

Exhibit ____ (KJH-2)

Case 07-W-0508
Long Island American Water
Water Rates
STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 91 (KJH-24)
Requested By: Kevin Higgins
Date of Request: June 7, 2007
Reply Date: June 18, 2007
Subject: Pension and OPEBs deferral accounting

Please provide all evidence in support of the company's pension and OPEB deferral accounting for the period between January 1, 2004 and December 31, 2006.

- A. Attached please find schedules depicting the pension and OPEB deferral activity for the period requested. Please note that there was no deferral activity for the period 1/1/2004 through 3/31/2005.

Respondent: John Casillo

Date: June 27, 2007

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

OPEB - 505100.16

Closing Date	Expense Before Deferred	Allowable Pension Expense	Deferred Amount
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	No entry		
Mar 2006	47,477.00	50,484.00	(3,007.00)
Total	723,545.64		

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)

106,275.29

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

Pension - 380305.506100.16

Closing Date	Expense Before Deferred	Allowable Pension Expense	Deferred Amount
April 2005	78,956.56	62,707.00	16,249.56
May 2005	79,334.30	62,707.00	16,627.30
June 2005	69,255.46	62,707.00	6,548.46
July 2005	78,745.58	62,707.00	16,038.58
Aug 2005	78,933.87	62,707.00	16,226.87
Sept 2005	82,418.00	62,707.00	19,711.00
Oct 2005	79,030.70	62,707.00	16,323.70
Nov 2005	78,940.65	62,707.00	16,233.65
Dec 2005	78,829.46	62,707.00	16,122.46
Jan 2006	77,808.11	62,707.00	15,101.11
Feb 2006	77,326.47	62,707.00	14,619.47
Mar 2006	69,368.51	62,707.00	6,661.51
April 2006	58,904.70	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
			<u>239,537.06</u>

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Long Island American Water
Water Rates
STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 98 (KJH-31)
Requested By: Kevin Higgins
Date of Request: June 7, 2007
Reply Date: June 18, 2007
Subject: Federal Income Taxes

Please explain the company's tax treatment of the American Jobs Creation Act of 2004 (AJCA). Also, please provide the federal income tax savings associated with the AJCA reflected in the company's rate year forecast of federal income tax expense. If no savings were reflected, please explain why not.

- A. The American Jobs Creation Act of 2004 provides a deduction from taxable income for qualified production activities for companies producing potable water. The deduction is available for tax years starting on or after January 1, 2005 for those companies with net taxable income. The company participates in the consolidated federal income tax return of its parent Thames Water Aqua US Holdings, Inc and Affiliated Subsidiaries which has experienced net operating losses in 2005 and 2006. As such, the benefits of the deduction are not available for Thames Water or its affiliates.

Respondent: H. Edward Rex

Date: June 21, 2007

Case 07-W-0508
Long Island American Water
Water Rates
STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 99 (KJH-32)
Requested By: Kevin Higgins
Date of Request: June 7, 2007
Reply Date: June 18, 2007
Subject: **Federal Income Taxes**

Please explain the company's tax treatment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Also, please provide an estimate of the tax-benefit associated with the Act's subsidy payment to be received in 2007, 2008 and 2009. Further, please explain if the company reflected the tax-benefit in its rate year forecast of FIT expense and if not, why not.

- A. The Medicare subsidy received by the company is not taxable and is treated as a permanent difference in the company's income tax provision calculation. The company anticipates that its share of the Medicare subsidy for 2007, 2008 and 2009 will be \$32,775, \$33,644 and \$36,337, respectively. The anticipated tax savings using a 40.4% combined tax rate is \$13,241, \$13,992 and \$14,680 for 2007, 2008 and 2009, respectively. The company did not reflect the tax benefit in its rate year forecast of tax expense because the amount of the subsidy was unknown at the time the rate year forecast was prepared.

Respondent: H. Edward Rex

Date: June 21, 2007

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Long Island Rate Case
Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 196 (KJH - 50)
Requested By: Kevin Higgins
Date of Request: July 18, 2007
Reply Date: July 30, 2007
Subject: 401K Expense

1. Please explain the reason(s) for the decrease in 401K expense from \$116,172 in 2005 to \$79,221 in 2006 (i.e. the historic test year expense level).
 2. Please explain the entire accounting transaction cycle related to this cost from the incurrence of expense to the actual payment to the employees account.
 3. Please explain why it would be inappropriate to forecast rate year 401K expense by using a three-year average of actual expense.
- A. 1. At year end 2005 there was an accrual for \$12,766. If we remove this accrual than the 2005 balance is \$103,406 and the 2006 balance is \$91,987. In 2005, \$17,437 was charged to LIAW by AON Consulting for costs associated with the old NEI 401(k) plan and the life insurance plans. In 2006, the matching expense piece increased by \$7.2k (total match was \$85.5k in 2005 and \$92.7k in 2006).
2. When payroll is run each period, the T3 Actual Burden Journal Entry is charged to account 507100.16-401K Expense and/or 184100-Eng Clearing OH (Debit) for the Company's cost of matching the employee's 401K. The allocation of expense or capital is based on the employee's actual capital percentage with the credit to account 241298-Overhead Clearing. A T1 Payroll Disbursement Entry is made to account 241227-Accr Employer 401K Match (Credit) moving the 401K match amount from account 241298 (Debit). This T1 entry also records the employee's portion of 401K by charging account 241220.006-WH PR 401K Contribution (Credit) with an offset to 241206 Accrued Wages (Debit). The payment for the matched 401K is then made monthly from account 241227 (Debit) along with the contributed 401K deductions held from account 241220.006 (Debit) to Merrill Lynch along with a file listing the amount for each employee with an offset to account 234100 Accounts Payable (Credit). Please see the attached for an example.
 3. It would be inappropriate to forecast the rate year 401(k) on a three-year average expense because a number of things have changed over the last 3 years. For example, on January 1, 2005 the LIAW union employees became eligible for 401(k) matching of 50% up to the 1st 5% of their contribution. Prior to this the union did not receive any matching on

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Staff-196 (continued)

their 401(k) contributions but non-union employees did. The current policy was stated in my direct testimony on page 23, question 62 and is as follow:

“The Company matches fifty cents on the dollar on the first 5 percent the employee contributes to this plan for all LIAW non-union employees hired prior to January 1, 2006 and all LIAW union employees hired prior to January 1, 2001. The Company matches dollar for dollar on the first 3 percent and fifty cents on the dollar for the next 2 percent (maximum match is 4%) the employee contributes to this plan for all LIAW non-union employees hired on or after January 1, 2006 and all union LIAW employees hired on or after January1, 2001.”

Based on these facts, and the fact that as employees who have been with the Company for a number of years leave the business, the 401(k) expense will increase because we will replace the employees who currently receive a 2.5% maximum match with employees who receive a 4.0% maximum match.

Respondent: John M. Watkins

Date: August 2, 2007

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Water Rates

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 197 (KJH - 51)
Requested By: Kevin Higgins
Date of Request: July 18, 2007
Reply Date: July 30, 2007
Subject: Defined Contribution Plan Expense

1. Please provide evidence in support of the historic test year expense booked.
 2. Please explain the entire accounting transaction cycle related to this cost from the incurrence of expense to the actual payment to the fund.
 3. Please explain if deferral accounting procedures, similar to those required for pension and OPEB expense, would be necessary for this new expense. If not, why not.
 4. Please explain if internal reserve accounting procedures, similar to those required for pension and OPEB expense, would be necessary. If not, why not.
 5. Please explain why it would be inappropriate to forecast rate year DCP expense by applying the projected GDP to the historic test year DCP expense level.
- A.
1. Please see attached which shows the payments to Merrill Lynch for the DCP expense. Please note that this includes both the expense and capital pieces of the DCP.
 2. When payroll is run each period, the T3 Actual Burden Journal Entry is charged to account 508101.16-DCP Expense and/or 184100-Eng Clearing OH (Debit) for the Company's cost of the Defined Contribution Plan on behalf of the employees at a rate of 5.25% of base wages. The allocation of expense or capital is based on the employee's actual capital percentage with the credit to account 241298-Overhead Clearing. A T1 Payroll Disbursement Entry is made to account 241212-Accr DCP Contribution (Credit) moving the DCP Expense amount from account 241298 (Debit). The payment for the DCP Expense held is then made monthly from account 241212 (Debit) to Merrill Lynch along with a file listing the amount for each employee with an offset to account 234100 Accounts Payable. Please see attachment for an example.
 3. Deferral accounting is not needed for the DCP because the actual contributions are made to the employee's account which is administered by Merrill Lynch. The DCP is similar to the 401(k) procedures where the amounts are deposited into an account at Merrill Lynch and the employee manages the account.
 4. Please refer to the response to interrogatory Staff-197, part 3, above.

