AMR Dollars		$260,861.36	$92,142.41	$91,621.06		
Adjustment to 2006 hours	Staff-156	3,080.00				
Adjustment to 2006 dollars		$133,394.80				
Total OT Hours w/o AMR		22,294.75	17,214.50	17,755.50	19,088.25	
Total OT Dollars w/o AMR		$950,985.38	$720,748.41	$732,649.51	$801,461.10	
Average Hourly rate					$41.99	
Increase for 2006			3.00%	103.00%	$43.25	$825,567
Increase for 2007			3.00%	103.00%	$44.55	$850,382
Increase for 2008			4.00%	104.00%	$46.33	$884,359
Increase for 2009			3.50%	103.50%	$47.95	$915,282

d. Number of overtime hours

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2004	2,989.75	2,710.75	1,489.00	1,381.75	675.00	2,215.50	1,283.75	1,058.50	1,578.25	2,007.25	1,885.75	791.50	20,066.75
2005	2,741.50	1,294.50	1,702.00	1,939.00	1,356.25	1,461.75	1,222.50	1,415.00	1,872.75	1,480.25	1,444.00	1,570.00	19,499.50
2006	2,765.00	1,467.75	2,572.75	2,188.25	2,630.00	3,608.00	2,211.50	2,234.75	2,940.00	2,623.00	3,377.50	2,764.00	31,602.50
2007	2,028.00	3,924.00	2,303.00	1,897.00	2,213.50	1,358.50	1,490.50	913.50					16,126.00

e. Overtime labor charges

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2004	$128,168.63	$113,441.02	$58,395.29	$57,715.82	$26,729.22	$86,787.15	$51,960.77	$39,555.14	$62,083.31	$83,522.14	$79,635.50	$36,276.58	$824,270.57
2005	$115,929.07	$52,389.97	$69,853.08	$80,271.89	$54,769.08	$60,065.42	$49,756.00	$55,838.66	$76,890.68	$63,355.83	$62,084.45	$71,686.69	$812,890.82
2006	$121,855.19	$62,596.98	$109,703.59	$93,521.53	$107,717.23	$148,762.39	$93,736.39	$91,028.50	$125,707.61	$122,928.49	$150,175.15	$117,508.49	$1,345,241.54
2007	$92,992.64	$177,970.42	$100,874.94	$84,446.75	$98,355.04	$60,093.15	$65,996.20	$41,077.35					$721,606.49

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF - 105 (RMD - 18)
Requested By:	Richard Davi
Date of Request:	June 12, 2007
Reply Date:	June 22, 2007
Subject:	**Group Insurance**

Please provide a breakdown of group insurance expenses (before and after labor allocations) for calendar years 2004, 2005 and 2006 by the following components: life insurance, disability, medical, opt out payments, and employee contributions.

A. Please see attached.

Respondent: John M. Watkins **Date:** June 22, 2007

LONG ISLAND AMERICAN WATER
CASE 07-W-0508
STAFF - 105
GROUP INSURANCE

PRE-ALLOCATION	2004	2005	2006
Life Insurance	$10,169	$11,190	$14,903
Disability	8,391	8,511	8,510
Medical	1,005,113	869,008	900,592
Opt-Out Payments	16,667	10,016	9,108
Less: Employee Contributions	83,955	60,648	79,711
Net Costs	$956,385	$838,077	$853,402

POST-ALLOCATION

EXPENSE	2004	2005	2006
Life Insurance	$8,361	$10,516	$10,662
Disability	6,899	7,998	6,089
Medical	826,423	816,617	644,336
Opt-Out Payments	13,704	9,412	6,516
Less: Employee Contributions	69,030	56,992	57,030
Net Costs	$786,357	$787,551	$610,573

CAPITAL	2004	2005	2006
Life Insurance	$1,809	$674	$4,241
Disability	1,492	513	2,422
Medical	178,690	52,391	256,256
Opt-Out Payments	2,963	604	2,591
Less: Employee Contributions	14,926	3,656	22,681
Net Costs	$170,028	$50,526	$242,829

Exhibit (JMW-5)

Long Island Water Corporation
401(k) expense
For the Rate Year Ended March 31, 2009

Company forecast	FY 2007	FY 2008	RYE 3/31/09		
Non-union	$40,993	$42,569	$42,985		
Union	94,884	99,069	102,135		
	$135,877	$141,638	145,120		
Percent charged to capital			11.85%		
Amount charged to capital			17,197		
Amount charged to expense				$127,923	$127,923

Per Staff		Amount		Capital %	Before Capital	
Actual amount charged to expense:						
FYE 2005		85,500		16.64%	102,567	
FYE 2006		92,700		21.61%	118,255	
		178,200			220,822	
2-Year average of 401(k) expense			$89,100			$110,411
				Capital %		14.59%
						94,302
Increased for GDP	@ 5.9%		$94,357		@ 5.98%	$99,941
Staff Adjustment			$33,566			$27,982

Exhibit (JMW-6)

Long Island Water Corporation
Defined Contribution Plan

	DCP
2006	
Jan	478
Feb	604
Mar	1,795
Apr	1,909
May	2,551
Jun	2,636
Jul	2,171
Aug	2,202
Sep	3,311
Oct	2,249
Nov	4,202
Dec	4,213
Total	28,320
2007	
Jan	3,863
Feb	4,909
Mar	3,324
Apr	3,250
May	3,983
Jun	3,341
Jul	4,568
Aug	3,584
Sep	
Oct	
Nov	
Dec	
Total	30,822
Monthly Average for 2007	3,853
Annualized 2007	46,234
Plus GDP	5.98%
Rate Year Expense	$48,998

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF
DAVID HUNTER

October 5, 2007

1. **Q. Did you previously submit testimony in this case?**

A. Yes.

2. **Q. What is the purpose of your rebuttal testimony in this case?**

A. I am responding to the testimony of Mr. Richard Leary concerning his position on the Company's proposed Insurance Other Than Group (Insurance OTG) expenses.

3. **Q. Is Staff proposing to adjust the rate year expense for Insurance OTG?**

A. Yes, Staff made an adjustment to decrease rate year expense by $530,879, or 38.4% less than the Company's originally filed forecast. Staff is proposing that the Company adjust its allocation process.

4. **Q. How did you do your forecast?**

A. I used the actual 2007 Insurance OTG invoices and 2007 allocations, and inflated them based on estimates provided by our insurance broker Marsh Brokerage.

5. **Q. How did Staff calculate its adjustment?**

A. Staff utilized 2007 Insurance OTG invoices and an average of prior year's allocations (2007, 2006, 2005, and 2004), and inflated them using the GDP deflator.

6. **Q. Do you believe that a GDP deflator should be used instead of an industry estimate?**

A. No, I do not. For items that are general in nature a GDP deflator might be appropriate, but insurance forecasts should be industry specific so the projections are as accurate as possible.

7. **Q. Did you use the 2006 allocation to develop your forecast?**

A. No, I did not. I used the actual 2007 costs. As stated in my original testimony and responses to Staff IRs, the 2006 base year for Insurance OTG was understated because of an accounting error. The payroll estimate used as a basis for the 2006 allocation of premiums was erroneous and understated. Please see the table below:

Long Island American Water	
Year	Payroll Estimate
2004	5,916,246
2005	6,737,559
2006	958,473
2007	5,132,005

8. Q. Was the 2006 expense for Insurance Other Than Group restated when this error was found?

A. No it was not.

9. Q. Why not?

A. There are two reasons. The first is because the adjustment is not material for American Water as a consolidated entity. The second is because LIAW's insurance program is a 66 month retro premium program. If and when LIAW's insurance claims exceed the premiums paid for 2006, LIAW will be charged with the additional costs necessary to make up for the premium shortage of 2006.

10. Q. Should the 2006 allocation be used to project future expenses for ratemaking purposes?

A. No, the 2006 allocation was incorrect for LIAW, so it would lead to an incorrect future estimate for the pro forma.

11. Q. Did Staff use the 2006 flawed allocation in its projection?

A. Yes

12. Q. Is there anything else about Staff's forecast that you disagree with?

A. Yes. According to Staff's testimony Pg 15, lines 12 – 15, Staff is "proposing to use allocation percentages based on a four-year average of allocation percentages in order to mitigate the volatility of the insurance market." This methodology is unnecessary and inappropriate.

13. Q. Please explain why Staff's allocation methodology is unnecessary and inappropriate.

A. American Water's insurance premiums are allocated to its subsidiaries based on either loss history, exposure, or a combination of loss history and exposure. The basis of the loss history allocation is the average of the past 5 year's loss experience (claims). This 5 year average is used to smooth out losses if a subsidiary has one bad year of claims experience. Seeing how the current process is already based on a 5 year average of actual claims experience, it does not make sense to average the past 4 year's loss history *allocations* in order to smooth a volatile market.

The exposure allocation is meant to represent the Company's current risk. The basis of the exposure allocation is payroll expenses, number of vehicles, or insurable property value. To take an average of the past 4 years exposure would not accurately represent the Company's current risk.

14. Q. How does Staff's position compare to historical actuals?

A. The historical actuals, as presented in my original testimony, are as follows:

LIAW's Insurance OTG	
Year	**Amount**
2003	$ 830,032
STAFF'S POSITION	853,189
2004	980,923
2005	976,351
2006	709,110
2007	1,191,219

As the table shows, Staff's forecast is less than the actual costs incurred for 2004, 2005 and 2007. As discussed above, 2006 was in error.

15. Q. Are you proposing any adjustments to Insurance OTG?

A. Yes. I am reducing the Company's forecast by $192,849 or 13.9 % due to a recalculation of the Insurance OTG allocation. After conversations with Staff witnesses, I corrected errors within the allocation of General Liability, Workers Compensation, and Auto Liability. See Exhibit (DH-1).

16. Q. Are you including the restatement of your position with this testimony?

A. Yes, I am. The revisions are set forth on Exhibit (DH-2).

17. Q. Will you provide actual 2008 premiums?

A. Yes. The Company believes it will be able to provide the actual 2008 premiums before the end of December.

18. Q. Does this conclude your rebuttal testimony at this time?

A. Yes, it does.

Exhibit (DH-1)

Long Island American Water
Recalculation Of Premium Allocations Per Conversations With Staff
As Of 08/30/07

LIAW	Premium	Original Allocation	Originally filed 2007 Premium	Revised Allocation	Revised 2007 Premium	2007 Taxes	Revised 2007 Totals
Workers Compensation(No Taxes)	10,656,884	*Exposure: 0.2396%(1) Loss History: 9.7245%(2)*	530,973	*Exposure: 2.0727(1) Loss History: 7.7028%(2)*	520,882	6,254	527,136
General Liability	16,582,488	*Exposure: 2.0727% Loss History: 4.0754%(2)*	567,782	*Exposure: 2.0727% Loss History: 2.7797%(2)*	402,324	-	402,324
Auto Liability	1,851,414	*Exposure: 1.2531% Loss History: 2.3855%(2)*	33,401	*Exposure: 1.2531% Loss History: 1.6300(2)*	26,689	-	26,689

Note(1):
Exposure for WC should be calculated based on total payroll similar to General Liability. In error, the allocation model's calculation was based on the calculation to determine WC taxes. This will be corrected going forward.

Note(2):
Loss History is based on a 5 year average of experience. It was determined that some of the averages used to allocate the premium were not calculating correctly.
The correct 5 year average is shown under the Revised Allocation.

Long Island American Water
Insurance Other Than Group As Of 08/30/07

Insurance	2007	2008	2009	12 Month Ended 3/31/2009	Orignially Filed 12 Month Ended 3/31/2009	Change 12 Month Ended 3/31/2009
	REVISED PROFORMA AS OF 08/30/07					
Workers Compensation	527,136	551,644	577,323	558,064	568,704	(10,640)
Percent Chargeable To Capital and Other	11.85%	11.85%	11.85%	11.85%	11.85%	
Amount Chargeable To Capital and Other	(62,466)	(65,370)	(68,413)	(66,131)	(67,391)	1,261
Pro Forma Workers Compensation	464,670	486,274	508,910	491,933	501,313	(9,380)
Property Insurance	42,925	49,363	54,299	50,597	50,597	
GL/PR	402,324	422,441	443,563	427,722	603,623	(175,902)
Excess Liability	120,516	132,568	145,825	135,882	135,882	
Consultation Fees	5,969	6,149	6,333	6,195	6,195	
Executive Risk	12,456	14,702	16,172	15,070	15,070	
Auto Insurance	26,689	29,358	32,294	30,092	37,660	(7,568)
Retro Insurance Charges(5 Yr Average)	33,729	33,729	33,729	33,729	33,729	
Total Pro forma	**1,109,279**	**1,174,584**	**1,241,125**	**1,191,219**	**1,384,068**	**(192,849)**
Actual Test Year Expense	929,100	1,109,279	1,174,584	1,125,605		
Increase/(Decrease)	$180,179	$65,305	$66,541	$65,614		

Note**
The 2006 base year amount for Insurance Other Than Group is artificially low due to an accounting anomaly. The base year amount of $709,110 has been normalized to $929,100. The normalized amount is an average of 3 years Insurance Other Than Group actuals of $830,032, $980,923, and $976,351 from 2003, 2004, and 2005 respectively.

Exhibit (DH-2)

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF JOHN N. CASILLO

October 5, 2007

1. Q. Did you file direct testimony in this proceeding?

A. Yes.

2. Q. What are the areas you will address in your rebuttal testimony?

A. I will respond to the testimony of the Panel with respect to power and fuel costs and deferred pension and OPEB expense.

3. Q. Have you prepared an exhibit in conjunction with your testimony?

A. Yes, in support of my testimony I have prepared Exhibit (JNC-1).

<u>Production Expense / Power</u>

4. Q. Please summarize Staff's testimony on power cost.

A. Staff is proposing power costs of $2,654,360 for the rate year. This is a $140,218 reduction to the $2,794,598 rate year power costs as projected by the Company. Power cost is the cost for electric service provided by the Long Island Power Authority (LIPA).

5. Q What was the basis of the Company's initial projection?

A. The power cost, as shown in Exhibit 12, tab 5, was based on normalized 2006 cost increased by 5.99% for 2007, 2008 and the rate year. The 5.99% is the average annual cost increases over the last 6 years excluding the highest and lowest cost increases.

6. Q. How has Staff's projection of power cost in the rate year differed from the Company's projection?

A. Staff has increased the normalized base year power cost of $2,450,933 by 8.30%. The 8.30% increase is based on the LIPA'S forecasted revenue increases from 2006 to 2009.

7. Q. Do you agree with Staff's adjustment and method of projecting power costs in the rate year?

A. I disagree with the adjustment and the methodology of projecting power costs in the rate year. Underlying Staff's adjustment is an assumption that the Company's power cost will mirror LIPA's projection of an 8.30% increase in total revenue from 2006 to 2009. Also, LIPA's tariff includes a fuel recovery provision that would allow it to pass along to their customers increased fuel and purchased power costs. Because of the fuel recovery provision, LIPA revenue would increase above the 8.30% projection if fuel and purchased power cost increase beyond their projections.

<u>Production Costs / Fuel</u>

8. Q. Does the Company agree with Staff's adjustment to fuel cost in the rate year?

A. No. Staff is proposing a general inflation factor of 5.98% (based on the GDP price deflator) applied to the actual 2006 base year expense. It would be more reasonable to base future projections of fuel cost on the projected cost of home heating oil. The Company's new supply agreement is for the delivery of ultra low sulfur diesel which should follow the price of home heating oil. The projected price increase for home heating oil by the Energy Information Administration is 5.9% from 2006 to 2007 and 7.2% from 2007 to 2008. There is no projection for 2009, so the Company proposes using an average of the 5.9% and 7.2%, or 6.5% as the increase from 2008 to 2009. Using these increases for 2007, 2008 and 2009, the Company projects a cost of fuel in the rate year of $317,859. This is $97,826 less than the Company's original projection shown in Exhibit 12, tab 6, but $25,723 higher that Staff's projection for the rate year. Pursuant to Staff's suggestion, attached as JNC-1, is a copy of the Company's latest supply contract. The price paid under the new contract will fluctuate based on the index published in Oil Price Information Service for New York.

Deferred Pension and OPEB Expense

9. Q. Has the Company provided Staff with its accounting for Pension and OPEB during this proceeding?

A. Yes. In its response to Staff interrogatories 198 and 199, the Company provided the supporting calculations for the deferred Pension and OPEB expense on the Company's books as of December 31, 2006. These calculations also support the interest expense recorded on the Pension and OPEB internal reserve through the end of 2006

10. Q. Has the Company responded to the Staff's audit report issued as a result of the open proceeding in Case 05-W-0339?

A. The Company will respond to the audit report shortly.

11. Q. <u>Does this complete your prefiled rebuttal testimony?</u>

A. Yes.

FUEL SUPPLY AGREEMENT
BETWEEN
LONG ISLAND - AMERICAN WATER Company and Petro

This is an agreement (hereinafter referred to as the "Agreement") dated as of XXXXXXX (hereinafter referred to as the "Effective Date") between Petro (hereinafter referred to as "Supplier"), a XXXXX corporation with its principal place of business at XXXXXXXXXXXXX, and Long Island - American Water Company (hereinafter referred to as "Buyer"), a New York corporation with its principal place of business at 131 Woodcrest Road, Cherry Hill, NJ 08034.

WHEREAS, Buyer is desirous of purchasing various fuels; and,

WHEREAS, Supplier is in the business of providing fuels; and,

WHEREAS, Buyer desires to work with Supplier for the provision of various fuels.

AGREEMENT

Therefore, to accomplish the purpose stated above, and in consideration of the mutual promises stated below, Supplier and Buyer, intending to be legally bound, agree as follows:

ARTICLE 1. PURCHASE TERMS

1.1 **Orders** – Supplier agrees, in consideration of the mutual promises herein contained, that it will offer for sale to Buyer quantities of regular unleaded gasoline and Ultra Low Sulfur Diesel fuels (hereinafter referred to as "Fuel") using the pricing formula (the "Price Terms") as set forth in Attachment A, which is attached hereto and incorporated into this Agreement in its entirety. The Fuel will be made available for purchase by Buyer via telephone or set delivery schedule at the Price Terms. Any order for Fuel placed by Buyer will (a) be deemed to be an acceptance of Supplier's Price Terms by Buyer; (b) specify quantity and description of Fuel ordered and the prices of such Fuel (as indicated in Attachment A); (c) specify the date range within which the Fuel must be delivered; and (d) be governed in all other respects by the terms and conditions of this Agreement. Although Attachment A identifies estimated annual quantities of Fuel that Buyer will purchase, the annual consumption quantities of Fuel set forth in Attachment A are estimates only, and Buyer reserves the right to order more or less than such quantities. Buyer is not required to order any particular quantity of Fuel from Supplier. For purposes of this Agreement, "Ultra Low Sulfur Diesel" shall mean diesel fuel having a maximum sulfur content of 15 parts per million.

1.2 **Term** – This Agreement shall commence on the Effective Date and shall terminate on XXXXXXXXXX. Buyer may terminate this Agreement at any time and for any reason upon providing Supplier thirty (30) calendar days prior written notice of its desire to terminate. Unless requested or directed otherwise by Buyer in accordance herewith, Supplier shall continue to provide and deliver Fuel hereunder through the effective date of any expiration, termination, or cancellation of this Agreement. In addition, Supplier will fulfill all orders for Fuel placed by Buyer prior to the termination date, even if delivery of the Fuel occurs after such termination date.