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Long Island Rate Case
Water Rates

Staff-197 (cpntinued)

5. DCP is based on actual base salary times 5.25%. As employees who were covered by the pension plan leave the Company they are replaced by employees who are eligible for the DCP plan which makes the historic year understated. This, in conjunction with the fact that salaries are based on a negotiated wage rate for the union employees, which is known and measurable, and an estimated increase for the non union employees shows that the actual base salary level is a more appropriate level to use for forecasting DCP.

Respondent: John M. Watkins

Date: August 2, 2007

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

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY/DOCUMENT REQUEST

Request No.: STAFF – 231 (KJH - 64)
Requested By: Kevin Higgins
Date of Request: July 26, 2007
Reply Date: August 6, 2007
Subject: Service Company Expense

- 1) Please provide evidence in support of the 50% overhead factor used in developing the Northeast Region (NER) O&M service costs allocated to LIAW for the rate year ended March 31, 2009.
 - 2) Please provided the actual overhead factor for the NER for each of the last three fiscal years. Be sure to provide evidence in support of the factor presented.
 - 3) In the Company's last rate case, it indicated that the NER provides services to Edison and Liberty Water Company's and adjusted to allocation of NER service to reflect that fact. Please indicate whether the Company's forecast of rate year NER service company expense should be adjusted to reflect the fact that the NER provides services to EWC and LWC. If not, explain why not.
 - 4) Other than NJAW, LIAW, EWC and LWC, provide a complete list of entities that the NER provides services.
 - 5) Please provide the current service company agreements between AWWSC and AWE, AWK and AWR.
 - 6) Please fully explain and illustrate the effects of last month's announcement of Corporate reorganization (i.e. AW names Lynch Executive VP of Business Operations). Among other things, provide a revised or preliminary organizational chart detailing the new structure, and explain and illustrate the impact on AWWSC costs.
 - 7) Please provide the allocation of AWWSC O&M costs by office, function and allocation method to each of the Company's that received an allocated cost for the fiscal year ended December 31, 2004 and 2005. (The data should be presented in the same format as presented in Staff -84)
- A. 1) Please see attached, the 50% was an estimate based on the 48% adjusted 2006 overheads.
- 2) Please see attached.

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Long Island American Water
Water Rates

Staff-231 (continued)

- 3) Yes, the forecast of the NER Service Company expenses should be revised to reflect an allocation to Edison, Liberty and ETS for certain senior level management employees. Please refer to the response to Staff-231, part 6.
- 4) The NER provides services to New Jersey American Water (NJAWC), Elizabethtown Water Company (EWC), The Mount Holly Water Company (MHWC), Long Island American Water (LIAW), Edison Water Company (Edison), Liberty Water Company (Liberty) and Etown Services LLC (ETS). Edison, Liberty and ETS are small O&M contracts in NJ. Please note that EWC and MHWC have been merged into NJAWC as of 12/31/2006.
- 5) Please see attached for the Service Company agreements between AWWSC and AWK, and AWWSC and AWR. The Service Company is currently working with AWE on a Service Company agreement. AWE is a relatively new Company formed by combining several companies in a recent reorganization of the companies of AWW.
- 6) The AWWSC reorganization, as of information known as of August 6, 2007, is the combining of the NER and SER president positions into a Divisonal President position. This is in conjunction with naming a State President for each state. Bill Varley has been promoted to the LIAW President position. Please see the attachments which allocate the Divisonal President and his Executive Assistant on a 40%/60% split for NER/SER based on customers. Please note that these attachments include an allocation for the senior management to Liberty, Edison and ETS which are non-regulated companies in NJ.
- 7) Please see attached.

Respondent: John M. Watkins

Date: August 6, 2007

Northeast Region Svc Co Labor Burden Rate

<u>Line #</u>	<u>Account</u>	<u>Description</u>	Adjusted <u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
01	504100	Group Insurance	\$795,394	\$795,394	\$621,016	\$150,727
02	506100	Pension (funding)	see adjustment	798,494	272,700	16,295
03	505100	OPEB	206,510	206,510	72,488	69,778
04	508101	DCP	24,743	24,743	0	0
05	507100	401k	92,043	92,043	64,328	30,568
06	508100	ESOP	0	0	23,041	32,064
07	508102					
08		Payroll Taxes:				
09	685320	FUTA	5,805	5,805	5,263	952
10	685325	FICA	391,629	391,629	342,355	97,486
11	685350	SUTA	41,944	41,944	30,050	6,806
12		Total Burden	<u>\$1,558,068</u>	<u>\$2,356,562</u>	<u>\$1,431,241</u>	<u>\$404,676</u>
13		Projected 2009 Pension *	960,960			
14		2009 Pension discounted @ 3.5% to 2006 \$	<u>866,731</u>			
15		Adjusted Burden (line 11 + line 13)	<u>\$2,424,799</u>			
16						
17	501200	Labor	\$5,097,330	\$5,097,330	\$4,316,407	\$1,272,046
18						
19		Burden Pct (line 14 / line 16)	48%	46%	33%	32%
20						
21						
22						
23	* The ERISA minimum contribution to the pension fund is expected to significantly increase.					
24	The expected minimum contribution to the fund in 2009 is \$960,960.					
25	The 2009 expected contribution discounted to 2006 @ 3.50% is \$866,731.					

LONG ISLAND AMERICAN WATER
Northeast Region of AWWSC
2007 RATE CASE

Allocation of Northeast Region's Expenses
For Expenses incurred between 1/1/2007 through 12/31/2007

	Customers at 12/29/2006	Allocation % Including Edison, Liberty and ETS	Allocation of Expense	Divisional Administration	Regional Administration	Business Development	Engineering	Environmental Compliance	External Affairs	Finance	Human Resources	Legal	Maintenance	Operational Risk
Regulated Allocation Only (NJAWC-EWC, MHWC and LIAW)				\$88,913	\$449,383	\$465,608	\$250,155	\$180,030	\$78,514	\$2,133,315	\$578,183	\$1,048,343	\$221,000	\$963,937
Regulated plus Edison, Liberty and ETS				562,400	296,232	280,160	0	0	218,280	317,781	258,607	328,717	0	0
New Jersey-American Water Company	398,608	55.93%	\$4,737,608	\$146,152	\$422,589	\$422,875	\$143,010	\$102,921	\$166,969	\$1,397,323	\$475,179	\$783,175	\$126,343	\$551,070
Elizabethtown Water Company	208,731	29.29%	2,480,889	76,538	221,295	221,445	74,887	53,894	87,438	731,715	248,833	410,117	66,159	288,568
Mount Holly Water Company	16,415	2.30%	195,036	8,011	17,393	17,406	5,889	4,238	6,868	57,533	19,560	32,241	5,203	22,694
Edison Water Company		0.49%	9,432	1,102	1,452	1,373	0	0	1,070	1,557	1,267	1,611	0	0
Liberty Water Company		0.89%	17,130	2,002	2,636	2,493	0	0	1,943	2,828	2,302	2,926	0	0
Etown Services LLC		0.79%	15,204	1,777	2,340	2,213	0	0	1,724	2,510	2,043	2,597	0	0
Long Island American Water	73,495	10.31%	873,471	26,942	77,910	77,962	26,368	18,976	30,781	257,630	87,607	144,394	23,295	101,606
	697,249	100.00%	8,719,558	260,524	745,615	745,767	250,154	180,029	296,793	2,451,096	836,791	1,377,061	221,000	963,938
Capital Allocation							85.52%							
O&M Expense			\$850,921	\$28,942	\$77,910	\$77,962	\$3,818	\$18,976	\$30,781	\$257,630	\$87,607	\$144,394	\$23,295	\$101,606

For Expenses incurred between 1/1/2008 through 12/31/2008

	Customers at 12/29/2006	Allocation % Including Edison, Liberty and ETS	Allocation of Expense	Divisional Administration	Regional Administration	Business Development	Engineering	Environmental Compliance	External Affairs	Finance	Human Resources	Legal	Maintenance	Operational Risk
Regulated Allocation Only (NJAWC-EWC, MHWC and LIAW)				\$92,401	\$464,884	\$564,549	\$261,970	\$185,385	\$91,668	\$2,226,686	\$603,686	\$1,092,037	\$227,630	\$999,078
Regulated plus Edison, Liberty and ETS				587,100	309,532	291,423	0	0	227,290	330,511	269,523	342,650	0	0
New Jersey-American Water Company	398,608	55.93%	\$4,977,560	\$152,476	\$438,878	\$485,738	\$149,765	\$105,982	\$173,810	\$1,457,819	\$495,852	\$815,947	\$130,133	\$571,160
Elizabethtown Water Company	208,731	29.29%	2,606,545	79,849	229,825	254,363	78,424	55,498	91,021	763,396	259,659	427,278	68,144	299,088
Mount Holly Water Company	16,415	2.30%	204,915	8,271	18,063	19,994	6,167	4,364	7,151	60,024	20,411	33,590	5,359	23,521
Edison Water Company		0.49%	9,830	1,151	1,517	1,428	0	0	1,114	1,620	1,321	1,679	0	0
Liberty Water Company		0.89%	17,853	2,090	2,755	2,594	0	0	2,023	2,942	2,399	3,050	0	0
Etown Services LLC		0.79%	15,845	1,855	2,445	2,302	0	0	1,796	2,611	2,129	2,707	0	0
Long Island American Water	73,495	10.31%	917,713	28,108	80,913	89,553	27,613	19,541	32,042	268,785	91,419	150,435	23,994	105,310
	697,249	100.00%	9,157,961	271,800	774,396	855,972	261,969	185,385	308,957	2,557,197	873,190	1,434,686	227,630	999,079
Capital Allocation							85.52%							
O&M Expense			\$894,098	\$28,108	\$80,913	\$89,553	\$3,998	\$19,541	\$32,042	\$268,785	\$91,419	\$150,435	\$23,994	\$105,310

For Expenses incurred between 4/1/2008 through 3/31/2009

	Customers at 12/29/2006	Allocation % Including Edison, Liberty and ETS	Allocation of Expense	Divisional Administration	Regional Administration	Business Development	Engineering	Environmental Compliance	External Affairs	Finance	Human Resources	Legal	Maintenance	Operational Risk
Regulated Allocation Only (NJAWC-EWC, MHWC and LIAW)				\$93,310	\$469,400	\$569,995	\$264,520	\$187,170	\$82,460	\$2,248,355	\$609,495	\$1,102,620	\$229,840	\$1,008,790
Regulated plus Edison, Liberty and ETS				592,800	312,550	294,270	0	0	229,500	333,725	272,125	345,975	0	0
New Jersey-American Water Company	398,608	55.93%	\$5,025,902	\$153,959	\$443,159	\$490,444	\$151,223	\$107,003	\$175,500	\$1,472,007	\$500,640	\$823,859	\$131,396	\$576,712
Elizabethtown Water Company	208,731	29.29%	2,631,859	80,626	232,067	256,828	79,188	56,032	91,907	770,824	262,186	431,420	68,806	301,995
Mount Holly Water Company	16,415	2.30%	206,903	8,332	18,240	20,187	6,227	4,406	7,220	60,608	20,608	33,915	5,411	23,749
Edison Water Company		0.49%	9,923	1,162	1,531	1,442	0	0	1,125	1,635	1,333	1,695	0	0
Liberty Water Company		0.89%	18,025	2,110	2,782	2,619	0	0	2,043	2,970	2,422	3,079	0	0
Etown Services LLC		0.79%	15,999	1,873	2,469	2,325	0	0	1,813	2,636	2,150	2,733	0	0
Long Island American Water	73,495	10.31%	926,625	28,382	81,702	90,421	27,882	19,729	32,353	271,400	92,301	151,894	24,227	106,334
	697,249	100.00%	9,246,900	274,444	781,950	864,266	264,520	187,170	311,961	2,582,080	881,620	1,448,595	229,840	1,008,790
Capital Allocation							85.52%							
O&M Expense			\$902,780	\$28,382	\$81,702	\$90,421	\$4,037	\$19,729	\$32,353	\$271,400	\$92,301	\$151,894	\$24,227	\$106,334

Allocation for Eastern Divison

ALLOCATE REGULATED BY CUSTOMER COUNT		CUSTOMER COUNT	%
12	KENTUCKY-AMERICAN	116,865	6.63%
13	MARYLAND-AMERICAN	4,778	0.27%
18	NEW JERSEY-AMERICAN	398,808	22.62%
52	ELIZABETHTOWN WATER Co	208,731	11.85%
53	MT HOLLY WATER Co	16,415	0.93%
24	PENNSYLVANIA-AMERICAN	646,099	36.66%
26	TENNESSEE-AMERICAN	73,701	4.18%
27	VIRGINIA-AMERICAN	54,551	3.10%
28	WEST VIRGINIA-AMERICAN	166,477	9.45%
38	LONG ISLAND-AMERICAN	73,495	4.17%
42	UNITED WATER VIRGINIA	2,422	0.14%
Total		1,762,142	100.00%
NER			40%
SER			60%
			100%

Allocation for NER including O&M contracts

FORMULA # FORMULA DESCRIPTION

100076 NE-PLANT/REV/EMPLOY

REV	REG	DATA	TOTAL	PERCENTAGES
PLANT	NON-REG			REG NON-REG TOTAL
EMPLOYEES				
AVERAGE				
	\$493,947	\$26,790	\$520,737	94.86% 5.14% 100.00%
	\$2,103,307	\$14,410	\$2,117,717	99.32% 0.68% 100.00%
	892	6	898	99.33% 0.67% 100.00%
				97.84% 2.16% 100.00%

ALLOCATE REGULATED BY CUSTOMER COUNT

	CUST COUNT	%	FINAL %
18 NEW JERSEY-AMERICAN	398,608	57.17%	55.93%
38 LONG ISLAND-AMERICAN	73,495	10.54%	10.31%
52 ELIZABETHTOWN WATER Co	208,731	29.94%	29.29%
53 Mt HOLLY WATER Co	16,415	2.35%	2.30%
Total	697,249	100.00%	97.83%

ALLOCATE NON-REGULATED TO:

	REV	PLANT	EMPLOY
54 Edison Water Company	\$6,832	\$6,024	-
55 Liberty Water Company	\$17,404	\$8,386	-
56 Etown Services LLC	\$2,554	\$0	6
Total Non-Regulated	\$26,790	\$14,410	6

Individual Factor Percentages:

	% REV	% PLANT	% EMPLOY	% AVG	FINAL %
54 Edison Water Company	25.50%	41.80%	0.00%	22.43%	0.49%
55 Liberty Water Company	64.97%	58.20%	0.00%	41.06%	0.89%
56 Etown Services LLC	9.53%	0.00%	100.00%	36.51%	0.79%
Total Non-Regulated	100.00%	100.00%	100.00%	100.00%	2.17%

18 NEW JERSEY-AMERICAN	55.93%
38 LONG ISLAND-AMERICAN	10.31%
52 ELIZABETHTOWN WATER Co	29.29%
53 Mt HOLLY WATER Co	2.30%
54 Edison Water Company	0.49%
55 Liberty Water Company	0.89%
56 Etown Services LLC	0.79%
Total	100.00%

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

Request No.: STAFF – 245 (KJH - 67)
Requested By: Kevin Higgins
Date of Request: August 8, 2007
Reply Date: August 20, 2007
Subject: Service Company Expense

**Service Company and LIW Management Fees
FYE December 31, 2003, 2004, 2005, 2006 and Projected RYE March 31, 2009
(\$000's)**

<u>Fiscal Year Ending</u>	<u>Total Serv Co Mgt Fees Exp</u>	<u>LIW Mgt. Fees per books</u>
2003		\$2,335
2004	198,745	3,796
2005	191,119	3,378
2006	238,949	4,090
RYE 3/31/09		4,385

**LIW Management Fees by Office
FYE December 31, 2003, RYE March 31, 2006, HTY December 31, 2006 as Adjusted and
Projected RYE March 31, 2009
(\$000's)**

<u>Office</u>	<u>2003</u>	<u>RYE 3/31/06</u>	<u>HTY 12/31/06 As Adjusted</u>	<u>RYE 3/31/09</u>
Corporate	\$660	\$692	\$953	\$1,036
Belleville Lab	123	131	113	123
ITS/Data Ctr.	387	409	698	760
Call Center	737	783	923	1,005
NER	272	598	748	1,101
Shared Services	<u>156</u>	<u>166</u>	<u>330</u>	<u>359</u>
Total	\$2,335	\$2,779	\$3,765	\$4,384

The company's rate filing includes a significant increase for Service Company expense. The tables shows that the historic test level as adjusted service company expense increased by roughly 61% over the level booked in fiscal year ending December 31, 2003. It also shows that the projected rate year level of service company expense to be approximately 88% greater than the amount recorded in 2003. These cost increases far surpass the level of general inflation during this period of time.