1.3 **Price** – Exact prices for orders of Fuel will be determined on the date the Fuel is delivered to Buyer based upon the formula detailed in Attachment A. Should Supplier be unable to deliver any Fuel on the originally-scheduled delivery date, Buyer shall pay the price that the Fuel would have been on the originally-scheduled delivery date. However, should the price of the Fuel on the rescheduled delivery date be less than the Fuel would have been on the originally-scheduled delivery date, Buyer shall pay the price of Fuel on the rescheduled delivery date.

ARTICLE 2. FUEL DELIVERY PERFORMANCE OBLIGATIONS

2.1 Supplier shall furnish to Buyer a load-specific delivery ticket for the Fuel prior to Buyer accepting delivery of the Fuel. No Fuel deliveries will be accepted without a load-specific delivery ticket. The load-specific delivery ticket must be left with the Buyer representative signing for the Fuel and a copy must be sent to Buyer with the invoice. The load-specific delivery ticket shall clearly state the type and amount in gallons of Fuel delivered.

2.2 All deliveries of Fuel must be performed with Supplier's trucks. Supplier will either provide Fuel to Buyer via a set delivery schedule or Buyer will place orders for specific quantities of Fuel via phone. Buyer must place orders via phone for quantities of Fuel at least 24 hours in advance of the requested time of delivery, unless the parties otherwise agree. Buyer may make changes to specific orders for Fuel or to its set delivery schedule(s) as necessary; however, Buyer cannot make changes to phone orders having less than a 24 hour turnaround time. In addition, even if a set delivery schedule exists for a specific Buyer location, Buyer may place additional orders via phone for that location if necessary.

Buyer may add locations to the list of Buyer locations contained in Attachment A. Buyer will notify Supplier of each new location(s) at least 72 hours prior to such new location(s) placing orders for Fuel. Supplier will provide Buyer with a quote for the adder for each *such location within 24 hours of Buyer's notification. The price formula outlined in* Attachment A will still apply to such new location(s).

Unless otherwise requested, Supplier shall perform Fuel deliveries between 6:00 AM and 2:00 PM EST, Monday through Friday. Buyer may phone in orders to Supplier for weekend and after-hours deliveries; however, the pricing in Attachment A will still apply to such orders. Supplier will allow Buyer to place orders for emergency Fuel deliveries before, during, and immediately following an emergency (such as a hurricane), provided that rack facilities remain operational. The pricing in Attachment A will still apply to such emergency orders.

Supplier must be notified within two (2) hours of an emergency declaration to be able to respond within a twelve (12) hour window.

Buyer will not accept deliveries during any time period that will cause interruption of Buyer's service operations.

2.3 The Buyer shall provide access to its locations to permit Supplier to make deliveries in accordance with the terms of this Agreement.

2.4 Buyer reserves the right to refuse any and all shipments if the Fuel type is not properly identified, labeled, not accompanied by the proper load-specific delivery ticket, or does not meet specifications.

2.5 If at any time, in the opinion of Buyer, the delivery is not properly lighted, barricaded and safe with respect to public travel, persons on or about the site, or public or private property, Buyer shall have the right to order such safeguards and the cost of implementing such safeguards shall be borne by Supplier.

2.6 Fuel Supply truck personnel are required to remain with the load outside of the vehicle and in view of the fill connection, at all times during the transfer process

The delivery truck shall utilize wheel chocks during the fuel unloading operation.

ARTICLE 3. AGREEMENTS OF SUPPLIER RELATING TO DELIVERIES

3.1 All transportation and delivery charges shall be borne by Supplier. Risk of loss of any Fuel shall not pass to Buyer until it is actually delivered and off-loaded to Buyer in accordance with the terms of this Agreement.

3.2 Supplier shall provide Fuel deliveries in transport vessels dedicated solely to the specific types of Fuel delivered. Supplier will maintain all appropriate licenses, permits and authorizations permitting such vessels to be used in the transport of such Fuels, and will ensure that all deliveries of Fuel are performed in compliance with all applicable environmental and transportation laws and regulations.

3.3 Supplier shall furnish all necessary equipment to transfer the Fuel from Supplier's delivery vehicles into the Buyer's storage vessels or onto the Buyer's properties.

3.4 Supplier will be responsible for the repair of any damages caused in delivering the Fuel, whether to Buyer's property or to the property of third parties, and that such repairs will be made at no cost to Buyer for labor or materials.

3.5 Supplier will furnish all labels on the Fuel containers in compliance with the Hazardous Materials Transportation Act, 49 U.S.C. §1801 et. seq. and its regulations at 49 C.F.R. §§ 106-107 and 171-179, as well as the hazard communication provisions of The Occupational Safety and Health Act, 29 U.S.C. §§ 651 et seq. ("OSHA"), including furnishing all complete and accurate Material Safety Data Sheets (MSDS's) for all Fuel provided under this Agreement.

3.6 Supplier shall comply with all federal, state, and local transportation regulations that apply to the shipment of "hazardous materials," as defined or regulated by the Hazardous Materials Transportation Act, onto Buyer's properties.

3.7 Supplier shall be solely responsible for the cleanup and disposal of any spills and/or leaks caused by Supplier during Fuel deliveries. Supplier shall clean-up and dispose of contamination resulting from any such leaks or spills at its sole cost and expense, in compliance with all federal, state and local environmental and transportation laws and regulations and in a manner which restores the property to its condition prior to such leaks or spills. Furthermore, Supplier must obtain any local, state, or federal permits and/or approvals that are required for the disposal of wastes generated during Fuel deliveries.

3.8 Buyer may delay delivery or acceptance of any Fuel occasioned by causes beyond its reasonable control. Supplier shall hold such Fuel at the direction of Buyer and shall deliver it when the cause affecting the delay has been removed. Buyer shall be responsible only for Supplier's direct additional costs in holding the Fuel or delaying performance of this Agreement at Buyer's request. Causes beyond Buyer's control shall include government action or failure of the government to act where such action is required, strike, labor trouble, fire, or unusually severe weather.

ARTICLE 4. PAYMENT PROCEDURES

4.1 Buyer shall pay Supplier the undisputed amounts invoiced by Supplier in accordance with the pricing set forth in this Agreement and shall be under no obligation to pay any charges not specified in this Agreement. Supplier shall invoice Buyer as follows:

(i) Each invoice must include name of Supplier, date and location of delivery, and exact type of Fuel. Each invoice must also include, as separate line items, the following information:

1. Total number of gallons ordered and delivered
2. Price per gallon
3. Amount of taxes
4. Total amount due

All Invoices will Include a copy of pertinent price information taken from the OPIS and Journal of Commerce Index.

(ii) Buyer will be invoiced after the fuel has been delivered to Buyer's facility.

All undisputed invoices shall be due and payable within thirty (30) calendar days of receipt by Buyer. Buyer agrees to make payment to Supplier in lawful money of the United States of America.

All invoices shall be sent to Buyer via regular U.S. mail addressed to:

Long Island - American Water Company, Inc.
ATTN: Accounts Payable
P.O. Box 5602
Cherry Hill, NJ 08034

4.2 If Buyer disputes any invoice or a portion thereof, Buyer shall not pay the disputed portion of such invoice until the parties have resolved such dispute in accordance with the dispute resolution process delineated in Section 6.7 of this Agreement. The undisputed portion of any invoice shall be paid as set forth herein.

If any undisputed fees remain unpaid sixty (60) calendar days after Buyer's receipt of an invoice, Supplier will notify Buyer in writing of the late payments and, in Supplier's discretion, the dispute resolution procedures delineated in Section 6.7 shall begin to resolve payment of such fees. If such matter remains unresolved following completion of the dispute resolution process delineated in Section 6.7, then the parties may resolve such dispute through litigation, the losing party bearing all costs of such litigation.

ARTICLE 5. INSURANCE

(a) At no expense to Buyer, Supplier shall (1) obtain and keep in force during the term of this Agreement, and any renewals or extensions hereof, and (2) require its subcontractors to obtain and keep in force during the terms of their respective contracts, the following minimum insurance limits and coverage. The insurance coverage limits stated below are minimum coverage requirements, not limitations of liability, and shall not be construed in any way as Buyer's acceptance of the responsibility of Supplier.

1. Commercial General liability:
   - $1,000,000 per occurrence Combined Single Limits
   - $1,000,000 General Aggregate
   - $1,000,000 Products and Completed Operations Aggregate
   - $1,000,000 completed operation-products liability
   - CGL ISO 1996 or later Occurrence form including Premises and Operations Coverage, Products and Completed Operations, Coverage for Independent contractors, Personal Injury Coverage and Blanket Contractual Liability, and Contractors Protective Liability if the Contractor subcontracts to another all or any portion of the Work. Completed Operations shall be maintained for a period of three (3) years following Final Completion for any construction, renovation, repair and or maintenance service.

2. Workers' Compensation
   - Applicable Federal or State Requirements: Statutory Minimum
   - Employer's Liability
   - Each Accident $1,000,000
   - Each Employee – Disease $1,000,000
   - Voluntary workers compensation insurance coverage all employees not subject to applicable workers compensation act or acts

3. Automotive Liability (including owned, hired, borrowed and non-ownership liability)
   - Bodily Injury and Property Damage $1,000,000 each occurrence Combined Single Limits

4. Pollution Liability
   - Bodily Injury and Property Damage $5,000,000 each occurrence Combined Single Limits

5. Umbrella Liability
   - $9,000,000 each occurrence and annual aggregate in excess of Employer's Liability,
   - General Liability and Automotive Liability (no more restrictive than underlying insurance)

(b) The minimum liability limits required may be satisfied through the combination of the primary General Liability, Employers' Liability, and Automotive Liability limits with an Umbrella Liability policy (with coverage no more restrictive than the underlying insurance) providing excess limits at least equal to or greater than the combined primary limits.

All Commercial General Liability including completed operations-products liability coverage and Automotive liability insurance shall designate Buyer, its parent, affiliates and subsidiaries, its directors, officers and employees as an Additional Insured. All such insurance should be primary and non-contributory, and is required to respond and pay prior to any other insurance or self-insurance available to Buyer. In addition to the liability limits available, such insurance will pay on behalf or will indemnify Buyer for defense costs. Any other coverage available to Buyer applies on a contingent and excess basis. Such insurance shall include appropriate clauses pursuant to which the insurance companies shall waive its rights of subrogation against Buyer.

(c) Supplier and any of its subcontractors shall furnish, prior to the start of work, certificates or adequate proof of the foregoing insurance including, if specifically requested by Buyer, copies of the endorsements and insurance policies naming Buyer as an Additional Insured. Current certificates of insurance shall be provided prior to the commencement of work and shall be maintained until completion of the Agreement. Supplier shall notify in writing, at least thirty (30) calendar days prior to cancellation, of or a material change in a policy.

(d) Certificate holder is included as an additional insured with respect to liability arising out of the named insured's operations performed on behalf of holder. Excess policy follows form for Employers Liability, General Liability and Auto Liability Policies without exception and shall be indicated as such with an endorsement from the insurer. Waiver of Subrogation endorsement must accompany certificate of insurance and must include Workers' Compensation policies.

(e) Carriers providing coverage will be rated by A.M. Best with at least an A-rating and a financial size category of at least Class VII. Such cancellation or material alteration shall not relieve Supplier of its continuing obligation to maintain insurance coverage in accordance with this contract. Carriers shall be licensed in state(s) where work shall be performed.

(f) If Supplier shall fail to procure and maintain said insurance, Buyer, upon written notice, may, but shall not be required to, procure and maintain same, but at the expense of Supplier. In the alternative, Buyer may declare a default hereunder and, unless such default is timely cured, terminate the Agreement. Unless and until the default is cured, neither Supplier nor its servants, employees, or agents will be allowed to enter upon Buyer's premises.

(g) Commercial General Liability: Suppliers must state on the Certificate of Insurance that they have "no pollution exclusion for their own products in their Commercial General Liability Insurance."

a. If Supplier's General Liability Insurance does contain a "products pollution exclusion," then Supplier must provide evidence on the Certificate of Insurance that they have obtained an "Environmental Impairment Liability" policy that covers all of Supplier's products (at least, at a minimum, all of the products Buyer is purchasing). With respect to Environmental Impairment Liability coverage, the limit of liability should not be less than the following:

--$2,000,000 Each Occurrence, Bodily Injury and Property Damage
--$2,000,000 Annual Aggregate

b. The Environmental Impairment Liability coverage is to be written on an "occurrence" basis and not on a "claims made" basis. Certificates of Insurance must specify that coverage is on an "occurrence" basis. If the coverage can only be obtained on a "claims made" basis then, Supplier must provide either one of the following two items, to wit:

i. A contractual commitment which becomes a part of the purchase contract that Supplier will "renew the coverage in terms as great and as broad as presently held for at least the next five years" (the insurance company can be different); or,

ii. A commitment on the Certificate of Insurance to provide an "extended reporting provision" also known as a "tail," on the coverage for a period of at least the next five years.

c. A waiver of subrogation shall be provided to Buyer, its parent and its affiliated companies on the Environmental Impairment Liability coverage. Buyer, its parent and its affiliated companies shall also be added as "additional insureds" on this same coverage. This coverage must also contain either blanket contractual liability coverage or contractual liability coverage specific to the product purchase contract.

(h) Auto Liability: Carriers of fuels and other hazardous materials (diesel fuel, oil, etc...) must state on the Auto/Truck Certificate of Insurance that they have "no pollution exclusion for products they are transporting in their motor vehicles." If there is no "products pollution exclusion," then the Auto/Truck Liability policy must provide for waiver of subrogation and additional insured status as to Buyer, its parent and its affiliated companies. Auto/Truck policy must also provide either blanket contractual liability coverage or contractual liability coverage specific to the product transport contract.

a. If the Carrier's auto policy does contain a "pollution exclusion" then the Carrier must provide evidence on the Certificate of Insurance that they have obtained either, 1) a "Hazardous Cargo Endorsement" on the current policy or, 2) obtain a "Transporter's Environmental Impairment Liability" policy. With either of these items, the Certificate of insurance must state that the endorsement or policy includes "loading and unloading activities."

b. With respect to a Transporter's EIL policy or "Hazardous Cargo Endorsement," the limits of liability should not be less than $2,000,000 for any one occurrence.

c. The "Environmental Impairment Liability" or "Hazardous Cargo Endorsement" coverage is to be written on an "occurrence" basis and not on a "claims made" basis. Certificates of Insurance must specify that coverage is on an "occurrence" basis. If the coverage can only be obtained on a "claims made" basis then the Carrier must provide either one of the two following items, to wit:

i. A contractual commitment which becomes a part of the purchase contract that Carrier will "renew the coverage in terms as great and as broad as presently held for at least the next five years," or,

ii. A commitment on the Certificate of Insurance to provide an "extended reporting provision" (also known as a "tail") on the coverage for a period of at least the next five years.

d. A waiver of subrogation shall be provided to Buyer, its parent and its affiliated companies on the Environmental Impairment Liability coverage. Buyer and its affiliated companies shall also be added as "additional insureds" on this same coverage. This coverage must also contain either blanket contractual liability coverage, or contractual liability coverage specific to the product transport contract.

ARTICLE 6. GENERAL

6.1 Indemnity

Supplier will, at its sole cost, indemnify, defend and hold Buyer, its parent and its affiliates harmless, together with their respective directors, officers, employees and agents, from and against any and all claims, losses, demands and actions and any liabilities, damages or expenses resulting therefrom (including court costs and reasonable attorneys' fees), arising out of or related to the Fuel provided under this Agreement or a breach of any representation or warranty set forth in this Agreement. Buyer shall (i) notify Supplier in writing about the raised claim in a timely manner; and (ii) authorize Supplier to lead and settle the legal proceedings (provided that no such settlement shall include an admission of liability or guilt by Buyer without Buyer's prior written consent) at Supplier' own cost, with Buyer providing reasonable cooperation and support as requested by Supplier.

6.2 Confidentiality

Except as provided for herein, neither party will disclose the terms or conditions of this Agreement to any third party (other than the party's employees, affiliates, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such terms confidential) except in order to comply with any applicable law, regulation, tariff, or in connection with any court or regulatory proceeding. However, each party shall, to the extent practicable, use reasonable efforts to prevent or limit the disclosure.

6.3 Compliance with Laws

Supplier shall, in its performance of this Agreement, procure all necessary permits, comply with all applicable federal, state, and local statutes, rules of law, ordinances, regulations, and regulatory orders, including but not limited to the Fair Labor Standards Act of 1938, as amended, Walsh-Healy Act, Robinson-Patman Act, applicable State Workers' Compensation laws, state and federal Occupational Safety and Health Acts, and all rules and regulations passed pursuant thereto, which are incorporated herein by this reference.

6.4 Assignment

Except as otherwise provided herein, neither party will have a right to assign this Agreement, in whole or in part, whether by operation of law or otherwise, without the prior written consent of the other party; provided that Buyer may assign this Agreement to an affiliate located within the United States without such written consent. Except as otherwise provided herein, any attempt to assign this Agreement without such written consent shall be void for any and all purposes. Subject to the foregoing, this Agreement shall inure to the benefit of the parties' permitted successors and permitted assigns.

6.5 Limitation of Liability

Notwithstanding anything to the contrary contained in this Agreement and except for Buyer's obligations under Section 6.2 of this Agreement, for any and all claims related to this Agreement, Buyer's, its parent and its affiliates' cumulative and aggregate liability to Supplier hereunder shall in no event exceed the amount of fees and other amounts shown to be owed and unpaid by Buyer pursuant to the terms of this Agreement for Fuel rendered by Supplier hereunder.

6.6 **THIS SECTION INTENTIONALLY LEFT BLANK**

6.7 **Dispute Resolution**

The intent of the parties is to identify and resolve disputes promptly after any dispute arises. Before attempting to exercise any legal or equitable remedy, each party agrees to follow the dispute resolution procedure described below. Except as provided otherwise elsewhere in this Agreement, if either Party determines that following the procedure described below in this Section 6.7 could potentially be harmful or damaging to their respective businesses or third-party suppliers, that party may elect to forego the dispute resolution process and pursue injunctive relief.

If there is a dispute between the parties arising out of this Agreement, each party agrees to engage in good faith negotiations between progressively more senior representatives of each party, as follows.

Level	*Representatives of the Parties*	*Maximum Duration of Negotiations Prior t Escalation to Next Level*
One	**BUYER**: Buyer	5 business days
	SUPPLIER:????	
Two	**BUYER**: Director of Supply Chain Department	5 business days
	SUPPLIER: ????	
Three	**BUYER**: COO or Buyer's designee	7 business days
	SUPPLIER: ????	

Either party may at any time change its representative party designated above by providing written notice to the other Party.

If such matter remains unresolved following the negotiations and the expiration of the periods specified above in this Section 6.7, each party may immediately exercise or pursue any other rights or remedies available hereunder or at law or in equity, and it is acknowledged by the parties that nothing herein shall preclude, limit, or otherwise restrict any legal or equitable remedies available to either party for failure of the other party to perform its obligations under this Agreement

6.8 **Acts of Insolvency**

Either party may terminate this Agreement immediately if: (a) the other party commences a voluntary case or other proceeding under any bankruptcy or insolvency law, or seeks the appointment of a trustee, receiver, liquidator, custodian, or similar official of all or any substantial part of its property; (b) any involuntary case or other proceeding under any bankruptcy of insolvency law, seeking the appointment of a trustee, receiver, liquidator, custodian, or similar official for all or any substantial party of the other party's property, is commenced against the other party, and the other party consents to any relief requested, or if such proceeding is not stayed or discharged within thirty (30) calendar days; or (c) the other party makes a general assignment of the benefit of creditors or fails generally to pay its debts as they become due, or otherwise suffers or otherwise permits an attachment of execution levied upon any material portion of its property connected with its performance hereunder. If any of the above events occur, the party shall immediately notify the other party of the occurrence in writing.