1. Please fully detail and illustrate the increase in additional services, by office, provided to LIWC from 2003 to 2006 as well as the increase in additional services, by office, projected to provided in 2007, 2008 and 2009.

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2. In the company's last rate it presented an analysis demonstrating the benefits of consolidating various offices/functions. However, it did not present a similar analysis in its current case. Please update the prior analysis reflecting LIWC's current request for increased service company costs and explain the results of the analysis.
 3. Please provide a list of Service Company who serve as officers of LIWC.
 4. In light of the significant increases in Service Company expense, explain any and all actions LIWC has or is taking to control those costs. Please provide any and all correspondence between January 1, 2003 and the present between LIWC and outside companies discussing the feasibility of obtaining the services currently provided by the service company. Also provide any and all correspondence between January 1, 2003 and the present between LIWC and AWWSC discussing service company expense and its effect on LIWC profitability.
 5. Please indicate whether LIW needs approval from AWWSC in the event it wishes to perform services provided by the service company with its own personnel or hire another company or person to provide those services.
 6. Please provide a list of list of NER current employees and their related job title. Please provide the total number of NER employees as of the following dates: January 1, 2003, 2004, 2005, 2006 and 2007. For any and all employees added since January 1, 2003, briefly explain their reasons for the hiring(s) and how LIW received increased service(s) from the additional employee(s).
 7. Please reconcile the actual allocation of expense from the Corporate Office to LIWC in the historic test year (HTY) ended December 31, 2006, of \$1,946,922 to the adjusted HTY amount of \$952,918 in the company's filing.
 8. Please provide a list of any and all recent and / or potential regulated or non-regulated acquisitions that will or may effect the allocation of service company costs from AWWSC to LIWC. Also provide the revenue requirement impact of the change in allocation.
 9. With the exception of some non-recurring charges incurred by the Corporate Office, it appears that most, if not all, of the expenses allocated to LIWC from the various AWWSC service providers /offices were based on "national allocations" rather than as a result of direct charges. Please explain why.
- A. 1. With the exception of the NER office expense, all pro forma Service Company ("SC") cost increases from the adjusted historic test year for each of the designated offices for

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Staff-245 (continued)

the period 12/06 – 3/09 do not include any additional services. The increases reflected therein are solely projected inflationary cost increases of 4% annually for salary and payroll overheads, and 3.61% annually for all other costs.

Increases by SC office for the period 2003-2006 (as adjusted) are as follows:

Corporate	<u>2003</u>	<u>2006</u>	<u>INCR</u>
	\$660	\$953	\$293

Summary chart – please see below for explanations

ERISA Pension Payment 2006	\$177
Communication and External Affairs	49
Audit	<u>9</u>
	\$235

ERISA Pension Payment 2006 \$177 (\$197 - \$20)

In 2003, the SC ERISA pension contribution was \$968k. LIAW's portion of this amount would have been approximately \$20k. In 2006 the overall SC ERISA pension contribution was \$8,347k. LIAW's portion of the 2006 ERISA SC pension payment was \$197k.

Communication And External Affairs \$49

The Corporate Communications and External Affairs (EA) team has been reorganized since 2003. The EA group manages internal and external communications for all aspects of the company's operations. Generally, this includes providing internal communications for the benefit of employees; providing effective external communications and coordinated materials for such communications efficiently; developing and maintaining internet capabilities for all subsidiaries that meet or exceed state regulatory requirements for customers; public access to meaningful information about the services provided by the company; and contact information for the company. This team prepares customer awareness information on wise water and wastewater resource usage and other timely issues.

Also, the team manages participation in national public stakeholder organizations (i.e. US Conference of Mayors, Water Partnership Council, US Chamber of Commerce) which are involved with public water supply and wastewater collection and treatment concerns. Other significant EA activities include managing development and distribution of company ethics training materials and documentation; Governmental Affairs activities to increase Company input into Safe Drinking Water and Clean Water Act revisions; and an Employee Volunteer Program to provide for employee welfare in disaster situations. EA support staff

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Staff-245 (continued)

has been increased to provide assistance in oversight of the larger scope of activities which has resulted in the increase above.

Audit \$9

External audit requirements are much more stringent in 2006 and going forward in a SOX environment than in 2003.

Belleville Lab

The Belleville Lab costs over the period in question were basically flat (slight decrease).

ITS	<u>2003</u>	<u>2006</u>	<u>INCR</u>
	\$387	\$698	\$311

Summary chart – please see below for explanations.

	Total AWWSC	LIAW
Supply Chain		\$59
ITS		
Labor and related		76 (LIAW's allocation)
Maintenance	2,931 x 2.23%	65 (LIAW's allocation)
Depreciation	5,100 x 2.23%	113 (LIAW's allocation)
Inflation and other	400 x 2.23%	9 (LIAW's allocation)
ITS Total	\$8,431 x 2.23%	\$322

Supply Chain (part of the \$698 in the question) \$59

The Supply Chain function utilizes strategic sourcing methods to procure products and services for all AWW subsidiary companies made up of a national team and regional representatives. The national team is located in Mt. Laurel, NJ, which provides services to the entire American Water system in commonly purchased volume items such as chemicals, pipes and meters. There is also a two person regional staff which procures items that cannot be bid nationally such as residuals management and paving services.

The strategic sourcing methodology utilizes competitive bidding to obtain the most competitive prices for products and services. Whenever advantageous, the Supply Chain group attempts to obtain fixed pricing and a multi-year contract to lock in costs and minimize fluctuating costs.

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Staff-245 (continued)

Supply Chain also works with select suppliers in a supplier management program which continuously rates performance, quality and cost with the objective of progressive improvement to the company and its ratepayers. Problems and issues with other suppliers not deemed strategic are managed by the Supply Chain group. The Supply Chain was organized after the historic test year in the previous case, Case 04-W-0577, and the \$59k represents LIAW's allocation of the ongoing costs of Supply Chain.

ITS - 2006 (adjusted) vs 2003

Labor and related \$3.4m (\$76k allocation to LIAW)
Please see Exhibit 12, tab 15 the second to last page which is entitled "ITS Labor & Related". The \$3,408k (or \$3.4m above) is derived by adding the \$3,149k and the \$259k

Maintenance \$2.93m (\$65k allocation to LIAW)
Yearly maintenance expenses have increased since 2003. In 2004, Oracle, HP and Lotus Notes maintenance expense increased by \$400k, \$34k and \$230k, respectively. In 2005, Service First (half year), IBM, HP, RIA, Rational, On Demand, Anti-virus, Sabrix, Itron maintenance expenses increased \$1,417k. In 2006, the remainder of Service First and Microsoft maintenance expenses increased by \$600k and \$250k, respectively.

The balance of the increase is due to infrastructure maintenance initiatives and changes, increased numbers of users of software requiring additional licenses and general inflation.

Depreciation \$5.1m (\$114k allocation to LIAW)
ITS' capital spend for 2005 was \$4.5m with approximately half of this spend put into service in the last quarter. In 2006, \$11m was complete and in service by year end. Major projects for 2006 include Power Plant, Core System Server

Upgrade, SOX Compliance Tool, Work Order Diagnostic, Divestiture Critical changes, and Identity & Access Management.

Reflected in the above is an overall ITS increase of approximately \$12m from 2003-2006. LIAW's portion of this total is approximately \$275,000.

Customer Service Center	<u>2003</u>	<u>2006</u>	<u>INCR</u>
	\$737	\$923	\$186

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In 2003, LIAW was receiving its entire Customer Service Center ("CSC" or "Call Center") support from the AWW national call center in Alton, Illinois. In 2003, the call center function began to be reorganized in anticipation of the implementation of a number of technological improvements which would have the effect of reducing the number of required customer Service Representatives ("CSRs") to provide service. At the end of 2003, Call Center staffing was 498, including administrative and training activities. Given the normal high turnover involved in an operation such as a call center, the staffing level was permitted to decrease. At the end of 2004, Call Center staffing was 418, including administrative and training activities. Technological changes affecting the call center were made in 2004 and 2005, and were expected to continue throughout the 2006 to 2009 period. Unfortunately, the initial changes were not as successful as expected, and CSR numbers could not remain at the relatively low levels of 2003 and 2004. From that point in time until 2006, additional necessary staffing was added, and the call center staffing increased to 606 in 2005 and to 666 in 2006.