If termination occurs pursuant to this Section 6.8, Supplier shall be entitled to payment of all undisputed accrued fees for Fuel provided prior to the effective date of termination.

6.9 **Governing Law; Severability**

This Agreement shall be governed and construed in accordance with the laws of the State of New York, without reference to or application of conflict of laws, rules or principles.

If any one or more of the provisions contained within this Agreement is deemed invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the provision of the Agreement will be enforced to the maximum extent permissible and the remainder of the provisions of this Agreement will remain in full force and effect. Supplier and Buyer mutually agree to substitute any invalid, illegal or unenforceable provision of this Agreement with a valid, legal, or enforceable provision which comes as close as possible to the reasonably inferred intent of the invalid, illegal, or unenforceable provision.

6.10 **Representations and Warranties**

6.10.1 Supplier represents and warrants to Buyer that the Fuel will be free from liens and defects and that the Fuel will conform with the requirements of the Agreement. Fuel not conforming to these requirements shall be replaced promptly by Supplier after receipt of a written notice from Buyer to do so. Supplier further represents and warrants that the Fuel shall substantially comply with all written descriptive materials furnished to Buyer by Supplier.

6.10.2 Supplier represents and warrants that: (i) it is a corporation duly formed and in good standing under the laws of the State of [redacted]; (ii) it is qualified and registered to transact business in all locations where the performance of its obligations hereunder would require such qualification; (iii) it has all necessary rights, powers, and authority to enter into, and to fulfill all of its obligations and grant all of the rights that it purports to grant under this Agreement; (iv) the execution, delivery, and performance of this Agreement by Supplier has been duly authorized by all necessary corporate action; (v) the execution and performance of this Agreement by Supplier shall not violate any domestic or foreign law, statute, or regulation and shall not breach any agreement, covenant, court order, judgment, or decree to which Supplier is a party or by which it is bound or otherwise violate any rights of any third party; (vi) it has, and covenants that it shall maintain in effect, all governmental licenses and permits necessary for it to provide the Fuel contemplated by this Agreement; and (vii) it owns or leases, and covenants that it shall own or lease, or have the right to use, free and clear of all liens and encumbrances, other than lessors' interests, or security interests of Supplier's lenders, appropriate right, title, or interest in and to the tangible property that Supplier intends to use or uses to provide the Fuel in accordance with this Agreement (except for any resources expressly indicated herein as to be provided by Buyer).

6.10.3 Supplier represents and warrants that, as of the Effective Date, there is no pending or threatened outstanding litigation, arbitrated matter, or other dispute to which Supplier is a party, that, if decided unfavorably to Supplier, could reasonably be expected to have a potential or actual material adverse effect on Supplier's ability to fulfill its obligations hereunder, and that Supplier knows of no basis that might give rise to any such litigation, arbitration, or other dispute in the foreseeable future. Upon becoming aware of any such basis, Supplier shall promptly notify Buyer thereof.

6.10.4 Supplier warrants that, in performing its obligations under this Agreement, Supplier shall comply, and, to the extent within Supplier's control, shall not prevent Buyer or its affiliates from complying or materially impede them in complying, with all applicable laws, regulations, and ordinances of any relevant jurisdiction, and all applicable policies of Buyer and its affiliates, including but not limited to those pertaining to personnel and security.

6.11 EEOC

Supplier specifically warrants and guarantees to Buyer:

(a) that it agrees to comply with Executive Order 11246 and abide by the provisions of the "Equal Opportunity Clause" at 41 CFR § 60-1.4, which is incorporated herein by reference, unless exempt pursuant to 41 CFR § 60-1.5;

(b) that it agrees to comply with the Vietnam Era Veterans Readjustment Assistance Act of 1974, as amended, Executive Order 11701 (Employment of Veterans by Federal Agencies and Government Contractors and Subcontractors), and the provisions of the "Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause" at 41 CFR §60-250.5, which is incorporated herein by reference, unless exempt pursuant to 41 CFR §60-250.4.

(c) that it agrees to comply with the Rehabilitation Act of 1973, Executive Order 11758 (Authority Under Rehabilitation Act of 1973), and the provisions of the "Affirmative Action for Workers With Disabilities Clause" at 41 CFR 60-741.5, which is incorporated herein by reference, unless exempt pursuant to 41 CFR §60-741.4;

(d) that it agrees to comply with Executive Order 13201 (Notice of Employee Rights Concerning Payment of Union Dues or Fees) and abide by the provisions of the clause at 29 CFR § 470.2, which is incorporated herein by reference, unless exempt pursuant to 29 CFR §§ 470.3-.4;

(e) that it agrees to comply, where applicable, with the policies set forth in Executive Order 11625 (National Program for Minority Business Enterprises) and Executive Order 12138 (National Program for Women's Business Enterprise), the Small Business Act, 15 U.S.C. § 631, et seq., and with the "Utilization of Small Business Concerns" and "Small Business Subcontracting Plan" clauses at 48 CFR § 52.219-8 and 9, respecting subcontracting with small disadvantaged, female-owned, veteran-owned, service-disabled veteran-owned, HUBZone, and other small businesses.

6.12 Use of Logo

Supplier shall not, without Buyer's express written permission, (i) use Buyer's name, nor any trade name, logo, trademark, or service mark, whether registered or not, or the name, assumed business name, trade name, logo, trademark, or service mark, whether registered or not, of any Buyer affiliate, in connection with publicity, advertisements, promotion or in any other connection, or (ii) identify Buyer in any manner on customer or vendor lists or on a web site (or on any third party web site) or in any web site metatags; or (iii) disclose to any third party the existence of this Agreement or the monetary value of any goods or services purchased hereunder. Supplier shall indemnify Buyer for reasonable costs and expenses incurred in connection with enforcing the provisions of this Section 6.12. All of the restrictions and obligations set forth in this Section 6.12 shall survive any termination of this Agreement.

6.13 Notices

All notices required or permitted under this Agreement from one party to another under or in connection with this Agreement shall be in writing (or shall be made by a tele-communications device capable of creating a written record), and shall be delivered to Buyer and Supplier at their contact addresses specified below. Notices shall be deemed received at the time they are actually received by the receiving party. Either party may change its address for notices under this Agreement by giving written notice to the other party by the means specified in this Section 6.13.

The respective addresses for giving notices hereunder are as follows:

A. To Supplier:
Petro

B. To Buyer:
Mary Sobol
American Water
1025 Laurel Oak Rd.
Voorhees, NJ 08043

With a copy to:
Corporate Counsel
Long Island - American Water Company, Inc.
P.O. Box 5079
Cherry Hill, NJ 08034

6.14 Non-Exclusivity

Both Buyer and Supplier are free to enter into similar agreements with others, set their own prices, and conduct their business in whatever way they choose, provided that there is no interference with performing the obligations under this Agreement.

6.15 Headings

Headings in this Agreement are for convenience only and are not to be used in the construction or interpretation of this Agreement.

6.16 Reports

Supplier will provide Buyer with a year-end report detailing the Fuel purchased by Buyer in gallons and dollars. The report must state the type of Fuel purchased, the number of gallons delivered, the index price, and the adder paid by Buyer for each delivery at every Buyer location. Supplier must provide this year-end report to Buyer by no later than January 15th of each calendar year during the term of this Agreement.

6.17 Entire Agreement

This Agreement constitutes the entire understanding and agreement between Supplier and Buyer relating to the subject matter herein, and except as expressly set forth herein, supersedes any and all prior or contemporaneous agreements or understandings, whether oral or written, relating to the subject matter herein. Any waiver, modification or amendment of any provision of this Agreement will be effective only if in writing and signed by duly authorized representatives of the parties. The parties agree that the terms and conditions stated on any purchase orders shall be superseded by the terms and conditions stated herein and shall be of no force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date last written below. One counterpart each has been delivered to Buyer and Supplier.

Long Island - American Water Company	**Petro**
By: ______________________	By: ______________________
Date: ______________________	Date: ______________________
Attest: ______________________	Attest: ______________________

Attachment A – Pricing

Price – The price of Fuel for each delivery will be determined using the following formula:

Index Price+ Adder = Total Price Per Gallon

Index Price – The Index Price is the price of Fuel on the day that the Fuel is delivered to Buyer. The Index Price is published in the following publications depending on the Fuel being delivered:

- **No. 2 Ultra Low Sulfur Diesel (ULSD)** – Index published in *Oil Price Information Service* (OPIS) for New York gross average daily rack price for ULSD
- **Regular Unleaded Gasoline** – Index published in the *Journal of Commerce* for the Philadelphia Reseller Rack Branded Ethanol Gasoline average price

Adder – This is the cost added to the Index Price to cover Supplier's cost to deliver the Fuel to Buyer's facilities and referred to in the location listing in this *Attachment A*.

Total Price Per Gallon – The sum of the Index Price and Adder. This price does not include any applicable taxes.

Weekend Deliveries – Should Buyer require delivery of Fuel on Saturday or Sunday, the Index Price for such Fuel will be based upon the Index Price from the Friday immediately preceding that Saturday or Sunday.

Should the publications or the price indices referred to above become unavailable, Buyer and Supplier will mutually agree on a new pricing mechanism.

Attachment A – Pricing

Straight Time Charges: Monday through Friday 6am – 2pm

	Location/Facility Name	Address	City and State	Tank Capacity (Gal)	Fuel Type	Approximate Annual Consumption (Gal)	Usage Purpose	Index Price: Published Price as of delivery datre	Fixed Differential/Margin ($/Gal): Delivery of at least 100 gallons but less than 1,000 gallons	Fixed Differential/Margin ($/Gal): Delivery of 1,000 gallons or more
1	LIAW-Office	733 Sunrise Highway,, NY 11563	Lynbrook, NY	1,000	Unleaded Gasoline	6,500	Fleet	TBD	0.195	
		733 Sunrise Highway, NY 11563	Lynbrook, NY	1,000	Diesel	6,000	Fleet	TBD	0.175	
2	LIAW- Plant #5	Starfire Ct, Hewlett NY 11557	Hewlett, NY	2,000	Unleaded Gasoline	45,600	Fleet	TBD	0.195	
		Starfire Ct, Hewlett NY 11557	Hewlett, NY	2,000	Diesel	95,000	Production	TBD	0.175	
3	LIAW - Plant #6	Beech St.	Atlantic Beach, NY	550	Diesel	100	Generator	TBD	0.500	
4	Plant #18	Long Beach Rd.	Baldwin	550	Diesel	100	Generator	TBD	0.500	
5	LIAW - Plant #4	Seaman Ave.	Baldwin, NY	1500	Diesel	200	Generator	TBD	0.500	
6	Plant #19	Lakeview Ave.	LakeView	550	Diesel	100	Generator	TBD	0.500	
	Plant #17	Tanglewood Rd	LakeView	2200	Diesel	200	Generator	TBD	0.500	
	Plant #11	Tanglewood Rd	LakeView	2000	Diesel	2000	Generator	TBD	0.500	
7	Plant #15	Whitehall St.	Lynbrook	550	Diesel	100	Generator	TBD	0.500	
8	Plant #23	Cornwall Ave.	Malverne	525	Diesel	100	Generator	TBD	0.500	
9	Plant #1	Whitehouse Ave	Roosevelt	2200	Diesel	200	Generator	TBD	0.500	
10	Plant #7	Washington St.	Valley Stream	670	Diesel	100	Generator	TBD	0.500	
	Plant #9	Hendrickson Ave.	Valley Stream	1500	Diesel	200	Generator	TBD	0.500	

Additional Overtime Charge: Monday through Friday after 2pm delivery

$125 per hour (Minimum 4 hours)

Additional Weekend Charge: Saturday, Sunday and Holiday delivery

$150 per hour (Minimum 8 hours)

Case No. 07-W-0508

LONG ISLAND AMERICAN WATER

REBUTTAL TESTIMONY OF
H. EDWARD REX

October 5, 2007

1. Q. Mr. Rex did you file direct testimony in this proceeding?

A. Yes.

2. Q. What are the areas you will address in your rebuttal testimony?

A. First, I will respond to the testimony of Mr. Bailey with respect to his proposed adjustments to the Earnings Base vs. Capitalization ("EBCap") Adjustment, which comprises 10 separate adjustments, 3 of which I will be rebutting. Next, I will respond to Mr. Higgins with respect to his proposed adjustments to Income Tax Expense related to: (i) a Medicare Part D subsidy; and (ii) a Domestic Production Activities current income tax deduction; and also to Mr. Higgins request for certain deferred state income tax data related to a reconciliation of state taxes being prepared by Staff. Next, I will address the Panel's testimony with respect to adjustments made to the Company's Comprehensive Planning Study proposals, and I will also address its request for certain Depreciation Reserve data and its proposal to potentially offset future Distribution System Improvement Charge ("DSIC") recoveries based on its review of the requested data. Finally, I will address certain portions of Mr. Manz' testimony relating to the DSIC and the Company's proposed System Improvement Charge ("SIC").

EBCap Adjustment (i.e. HTY Capitalization and HTY Rate Base Adjustments)

3. Q. Please describe briefly Mr. Bailey's recommendation with respect to his EBCap Adjustment of $2,272,052.

A. Mr. Bailey's EBCap Adjustment of $2,272,052 is based on 3 proposed adjustments to the Company's Historic Test Year ("HTY") Capitalization and 7 proposed adjustments to the Company's HTY Rate Base.

4. Q. Mr. Rex, will you be rebutting any of the 3 HTY Capitalization adjustments proposed by Mr. Bailey?

A. Yes, I will rebut Mr. Bailey's Paid-in-Capital adjustment and Pensions/OPEB Internal Reserve adjustment, both of which are depicted on his testimony Exhibit BLB-1 Schedule 3, page 1 of 2.

5. Q. Will you be rebutting any of the 7 proposed adjustments to the Company's HTY Rate Base?

A. Yes, I will rebut Mr. Bailey's HTY Cash Working Capital ("CWC") adjustment which is depicted on his testimony Exhibit BLB-1, Schedule 3, page 1 of 2.

6. Q. With respect to Mr. Bailey's adjustments to HTY Capitalization, please explain your position with regard to Mr. Bailey's HTY Capitalization Adjustment related to Paid-in-Capital.

A. Mr. Bailey's adjustment to the Company's Paid-in-Capital is based on his use of a daily average balance calculation versus the Company's use of a 13 month average. Mr. Bailey states that the use of a daily average balance is appropriate because it is consistent with the Company's development of the amount of Short-Term Debt included in the HTY Capitalization. He states that since American Water infused $10.5 million of capital into LIAW (recorded to Paid-in-Capital) and LIAW utilized those funds to pay down its Short-Term Debt, it is appropriate to calculate the balances on a consistent basis. While I agree with his position on that point, I disagree with his calculation. His adjustment is derived by dividing the $10.5 million of capital by 365 days to arrive at a daily average Paid-in-Capital balance of $28,767 (prior to the $10.5 million infusion the Company's Paid-in-Capital balance was $0). Mr. Bailey's workpaper is attached to my rebuttal as Exhibit HER-1. He then utilizes the $28,767 as his HTY Paid-in-Capital balance, which results in a ($778,925) adjustment to the Company's $807,692 balance. However, since the capital infusion occurred on December 27, the daily average balance of $28,767 should be multiplied by 5 days. This would reduce his adjustment by $115,068 ($28,767 * 5 days - $28,767) and increase the HTY Paid-in-Capital Capitalization to $143,835.

7. Q. Please explain your position with regard to Mr. Bailey's adjustment to increase the Company's HTY Capitalization by including a Pension/OPEB Internal Reserve adjustment.

A. I agree with Mr. Bailey's position to include the Pension/OPEB Internal Reserve ("IR") in the HTY Capitalization for the reasons stated in his testimony. However, I disagree with the amount of the adjustment. Staff has utilized outdated information in preparing its calculation of the IR for both Pension and OPEB. In addition, Staff's calculation of the "Offset" adjustment to the IR balances is in error. The Offset adjustment reflects the cumulative

1993 to 2006 difference between the amount of Pensions/OPEB's included in Rates versus the actual FAS Expense. While I agree with the Offset calculation for the years 1993 to 2003, I disagree with the Staff's Offset calculation of the 2004 to 2006 period. Attached to this testimony as Exhibit HER-2 are Staff's workpapers, which contain: (i) the outdated schedules of the IR balances and (ii) the schedule depicting the 2004-2006 Offset calculation.

8. Q. Please continue your discussion by describing the corrections you are making to Staff's calculations.

A. In response to Staff Data Requests #198 and #199, the Company provided updated calculations of the Internal Reserve balance for Pensions (#198) and OPEB's (#199). Those data responses are attached to this testimony as Exhibit HER-2A, pages 3 through 3K. My first adjustment is to reflect the IR balances depicted on these updated schedules (page 3C). My second adjustment reflects utilization of the proper Offset amount for the years 2004-2006 of ($1,314,219) (as opposed to the Staff's calculation of $276,145) which when added to the cumulative Offset amount for the period 1993-2003 of $1,597,068 (which Staff and Company agree on) results in a total cumulative Offset amount of $282,849. The reason the cumulative Offset amount has decreased from $1,597,068 at the end of 2003 to $282,849 at the end of 2006 is because actual FAS Pension and OPEB expenses have exceeded the Rate Allowance level during these years. The calculation of the

Offset amount from 1993-2003 and 2004-2006 is depicted on Exhibit HER-2A, page 3B. Staff's calculation of the 2004-2006 period (Exhibit HER-2, page 5) is in error because while it states it is for the three-year period it is in reality a single year calculation and the amounts are not correct.

9. Q. What then is the result of your corrections to Staff's proposed adjustment of $1,855,021?

A. After reflecting the corrections noted above, the Pension/OPEB Internal Reserve adjustment to the Company's HTY Capitalization should be based on $3,836,679 (refer to Exhibit HER-2A).

10. Q. With respect to Mr. Bailey's adjustments to HTY Rate Base, please explain your position with regard to Mr. Bailey's HTY Rate Base Adjustment related to increase the Company's Cash Working Capital ("CWC") by $1,385,913, from $2,371,378 to $3,737,291.

A. I agree in part, and disagree in part.

11. Q. Please explain.

A. I agree with the adjustment to utilize the Company's current billing method in the development of the weighted billing factor component of the CWC calculation applicable to the HTY Rate Base. However, the Total HTY net Operation and Maintenance Expense utilized by Mr. Bailey in his calculation is improper. Staff, in support of its various O&M proposals in this rate case, has made numerous adjustments to the Company's HTY O&M expense levels that it claims are normalization adjustments. That is, the actual HTY expense was not deemed to be a normal or representative level. To the extent the Staff has reduced or eliminated any portion of the Company's actual HTY O&M, such adjustments should also be reflected in the level of O&M expense utilized in the HTY CWC calculation.

12. Q. Please provide those HTY O&M adjustments relied upon by Staff at this time in making its pro forma O&M proposals .

A. Reductions to the Company's HTY O&M have been proposed by Staff for Invoices totaling $416,290 (Basil Bailey Exhibit BLB-1, Schedule 2, Col. 1).

13. Q. Have you provided an Exhibit that reflects your correction to the Staff HTY CWC calculation?

A. Yes, attached hereto is Exhibit HER-3 which depicts my HTY CWC calculation of $3,646,413, which is decrease of $90,874 to the Staff's calculated amount.

14. Q. Do you agree with Mr. Bailey's adjustments to the Company's claimed Accumulated Deferred Federal ("ADFIT") and State ("ADSIT") Income Tax (together "ADIT") balances included in its HTY Rate Base?

A. Yes. Mr. Bailey has adjusted the Company's ADFIT and ADSIT balances in the HTY Rate Base by $996,692 to remove the average balance of ADIT related to RAC/PTC, pension, OPEB's, investment tax credits, and net operating losses. Since the assets and liabilities on which these tax reserves are based are not considered in the ratemaking process, inclusion of the ADIT would also be inappropriate. Because the HTY Rate Base is predicated upon average balances, Mr. Bailey's adjustments above correctly reflect the removal of the average ADIT balances.

Rate Year Rate Base Adjustments

15. Q. Aside from the HTY CWC calculation discussed above, do you have any comments with regard to CWC as it pertains to the Rate Year Rate Base?

A. Yes, two points. The ultimate CWC calculation applicable to the Rate Year Rate Base will need to incorporate the final O&M amounts authorized by the Commission. In addition, if the Company's proposal to adopt monthly billing of its residential customers after the conclusion of this case is not adopted, the CWC calculation for the Rate Year Rate Base must be modified to reflect the Company's current billing practice of billing residential customers quarterly.

16. Q. Do you agree with Mr. Higgins' Rate Year Rate Base adjustments related to the Accumulated Deferred Income Tax balances?

A. Yes, Mr. Higgins' proposed ADIT adjustments to the Rate Year Rate Base are in fact the same adjustments Staff has proposed to the HTY Rate Base, except for the Rate Year Rate Base the adjustment is $1,966,710, which represents the Rate Year average ADIT balances for the adjusted items.

17. Q. Are any other adjustments to Accumulated Deferred Income Taxes necessary?

A. Staff has proposed a reduction of $1,941,850 to the Company's Rate Year utility plant in service without any offsetting reduction in ADIT. The Company opposes and has rebutted Staff's reductions to its utility plant but recommends that if any reduction is made to the Company's utility plant it must for consistency purposes be accompanied by an appropriate reduction to accumulated deferred income taxes.

Income Tax Expense Adjustments

18. Q. Please respond to Mr. Higgins adjustment to current income tax expense related to the Medicare Part D subsidy.

A. I agree with Mr. Higgins that it is appropriate to include the subsidy as a current income tax deduction. However, Mr. Higgins' proposal to defer any difference between the tax benefit of the subsidy reflected in rates and the actual tax benefit for future rate case disposition seems unnecessary given that the tax benefit on a subsidy of $34,317 equates to approximately $14,500.

19. Q. Have you reviewed Staff's calculation of the Domestic Production Activity Deduction used for the federal income tax calculation?

A. Yes, I have.

20. Q. Do you agree with Staff's calculation of the deduction?

A. Yes, with one modification.

21. Q. Please explain the recommended modification.

A. The basis for the deduction using Staff's methodology should be the Rate Base of its production facilities as opposed to just production utility plant reduced by the associated accumulated depreciation. Therefore, the basis used by Staff in making its proposal should be further reduced by the accumulated deferred income taxes associated with its identified net utility production plant.

22. Q. Have you calculated this adjustment and its impact on the total deduction?

A. Yes. The basis for the deduction should be reduced by an additional $3,175,157 resulting in a Domestic Production Activity Deduction of $113,968. I've attached Exhibit HER-5 in support of my calculation.

23. Q. Do you have any comments on Staff's calculation of interest expense for use in their computation of Federal and State Income Taxes?

A. Yes. Staff utilizes the Interest Synchronization method of calculating interest expense, which is consistent with the Company approach. However, whereas the weighted cost of debt utilized by the Company in its calculation is based on the Company's stand-alone capital structure, Staff's is based on their proposal to utilize a consolidated capital structure. The Company is rebutting the use of a consolidated capital structure. Ultimately, the weighted cost of debt should be based on the final capital structure and debt rates authorized by the Commission.

24. Q. Mr. Higgins indicated in his testimony that Staff is in the process of preparing a final reconciliation of state taxes stemming from changes in the State's taxation of utilities under New York State Tax Law of 2000. In order to complete the reconciliation, which he indicated could result in amounts owed to or owed by LIWC customers, Mr. Higgins requested

that the Company compute its actual deferred SIT as per each tax return for fiscal years 2000 through 2005. Have these computations been made?

A. Yes, those computations,have been made and are attached to my rebuttal as Exhibit HER-6.

Panel Adjustments to Deprecation Expense, Rate Year Rate Base UPIS

25. Q. Please respond to the Panel's adjustments to the Depreciation Expense and Rate Year Rate Base Utility Plant in Service ("UPIS") related to its original "2002" Comprehensive Planning Study ("CPS") costs.

A. In this filing, the Company proposed reclassifying the costs of the "2002" CPS from a non-depreciable to a depreciable Utility Plant in Service account and seeks depreciation expense on the cost of the study over 5 years based on a 20% depreciation rate. Staff proposes reclassifying the study to a Utility Plant in Service account that has a 1% depreciation rate (i.e., recovering the cost over 100 years.) Consequently Staff's proposed adjustment to the Company's as-filed depreciation expense is $48,747 ($51,312 - $2,566). A 100-year recovery for a capital study is unduly prolonged. As indicated in my response to Staff-254 (attached herein as Exhibit HER-4), the $341,373 referenced by Staff Panel in its testimony represented the Company's estimate at the time of the Company's last base case to prepare its Original 2002 CPS. It was not for an "update" to that study as understood and reported by the Staff Panel in its testimony. In its prior case, the Company included the cost of the 2002 CPS in its projected UPIS, as shown on Rate Case Exhibit 8, because at the time the case was filed the costs were not final. Also as depicted in Exhibit HER-4, the cost of the 2002 CPS was included in a non-depreciable UPIS account. Accordingly, the Company has not received rate recovery to date of the cost of the 2002 CPS via either depreciation expense or amortization.

Ultimately, the final cost of the 2002 CPS was $256,562 and in the current case that is the amount the Company is seeking to reclassify to a depreciable account (a/c 349) and it should be allowed to depreciate it using a 20% rate. Therefore, Staff's adjustment to disallow $48,747 of depreciation expense should be disallowed.

26. Q. What is Staff's proposed rate treatment for new Comprehensive Planning Studies (CPS) undertaken by the Company?

A. Unlike its proposal for the Company's "2002" CPS, Staff Panel proposes to defer and amortize the cost of any new CPS's over a 5 year period. I agree with the Panel's recommendation. In accordance with its recommendation, Staff has removed the $190,400 included by the Company in its projected Rate Year Rate Base UPIS related to costs associated with its next CPS, and also eliminated $1,904 of associated annual depreciation expense. However, Staff consistent with its proposal should have, but did not, reflect $38,080 of annual amortization expense in the Company's expenses based on its deferral and five-year amortization proposal and also included in the Company's Rate

Year Rate Base the average unamortized deferred balance of $171,360 ($190,400 – (½ of $38,080)).

27. Q. Please respond to Staff Panel's request of the Company to provide the results of the Company's current project to develop the Depreciation Reserve by primary water plant account by June 30, 2008.

A. The Company acknowledges the requirement to maintain its records to provide the reserve by primary water plant account. The Company's current project to detail the reserve by primary plant account is associated with the implementation and startup of a new fixed assets software program known as Powerplant. We will provide the schedule and can do so well in advance of the required date.

28. Q. The Staff Panel makes a recommendation to offset future DSIC increases based on a determination of the appropriateness of the Company's currently PSC approved depreciation rates after reviewing the Company's submission of its schedule of the Depreciation Reserve by primary plant account. Please respond to that recommendation.

A. As indicated, the Company will provide the requested schedule. However, the Company does not believe that a proper determination of the appropriateness of its currently Commission approved depreciation rates can be garnered from that information alone. Accordingly, it would not be appropriate to subsequently adjust the depreciation expense finding in this base case and use that adjustment as an offset in future DSICs. Should the depreciation reserve detailed by primary plant suggest that the Company's current Commission approved depreciation rates warrant further study, the Company recommends the proper approach to conducting that review would be through the preparation of a fully developed depreciation study. Such study would then be incorporated into the Company's next base rate case filing for the parties review.

Distribution System Improvement Charge ("DSIC")

29. Q. Please state your understanding of Mr. Manz' proposals related to DSIC.

A. First let me state that my understanding of Mr. Manz' DSIC testimony, and my rebuttal herein, is predicated on the belief that Mr. Manz' DSIC proposals, as presented, are consistent with a one-year rate determination by the Commission and not a multi-year determination. Should a multi-year rate determination ultimately be approved, my responses would be somewhat different. To that end, I am also providing at the end of this section of testimony, the Company's position on the DSIC assuming a multi-year rate increase determination. In summary, Mr. Manz' DSIC proposal, which is a modification to the Company's currently authorized DSIC program, is to include in Base Rates the recovery of a predetermined investment level for routine replacement plant (which otherwise would be eligible for inclusion in a DSIC). DSIC qualified expenditures in excess of that level would be included in DSIC filings subject to a cap.

30. Q. Does the Company agree with Mr. Manz' proposed approach to the DSIC?

A. While we agree with Mr. Manz' DSIC approach in principal, we believe it must be modified in several ways. First is with regard to the level of investment in routine replacement plant that will be accorded recovery through Base Rates in this proceeding for 2008 and the Rate Year and the second is his recommended cap amount.

31. Q. Does the Company agree with Mr. Manz' proposed adjustment to reduce the Company's proposed 2008 investment of $3.955 million for ongoing Network (mains) replacement by ($974,900)?

A. No we do not, the Company's investment level for 2008 should be allowed as-filed. Company witness Mr. Tambini addresses Mr. Manz' concerns regarding this issue in his rebuttal testimony.

32. Q. Given the Company's position that the proper amount of 2008 Capital expenditures for routine replacement of Network, Hydrants and Services is the $3.955 million it filed for, as depicted on Exhibit 8 (Mr. Manz is proposing $2,979,800 ($3.955 million less his $974,900 adjustment)), and should be recoverable through base rates, what then is the Company's proposal for the DSIC cap applicable to the Rate Year?

A. The Company has requested an increase in the DSIC cap from the $4.0 million applicable to the currently established DSIC (which expires at the outset of the Rate Year in this base rate case proceeding) up to $5.0 million. The Company believes a cap of at least \$5.0 million, if not \$6.0 million, is appropriate given a normal recurring level of replacement plant in the range of \$3.0 to \$4.0 million for 2007 and 2008 respectively, given that the objective of the DSIC is to accelerate the replacement of DSIC qualified plant by increasing the level of investment made by the Company over its normal levels. It is clear that the benefits of the DSIC program are recognized by all parties to the proceeding.

33. Q. Is it appropriate to reduce the existing DSIC cap from the current \$4 million to \$3 million as proposed by Mr. Manz?

A As I understand Mr. Manz' proposal, for the Rate Year the overall DSIC qualified expenditures that are recoverable by the Company would actually increase to approximately \$6.0 million. Again, his DSIC proposal assumes a one-year rate determination applicable to the Rate Year. His proposed \$3.0 million cap would be applicable to DSIC qualified expenditures over and above the amount he is proposing be recoverable in Bases Rates (\$2.980 million). However, for the years immediately following the Rate Year, the Company would be limited to a total of \$3.0 million per his cap since Base Rates will not include any investment for those periods. Obviously, a \$3.0 cap applicable to those years would actually reduce the amount of recoverable investment the Company could make as compared to the current DSIC cap of \$4.0 million and would be counter to the goals of the DSIC program.

34. Q. How then should the DSIC cap function for the Rate Year in this case and for the years following the Rate Year?

A For the year that begins immediately following the Rate Year, and for each succeeding year, all DSIC qualified investment would be included in the Company's DSIC filings and would be subject to the Commission's review and approval up to a maximum of $5.0, or preferably $6.0 million per year. For the Rate Year, this cap would still be applicable, however, only to the DSIC qualified and Commission approved expenditures over and above the normal routine level of replacement expenditures included in Base Rates for the Rate Year which would be eligible for inclusion in the DSIC filings that cover the Rate Year period. The cap for the Rate Year therefore is applicable to both the normal routine level of replacement expenditures included in Base Rates for the Rate Year, as measured by the 13 month average of those expenditures, and the expenditures in excess of that amount which are includable in the DSIC filings covering the Rate Year period. Therefore, while the Company agrees in concept with Mr. Manz' split recovery approach to the Rate Year, we disagree with his proposed amounts that should be included in Base Rates.

35. Q. Staff has suggested revising reporting time for the DSIC filings. Does the Company agree?

A. In my pre-filed direct testimony I requested an extension of the 15 days the Company currently has to submit its DSIC filing after the conclusion of each DSIC period to 45 days. Staff in its testimony is seeking an extension of its 45 day review period to 60 days. Taken together, these proposals are increasing the current 60 day period filing/review period to 105 days, whereas the Company would want to limit the total time period to 90 days. To that end, the Company will propose a 30 day filing requirement but with the proviso that Staff permit the Company the opportunity to supplement its filing should it receive additional pertinent data. In addition, we would like to work with Staff to determine if the Company DSIC filing process can be made more efficient so as to reduce administrative burden while affording Staff the materials it requires for its review.

36. Q. If a multi-year rate determination is made in this case, how do you propose that should work in conjunction with the DSIC?

A. If this proceeding were to result in a multi-year rates for Rate Year 2 (and Rate Year 3, if there were one), I propose that Base Rates be established that include reasonable project increases to Utility Plant in Service (Rate Base) applicable to those years. In that case, the DSIC for those years would function as recommended above for the initial Rate Year, that is, recovery on investment in replacement plant would be split between Base Rates and DSIC. The cap applicable to the Rate Year 2 and 3 would be the Company's proposed $5.0 to $6.0 million.

System Improvement Charge ("SIC")

37. Q Do you have any comments concerning Mr. Manz' response to the Company's SIC proposal?

A. Yes. I would propose the same timetable be applicable to the SIC that I've proposed in this rebuttal testimony for the DSIC. Also, Mr. Manz indicates that the Company refers to two specific projects that it proposes to recover through the SIC mechanism. Based on that information he proposes a hard cap for SIC recovery for these two projects that is specific to each. Rather than proposing a hard cap based on a specific project, I would suggest a mechanism is needed that allows some flexibility in the cap should the project or projects for which the Company would seek recovery through the SIC mechanism change from those suggested. Circumstances may require that a particular project move up or down in priority relative to another project. The SIC mechanism should be able to provide that flexibility.

38. Q. Does this conclude your rebuttal testimony?

A. Yes.

Exhibit HER-1

Long Island Water Corporation
EBCap
Daily Average - Paid in Capital
For the HTY Ending December 31, 2006

	Amount
Total	$10,500,000
Days in year	365
Daily Average Balance	$28,767

Exhibit HER-2

Staff Workpapers - EBCap Pensions/OPEB's Internal Reserve

Long Island Water Corporation
EBCap
Pension / OPEB Internal Reserve offset by
Deferral Accounting for Pension / OPEB expense

	Amounts (1)
Avg HTY Pension IR balance w/o accumulated interest	$1,978,987
Avg HTY OPEB IR balance w/o accumulated interest	1,749,437
	3,728,424
Offset by Favorable Deferred Pension / OPEB Exp. Flowed Through to Earnings	1,873,213
Pension / OPEB IR for EBCap	$1,855,211

NOTE (1) SEE PAGE 1A

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SEE page 2 of the w/p

Pension Internal Reserve

	2006	2005	2 pt avg
Balances	($3,191,161)	($2,432,541)	
less cum int:	(916,167)	(916,167)	
add back dec int		(165,606)	
	($2,274,994)	($1,681,980)	**($1,978,487)**

SEE page 3 of the w/p

Opeb Internal Reserve

	($3,483,563)	($3,555,881)	
less cum int:	(1,873,915)	(1,873,915)	
add back dec int		(207,259)	
	($1,609,648)	($1,889,225)	**($1,749,437)**

Offset Favorable offset deferred pension & opeb	$1,597,068	**see page 4 of w/p**
	276,145	**see page 5 of w/p**
	$1,873,213	

Long Island Water Company
Pension Internal Reserve
For the period between January 1, 1993 and December 31, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Cumulative Interest
Beginning IR balance	$0	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,065)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,432,541)	
Rate allowance for pension	(423,175)	(466,067)	(411,485)	(401,228)	(404,998)	(404,998)	(241,420)	(186,894)	(186,894)	(186,894)	(186,894)	(186,894)	(601,430)	(739,606)	
Amount charged to construction	(31,398)	(35,242)	(32,296)	(37,913)	(27,917)	(14,458)	(8,367)	(1,469)	0	(4,316)	(159,077)	(125,201)	(36,786)	(127,684)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	381,138	400,797	374,881	412,366	343,505	162,800	103,067	0	0	0	146,825	275,722	71,420	177,528	
Other EB Cap adj	0	0	0	0	0	0	121,500	40,500	0	0	0	0	287,250	95,750	
IR Balance end of period	(73,435)	(176,806)	(255,561)	(299,557)	(411,254)	(696,457)	(761,556)	(961,963)	(1,205,979)	(1,468,726)	(1,756,164)	(1,899,058)	(2,299,545)	(3,026,555)	
Average IR balance	(36,717)	(126,550)	(221,112)	(286,169)	(366,549)	(568,129)	(748,936)	(898,041)	(1,112,532)	(1,373,121)	(1,656,591)	(1,880,871)	(2,159,772)	(2,729,548)	
Deferred income taxes @ 34%	(12,484)	(43,027)	(75,178)	(97,297)	(124,626)	(193,164)	(254,638)	(360,865)	(439,561)	(542,520)	(654,519)	(743,132)	(853,326)	(1,078,444)	
IR Balance subject to interest	(24,233)	(83,523)	(145,934)	(188,872)	(241,922)	(374,965)	(494,298)	(537,176)	(672,970)	(830,601)	(1,002,072)	(1,137,739)	(1,306,446)	(1,651,104)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(2,860)	(9,856)	(17,220)	(22,287)	(28,547)	(39,859)	(52,544)	(57,102)	(71,537)	(88,293)	(106,520)	(120,942)	(132,996)	(165,606)	($916,167)
IR balance with interest	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,065)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,432,541)	($3,192,161)	

PG. :

Long Island Water Company
OPEB Internal Reserve
For the period between January 1, 1993 and December 31, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Cumulative Interest
Beginning IR Balance	$0	($534,582)	($946,375)	($1,146,099)	($1,393,857)	($1,138,045)	($1,392,774)	($1,306,735)	($1,838,392)	($2,507,478)	($3,264,340)	($4,112,330)	($4,394,157)	($3,555,861)	
Pension expense rate allowance	(464,260)	(610,753)	(600,749)	(621,519)	(629,248)	(629,246)	(541,796)	(512,845)	(512,645)	(512,845)	(512,646)	(512,646)	(575,982)	(597,094)	
Amount charged to construction	(50,266)	(50,868)	(49,200)	(52,090)	(39,484)	(50,510)	(41,445)	(30,545)	(21,071)	(64,431)	(105,589)	(124,214)	(38,277)	(151,776)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	0	305,335	528,652	521,060	1,019,441	510,799	432,267	0	0	0	0	620,000	817,750	737,700	
Other EB Cap Adj.	0	0	0	0	0	0	326,500	109,500	0	0	0	0	872,250	290,750	
IR balance at end of period	(514,546)	(890,868)	(1,067,872)	(1,298,868)	(1,043,148)	(1,307,004)	(1,215,248)	(1,740,425)	(2,372,108)	(3,084,564)	(3,882,554)	(4,129,169)	(3,318,416)	(3,278,303)	
Average IR balance	(257,273)	(712,725)	(1,007,024)	(1,222,379)	(1,218,503)	(1,222,525)	(1,304,011)	(1,523,580)	(2,105,250)	(2,796,016)	(3,573,447)	(4,120,759)	(3,856,287)	(3,416,092)	
Deferred income taxes @ 34%	(87,473)	(242,327)	(342,388)	(415,609)	(414,291)	(415,658)	(443,364)	(601,966)	(831,784)	(1,104,706)	(1,411,869)	(1,628,112)	(1,523,619)	(1,349,698)	
IR balance subject to interest	(169,800)	(470,399)	(664,636)	(806,770)	(804,212)	(806,866)	(860,647)	(921,613)	(1,273,466)	(1,691,310)	(2,161,578)	(2,492,647)	(2,332,668)	(2,066,394)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(20,036)	(55,507)	(78,427)	(95,199)	(94,897)	(85,770)	(91,487)	(97,968)	(135,369)	(179,786)	(229,776)	(264,968)	(237,466)	(207,259)	($1,873,915)
IR balance with interest	($534,582)	($946,375)	($1,146,099)	($1,393,857)	($1,138,045)	($1,392,774)	($1,306,735)	($1,838,392)	($2,507,478)	($3,264,340)	($4,112,330)	($4,394,157)	($3,555,861)	($3,483,563)	

Pg. 3

Case 05-W-0339

Attachment A

Long Island Water Corporation
Pension & OPEB entires

Entries to Pension & OPEB Internal Reserves Accounts

OPEB Internal Reserve	**Debit**	**Credit**
OPEB Liability	$2,948,108	
OPEB Internal Reserve		$2,948,108
Interest Expense	1,164,222	
Accrued Interest on OPEB Internal Reserve		1,164,222
ADSIT/FIT	459,984	
Deferred SIT & FIT Tax Expense		459,984
	$4,572,314	$4,572,314

To record the OPEB internal reserve and associated accrued interest.
To set up deferred tax related to imputed interest.
No ADIT balance related to the IR; the tax offset is assumed in deriving the cash flow difference as base for imputed interest.