Additionally, the STEP program (please see response to Staff-204 (KJH-59)), under which a number of additional, more significant technological improvements were to be undertaken, was partially deferred, and partially cancelled. Therefore, reductions in call center staffing, anticipated in 2003 and 2004, could not be made.

The increasing demands of the CSC function, including responding to customer inquiries and concerns, has made it necessary to not only expand the Alton Center with additional staffing, but to open a second call center location in Pensacola, Florida to provide quality customer service. This second site provides business continuity, disaster recovery and increased customer service response times. The CSC also has other benefits such as multilingual operators (along with a contractor, Language Line Services, we can interpret 161 languages which represents approximately 99% of customer requests). The additional costs are representative of the additional personnel and facilities now employed over those in effect in 2003.

Please see the attachment, labeled Staff-245 part 2, which shows that LIAW is saving \$986k more than they would for a stand-alone CSC center.

Northeast Region	<u>RYE 3/06</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>RYE 03/09</u>
	\$598	\$748	\$1,040	\$1,090	\$1,101

The increase in expenses from the projected rate year ended 3/2006 to the actual year end 2006 relate to the increase in NER Service Company personnel. In the

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Staff-245 (continued)

2003 rate case the NER had 32 Full Time Equivalents ("FTEs"). In the current case NER has 51.5 FTEs and the Eastern Division has 2 FTEs. The details of the changes in the NER FTEs are contained in Mr. Watkins' testimony on pages 31-34. The increase from the actual 2006 and the link year of 2007, is the normalization of charges from NER to LIAW. In 2006, the NER filed a rate case in NJ on March 31, 2006. Due to the nature of rate cases, the NER employees who were working on the case were charging NJ (which includes NJAWC, EWC and MHWC) directly instead of allocating their time between the two states. Now LIAW is currently in a rate case, therefore NER employees are charging more directly to LIAW. The Company stated its link year of 2007 as an allocation of a normal year, therefore it allocated 10.31% of its Vice Presidents and 10.54% of the other NER FTEs as well as 4.12% of the Divisional FTEs to LIAW. This normal allocation is the most accurate in determining what a typical year would be for the NER charges. Please see Staff-245 part 2, which shows that the NER is saving LIAW money when compared to the old NEI charges.

Please see the attachment, labeled Staff-245 part 2, which shows that LIAW is saving \$132k more than they would for a stand-alone administrative function.

Shared Services	<u>2003</u>	<u>2006</u>	<u>INCR</u>
	\$156	\$330	\$174

There has been an increase of approximately 40 employees in the Shared Services Center ("SSC") since 2003. First, in the 2003-2004 timeframe, the SSC was understaffed due to a multitude of vacancies as well as a reorganization. As a result the 2003 cost was artificially low. Second; changes have been made to certain SSC functions to enhance service. The Accounts Payable group and the accounting group have re-organized to provide service on a regional level, giving the business partners (operating water companies) a direct resource at SSC to work with to improve efficiency and accuracy. In 2006, seven employees were added to the accounts payable group. Accounting has re-organized to provide a point of contact in the way of an accounting director dedicated to each region. Enhancements in the accounting group to achieve efficiency and accuracy in the financial reporting process in the new SOX environment has caused an overall increase of 12 employees.

In addition to the above, the SSC relocated in early 2006 from Mount Laurel, NJ to Cherry Hill, NJ in expanded facilities.

Please see the attachment, labeled Staff-245 part 2, which shows that LIAW is saving \$392k more than they would for a stand-alone SSC center.

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Staff-245 (continued)

2. Please see the attached analysis, labeled Staff-245 part 2. The Company followed the same steps in this analysis as it did in the 2003 rate case. The Company used the 2003 study which projected costs at 2005 for LIAW on an NEI basis and for Service Company for the rate year ended 3/31/06. The Company updated the NEI costs from the last rate case by inflation for 3 years (2006-2008) and compared this to the rate year ended 3/31/09 Service Company costs. Please note that:
- the Shared Service Center ("SSC"), or the accounting group, is saving LIAW \$392k when compared to running the accounting group on an NEI basis.
 - the Customer Service Center ("CSC") is saving LIAW \$986k when compared to the costs of the stand-alone LIAW call center.
 - the NER Service Company, less the finance function, because that was part of the SSC savings, is saving LIAW \$132k when compared to the 1999 LIAW management team.
 - the Belleville Lab has an increase in lab expenses of \$17k when comparing NEI lab to the Belleville Lab. It should be noted that the Belleville Lab conducts more complex testing than the NEI laboratory was capable of in 1999. In 1999, the NEI laboratory conducted testing for many required contaminants. However, NEI was not capable of conducting the most sophisticated testing, including synthetic organic compounds. The Belleville Lab conducts this sophisticated testing. The instrumentation utilized includes the most sophisticated available and allows the laboratory to test for not only regulated contaminants, but also unregulated contaminants as required by the U.S. EPA's Unregulated Contaminant Monitoring Rule. Additional testing has been required by this rule during 2001-2003 and will require more testing during 2008-2010. Other regulations have resulted in additional testing requirements resulting in higher costs.
 - Please see the responses to parts 1 and 4 of Staff-245 for the Corporate explanations.
3. The officers if LIAW that are Service Company employees are as follows:
- | | |
|--|---------------------|
| Vice President – Service Delivery | Wayne Morgan |
| Vice President – Finance and Treasurer | Thomas J. Considine |
| Vice President – Human Resources | Sarah Jane Kennedy |
| Vice President – External Affairs | Lendel Jones |
| VP, Secretary and General Counsel | Michael A. Sgro |
| Assistant Secretary | Robert J. Brabston |
| Assistant Secretary | Jordan S. Mersky |
| Assistant Comptroller | Doneen Hobbs |
| Assistant Comptroller | Rod Nevirauskas |
| Assistant Comptroller | Franco Boffice |
| Assistant Comptroller | Elba Deck |

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Staff-245 (continued)

4. In the current LIAW case on file, LIAW has presented a comparison study of AWWSC expenses vs. what the same services would cost the Company if contracted independently and separately in the geographic area the company is located. Other AWW subsidiary companies have contracted for the same study by Mr. Patrick Baryenbruch in a number of jurisdictions over the last few years. There are significant economies of scale achieved through the pooling of talent available to all AWW subsidiaries with initiatives such as the national Customer Service Center and the Shared Services Center. LIAW has access to water utility and financial professionals that could not be realized as cost effectively if procured separately. This is particularly true for a small company like LIAW. Mr. Baryenbruch's study reflects the fact that if LIAW was to obtain the same services locally that are currently provided by AWWSC, it would be cost prohibitive.

LIAW management discusses Service Company services and expenses with the senior management of the region on a regular basis. LIAW management is pleased with the high quality and the cost of the services provided by the Service Company.

There is no correspondence between LIAW and AWWSC regarding Service Company expense and its affect on LIAW profitability.

5. LIAW does not require approval from AWWSC to obtain the services provided by the service company elsewhere. This is also expressed in Article 1 section 1.1 of the Service Company's agreement with LIAW, please see the attachment to the response to interrogatory Staff-82. Please refer to the testimony and the Market Cost Comparison of Service Company Charges to Long Island American Water attached to Mr. Baryenbruch's testimony.
6. Please see the attached list, labeled Staff-245 part 6, of NER Service Company employees as of 8/10/07, 1/5/07, 1/20/06, 1/2005, 1/2004 and 1/2003. The NER has gone through several reorganizations since 2003, the first was in relation to the acquisition of EWC and MHWC. NER employees were understated in 2004, as shown in the attachment, because some of the positions that should have been in the NER were left in EWC due to benefit differences. In the last rate case, Case 04-W0577, LIAW had \$271,051 in the historic test year expense for the NER. The Company's pro forma NER Service Company expense in the rate year ended 3/31/2006 was \$598,523. The majority of this increase over the historic test year was related to 8 positions that were EWC employees (President, VP of Operations, Director of Environmental Compliance, Director of Loss Control, Director of Production and two secretaries) and a few transfers from NJAWC which better aligned the NER into a region with the VPs and President supporting both the state of NJ and NY. These positions remained EWC positions until those employees left the Company and were replaced by a NER employee or until January of 2007 when the pension plans of EWC were merged with AWW and the employee was able to change companies without losing their benefits (the pension plan was merged in December 2006). Also in this increase were 2 financial analysts that were

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Staff-245 (continued)

NJAWC employees who assisted LIAW in their budget process and therefore were transferred into the NER in order to better allocate their charges. The Human Resource department also moved into NER from NJAWC. There were 8 employees that transferred with responsibilities for hiring, processing, maintaining employee data as well as training. There were 4 employees that transferred from NJAWC into NER for Loss Control, now known as Operational Risk. These employees process claims and provide safety training for all of the employees of the NER. Another piece included in the increase in the last case was moving 3 employees who support the VP of Government Relations into the NER because they provided support in regards to communications and community relations for the Region, not just LIAW.