	IR w/o interest	Accr .Interest	Total IR w interest
Amounts per Staff Draft Rpt. through 2003	$2,948,108	$1,164,222	$4,112,330
Total through 2003	$2,948,108	$1,164,222	$4,112,330

Pension Internal Reserve	**Debit**	**Credit**
Pension Liability	$1,225,306	
Pension Internal Reserve		$1,225,306
Interest Expense	485,458	
Accrued Interest on OPEB Internal Reserve		485,458
ADSIT/FIT	191,804	
Deferred SIT & FIT Tax Expense		191,804
	$1,417,110	$1,417,110

To record the OPEB internal reserve and associated accrued interest.
To set up deferred tax related to imputed interest.
No ADIT balance related to the IR; the tax offset is assumed in deriving the cash flow difference as base for imputed interest.

	IR w/o interest	Accr .Interest	Total IR w interest
Amounts per Staff Draft Rpt. through 2003	$1,225,306	$485,458	$1,710,764
Total through 2003	$1,225,306	$485,458	$1,710,764

Entries to Record Pension & OPEB Deferrals		**Debit**	**Credit**
Pension / OPEB Expense	X	$1,597,068	
Deferred Pension / OPEB Expense			$1,597,068
ADSIT/FIT		631,002	
Deferred SIT/FIT Exp.			631,002
		$2,228,070	$2,228,070

To record the under-recovery of FAS 87 costs versus amounts in rates and the over-recovery net of excess earnings adjustmentof FAS 106 costs through December 31, 2003.
Company will also book deferred tax entries related to each of these deferrals.

PG 5

Long Island Water Corporation
EBCap
Pension/OPEB Internal Reserve
Estimate of Deferred Pension / OPEB Expense
For the period between 1/1/04 and 12/31/06

	Pension	OPEB	Net
Rate Allowance	$611,087	$582,520	
FAS exp net of exp capitalized	370,901	546,561	
Deferred Exp.	$240,186	$35,959	$276,145

Exhibit HER-2A

Company Workpapers - EBCap Pensions/OPEB's Internal Reserve

Long Island American Water
EBCap
Pesnsion / OPEB Internal Reserve offset by
Deferral Accounting for Pension / OPEB expense

Company Computations

	Amounts
Avg HTY Pension IR balance w/o accumulated interest (note 1)	$ 2,079,215
Avg HTY OPEB IR balance w/o accumulated Interest (note 1)	2,040,313
	4,119,528
Offset by Favorable Deferred Pension / OPEB Exp. Flowed Through to Earnings (note 1)	282,849
Pension / OPEB IR for EBCap per Company	$ 3,836,679
Pension / OPEB IR for EBCap per Staff (Exhibit HER-2, page 1)	1,855,021
Company Adjustment	$ 1,981,658

Note (1): Refer to Exhibit HER-2A, page 2

Long Island American Water
EBCap
Pesnsion / OPEB Internal Reserve offset by
Deferral Accounting for Pension / OPEB expense

Pension Internal Revenue (note 1)

	2006	2005	2 pt avg
IR Balances	$ (3,307,971)	$ (2,529,219)	
less cumulatiive Interest:	(925,311)	(925,311)	
add back Dec Interest:		(171,862)	
	$ (2,382,660)	$ (1,775,770)	$ (2,079,215)

OPEB Internal Revenue (note 1)

	2006	2005	2 pt avg
IR Balances	$ (3,815,742)	$ (3,869,059)	
less cumulatiive Interest:	(1,915,218)	(1,915,218)	
add back Dec Interest:		(226,260)	
	$ (1,900,524)	$ (2,180,101)	$ (2,040,313)

Offset by Favorable deferred pension & OPEB flowed through to earnings 1993-2003 (note 2)	$ 1,597,068
Offset by Favorable deferred pension & OPEB flowed through to earnings 2004-2006 (note 2)	(1,314,219)
Total Offset	$ 282,849

Notes
(1) Refer to Schedule HER-2A, page 3C (Staff IR#198)
(1) Refer to Schedule HER-2A, page 3B (Staff IR#198)

Case 07-W-0508
Long Island Rate Case
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF – 198 (KJH - 52)
Requested By:	Kevin Higgins
Date of Request:	July 18, 2007
Reply Date:	July 30, 2007
Subject:	**Pension Expense**

1. Please provide the amount of deferred pension expense on the company's books as of December 31, 2006.

2. Please provide the balance in the pension internal reserve account on the company's books as of December 31, 2006.

3. Please indicate whether the company adopted SFAS No.158 for financial reporting purposes for the fiscal year ended December 31, 2006. If not, why not. If yes, please explain and illustrate the accounting.

4. Please provide the amount of accumulated deferred federal income taxes on the company's books as of December 31, 2006 related to (1) deferred pension expense, (2) the pension internal reserve account, (3) SFAS 87/158, and (4) SERP.

A. 1. The deferred Pension Expense on the Companies books at 12/31/06 is a credit balance of $151,105. This represents the difference between Pension Expense per the Commissions Policy Statement (Case 91-m-0890) and the pension expense recovered through rates for the period 1993 through 2006. This is not the internal reserve.

2. The balance in the pension internal reserve at 12/31/06 is $925,311. This is the interest component of the internal reserve. The Company will book the remaining component of the internal reserve in conjunction with the finalization of the Pension / OPEB proceeding. However, as shown on the attached worksheet, the Company is calculating the entire reserve.

3. American Waterworks Company has adopted FAS 158 at the consolidated level in 2006. As a subsidiary of American Water that participates is the American Water pension plan, LIAW has not implemented FAS 158.

The following is an excerpt from a PWC whitepaper that would apply to Parent Company Plans.
"In cases in which a parent company has a pension or OPEB plan that covers employees of its regulated and unregulated subsidiaries, FAS 87 and FAS 106 indicate the plan should be accounted for a single employee plan in the parent company's consolidated

Case 07-W-0508
Long Island Rate Case
Water Rates

Staff-198 (continued)

financial statements. If a subsidiary issues separate financial statements and participates in its parent company's plan, the subsidiary, in its separate financial statements, may account for its participation in the plan as participation in a multiemployer plan. The election provides the subsidiary with the option of recording a FAS 87 and FAS 106 liability or recording only their share of the net periodic cost, without recognition of the plan liability."

4. Please see the attached schedule.

Respondent: John Casillo / H. Edward Rex (part 4) **Date:** September 7, 2007

LONG ISLAND AMERICAN
PENSION AND OPEB RECONCILIATION

Pension Costs

BASED ON TOWER'S PERRIN SEPARATE LONG ISLAND CALCULATION

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2004 THOROUGH 2006 ACTIVITY
FAS 87 - LI plan note a	$ 381,138	$ 400,797	$ 374,881	$ 412,366	$ 343,505	$ 162,800	$ 260,476	$ (165,266)	$ (190,305)	$ (37,906)	$ 382,632	$ 450,396	$ 759,140	$ 1,070,344	
FAS 87- American Water note b	-	-	-	-	-	-	-			-	-	-			
Accrual adjustments note c								-		-	-	-			
Capitalized portion note d	(31,398)	(35,242)	(32,296)	(37,913) $	(27,917)	(14,458)	(8,387)	(1,489)	-	(4,316)	(159,077)	(125,201)	(120,919)	(127,684)	
FAS 87 expense	349,740	365,555	342,585	374,453	315,588	148,342	242,089	(166,745) $	(190,305)	(42,224)	223,455	325,195	638,221	942,660	
Disability pension expense note e	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	42,120	54,985	54,986	
PBGC premium note f	8,712	15,712	3,325	9,699	17,007	18,310	33,212	3,249	33,660	2,755	28,641	33,071			
Other note g				-	-	-	-	-	-		-	-			
			4,154	4804	5357	6355	8,580	8,584	-7377		29				
Total expense booked	$ 379,836	$ 402,851	$ 367,294	$ 405,536	$ 353,979	$ 168,036	$ 296,685	$ (142,112)	$ (136,261)	(18,085)	271,380	400,386	693,208	997,645	
Included in rates	423,175	486,067	411,485	401,228	404,998	404,998	241,420	186,894	186,894	186,894	186,894	186,894	811,557	752,484	
Over/(under) rate level	$ (43,339)	$ (63,416)	$ (44,191)	$ 4,308	$ (51,019)	$ (216,962)	$ 55,265	$ (329,006)	$ (322,155)	$ (204,979)	$ 84,486	$ 213,492	$ 81,649	$ 245,161	$ 540,302
Over/(under) cumulative	$ (43,339)	$ (106,755)	$ (150,946)	$ (146,638)	$ (197,657)	$ (414,619)	$ (359,354)	$ (688,360)	$ (1,010,515)	$ (1,215,494)	$ (1,131,008)	$ (917,516)	$ (835,867)	$ (590,706)	

COMPANY CALCULATION CUMULATIVE OVERRECOVERY 12/31/03 HIGGINGS AUDIT REPORT

OPEB Costs

BASED ON TOWER'S PERRIN SEPARATE LONG ISLAND CALCULATION

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2004 THOROUGH 2006 ACTIVITY
FAS 106 - LI plan note a	$ 570,256	$ 618,833	$ 570,564	$ 566,560	$ 485,831	$ 568,743	$ 509,086	$ 200,459	$ 230,809	$ 415,473	$ 678,056	$ 663,705	$ 974,259	$ 1,235,754	
FAS 106 AW plan note b											-	-	-		
Accrual adjustment note c								-	-	-	-	-			
Capitalized note d	(50,286)	(50,868)	(49,154)	(52,090)	(39,484)	(50,510)	(41,445)	(30,545)	(21,071)	(64,431)	(105,569)	(124,214)	(122,932)	(151,778)	
Deferred	-	-													
Amortization of deferral			-	-	-										
Total expense booked	$ 519,970	$ 567,965	$ 521,410	$ 514,470	$ 446,347	$ 518,233	$ 467,641	$ 169,914	$ 209,738	$ 351,042	$ 572,487	$ 539,491	$ 851,327	$ 1,083,976	
Amount in rates	464,260	610,753	600,749	621,519	629,248	629,248	541,796	512,645	512,645	512,645	512,645	512,545	582,520	605,812	
Over/(under) rate level	$ 55,710	$ (42,788)	$ (79,339)	$ (107,049)	$ (182,901)	$ (111,015)	$ (74,155)	$ (342,731)	$ (302,907)	$ (181,603)	$ 59,842	$ 26,946	$ 268,807	$ 478,164	$ 773,917
Over/(under) cumulative	$ 55,710	$ 12,922	$ (66,417)	$ (173,466)	$ (356,367)	$ (467,382)	$ (541,537)	$ (884,268)	$ (1,187,175)	$ (1,348,778)	$ (1,288,938)	$ (1,261,990)	$ (993,183)	$ (615,019)	

COMPANY CALCULATION CUMULATIVE OVERRECOVERY 12/31/03 HIGGINGS AUDIT REPORT

Total Pension/OPEB variance

	2003	2004	2005	2006	2004 THOROUGH 2006 ACTIVITY
ADJUSTMENT PAGE 6 AUDIT REPORT PENSION OPEB EARNINGS SHARING CURRENT RATE PLAN	$ 822,876	$ 822,876	$ 822,876	$ 822,876	
TOTAL OVERRECOVERY OF PENSION OPEB EXPENSE	$ (1,597,068)	$ (1,358,630)	$ (1,006,174)	$ (282,849)	
TOTAL OVERRECOVERY OF PENSION OPEB EXPENSE 12/03 PER AUDIT	$ (1,597,068)	$ (1,597,068)	$ (1,358,630)	$ (1,006,174)	
(OVER RECOVERY) UNDER RECOVERY PENSION 2004 THROUGH 2006		$ 213,492	$ 81,649	$ 245,161	$ 540,302
(OVER RECOVERY) UNDER RECOVERY OPEB 2004 THROUGH 2006		$ 26,946	$ 268,807	$ 478,164	$ 773,917
(OVER RECOVERY) UNDER RECOVERY AT 12/31/06	$ (1,597,068)	$ (1,358,630)	$ (1,006,174)	$ (282,849)	$ 1,314,219
DEFERRED DEBIT PENSION (ACT # 186422)	$ 547,093	0	140,061.68	99,456.48	$ 239,537
DEFERRED OPEB PENSION (ACT # 186417)	0	0	155,014.99	(48,739.70)	$ 108,275
BALANCE IN DEFERRED DEBITS	$ 547,093	$ 547,093	$ 842,190	$ 692,906	$ 345,812
DIFFERENCE BETWEEN AUDIT REPORT & JD EDWARDS BALANCE	$ (2,144,161)	$ (1,900,723)	$ (1,848,364)	$ (1,175,754)	
GROSS PENSION OVERRECOVERY	$ (1,131,008)	$ (917,516)	$ (835,867)	$ (590,706)	
SHARE OF EARNINGS SHARING ADJUSTMENT	$ 384,587	$ 346,410	$ 376,050	$ 439,601	
	$ (746,421)	$ (571,106)	$ (459,817)	$ (151,105)	
GOSS OPEB OVERRECOVERY	$ (1,288,938)	$ (1,261,990)	$ (993,183)	$ (615,019)	
	$ 438,289	$ 476,466	$ 446,826	$ 383,275	
	$ (850,647)	$ (785,524)	$ (546,357)	$ (131,744)	
TOTAL NET PENSION & OPEB OVERRECOVERY	$ (1,597,068)	$ (1,358,630)	$ (1,006,174)	$ (282,849)	

Exhibit HER-2A
Page 3b

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Long Island Water Company
Pension Internal Reserve
For the period between January 1, 1993 and December 31, 2006

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Beginning IR balance	$0	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,085)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,529,219)	
Rate allowance for pension	(423,175)	(466,067)	(411,485)	(401,228)	(404,998)	(404,998)	(241,420)	(186,894)	(186,894)	(186,894)	(186,894)	(186,894)	(611,067)	(752,484)	
Amount charged to construction	(31,398)	(35,242)	(32,296)	(37,913)	(27,917)	(14,459)	(8,387)	(1,489)	0	(4,316)	(159,077)	(125,201)	(120,919)	(127,684)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	381,138	400,797	374,881	412,366	343,505	162,800	103,067	0	0	0	146,625	275,722	71,420	177,528	
Other EB Cap adj	0	0	0	0	0	0	121,500	40,500	0	0	0	0	287,250	95,750	
IR Balance end of period	(73,435)	(176,806)	(255,561)	(299,557)	(411,254)	(696,457)	(761,556)	(961,983)	(1,206,979)	(1,468,726)	(1,756,184)	(1,899,058)	(2,393,335)	(3,136,109)	
Average IR balance	(36,717)	(126,550)	(221,112)	(286,169)	(366,549)	(568,129)	(748,936)	(888,041)	(1,112,532)	(1,373,121)	(1,656,591)	(1,880,871)	(2,206,667)	(2,832,664)	
Deferred income taxes @ 34%	(12,484)	(43,027)	(75,178)	(97,297)	(124,626)	(193,164)	(254,638)	(350,865)	(439,561)	(542,520)	(654,519)	(743,132)	(871,854)	(1,119,186)	
IR Balance subject to interest	(24,233)	(83,523)	(145,934)	(188,872)	(241,922)	(374,965)	(494,298)	(537,176)	(672,970)	(830,601)	(1,002,072)	(1,137,739)	(1,334,813)	(1,713,478)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(2,860)	(9,856)	(17,220)	(22,287)	(28,547)	(39,859)	(52,544)	(57,102)	(71,537)	(88,293)	(106,520)	(120,942)	(135,884)	(171,862)	(925,311)
IR balance with interest	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,085)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,529,219)	($3,307,971)	

INTEREST THROUGH 2003 (PER ABOVE)	(496,623)
INTEREST 2004 THROUGH DECEMBER 2006	(428,687)
TOTAL INTEREST 1993 THROUGH DECEMBER 2006	(925,311)

PENSION INTERNAL RESERVE	2,382,660	
PENSION INTERNAL RESERVE LIABILITY		2,382,660
INTEREST EXPENSE	925,311	
ACCRUED INTEREST INTERNAL RESERVE		925,311

Long Island Water Company
OPEB Internal Reserve
For the period between January 1, 1993 and December 31, 2006