- | | |
|-------------------------------|----------------|
| 7. 2006 Corporate office Cost | \$1,946 |
| Adjustments: | |
| 1. Pension Expense | \$(522) |
| 2. Business Change | \$ (74) |
| 3. Divestiture/SOX | \$(351) |
| 4. Human Resources | \$ 7 |
| 5. Other (Re-class) | <u>\$ (53)</u> |
| Subtotal | <u>(\$993)</u> |
| | <u>\$953</u> |
1. Conversion of AWWSCO Pension from ERISA to FAS 87.
 2. Costs associated with re-engineering of business process and systems.
 3. Costs primarily associated with SOX compliance.
 4. Labor accrual.
 5. Reclassed STEP expenses from AWWSC to LIAW.
8. There are no recent regulated or non-regulated acquisitions that have taken place that have affected the allocation of Service Company costs to LIAW. The Service Company revises the allocation formulas every 12/31 based on the current customer count.

The NER has a proposal on the table in NJ regarding an acquisition that would potentially add approximately 40,000 customers to the NER customer base. Should the NER successfully complete the acquisition, there would be a modest shift in the customer count used for the allocation of costs which would result in LIAW seeing a decrease in their proportional share. For example if 40,000 customers were added to the NER customer base, than the LIAW allocation from NER would be 9.97% instead of the current 10.54%.

9. To gain maximum efficiency and to provide the required management and expertise to all subsidiary companies, many of the functional areas of support have been consolidated. Prime example of this are the national Call Centers, the Shared Service Center, and ITS. In large part, services performed by these entities are on behalf of a multitude of companies, whether it be on a regional basis or a national basis. Because multiple

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Staff-245 (continued)

companies derive benefit from these services, it is appropriate to allocate those costs over the companies that benefit. LIAW enjoys significant economies of scale with this allocation methodology as their share of allocated cost based on the number of LIAW customers to the total customers in the AWW system is approximately 2.23 %. Please see the attachment, labeled Staff-245 part 9, for a summary of the Regions charges, the information provided in the top section is from the attachment to Staff-84. The bottom section makes an adjustment to the Direct and Regional allocations based on the following discussion. There was a total of \$594k that was classified as Regional allocation in Staff-84 but should have been Direct. The formula in question charges to the legal regulated entity in the state of NJ but the accounting software currently has 3 separate companies, this formula allocates between the 3 book companies of NJ in order to allocate something that benefits the combined or legal NJ entity. Either before or after the adjustment for the \$594k, LIAW was charged 9.92% of the overall Region charges. It should be noted that another \$36k was removed which lowers this percentage further. 13% of the total historic test year charges for the Regions were direct charges from the NER. Another 66% were based on regional charges and the remaining 21% from national allocations. Of the \$1,099k in Direct charges only 7.42% was charged to LIAW which supports the information in part 1 of this response as to why the NER charges should be reallocated to "normally" distribute the charges based on a normal year and not a rate case year. The majority of the Regions charges, 66.22%, are Regional allocations which are services performed by the NER on behalf of a multiple of companies. Because multiple companies derive benefit from these services, i.e. LIAW, NJAWC, EWC and MHWC, it is appropriate to allocate those costs over the companies that receive the benefit. LIAW enjoys significant economies of scale with this allocation methodology as their share of allocated cost based on the number of LIAW customers to the total customers in the NER system is approximately 10.54 %.

Attached, labeled as Staff-245 part 9 page 2, is a revised NER overhead calculation of 42.07%. The revisions were made because in 2006 the Pension and OPEBs were expensed in the Corporate business unit instead of the NER business units. The 42.07% is based on information that was provided to Kevin Higgins based on Service Company expenses by account number by office. The Company believes that since the Pension and OPEB expenses were booked to the Corporate business unit, the most accurate overhead percentage to use for the NER would be the overall Service Company overhead which is provided for the historic test year in the attachment.

Respondent: John M. Watkins/Rod Nevirauskas

Date: August 24, 2007

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Staff-245 part 2

Shared Service Avoided Cost

1999 Cost -	\$646,707	x	1.40 (OH) =	\$905,390
2005 Avoided Cost	\$905,390	x	103.0% for 6 Years 2000-05	1,081,083
2008 Avoided Cost	\$1,081,083	x	103.5% for 3 Years 2006-08	1,198,616
				<u>\$1,198,616</u>

Pro Forma Cost:

Shared Service Cost				\$359,341
1 LIWC Employee (Payroll + OH)				175,812
NE Region Rates and Finance Groups (Payroll + OH) (1)				271,400
				<u>806,553</u>

Net Savings				<u>\$392,063</u>
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Note (1): based on allocation as shown in the response to Staff-231 part 6.

Customer Call Center Avoided Cost

1999 Cost -	\$1,074,097	x	1.40 (OH) =	\$1,503,736
2005 Avoided Cost	\$1,503,736	x	103.0% for 6 Years 2000-05	1,795,539
2008 Avoided Cost	\$1,795,539	x	103.5% for 3 Years 2006-08	1,990,746
				<u>\$1,990,746</u>

Pro Forma Cost:

Customer Call Center				<u>\$1,005,156</u>
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Net Savings				<u>\$985,590</u>
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Administrative (Region versus LIAW)

1999 Cost -	\$477,835	x	1.40 (OH) =	\$668,969
2005 Avoided Cost	\$668,969	x	103.0% for 6 Years 2000-05	798,784
2008 Avoided Cost	\$798,784	x	103.5% for 3 Years 2006-08	\$885,626
				<u>\$753,272</u>

NER Service Company (less the NE Rates & Finance Groups shown above in SSC)

Net Savings				<u>\$132,354</u>
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Lab

1999 Cost -			NEI Lab Costs	\$80,000
2005 Avoided Cost	\$80,000	x	103.0% for 6 Years 2000-05	95,524
2008 Avoided Cost	\$95,524	x	103.5% for 3 Years 2006-08	\$105,909
				<u>\$122,955</u>
Belleville Lab				<u>\$122,955</u>
Net Savings				<u>(\$17,046)</u>

Administrative (Corporate, Supply Chain and ITS)

			NEI Management Fees	\$434,104
2005 Avoided Cost	\$434,104	x	103.0% for 6 Years 2000-05	518,343
2008 Avoided Cost	\$518,343	x	103.5% for 3 Years 2006-08	\$574,696
				<u>\$574,696</u>

Pro Forma Cost

Net Savings				<u>(\$1,221,426)</u>
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Overall Savings:	Current Cost	Avoided Cost	
Shared Service	\$806,553 (1)	\$1,198,616	\$392,063
Call Center	1,005,156	1,990,746	985,590
Administrative (Region versus LIAW)	753,272 (2)	885,626	132,354
Lab	122,955	105,909	(17,046)
Administrative (Corporate, Supply Chain and ITS)	1,796,122 (3)	574,696	(1,221,426)
Grand Total Savings	\$4,484,058	\$4,755,593	<u>\$271,535</u>

LIAW employee costs from the SSC (175,812)

Revised AWWSC expense for the RYE 3/31/09 \$4,308,246

Notes (1): Includes LIAW employee expenses

(2): NER Service Company expenses equal 271,400 Finance charges reflected in SSC

753,272 All other NER Service Company Fees

1,024,672

(3): Includes Corporate, Supply Chain and ITS

Staff-245 part 6

As of August 10, 2007

As of January 5, 2007

As of January 20, 2006

Lynch, Walter Executive VP Business Opns 1.0
Morgan, Wayne D. VP Regional Business Perf 1.0
Roberti, Michael J Mgr NonRevenue Water 1.0
Rouleau, Diane Exec Asst 1.0
Welding, Diane C Exec Asst to EMT 1.0

Gardner, Dorothy Exec Asst 1.0
Hunter, Brenda L. Analyst Financial 1.0
Hunter, David C. Intmd Financial Analyst 1.0

Considine Jr, Thomas J. Regional Dir Finance 1.0
McKeever, Michael B. Mgr Project Finance 1.0
Pierse, Priscilla E. Analyst Financial 1.0
Rex, H Edward Sr Analyst Financial 1.0
Rodgers, William T. Sr Analyst Financial 1.0
Sedlacek, Angela M. Mgr Compliance 1.0
Simpson, Frank X. Mgr Rates & Regulations 1.0
Watkins, John M. Sr Analyst Financial 1.0
Matarazzo, Anthony Dir Environ Mgmt & Compliance 1.0
Tambini, Steven J. Dir Engineering 1.0
Brabston, Robert J. Corp Counsel III Regional 1.0
Cecchini, Kelly A. Exec Asst 1.0

Mersky, Jordan S. Corp Counsel III Regional 1.0
Sgro, Michael A. Regional General Counsel 1.0
Spitzner, Melissa A. Paralegal 1.0
Rambaldi, Joseph J. Dir Maintenance 1.0

Kennedy, Sarah Jane Regional Dir HR 1.0
Ruchalski, Shari A. Mgr Training & Development 1.0
Nichols, Debra D Exec Asst 1.0
Ross, Heather M. Mgr Human Resources 1.0
Sadowski, Laura A. HR Generalist 1.0

Birmingham, Frank W Mgr Health & Safety 1.0
Bock, Elizabeth A. Specialist Health & Safety 1.0
Chamey, Robert B Specialist Health & Safety 1.0
Hellman, Sylvia Mgr Loss Control 1.0
King, Michael Specialist Loss Control 1.0
McMahon, Kevin J. Dir Operational Risk Mgmt 1.0
Para, Scott Mgr Security & Event Mgmt 1.0
Robles, Jose A Specialist Loss Control 1.0
Gates, Melanie D. Exec Secretary 1.0
Golodik, Thomas Proposal Writer 1.0

Legg, David R Client Exec 1.0
Marino, Albert D Business Developer 1.0

Zavaglia, Fredrick Client Exec 1.0
Acevedo, Mildred J Exec Secretary 1.0

Jones, Lendel G Dir External Affairs 1.0

44.0

Lynch, Walter Regional President 1.0
Morgan, Wayne D. VP Regional Business Perf 1.0
Roberti, Michael J Mgr NonRevenue Water 1.0
Rouleau, Diane Exec Asst 1.0
Welding, Diane C Exec Asst to EMT 1.0
Boller, Kenneth E. Mgr Financial Perf Plng & Rptg 1.0
Cook, Frank Mgr Project Finance 1.0
Gardner, Dorothy Exec Asst 1.0
Hunter, Brenda L. Analyst Financial 1.0
Hunter, David C. Intmd Financial Analyst 1.0
Knight, Lori A. Intmd Financial Analyst 1.0
McCabe, James F. Regional Dir Finance 1.0
McKeever, Michael B. Mgr Project Finance 1.0
Pierse, Priscilla E. Analyst Financial 1.0
Rex, H Edward Sr Analyst Financial 1.0
Rodgers, William T. Sr Analyst Financial 1.0
Sedlacek, Angela M. Mgr Compliance 1.0
Simpson, Frank X. Mgr Rates & Regulations 1.0
Watkins, John M. Sr Analyst Financial 1.0
Matarazzo, Anthony Dir Environ Mgmt & Compliance 1.0
Tambini, Steven J. Dir Engineering 1.0
Brabston, Robert J. Assoc Counsel III Regional 1.0
Cecchini, Kelly A. Legal Secy (N) 1.0
Jakeman, Antoinette Exec Asst 1.0
Mersky, Jordan S. Assoc Counsel III Regional 1.0
Sgro, Michael A. Regional Counsel 1.0
Spitzner, Melissa A. Paralegal 1.0
Rambaldi, Joseph J. Dir Maintenance 1.0

Kennedy, Sarah Jane Regional Dir HR 1.0
Moniodes, Rita Mgr Training & Development 1.0
Nichols, Debra D Exec Asst 1.0
Ross, Heather M. Sr HR Generalist 1.0
Sadowski, Laura A. HR Generalist 1.0

Birmingham, Frank W Mgr Health & Safety 1.0
Bock, Elizabeth A. Specialist Health & Safety 1.0
Chamey, Robert B Specialist Health & Safety 1.0
Hellman, Sylvia Mgr Loss Control 1.0
King, Michael Specialist Loss Control 1.0
McMahon, Kevin J. Dir Operational Risk 1.0
Robles, Jose A Specialist Loss Control 1.0
Gates, Melanie D. Exec Secretary 1.0
Golodik, Thomas Proposal Writer 1.0

Legg, David R Client Exec 1.0
Marino, Albert D Business Developer 1.0

Zavaglia, Fredrick Client Exec 1.0
Acevedo, Mildred J Exec Secretary 1.0

Jones, Lendel G Dir External Affairs 1.0

47.0

Maclean, Robert Director, Network 1.0
Cunningham, Brian S. Project Mgr Materials Mgmt 1.0
Larry, Charles E Director Customer Relations 1.0
Lynch, Walter Regional Director-HR Northeast 1.0
Morgan, Wayne D. VP Business Performance 1.0
Roberti, Michael J Business Developer 1.0
Nikiper, Deborah A. Executive Assistant 1.0
Welding, Diane C Executive Assistant 1.0
Boller, Kenneth E. Mgr-Fin Perf,Plng,Reporting 1.0

Gardner, Dorothy Executive Assistant 1.0
Hunter, David C. Sr. Financial Analyst 1.0

Knight, Lori A. Financial Analyst-Intermediate 1.0
McCabe, James F. Director, Finance 1.0
Rauth, Susan T. Sr. Financial Analyst 1.0

Rex, H Edward Sr Analyst Financial 1.0
Rodgers, William T. Sr. Financial Analyst 1.0
Sedlacek, Angela M. Mgr, Reporting,Analysis&Compli 1.0
Simpson, Frank X. Mgr, Rates & Planning 1.0
Watkins, John M. Sr. Financial Analyst 1.0

EWC position
Tambini, Steven J. Director, Engineering 1.0
Brabston, Robert J. Regional Associate Counsel 1.0
Tilley, Karen I. Legal Secretary 1.0

Mersky, Jordan S. Deputy General Counsel 1.0
Sgro, Michael A. Corporate Counsel 1.0
Spitzner, Melissa A. Paralegal 1.0

Murphy, Linda A. Assistant Facilities Manager 1.0
Andes, Kathleen Human Resources Manager 1.0
Kennedy, Sarah Jane Director, Human Resources 1.0
Mallett, Susan J. Receptionist 1.0
Moniodes, Rita Training & Development Manager 1.0
Simone, Susan Executive Assistant 1.0
Ross, Heather M. Sr Human Resources Generalist 1.0
Sadowski, Laura A. Human Resources Generalist 1.0
Tobler, Michelle D. Human Resources Manager 1.0
Birmingham, Frank W Manager Health & Safety 1.0
Bock, Elizabeth A. Operations Spec-Loss Control 1.0
Chamey, Robert B Operations Spec-Loss Control 1.0

EWC position
DeVincents, Jennifer M. Operations Specialist 1.0
McMahon, Kevin J. Dir, Operational Risk Mgmt 1.0

EWC position
Gates, Melanie D. Executive Secretary 1.0
Golodik, Thomas Director, Business Development 1.0
Johnson, Richard Director Client Relations 1.0

Legg, David R Business Developer 1.0
Marino, Albert D Business Developer 1.0
Rodgers Jr., Donald R. VP Business Development 1.0
Vetter, Peter Director, Business Development 1.0
Acevedo, Mildred J Executive Secretary 1.0
Duffy, Maureen Mgr, Communications Corp/Resp 1.0
Giedhill, Gloria R Mgr, Communications Corp/Resp 1.0
Jones, Lendel G Dir/VP Government Affairs 1.0