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Beginning IR Balance	$0	($534,582)	($946,375)	($1,146,052)	($1,393,806)	($1,137,990)	($1,392,715)	($1,306,671)	($1,838,325)	($2,507,406)	($3,264,263)	($4,112,248)	($4,606,969)	($3,869,059)	
Pension expense rate allowance	(464,260)	(610,753)	(600,749)	(621,519)	(629,248)	(629,248)	(541,798)	(512,645)	(512,645)	(512,645)	(512,645)	(512,645)	(575,982)	(697,094)	
Amount charged to construction	(50,286)	(50,868)	(49,154)	(52,090)	(39,484)	(50,510)	(41,445)	(30,545)	(21,071)	(64,431)	(105,569)	(124,214)	(122,932)	(151,778)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	0	305,335	528,652	521,050	1,019,441	510,799	432,267	0	0	0	0	413,733	817,750	737,700	
Other EB Cap Adj.	0	0	0	0	0	0	328,500	109,500	0	0	0	0	872,250	290,750	
IR balance at end of period	(514,546)	(890,868)	(1,067,626)	(1,298,611)	(1,043,097)	(1,306,949)	(1,215,189)	(1,740,361)	(2,372,041)	(3,084,482)	(3,882,477)	(4,335,374)	(3,615,883)	(3,589,482)	
Average IR balance	(257,273)	(712,725)	(1,007,001)	(1,222,331)	(1,218,451)	(1,222,469)	(1,303,952)	(1,523,516)	(2,105,183)	(2,795,944)	(3,573,370)	(4,223,811)	(4,111,426)	(3,729,271)	
Deferred income taxes @ 34%	(87,473)	(242,327)	(342,380)	(415,593)	(414,273)	(415,840)	(443,344)	(601,941)	(831,758)	(1,104,677)	(1,411,838)	(1,668,828)	(1,624,424)	(1,473,435)	
IR balance subject to interest	(169,800)	(470,399)	(664,621)	(806,739)	(804,178)	(806,630)	(860,608)	(921,575)	(1,273,425)	(1,691,266)	(2,161,532)	(2,554,983)	(2,487,001)	(2,255,836)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(20,036)	(55,607)	(78,425)	(95,195)	(94,893)	(85,766)	(91,483)	(97,963)	(135,365)	(179,782)	(229,771)	(271,595)	(253,177)	(226,260)	(1,915,218)
IR balance with interest	($534,582)	($946,375)	($1,146,052)	($1,393,806)	($1,137,990)	($1,392,715)	($1,306,671)	($1,838,325)	($2,507,406)	($3,264,263)	($4,112,248)	($4,606,969)	($3,869,059)	($3,815,742)	

INNTEREST THROUGH 2003	(1,164,186)
INTEREST 2004 THROUGH DECEMBER 2006	(751,032)
TOTAL INTEREST 1993 THROUGH DECEMBER 2006	(1,915,218)
TOTAL INTEREST PENSION & OPEB RESERVE	(2,840,529)
INTEREST ON BOOKS WITH TOPSIDE	2,781,605
ADDITIONAL INTEREST TO BOOK IN 2006	(58,924)

OPEB INTERNAL RESERVE	1,900,524	
OPEB INTERNAL RESERVE LIABILITY		1,900,524
OTHER INTEREST EXPENSE	1,915,218	
ACCRUED INTEREST INTERNAL RESERVE (DCN OTHER)		1,915,218

Exhibit HER-2A
Page 3c

Long Island-American Water Company
Deferred Pension - 186422
Pension Acct 506100.16

Pension - 380305.506100.16

Closing Date	Period Ending Balance	Service Allocation	Adjustments	Allowable Pension Expense	Deferred Amount	ANNUAL ACTIVITY JDE
April 2005				62,707.00	16,249.56	
May 2005	78,138.88		(1,195.42)	62,707.00	16,627.30	
June 2005	129,787.96		60,532.50	62,707.00	6,548.46	
July 2005	86,655.07	7,909.49		62,707.00	16,038.58	
Aug 2005	86,843.36	7,909.49		62,707.00	16,226.87	
Sept 2005	90,327.49	7,909.49		62,707.00	19,711.00	
Oct 2005	86,940.19	7,909.49		62,707.00	16,323.70	
Nov 2005	86,850.14	7,909.49		62,707.00	16,233.65	
Dec 2005	86,738.95	7,909.49		62,707.00	16,122.46	
Jan 2006	85,717.60	7,909.49		62,707.00	15,101.11	
Feb 2006	102,662.03	7,909.49	16,080.00	62,707.00	14,619.47	
Mar 2006	77,278.00	7,909.49		62,707.00	6,661.51	157,291.68
April 2006	*53,643.67*			62,707.00	(3,802.30)	
May 2006	*67,507.57*			62,707.00	4,800.57	
June 2006	*67,659.01*			62,707.00	4,952.01	
July 2006	*74,599.12*			62,707.00	11,892.12	
Aug 2006	*73,840.29*			62,707.00	11,133.29	
Sept 2006	*69,185.81*			62,707.00	6,478.81	
Oct 2006	*72,338.10*			62,707.00	9,631.10	
Nov 2006	*73,561.55*			62,707.00	10,854.55	
Dec 2006	*69,840.24*			62,707.00	7,133.24	82,245.38
			TOTAL ACTIVITY 4/05-12/06		239,537.06	239,537.06

BALANCE ACT # 186422	12/31/2003	547,093.32	
	12/31/2004	547,093.32	
ACTIVITY SHOWN ABOVE		239,537.06	
BALANCE ACT # 186422	12/31/2006	786,630.38	AGREES TO JDE

Exhibit HER-2A
Page 3d

STAFF#198 (part 4) and #199 (part 5)

	Long Island Water Deferred Tax Balances	account	balance @ 12/31/06	adsit @ 9% dr/(cr)	federal basis	adfit @ 35% dr/(cr)
1	Deferred pension expense	186422	786,630	(70,797)	715,833	(250,542)
2	pension internal reserve		-	-	-	-
3	SFAS 87/158	262120	(3,062,689)	275,642	(2,787,047)	975,466
4	SERP	262140	(11,383)	1,024	(10,359)	3,625
1	Deferred opeb expense	186417	106,275	(9,565)	96,710	(33,849)
2	OPEB internal reserve		-	-	-	-
3	SFAS 106/158	262210	(1,379,239)	124,132	(1,255,107)	439,288
4	Medicare Part D subsidy	262215	(38,920)	3,503	(35,417)	12,396

Case 07-W-0508
Long Island Rate Case
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 199 (KJH - 53)
Requested By: Kevin Higgins
Date of Request: July 18, 2007
Reply Date: July 30, 2007
Subject: **OPEB Expense**

1. Please provide the balance of the deferred OPEB expense on the company's books as of December 31, 2006.

2. Please provide the balance in the OPEB internal reserve account on the company's books as of December 31, 2006.

3. Please indicate whether the company adopted SFAS No.158 for financial reporting purposes for the fiscal year ended December 31, 2006. If not, why not. If yes, please explain and illustrate the accounting.

4. Please explain and illustrate the company's accounting for the Pay-As-Go (PAYGO) portion of its OPEB costs.

5. Please provide the amount of accumulated deferred federal income taxes on the company's books as of December 31, 2006 related to (1) deferred OPEB expense, (2) the OPEB internal reserve account, (3) SFAS 106/158, (4) the Medicare Part D subsidy.

A. 1. The deferred OPEB Expense on the Companies books at 12/31/06 is a credit balance of $131,744. This represents the difference between OPEB Expense per the Commissions Policy Statement (Case 91-m-0890) and the OPEB expense recovered through rates for the period 1993 through 2006.

2. The balance in the OPEB internal reserve at 12/31/06 is $1,915,218. This is the interest component of the internal reserve. The Company will book the remaining component of the internal reserve in conjunction with the finalization of the Pension / OPEB proceeding. However, as shown on the attached worksheet, the Company is calculating the entire reserve.

3. American Waterworks Company has adopted FAS 158 at the consolidated level in 2006. As a subsidiary of American Water that participates is the American Water post retirement benefit plans, LIAW has not implemented FAS 158.

Case 07-W-0508
Long Island Rate Case
Water Rates

Staff-199 (continued)

The following is an excerpt from a PWC whitepaper that would apply to Parent Company Plans.
"In cases in which a parent company has a pension or OPEB plan that covers employees of its regulated and unregulated subsidiaries, FAS 87 and FAS 106 indicate the plan should be accounted for a single employee plan in the parent company's consolidated financial statements. If a subsidiary issues separate financial statements and participates in its parent company's plan, the subsidiary, in its separate financial statements, may account for its participation in the plan as participation in a multiemployer plan. The election provides the subsidiary with the option of recording a FAS 87 and FAS 106 liability or recording only their share of the net periodic cost, without recognition of the plan liability."

4. The Company did not have any OPEB Pay-As-Go costs in 2006.

5. Please see the attached schedule.

Respondent: John Casillo / H. Edward Rex (part 5) **Date:** September 7, 2007

LONG ISLAND AMERICAN
PENSION AND OPEB RECONCILIATION

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2004 THOROUGH 2006 ACTIVITY
Pension Costs															
										BASED ON TOWER'S PERRIN SEPARATE LONG ISLAND CALCULATION					
FAS 87 - LI plan note a	$ 381,138	$ 400,797	$ 374,881	$ 412,366	$ 343,505	$ 162,800	$ 250,478	$ (165,256)	$ (190,305)	$ (37,908)	$ 382,532	$ 450,396	$ 759,140	$ 1,070,344	
FAS 87- American Water note b	-	-	-	-	-	-	-			-	-	-			
Accrual adjustments note c								-		-	-	-			
Capitalized portion note d	(31,398)	(35,242)	(32,296)	(37,913) $	(27,917)	(14,458)	(8,387)	(1,489)	-	(4,316)	(159,077)	(125,201)	(120,919)	(127,684)	
FAS 87 expense	349,740	365,555	342,585	374,453	315,588	148,342	242,089	(166,745) $	(190,305)	(42,224)	223,455	325,195	638,221	942,660	
Disability pension expense note e	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	21,384	42,120	54,985	54,985	
PBGC premium note f	8,712	15,712	3,325	9,699	17,007	18,310	33,212	3,249	33,660	2,755	26,541	33,071			
Other note g				-	-	-	-	-	-		-	-			
			4,154	4804	5357	6355	8,580	8,584	-7377		29				
Total expense booked	$ 379,836	$ 402,651	$ 367,294	$ 405,538	$ 353,979	$ 188,036	$ 296,685	$ (142,112)	$ (135,261)	(18,085)	271,380	400,386	693,206	997,645	
Included in rates	423,175	466,067	411,485	401,228	404,998	404,998	241,420	186,894	186,894	186,894	186,894	186,894	611,557	752,484	
Over/(under) rate level	$ (43,339)	$ (63,416)	$ (44,191)	$ 4,308	$ (51,019)	$ (216,962)	$ 55,265	$ (329,006)	$ (322,155)	$ (204,979)	$ 84,486	$ 213,492	$ 81,649	$ 245,161	$ 540,302
Over/(under) cumulative	$ (43,339)	$ (106,755)	$ (150,946)	$ (146,638)	$ (197,657)	$ (414,619)	$ (359,354)	$ (688,360)	$ (1,010,515)	$ (1,215,494)	$ (1,131,008)	$ (917,516)	$ (835,867)	$ (590,706)	
					COMPANY CALCULATION CUMULATIVE OVERRECOVERY 12/31/03 HIGGINGS AUDIT REPORT										
OPEB Costs															
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
										BASED ON TOWER'S PERRIN SEPARATE LONG ISLAND CALCULATION					
FAS 106 - LI plan note a	$ 570,256	$ 618,833	$ 570,564	$ 566,560	$ 485,831	$ 568,743	$ 509,086	$ 200,459	$ 230,809	$ 415,473	$ 678,056	$ 663,705	$ 974,259	$ 1,235,754	
FAS 106 AW plan note b											-	-	-		
Accrual adjustment note c								-	-	-	-	-			
Capitalized note d	(50,286)	(50,668)	(49,154)	(52,090)	(39,484)	(50,510)	(41,445)	(30,545)	(21,071)	(64,431)	(106,569)	(124,214)	(122,932)	(151,778)	
Deferred	-	-													
Amortization of deferral			-	-	-										
Total expense booked	$ 519,970	$ 567,965	$ 521,410	$ 514,470	$ 446,347	$ 518,233	$ 467,641	$ 169,914	$ 209,738	$ 351,042	$ 572,487	$ 539,491	$ 851,327	$ 1,083,976	
Amount in rates	464,260	610,753	600,749	621,519	629,248	629,248	541,796	512,645	512,645	512,645	512,645	512,545	582,520	605,812	
Over/(under) rate level	$ 55,710	$ (42,768)	$ (79,339)	$ (107,049)	$ (182,901)	$ (111,015)	$ (74,155)	$ (342,731)	$ (302,907)	$ (161,603)	$ 59,842	$ 26,948	$ 268,807	$ 478,164	$ 773,917
Over/(under) cumulative	$ 55,710	$ 12,922	$ (86,417)	$ (173,466)	$ (356,367)	$ (467,382)	$ (541,537)	$ (884,268)	$ (1,187,175)	$ (1,348,778)	$ (1,288,936)	$ (1,261,990)	$ (993,183)	$ (515,019)	
					COMPANY CALCULATION CUMULATIVE OVERRECOVERY 12/31/03 HIGGINGS AUDIT REPORT										
Total Pension/OPEB variance															

	2003	2004	2005	2006	2004 THOROUGH 2006 ACTIVITY
ADJUSTMENT PAGE 6 AUDIT REPORT PENSION OPEB EARNINGS SHARING CURRENT RATE PLAN	$ 822,876	$ 822,876	$ 822,876	$ 822,876	
TOTAL OVERRECOVERY OF PENSION OPEB EXPENSE	$ (1,597,068)	$ (1,356,630)	$ (1,006,174)	$ (282,849)	
TOTAL OVERRECOVERY OF PENSION OPEB EXPENSE 12/03 PER AUDIT	$ (1,597,068)	$ (1,597,068)	$ (1,356,630)	$ (1,006,174)	
(OVER RECOVERY) UNDER RECOVERY PENSION 2004 THROUGH 2006		$ 213,492	$ 81,649	$ 245,161	$ 540,302
(OVER RECOVERY) UNDER RECOVERY OPEB 2004 THROUGH 2006		$ 26,948	$ 268,807	$ 478,164	$ 773,917
(OVER RECOVERY) UNDER RECOVERY AT 12/31/06	$ (1,597,068)	$ (1,356,630)	$ (1,006,174)	$ (282,849)	$ 1,314,219
DEFERRED DEBIT PENSION (ACT # 186422)	$ 547,093	0	140,081.58	99,455.46	$ 239,537
DEFERRED OPEB PENSION (ACT # 186417)	0	0	156,014.99	(48,739.70)	$ 106,275
BALANCE IN DEFERRED DEBITS	$ 547,093	$ 547,093	$ 842,190	$ 892,905	$ 345,812
DIFFERENCE BETWEEN AUDIT REPORT & JD EDWARDS BALANCE	$ (2,144,161)	$ (1,903,723)	$ (1,848,364)	$ (1,175,754)	
GROSS PENSION OVERRECOVERY	$ (1,131,008)	$ (917,516)	$ (835,867)	$ (590,706)	
SHARE OF EARNINGS SHARING ADJUSTMENT	$ 384,587	$ 346,410	$ 376,050	$ 439,601	
	$ (746,421)	$ (571,106)	$ (459,817)	$ (151,105)	
GOSS OPEB OVERRECOVERY	$ (1,288,936)	$ (1,261,990)	$ (993,163)	$ (515,019)	
	$ 438,289	$ 476,466	$ 446,826	$ 383,275	
	$ (850,647)	$ (785,524)	$ (546,357)	$ (131,744)	
TOTAL NET PENSION & OPEB OVERRECOVERY	$ (1,597,068)	$ (1,356,630)	$ (1,006,174)	$ (282,849)	

Exhibit HER-2A
Page 3h

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Long Island Water Company
Pension Internal Reserve
For the period between January 1, 1993 and December 31, 2006

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Beginning IR balance	$0	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,085)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,529,219)	
Rate allowance for pension	(423,175)	(466,067)	(411,485)	(401,228)	(404,998)	(404,998)	(241,420)	(186,894)	(186,894)	(186,894)	(186,894)	(186,894)	(611,087)	(752,484)	
Amount charged to construction	(31,398)	(35,242)	(32,296)	(37,913)	(27,917)	(14,459)	(8,387)	(1,489)	0	(4,316)	(159,077)	(125,201)	(120,919)	(127,684)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	381,138	400,797	374,881	412,366	343,505	162,800	103,067	0	0	0	146,825	275,722	71,420	177,528	
Other EB Cap adj	0	0	0	0	0	0	121,500	40,500	0	0	0	0	287,250	95,750	
IR Balance end of period	(73,435)	(176,806)	(255,561)	(299,557)	(411,254)	(696,457)	(761,556)	(961,983)	(1,205,979)	(1,468,726)	(1,756,164)	(1,899,058)	(2,393,335)	(3,136,109)	
Average IR balance	(36,717)	(126,550)	(221,112)	(286,169)	(366,549)	(568,129)	(748,936)	(888,041)	(1,112,532)	(1,373,121)	(1,656,591)	(1,880,871)	(2,206,667)	(2,832,664)	
Deferred income taxes @ 34%	(12,484)	(43,027)	(75,178)	(97,297)	(124,626)	(193,164)	(254,638)	(350,865)	(439,561)	(542,520)	(654,519)	(743,132)	(871,654)	(1,119,186)	
IR Balance subject to interest	(24,233)	(83,523)	(145,934)	(188,872)	(241,922)	(374,965)	(494,298)	(537,176)	(672,970)	(830,601)	(1,002,072)	(1,137,739)	(1,334,813)	(1,713,478)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(2,860)	(9,856)	(17,220)	(22,287)	(28,547)	(39,859)	(52,544)	(57,102)	(71,537)	(88,293)	(106,520)	(120,942)	(135,884)	(171,862)	(925,311)
IR balance with interest	($76,294)	($186,662)	($272,781)	($321,844)	($439,800)	($736,316)	($814,100)	($1,019,085)	($1,277,516)	($1,557,018)	($1,862,685)	($2,019,999)	($2,529,219)	($3,307,971)	

INTEREST THROUGH 2003 (PER ABOVE)	(496,623)	
INTEREST 2004 THROUGH DECEMBER 2006	(428,687)	
TOTAL INTEREST 1993 THROUGH DECEMBER 2006	(925,311)	
PENSION INTERNAL RESERVE	2,382,660	
PENSION INTERNAL RESERVE LIABILITY		2,382,660
INTEREST EXPENSE	925,311	
ACCRUED INTEREST INTERNAL RESERVE		925,311

Long Island Water Company
OPEB Internal Reserve
For the period between January 1, 1993 and December 31, 2006

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Beginning IR Balance	$0	($534,582)	($946,375)	($1,146,052)	($1,393,806)	($1,137,990)	($1,392,715)	($1,306,671)	($1,838,325)	($2,507,406)	($3,264,263)	($4,112,248)	($4,606,969)	($3,869,059)	
Pension expense rate allowance	(464,260)	(610,753)	(600,749)	(621,519)	(629,248)	(629,248)	(541,796)	(512,645)	(512,645)	(512,645)	(512,645)	(512,645)	(575,982)	(597,094)	
Amount charged to construction	(50,286)	(50,668)	(49,154)	(52,090)	(39,484)	(50,510)	(41,445)	(30,545)	(21,071)	(64,431)	(105,569)	(124,214)	(122,932)	(151,778)	
Benefits paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Contributions	0	305,335	528,652	521,050	1,019,441	510,799	432,267	0	0	0	0	413,733	817,750	737,700	
Other EB Cap Adj.	0	0	0	0	0	0	328,500	109,500	0	0	0	0	872,250	290,750	
IR balance at end of period	(514,546)	(890,868)	(1,067,626)	(1,298,611)	(1,043,097)	(1,306,949)	(1,215,189)	(1,740,361)	(2,372,041)	(3,084,482)	(3,882,477)	(4,335,374)	(3,615,883)	(3,589,482)	
Average IR balance	(257,273)	(712,725)	(1,007,001)	(1,222,331)	(1,218,451)	(1,222,469)	(1,303,952)	(1,523,516)	(2,105,183)	(2,795,944)	(3,573,370)	(4,223,811)	(4,111,426)	(3,729,271)	
Deferred income taxes @ 34%	(87,473)	(242,327)	(342,380)	(415,593)	(414,273)	(415,640)	(443,344)	(601,941)	(831,758)	(1,104,677)	(1,411,839)	(1,668,828)	(1,624,424)	(1,473,435)	
IR balance subject to interest	(169,800)	(470,399)	(664,621)	(806,739)	(804,178)	(806,830)	(860,608)	(921,575)	(1,273,425)	(1,691,266)	(2,161,532)	(2,554,983)	(2,487,001)	(2,255,836)	
Pre-tax rate of return	11.80%	11.80%	11.80%	11.80%	11.80%	10.63%	10.63%	10.63%	10.63%	10.83%	10.63%	10.63%	10.18%	10.03%	
Annual accrued interest	(20,036)	(55,507)	(78,425)	(95,195)	(94,893)	(85,766)	(91,483)	(97,963)	(135,365)	(179,782)	(229,771)	(271,595)	(253,177)	(226,260)	(1,915,218)
IR balance with interest	($534,582)	($946,375)	($1,146,052)	($1,393,806)	($1,137,990)	($1,392,715)	($1,306,671)	($1,838,325)	($2,507,406)	($3,264,263)	($4,112,248)	($4,606,969)	($3,869,059)	($3,815,742)	

INNTEREST THROUGH 2003	(1,164,186)	
INTEREST 2004 THROUGH DECEMBER 2006	(751,032)	
TOTAL INTEREST 1993 THROUGH DECEMBER 2006	(1,915,218)	
TOTAL INTEREST PENSION & OPEB RESERVE	(2,840,529)	
INTEREST ON BOOKS WITH TOPSIDE	2,781,605	
ADDITIONAL INTEREST TO BOOK IN 2006	(58,924)	
OPEB INTERNAL RESERVE	1,900,524	
OPEB INTERNAL RESERVE LIABILITY		1,900,524
OTHER INTEREST EXPENSE	1,915,218	
ACCRUED INTEREST INTERNAL RESERVE (DCN OTHER)		1,915,218

Long Island-American Water Company
Deferred OPEB - 186417
OPEB Acct 505100.16

OPEB - 505100.16 Closing Date	Period Ending Balance	Service Allocation	Adjustments	Allowable Pension Expense	Deferred Amount	ANNUAL ACTIVITY JDE
April 2005	67,906.35			50,484.00	17,422.35	
May 2005	67,847.07		-	50,484.00	17,363.07	
June 2005	67,830.31			50,484.00	17,346.31	
July 2005	67,694.10			50,484.00	17,210.10	
Aug 2005	67,883.51			50,484.00	17,399.51	
Sept 2005	67,766.96			50,484.00	17,282.96	
Oct 2005	67,578.55			50,484.00	17,094.55	
Nov 2005	67,487.99			50,484.00	17,003.99	
Dec 2005	67,376.15			50,484.00	16,892.15	
Jan 2006	66,697.65			50,484.00	16,213.65	
Feb 2006	53,526.67		(13,871.66)	50,484.00		
Mar 2006	47,477.00			50,484.00	(3,007.00)	137,804.89
Total	777,072.31					
April 2006	21,037.95			50,484.00	(29,446.05)	
May 2006	43,794.59			50,484.00	(6,689.41)	
June 2006	43,917.44			50,484.00	(6,566.56)	
July 2006	49,542.83			50,484.00	(941.17)	
Aug 2006	48,928.00			50,484.00	(1,556.00)	
Sept 2006	45,154.76			50,484.00	(5,329.24)	
Oct 2006	47,710.25			50,484.00	(2,773.75)	
Nov 2006	46,431.92			50,484.00	(4,052.08)	
Dec 2006	45,891.91			50,484.00	(4,592.09)	(31,529.60)
			TOTAL ACTIVITY 4/05-12/06		106,275.29	106,275.29

BALANCE ACT # 186417 12/31/2006 106,275.29 AGREES TO JDE

Exhibit HER-2A
Page 3j

G:\Managers\HuberTJ Documents\Work 3\Pension OPEB Proceeding\PENSON OPEB DEFERRAL AUDIT REPORT UPDATED TO DEC 2006.xls

STAFF#198 (part 4) and #199 (part 5)

	Long Island Water Deferred Tax Balances	account	balance @ 12/31/06	adsit @ 9% dr/(cr)	federal basis	adfit @ 35% dr/(cr)
1	Deferred pension expense	186422	786,630	(70,797)	715,833	(250,542)
2	pension internal reserve		-	-	-	-
3	SFAS 87/158	262120	(3,062,689)	275,642	(2,787,047)	975,466
4	SERP	262140	(11,383)	1,024	(10,359)	3,625
1	Deferred opeb expense	186417	106,275	(9,565)	96,710	(33,849)
2	OPEB internal reserve		-	-	-	-
3	SFAS 106/158	262210	(1,379,239)	124,132	(1,255,107)	439,288
4	Medicare Part D subsidy	262215	(38,920)	3,503	(35,417)	12,396

Exhibit HER-2A
Page 3k

Exhibit HER-3

Exhibit HER-3

Long Island Water Corporation
EBCap
Cash Working Capital
For the HTY Ending December 31, 2006

STAFF ADJUSTMENT

	Amount
Net O & M Expense per company Exhibit 10 page 2	$18,971,002
Weighted Billing Factor (from prior case)	19.7%
Total Cash Working Capital	$3,737,287

COMPANY REVISION TO STAFF ADJUSTMENT

Net O & M Expense per company Exhibit 10 page 2	$18,971,002
Less HTY O&M Adjustments proposed by STAFF (per Exhibit BLB-1, Schedule 2)	-$461,290
Revised Net O & M Expense per company Exhibit 10 page 2	$18,509,712
Weighted Billing Factor (from prior case)	19.7%
Revised Total HTY Cash Working Capital	$3,646,413
REDUCTION TO STAFF HTY CWC ADJUSTMENT	$90,874

Exhibit HER-4

Case 07-W-0508
Long Island American Water
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.:	STAFF - 254 (JEE-22)
Requested By:	Jim Evensen
Date of Request:	August 16, 2007
Reply Date:	August 27, 2007
Subject:	Comprehensive Planning Study

In the previous case, 04-W-0577, Witness Tambini included, on Exhibit 8, page 1 of 1, $341,373 for a comprehensive planning study. Has this study been performed? If yes, please provide a copy with a detailed explanation of its cost. If no, please explain why it was not done.

In addition, please explain why the company in its current case (07-W-0508), on Exhibit 8, page 1 of 1, included $95,400 in 2007 and $95,000 in 2008 related to comprehensive planning studies.

A. Yes, the CPS reflected on Exhibit 8 in Case 04-W-0577 (in 2005) was completed and has been provided in this case in response to Staff-165. The completed cost of the study was $256,563 as indicated in Staff-233, as compared to the $341,373 originally projected. In Case 04-W-0577, the Company included the $341,373 in Utility Plant Account 389 (NYS), which, is a non-depreciable account. Attached to this response are the UPIS workpapers from Case 04-W-0577, which show: (1) the CPS as a UPIS Addition in May 2005 to a/c 389 (attachment pg. 1) and, (2) the UPIS Account balances for 2005 (attachment pg. 2) which shows the increase to a/c 389 in May 2005. So while the cost of the CPS was authorized in Utility Plant in Rate Base, it has not been thus far accorded rate recovery through depreciation expense. In the current case the Company is requesting that it be authorized to reclassify the actual recorded cost of the CPS of $256,563 from a non-depreciable account to account 349, and amortize that account over a 5 year period (see response to Staff-110).

The $95,400 and $95,000 reflected on Exhibit 8 in the current case reflect the continuation of LIWC's planning efforts and will become a part of its next Comprehensive Planning Study.

The $95,400 in 2007 is closed to utility plant in December as follows:
a/c 331230 (343) - 6" & greater mains - $23,850
a/c 320110 (332) - WT Equipment Purification - $23,850
a/c 307200 (314) - Wells - $23,850
a/c 304200 (321) - Structures & Improvements - $23,850

The $95,000 in 2008 is closed to utility plant in December as follows:
a/c 331230 (343) - 6" & greater mains - $23,750
a/c 320110 (332) - WT Equipment Purification - $23,750
a/c 307200 (314) - Wells - $23,750
a/c 304200 (321) - Structures & Improvements - $23,750

Case 07-W-0508
Long Island American Water
Water Rates

Staff-254 (continued)

On update, I'm requesting that these amounts not be closed to the accounts noted above but instead should be closed to a/c 339600 (349) and amortized over 5 years consistent with its requested treatment of the $256,563 discussed above. The Company's as filed Depreciation Expense for the accounts above should be reduced accordingly.

Respondent: H. Edward Rex **Date:** September 5, 2007

CASE 04-W-0577 ATTACHMENT PAGE 1

ng Island Water Corporation
PIS Year 2005 Additions

Y State Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
							2005							
301	Organization													0
302	Franchises													0
310	Land & Ld Rights SS													0
320	Land & Ld Rights P													0
340	Land & Ld Rights TD													0
340	Land TD													0
389	Land & Land Rights AG					341,373	0							341,373
321	Struct & Imp P		13,000	13,000	24,000	25,000	11,000	11,000						97,000
331	Struct & Imp WT		3,074,344										480,000	3,554,344
390	Struct & Imp Offices				10,000								420,000	430,000
390	Struct & Imp Store,Shop,Gar													0
314	Wells & Springs													0
314	Wells Only (LI)					621,384								621,384
323	Power Generation Equip Othe												150,000	150,000
325	Pump Equip Electric					356,334							150,000	506,334
326	Pump Equip Diesel													0
332	WT Equip Non-Media		4,611,518											4,611,518
332	WT Equip Purification (LI)												300,000	300,000
342	Dist Reservoirs & Standpipe													0
343	TD Mains Not Classified by													0
343	TD Mains Paving (LI)													0
343	TD Mains 4in & Less													0
343	TD Mains 6in & Grtr (LI)	25,500	28,500	30,500	60,500	65,500	677,500	95,500	89,500	88,500	75,500	67,500	45,500	1,350,000
344	Fire Mains													0
345	Services	48,600	43,500	58,400	50,200	67,800	76,900	69,500	74,000	82,100	68,200	48,200	92,600	780,000
346	Meters Other	154,000	142,000	140,000	148,000	110,355	120,000	98,000	98,000	64,000	64,000	54,000	20,000	1,212,355
347	Meter Installations													0
348	Hydrants	11,100	20,200	16,100	13,300	13,200	12,500	12,000	9,500	9,000	8,500	17,500	7,100	150,000
391	Office Furniture & Equip					7,000								7,000
391	Computer Software				822,383									822,383
391	Data Handling Equipment													0
391	Other Office Equipment													0
392	Trans Equip Lt Duty Trks													0
392	Trans Equip Autos													0
393	Stores Equipment													0
394	Tools,Shop,Garage Equip		45,000	37,000	45,000	3,000	20,000							150,000
394	Tools,Shop,Garage Equip Oth													0
395	Laboratory Equipment													0
396	Power Operated Equipment													0
396	Power Oper Equip Other													0
397	Comm Equip Non-Telephone													0
398	Misc Equipment													0
	Total	239,200	7,978,062	295,000	1,173,383	1,610,946	917,900	286,000	271,000	243,600	216,200	187,200	1,665,200	15,083,691

pg 7

CASE 04-W-0577 ATTACHMENT PAGE L

ng Island Water Corporation
IS Accounts -- Year 2005

f State Account	Description	2004 Dec	2005 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total	13 Month Average
301	Organization	151	151	151	151	151	151	151	151	151	151	151	151	151	1,960	151
302	Franchises	518	518	518	518	518	518	518	518	518	518	518	518	518	6,738	518
310	Land & Ld Rights SS	419 178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	419,178	5,449,318	419 178
320	Land & Ld Rights P	162 627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	162,627	2,114 157	162,627
340	Land & Ld Rights TO	21 026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	21,026	273,343	21,026
340	Land TO	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	8,502	110,532	8,502
389	Land & Land Rights AG	631	631	831	631	631	342,004	342,004	342,004	342,004	342,004	342,004	342,004	342,004	2,739,192	210,707
321	Struct & Imp P	2,457,320	2,457,320	2,470,320	2,483,320	2,507,320	2,532,320	2,543,320	2,554,320	2,554,320	2,554,320	2,554,320	2,554,320	2,554,320	32,777,157	2,521,320
331	Struct & Imp WT	2,756,863	2,756,863	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	5,831,207	6,311,207	70,136,997	5,395,154
390	Struct & Imp Offices	2,357,637	2,357,637	2,357,637	2,357,637	2,367,637	2,367,637	2,367,637	2,367,637	2,367,637	2,367,637	2,367,637	2,367,637	2,787,637	31,159,286	2,396,888
390	Struct & Imp Store,Shop,Gar	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	504,732	6,561,511	504,732
314	Wells & Springs	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	1,623,889	21,110,561	1,623,889
314	Wells Only (LI)	3,842,706	3,842,706	3,842,706	3,842,706	3,842,706	4,464,090	4,464,090	4,464,090	4,464,090	4,464,080	4,464,090	4,464,090	4,464,090	54,926,246	4,225,096
323	Power Generation Equip Othe	660,415	660,415	660,415	660,415	660,415	660,415	660,415	660,415	660,415	660,415	660,415	660,415	810,415	8,735,397	671,954
325	Pump Equip Electric	3,817,760	3,817,760	3,817,760	3,817,760	3,817 760	4,174,094	4,174,094	4,174,094	4,174,094	4,174,094	4,174,094	4,174,094	4,324,094	52,631,557	4,048,581
326	Pump Equip Diesel	1,281 032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	1,281,032	16,653,422	1,281,032
332	WT Equip Non Media	2,391,661	2,391,661	7,003,179	7,003,179	7,003 179	7,003,179	7,003,179	7,003,179	7,003,179	7,003,179	7,003,179	7,003,179	7,003,179	81,818,292	6,293,715
332	WT Equip Purification (LI)	3,374,351	3,374,351	3,374,351	3,374,351	3,374,351	3,374,351	3,374 351	3,374,351	3,374,351	3,374,351	3,374,351	3,374,351	3,674,351	44,166,567	3,397,428
342	Dist Reservoirs & Standpipe	2 776 476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	2,776,476	36,094,193	2,776,476
343	TD Mains Not Classified by	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
343	TD Mains Paving (LI)	4 489 314	4 489,314	4 489,314	4,489,314	4 489 314	4,489,314	4,489,314	4,489,314	4,489,314	4,489,314	4,489,314	4,489,314	4,489,314	58,361,088	4,489,314
343	TC Mains 4in & Less	451 363	451 363	451 363	451 363	451 363	451,363	451,363	451,363	451,363	451,363	451 363	451,363	451,363	5,867 713	451 363
343	TD Mains 6in & Grtr (LI)	26,583 856	26,609 356	26 637 856	26 668,356	26 728,856	26,794,356	27 471 856	27,567,356	27,656,856	27,745,356	27,820,856	27,888,356	27,933,856	354,107,131	27 238,010
344	Fire Mains	2,026 970	2 026 970	2 026,970	2 026,970	2 026,970	2 026 970	2,026,970	2,026,970	2,026,970	2,026,970	2,026,970	2,026,970	2,026,970	26,350,613	2,026 970
345	Services	19 594 475	19 643 075	19,686 575	19,744,975	19 793 175	19,862,975	19,939,875	20,009,375	20,083,375	20,165,475	20,233,875	20,281,875	20,374,475	259,415 376	19,855,029
346	Meters Other	9 476 833	9 597,940	9 707 047	9,814,154	9 929 261	10 006,723	10 093,830	10 158,937	10,224,044	10,255,151	10,286,258	10,307,365	10,294,472	130,152,020	10,011,894
347	Meter Installations	1 328 950	1,328,950	1 328,950	1 328 950	1,328 950	1,328 950	1,328,950	1,328,950	1,328,950	1,328,950	1,328,950	1,328,950	1,328,950	17,276,347	1,328,950
348	Hydrants	4 061 483	4 072 583	4 092,783	4,108 883	4 122,183	4,135,383	4,147,883	4,159,883	4,169,383	4,178,383	4,186,883	4,204,383	4,211,483	53,851,585	4 142 430
391	Office Furniture & Equip	301 625	301,625	301 625	301 625	301,625	308,625	308 625	308,625	308,625	308,625	308,625	308,625	308,625	3,977,129	305,933
391	Computer Software	1 577 463	1,577 463	1,577 463	1,577,463	2,399 846	2 399,846	2 399 846	2,399,846	2,399,846	2,399,846	2,399,846	2,399,846	2,399,846	27,908,463	2,146,805
391	Data Handling Equipment	45 553	45,553	45 553	45,553	45 553	45,553	45,553	45,553	45,553	45,553	45,553	45,553	45,553	592,189	45,553
391	Other Office Equipment	113 727	113 727	113,727	113,727	113 727	113,727	113 727	113 727	113,727	113,727	113,727	113,727	113,727	1,478,455	113,727
392	Trans Equip LI Duty Trks	563 153	563 153	563 153	563,153	563 153	529,281	529,281	438,272	438,272	438,272	438,272	438,272	438,272	6,503,964	500,305
392	Trans Equip Autos	316 271	316,271	316,271	316 271	300 596	300,596	300 596	300,596	300,596	300,596	300,596	300,596	300,596	3,970,449	305,419
393	Stores Equipment	8 985	8,985	8 985	8,985	8 985	8 985	8 985	8,985	8,985	8,985	8,985	8,985	8,985	116,801	8,985
394	Tools,Shop,Garage Equip	315 616	315 616	360 616	397,616	442 616	445,616	465,616	465 616	465,616	465,616	465,616	465,616	465,616	5,537,003	425,923
394	Tools,Shop Garage Equip Oth	193 553	193 553	193,553	193,553	193,553	193,553	193,553	193,553	193,553	193 553	193,553	193,553	193,553	2,516,194	193,553
395	Laboratory Equipment	87 383	87,383	87 383	87,383	87 383	87 383	87 383	87,383	87,383	87,383	87,383	87,383	87,383	1,135,973	87,383
396	Power Operated Equipment	154 770	154,770	154,770	154,770	154 770	154,770	154,770	154,770	154,770	154,770	154,770	154,770	154,770	2,012,007	154,770
396	Power Oper Equip Other	67 597	67,597	67 597	67,597	67,597	67,597	67,597	67,597	67,597	67,597	67,597	67,597	67,597	878,764	67,597
397	Comm Equip Non-Telephone	172,195	172 195	172 195	172,195	172 195	172,195	172,195	172,195	172,195	172,195	172,195	172,195	172,195	2,238,541	172,195
398	Misc Equipment	102 488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	102,488	1,332,349	102,488
	Total	100,491,103	100,697,410	108 642,579	108,904,686	110,029,501	111,573,682	112,458,689	112,620,787	112 858,894	113,069,601	113,252,908	113,407,215	115,039,522	1,433,046,583	110,234,353