50.0

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As of January 2005

As of January 2004

As of January 2003

Clarkson, William Andrew	Director, Network	1.0						
Larry, Charles E	Director, Customer Field Servi	1.0						
Lynch, Walter	Managing Dir (Northeast)	1.0	EWC position		Gallo, Robert J.	President	1.0	
EWC position			EWC position		Kyriss, Karl M.	VP Operations	1.0	
Roberti, Michael J	Business Performance Manager	1.0						
Nikiiper, Deborah A.	Executive Assistant	1.0	EWC position		Beatty, Donna M.	Executive Secretary	1.0	
Welding, Diane C	Executive Assistant	1.0	Mendenhall, Sharon A.	Executive Assistant	1.0	Mendenhall, Sharon A.	Executive Assistant	1.0
Boller, Kenneth E.	Sr. Financial Analyst	1.0						
Engle, Robert A	Sr. Financial Analyst	1.0	Engle, Robert A	Sr. Financial Analyst	1.0			
Gardner, Dorothy	Executive Secretary	1.0						
Knight, Lori A.	Financial Analyst-Intermediate	1.0	Knight, Lori A.	Financial Analyst-Intermediate	1.0			
McCabe, James F.	Director, Finance	1.0	Davis, William B.	VP & Treasurer	1.0	Davis, William B.	VP & Treasurer	1.0
Rauth, Susan T.	Sr. Financial Analyst	1.0						
Rex, H Edward	Sr Analyst Financial	1.0	Rex, H Edward	Sr Analyst Financial	1.0			
Sedlacek, Angela M.	Mgr, Reporting, Analysis&Compli	1.0	Sedlacek, Angela M.	Mgr, Reporting, Analysis&Compli	1.0			
			Nevirauskas, Rod	Mgr, Rates & Planning	1.0	Nevirauskas, Rod	Mgr, Rates & Planning	1.0
Watkins, John M.	Sr. Financial Analyst	1.0	Watkins, John M.	Sr. Financial Analyst	1.0	Watkins, John M.	Sr. Financial Analyst	1.0
EWC position			EWC position					
Tambini, Steven J.	Director, Engineering	1.0	Tambini, Steven J.	Director, Engineering	1.0	Tambini, Steven J.	Director, Engineering	1.0
Brabston, Robert J.	Associate Counsel	1.0						
Tilley, Karen I.	Corporate Legal Assistant	1.0	Dodd, Sherry L.	Executive Secretary	1.0	Dodd, Sherry L.	Executive Secretary	1.0
			Murphy, Cherrie L.	Sr. Secretary	1.0	Murphy, Cherrie L.	Sr. Secretary	1.0
Sgro, Michael A.	Corporate Counsel	1.0	Hugee, Jacquelynn	Associate Counsel	1.0	Hugee, Jacquelynn	Associate Counsel	1.0
Grace, Maureen	Paralegal	1.0	Sgro, Michael A.	Corporate Counsel	1.0	Sgro, Michael A.	Corporate Counsel	1.0
Ansell, Norman R.	Director, Maintenance	1.0	Grace, Maureen	Paralegal	1.0	Grace, Maureen	Paralegal	1.0
Murphy, Linda A.	Office Supervisor	1.0						
Andes, Kathleen	Human Resources Manager	1.0						
Kennedy, Sarah Jane	Director, Human Resources	1.0	EWC position			Clarke, Gary D.	VP Human Resources	1.0
Mallett, Susan J.	Receptionist	1.0						
Owens, Joyce S.	Training & Development Manager	1.0						
Simone, Susan	AWS GENERIC JOB TYPE	1.0				Youse, Regina T.	Executive Secretary	1.0
Smith, Stanley W.	Human Resources Manager	1.0						
Pienard, Mary Ellen	AWS GENERIC JOB TYPE	1.0						
Tobler, Michelle D.	Human Resources Manager	1.0						
Birmingham, Frank W	Director, Loss Control	1.0						
Bock, Elizabeth A.	Operations Spec-Loss Control	1.0						
Charney, Robert B	Operations Spec-Loss Control	1.0						
EWC position			EWC position					
DeVincents, Jennifer M.	Operations Specialist	1.0						
EWC position			EWC position					
Sena, Melanie D.	Executive Secretary	1.0						
Deveaux, Edmund M.	Director, Business Development	1.0						
Legg, David R	Manager Business Development	1.0						
Marino, Albert D	Manager Business Development	1.0				Rex, H Edward	Business Development Specialis	1.0
Young, Timothy A.	VP Business Development	1.0	Clarkson, William Andrew	Director of BD	1.0	Clarkson, William Andrew	Director, Business Development	1.0
Vetter, Peter	Director, Business Development	1.0				Engle, Robert A	Sr. Financial Analyst	1.0
Acevedo, Mildred J	Executive Secretary	1.0						
Duffy, Maureen	Communications Manager	1.0						
Giedhill, Gloria R	Manager Government Affairs	1.0						
Jones, Lendel G	Dir/VP Government Affairs	1.0	Jones, Lendel G	Dir/VP Government Affairs	1.0			
		44.0			16.0			18.0

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	<u>NJAWC</u>	<u>LIAW</u>	<u>EWC</u>	<u>MHWC</u>	<u>Edison</u>	<u>Liberty</u>	<u>ETS</u>	<u>TOTAL</u>	
As filed in Staff-84									
Direct	\$ 285,976	\$ 81,555	\$ 129,142	\$ 6,143	\$ 741	\$ 1,006	\$ 423	\$ 504,986	6.05%
National	\$ 1,011,215	\$ 167,947	\$ 505,665	\$ 39,755	\$ (969)	\$ (1,768)	\$ (676)	\$ 1,721,167	20.61%
Regional	\$ 3,543,692	\$ 579,218	\$ 1,828,085	\$ 141,831	\$ 10,862	\$ 17,107	\$ 3,984	\$ 6,124,778	73.34%
	\$ 4,840,882	\$ 828,720	\$ 2,462,892	\$ 187,729	\$ 10,633	\$ 16,345	\$ 3,731	\$ 8,350,932	100.00%
Direct	56.63%	16.15%	25.57%	1.22%	0.15%	0.20%	0.08%	100.00%	
National	58.75%	9.76%	29.38%	2.31%	-0.06%	-0.10%	-0.04%	100.00%	
Regional	57.86%	9.46%	29.85%	2.32%	0.18%	0.28%	0.07%	100.00%	
	57.97%	9.92%	29.49%	2.25%	0.13%	0.20%	0.04%	100.00%	
Charges that should be considered direct but were classified as Regional because they are charged to 3 companies, all in NJ.	\$ 380,296	\$ -	\$ 199,274	\$ 14,922	\$ -	\$ -	\$ -	\$ 594,492	
Adjusted for Formula charging NJAWC, EWC and MHWC									
Direct	\$ 666,272	\$ 81,555	\$ 328,416	\$ 21,065	\$ 741	\$ 1,006	\$ 423	\$ 1,099,478	13.17%
National	\$ 1,011,215	\$ 167,947	\$ 505,665	\$ 39,755	\$ (969)	\$ (1,768)	\$ (676)	\$ 1,721,167	20.61%
Regional	\$ 3,163,395	\$ 579,218	\$ 1,628,811	\$ 126,909	\$ 10,862	\$ 17,107	\$ 3,984	\$ 5,530,287	66.22%
	\$ 4,840,882	\$ 828,720	\$ 2,462,892	\$ 187,729	\$ 10,633	\$ 16,345	\$ 3,731	\$ 8,350,932	100.00%
Direct	60.60%	7.42%	29.87%	1.92%	0.07%	0.09%	0.04%	100.00%	
National	58.75%	9.76%	29.38%	2.31%	-0.06%	-0.10%	-0.04%	100.00%	
Regional	57.20%	10.47%	29.45%	2.29%	0.20%	0.31%	0.07%	100.00%	
	57.97%	9.92%	29.49%	2.25%	0.13%	0.20%	0.04%	100.00%	

Account Number	Description	Billed to Long Island	Total Company
501200	Labor	1,374,907.33	76,329,871.66
504100	Group Insurance	6,026.93	209,451.11
505100	PBOP	4,871.16	92,748.22
507100	401k	2,860.95	102,920.03
508100	EIP	28.66	1,268.00
508101	DCP	5,688.22	255,666.23
534998	Benefit Overhead *	558,881.81	29,605,312.59
Total Overheads		578,357.73	30,267,366.18
Overhead Allocation		42.07%	39.65%