Exhibit HER-5

Exhibit HER-5

Long Island American Water
Domestic Production Deduction
For the Rate Year Ending March 31, 2009
(adjusted for adit)

	upis	accumulated depreciation	net plant	adit	rate base	weighted cost of equity	production income	rate	deduction
Source of Supply	6,543,753	(1,301,726)	5,242,027	(535,745)	4,706,282	6.81%	320,498	6.00%	19,230
Pumping	11,683,593	(2,273,035)	9,410,558	(961,777)	8,448,780	6.81%	575,362	6.00%	34,522
Water Treatment	20,345,629	(3,930,738)	16,414,891	(1,677,634)	14,737,257	6.81%	1,003,607	6.00%	60,216
production plant	38,572,975	(7,505,499)	31,067,476	(3,175,157)	27,892,319		1,899,467		113,968
total plant	140,274,683	(41,356,816)	98,917,867	(10,109,599)	88,808,268				

Exhibit HER-6

Long Island American Water Company

Reconciliation of Deferred SIT on Tax Return to Provision By Year

	Provision 2000 LI	Tax Return 2000 LI	Provision 2001 LI	Tax Return 2001 LI	Provision 2002 LI	Tax Return 2002 LI	Provision 2003 LI	Tax Return 2003 LI	Provision 2004 LI	Tax Return 2004 LI	Provision 2005 LI	Tax Return 2005 LI
Pretax Income	6,899,364	6,899,364	6,481,238	6,481,238	3,890,346	3,890,346	3,172,909	3,412,044	992,377	847,730	2,475,619	2,286,332
Total Permanent Differences	33,690	33,690	24,176	30,462	21,421	26,284	25,035	26,868	23,109	26,229	(310,916)	(308,139)
Financial Taxable Income	6,933,054	6,933,054	6,505,414	6,511,700	3,911,767	3,916,630	3,197,944	3,438,912	1,015,486	873,959	2,164,703	1,978,193
Total Temporary Differences:	(3,275,029)	(3,517,845)	(808,714)	(1,513,855)	(2,673,303)	(2,556,901)	(3,281,528)	(5,961,637)	(5,509,122)	(5,829,626)	(3,011,591)	(1,835,437)
Federal taxable inc before NOL, DRD	3,658,025	3,415,209	5,696,700	4,997,845	1,238,464	1,359,729	(83,584)	(2,522,725)	(4,493,636)	(4,955,667)	(846,888)	142,756
State Depreciation Adjustment	857,025	687,085	810,124	810,230	0	462,671	2,476,263	847,335	2,757,788	2,125,499	(437,946)	(511,656)
Plus State Income Tax Deduction	0	0	(334,249)	0		-		-		-		-
State Taxable Income	4,515,050	4,102,294	6,172,575	5,808,075	1,238,464	1,822,400	2,392,679	(1,975,390)	(1,735,848)	(2,830,168)	(1,284,834)	(368,900)
	9.950%	10.030%	9.360%	9.530%	7.500%	9.030%	7.500%	7.500%	9.000%	7.500%	9.000%	7.500%
State Apportionment Factor	1	1	1	1	1	1	1	1	1	1	1	1
State Apportioned Taxable Income	4,515,050	4,102,294	6,172,575	5,808,075	1,238,464	1,822,400	2,392,679	(1,975,390)	(1,735,848)	(2,830,168)	(1,284,834)	(368,900)
Current State Income Tax Expense (incl MTA in taxable inc. yrs)	449,247	411,460	577,753	553,510	92,885	164,563	179,451	-	(156,226)	-	(115,635)	-
Capital Base Tax (See note 1 below)								56,190		52,207		60,011
MTA Tax (See note 1 below)		-		-		-		9,552		8,875		8,735
05 TS Reclass State Rate Differential Betw ETR (09) and Curr Prov .075			-	-	-		-		-		15,235	
Prior Period Adjustment	-	-		0	(245,395)		16,792		(393,182)		(113,553)	
04 Deferred Tax Topsides Recorded to Current in Error					-		-		530,692		-	
MTA Tax		-		-		-		-		-		-
Variance	-			-	-	-	(1,407)	-	-	-	(1)	-
State Income Taxes Current Per Annual Report	449,247		577,753		(152,510)		194,836		(18,716)		(213,954)	
State Income Taxes Current Per Tax Return		411,460		553,510		164,563		65,742		61,882		68,746
	9.950%	10.030%	9.360%	9.530%	7.500%	9.030%	7.500%	7.500%	9.000%	7.500%	7.500%	7.500%
Total Timing Differences	(3,275,029)	(3,517,845)	(808,714)	(1,513,855)	(2,673,303)	(2,556,901)	(3,281,528)	(5,961,637)	(5,509,122)	(5,829,626)	(3,011,591)	(1,835,437)
State Only Timing Differences	857,025	687,085	475,875	810,230	0	462,671	2,476,263	547,335	2,757,788	2,125,499	(437,946)	(511,656)
Total State Timing Differences	(2,418,004)	(2,830,760)	(332,839)	(703,625)	(2,673,303)	(2,094,230)	(805,265)	(5,414,302)	(2,751,334)	(3,704,127)	(3,449,537)	(2,347,093)
Deferred State Taxes Per Balance Sheet	(240,591)	(283,925)	(31,154)	(67,055)	(200,498)	(189,109)	(60,395)	(406,073)	(247,620)	(277,810)	(258,715)	(176,032)
Calculated Deferred State Tax Current Year Expense	240,591	283,925	31,154	67,055	200,498	189,109	60,395	406,073	247,620	277,810	258,715	176,032
Reconciling Items												
Difference in Pre Tax Calc vs ETR	-	-	0	0	0		11,718		(9,882)		0	
Period 13 Adjustment Deferred Tax on IP					0		3,987		0		0	
Prior Period Adjustment	-	-	0	0	29,663		(43,430)		393,182		95,543	
04 Deferred Tax Topsides Recorded to Current in Error	-	-	0	0	0		0		(283,104)		50,469	
2000 Inception Entry	171,249											
Variance	(515)	-	0	0	727	0	1,749	0	(117)		0	
State Income Taxes Deferred Expense Per Annual Report	411,325		31,154		230,888		34,419		347,699		404,727	
State Income Taxes Deferred Per Tax Return		283,925		67,055		189,109		406,073		277,810		176,032
State Income Taxes Deferred Balance Sheet Per AR (Cumulative)	(411,325)		(442,479)		(673,367)		(707,786)		(1,855,485)		(1,460,212)	
Deferred Tax Topsides Recorded to Current Liability In Error									(283,104)		(147,472)	
Total State Deferred Tax Balance Sheet Per General Ledger	(411,325)	0	(442,479)	0	(673,367)	0	(707,786)	0	(1,338,589)	0	(1,607,684)	0
State Deferred Tax Provision	(411,325)		(31,153)		(201,225)		(77,849)		(237,621)		(258,715)	
State Deferred Tax True Up Recorded in Subsequent Year	(43,309)		(29,663)		43,430		(393,182)		(95,543)		82,683	
Rate Differentials Between TR and TU			(5,043)				65,393		15,850			
Inception Entry	171,249											
Difference in Pre Tax Calc vs ETR							-					
Variance	(540)		(1,196)		(31,314)		(435)		39,504		0	
State Deferred Taxes Per Tax Return	(283,925)		(67,055)		(189,109)		(406,073)		(277,810)		(176,032)	

Note 1: In Long Island a corporation pays the greater of the following three taxes: Income Tax, Capital Base Tax or Fixed Dollar Minimum Tax.

For income years in which we pay an income tax the MTA tax rate is combined with the income tax rate because MTA is computed based on a calculated income tax.

For loss years in which we do not pay an income tax the MTA rate is not combined with the statutory income tax rate because it is not computed based on calculated income tax.

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CT-186-P

2004 Amended return

| Staple forms here |

New York State Department of Taxation and Finance

Utility Services Tax Return - Gross Income

Tax Law - Article 9, Section 186-a

For calendar year 2004

Employer identification number: 11-1516966	File number: H H 5	Business telephone number: 856-787-4832	If you claim an overpayment, mark an X in the box
Legal name of corporation: Long Island Water Corporation		Trade name/DBA	
Mailing name (if different from legal name above): c/oAmerican Water Shared Services Center		State or country of incorporation: NEW YORK	Date received (for Tax Department use only): MAR 15 2005
Number and street or PO box: 3906 Church Road, P. O. Box 5088		Date of incorporation: May 1925	
City: Mount Laurel	State: NJ	ZIP code: 08054	Foreign corporations: date began business in NYS
NAICS business code number (from federal return)	If address above is new, mark an X in box	If your name, employer identification number, address, or owner/officer information has changed, you must file Form DTF-95. If only your address has changed, you may file Form DTF-96. You can get these forms from our Web site, by phone, or by fax. See the Need help? section of the instructions.	Audit (for Tax Department use only)
Date corporation came under the supervision of the NYS Department of Public Service			

Type of service or commodity you sell (mark an X in all boxes that apply)

Gas • [ ] Electricity • [ ] Steam • [ ] Water • [X] Refrigeration • [ ]

If this is your first return, enter name of prior owner of operator, if any	Address of prior owner or operator
If this is your final return, enter name of new owner, if any •	Address of new owner •

Metropolitan transportation business tax (MTA surcharge) *(mark an X in the appropriate box below)*

Do you do business in the Metropolitan Commuter Transportation District? If Yes, you must file Form CT-186-P/M *(see instructions)* Yes [X] No [ ]

Do not file Form CT-186-P - If you are a telephone or telegraph company or other provider of telecommunication services, even if those services are not your primary business, do not file this form. Instead, file Form CT-186-E, *Telecommunications Tax Return and Utility Services Tax Return.*

		Payment enclosed
A. Pay amount shown on line 13. Make check payable to: *New York State Corporation Tax* ← Attach your payment here. Detach all check stubs.	A.	2,180.07

Computation of tax

1	Tax on gross income *(enter amount from line 45)*	1.	148,875.37
2	Long-term care insurance tax credit *(attach Form CT-249; see instructions)*	2.	0.00
3	Tax after long-term care insurance tax credit *(subtract line 2 from line 1)*	• 3.	148,875.37
4	Power for jobs tax credit *(see instructions)*	4.	0.00
5	Net tax *(subtract line 4 from line 3)*	5.	148,875.37
6	First installment of estimated tax for next period:		
6a	If you filed a request for extension, enter amount from Form CT-5.9, line 2	6a.	
6b	If you did not file Form CT-5.9 and line 5 is over $1,000, see instructions; otherwise enter 0	6b.	0.00 **
7	Total *(add lines 5 and 6a or 6b)*	7.	148,875.37
8	Total prepayments *(enter amount from line 51)*	8.	146,695.30
9	Balance *(if line 8 is less than line 7, subtract line 8 from line 7)*	9.	2,180.07
10	Penalty for underpayment of estimated tax *(mark an X in the box if Form CT-222 is attached)* [ ]	10.	
11	Interest on late payment *(see instructions)*	11.	
12	Late filing and late payment penalties *(see instructions)*	12.	
13	Balance due *(add lines 9 through 12; enter payment here and on line A above)*	13.	2,180.07
14	Overpayment *(if line 7 is less than line 8, subtract line 7 from line 8)*	14.	
15	Amount of overpayment to be credited to next period	15.	
16	Balance of overpayment *(subtract line 15 from line 14)*	16.	
17	Amount to be credited to Form CT-186-P/M	17.	
18	Amount of overpayment to be refunded *(subtract line 17 from line 16)*	18.	

Certification: I certify that this return and any attachments are to the best of my knowledge and belief true, correct, and complete.

Signature of authorized person	Official title: ASSISTANT COMPTROLLER	Date: 3/11/05
Paid preparer use only — Signature of individual preparing this return	Firm's name (or yours if self-employed)	
Address	ID number	Date

Mail your return on or before March 15, 2005, to:
NYS CORPORATION TAX
PROCESSING UNIT
PO BOX 22038
ALBANY NY 12201-2038

4W3573 1.000

41301041062

Computation of gross income

Part I - Computation of receipts from the sale of gas and electric service of whatever nature

19	Receipts from the sale of gas and electric services *(see instructions)*	19.	
20	Receipts from the sale of the commodity of gas and electricity for ultimate consumption or use in New York State	20.	
21	Allowable deduction from receipts on line 20 *(see instructions)*	21.	
22	Net receipts from the sale of the commodity of gas and electricity for ultimate consumption or use in New York State after allowable deductions *(subtract line 21 from line 20)*	• 22.	
23	Noncommodity receipts (receipts from transportation, transmission, or distribution of gas or electricity) *(subtract line 20 from line 19)*	23.	
24	Allowable exclusions from receipts on line 23 *(see instructions)*	24.	
25	Net noncommodity receipts (receipts from transportation, transmission, or distribution of gas or electricity) after allowable exclusions *(subtract line 24 from line 23; enter here and on line 43)*	• 25.	

Part II - Computation of receipts from the sale of steam, water, and refrigeration utility services *(see instructions)*

26	Receipts from the sale of steam for ultimate consumption or use in New York State	• 26.	
27	Receipts from the sale of water for ultimate consumption or use in New York State	• 27.	37,218,841.00
28	Receipts from the sale of refrigeration for ultimate consumption or use in New York State	• 28.	
29	Receipts from the sale of services rendered in New York State *(see instructions)*	• 29.	
30	Receipts from the sale of merchandise in New York State *(see instructions)*	• 30.	
31	All other receipts from sales made or services rendered in New York State *(see instructions)*	• 31.	
32	Receipts from steam, water, and refrigeration utility services *(add lines 26 through 31)*	• 32.	37,218,841.00

Part III - Receipts from interest and dividends allocated to New York State *(attach list, if necessary)*

A Name of entity	B Type of security	C Amount of interest and dividends received	D Issuer's allocation percentage	E Interest and dividends allocated to NYS (column C x column D)
			%	
			%	
			%	
			%	

33	Interest and dividends allocated to New York State *(add column E amounts)*	• 33.	
34	Receipts from royalties	• 34.	
35	Total receipts from interest, dividends, and royalties *(add lines 33 and 34)*	• 35.	

Part IV - Computation of profits *(see instructions)*

36	Profits from the sale of securities	• 36.	
37	Profits from the sale of real property	• 37.	
38	Profits from the sale of personal property	• 38.	
39	All other profits	• 39.	
40	Profits before allowable deductions *(add lines 36 through 39)*	• 40.	
41	Allowable deductions from profits *(attach list)*	• 41.	
42	Profits after allowable deductions *(subtract line 41 from line 40)*	• 42.	

Part V - Computation of tax on gross income

43	Receipts from line 25		x .02125	43.	
44	Receipts from lines 22, 32, 35, and 42	37,218,841.00	x .004	44.	148,875.37
45	Tax on gross income *(add lines 43 and 44; enter here and on line 1)*			45.	148,875.37

Composition of prepayments claimed on line 8 *(see instructions)*

			Date paid	Amount
46	Mandatory first installment	46.	3/12/2004	91,695.30
47a	Second installment from Form CT-400	47a.		
47b	Third installment from Form CT-400	47b.	9/14/2004	10,000.00
47c	Fourth installment from Form CT-400	47c.	12/07/2004	45,000.00
48	Payment with extension request, Form CT-5.9, line 5	48.		
49	Overpayment credited from prior years		49.	
50	Overpayment credited from Form CT-186-P/M Period		50.	
51	Total prepayments *(add lines 46 through 50; enter here and on line 8)*		51.	146,695.30

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CT-186-P/M

2004 Amended return

| Staple forms here |

New York State Department of Taxation and Finance

Utility Services MTA Surcharge Return

Tax Law - Article 9, Section 186-c

For calendar year 2004

Employer identification number	File number	Business telephone number		If you claim an overpayment, mark an X in the box
11-1816966	H H S	856-787-4832		

Legal name of corporation	Trade name/DBA
Long Island Water Corporation	
Mailing name (if different from legal name above): c/o American Water Shared Services Center	State or country of incorporation: NEW YORK
Number and street or PO box: 3906 Church Road, P. O. Box 5088	Date of incorporation: May 1925
City: Mount Laurel State: NJ ZIP code: 08054	Foreign corporations: date began business in NYS

Date received (for Tax Department use only)

MAR 15 2005

If your name, employer identification number, address, or owner/officer information has changed, you must file Form DTF-95. If only your address has changed, you may file Form DTF-96. You can get these forms from our Web site, by phone, or by fax. See the *Need help?* section on Form CT-186-P/M-I, *Instructions for Form CT-186-P/M*.

If you do business in the Metropolitan Commuter Transportation District (MCTD) (the counties of New York, Bronx, Kings, Queens, Richmond, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester) you must complete this form. If not, you do not need to file this form. However, you must disclaim liability for the metropolitan transportation business tax (MTA surcharge) on Form CT-186-P. See *Who must file* in the instructions.

		Payment enclosed
A. Pay amount shown on line 14. Make check payable to: *New York State Corporation Tax* Attach your payment here. Detach all check stubs.	A.	220.81

Computation of MTA surcharge

1	Receipt amount on Form CT-186-P, lines 22, 25, 32, 35, and 42 derived from sources within the MCTD	1.	37,218,841.00
2	Receipt amount on Form CT-186-P, lines 22, 25, 32, 35, and 42	2.	37,218,841.00
3	MCTD allocation percentage *(divide line 1 by line 2)*	3.	100.0000 %
4	Tax after long-term care insurance tax credit on Form CT-186-P, line 3	4.	148,875.37
5	Allocated tax *(multiply line 3 by line 4)*	5.	148,875.37
6	MTA surcharge *(multiply line 5 by 17% (.17))*	6.	25,308.81
	First installment of estimated MTA surcharge for the next period:		
7a	If you filed a request for extension, enter amount from Form CT-5.9, line 7	7a.	
7b	If you did not file Form CT-5.9, see instructions.	7b.	0.00 **
8	Total *(add line 6 and line 7a or 7b)*	8.	25,308.81
9	Total prepayments *(from line 25)*	9.	25,088.00
10	Balance *(if line 9 is less than line 8, subtract line 9 from line 8)*	10.	220.81
11	Penalty for underpayment of estimated MTA surcharge *(mark an X in the box if Form CT-222 is attached)*	11.	
12	Interest on late payment *(see instructions)*	12.	
13	Late filing and late payment penalties *(see instructions)*	13.	
14	Balance due *(add lines 10 through 13; enter payment here and on line A above)*	14.	220.81
15	Overpayment *(if line 8 is less than line 9, subtract line 8 from line 9)*	15.	
16	Amount of overpayment to be credited to New York State tax	16.	
17	Amount of overpayment to be credited to MTA surcharge for the next period	17.	
18	Amount of overpayment to be refunded	18.	

Certification: I certify that this return and any attachments are to the best of my knowledge and belief true, correct, and complete.

Signature of authorized person	Official title	Date
[signature]	ASSISTANT COMPTROLLER	3/11/05

Paid preparer use only			
Signature of individual preparing this return	Firm's name *(or yours if self-employed)*		
Address		ID number	Date

Mail your return by March 15, 2005, to:

NYS CORPORATION TAX
PROCESSING UNIT
PO BOX 22038
ALBANY NY 12201-2038

4W3577 1.000

41401041062

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Composition of prepayments claimed on line 9 *(see instructions)*		Date paid	Amount
19 Mandatory first installment	19.	3/12/04	15,588.00
20a Second installment from Form CT-400	20a.		
20b Third installment from Form CT-400	20b.	9/14/04	2,000.00
20c Fourth installment from Form CT-400	20c.	12/07/04	7,500.00
21 Payment with extension request *(from Form CT-5.9, line 10)*	21.		
22 Overpayment credited from prior years	22.		
23 Add lines 19 through 22	23.		25,088.00
24 Overpayment credited from Form CT-186-P	24.		
25 Total prepayments *(add lines 23 and 24; enter here and on line 9)*	25.		25,088.00