

**Case No.**

**LONG ISLAND AMERICAN WATER**

**TESTIMONY OF PATRICK L. BARYENBRUCH**

**May 2007**

BARYENBRUCH

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

2           A. Patrick L. Baryenbruch, 302 East Park Drive, Raleigh, North Carolina 27605.

3       **2. Q. Please describe your educational and professional background.**

4           A. I received a Bachelors degree in accounting from the University of Wisconsin-Oshkosh  
5           in 1974 and a Masters in Business Administration degree from the University of  
6           Michigan in 1979.

7                   I am a financial consultant and am a member of the American Institute of  
8           Certified Public Accountants and the North Carolina Association of Certified Public  
9           Accountants.

10                   I began my career as a staff accountant with Arthur Andersen & Company where  
11           I performed financial audits of utilities, banks and finance companies. After three years I  
12           left to pursue an M.B.A. degree. Upon graduation from business school, I worked with  
13           the consulting firms of Theodore Barry & Associates and Scott, Madden & Associates.

14                   During my consulting career, I have performed consulting assignments for  
15           approximately 50 utilities and 10 public service commissions. I have participated as  
16           project manager, lead or staff consultant for 24 commission-ordered management and  
17           prudence audits of public utilities. Of these, I have been responsible for evaluating the  
18           area of affiliate charges and allocation of corporate expenses in the Commission-ordered  
19           audits of Connecticut Light and Power, Connecticut Natural Gas, General Water  
20           Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company (now  
21           Aqua America), Pacific Gas & Electric Company and Southern California Edison.

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1 My firm has performed the commission-ordered audit of Southern California Edison's  
2 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate companies.

3 **3. Q. What are your duties and responsibilities in your current position?**

4 A. I am the President of my own consulting practice, Baryenbruch & Company, which was  
5 established in 1985. In that capacity, I provide consulting services to utilities and their  
6 regulators.

7 **4. Q. Please describe the reason for your testimony in this case.**

8 A. I am presenting the results of my study which evaluated the services provided by  
9 American Water Service Company ("Service Company") during 2006 to Long Island  
10 American Water (LIAW). This study was undertaken in conjunction with LIAW's rate  
11 case and is accurate and reliable to the best of my knowledge and belief. The study is  
12 attached as Exhibit PLB-1.

13 **5. Q. What were the objectives of your study?**

14 A. This study was undertaken to answer three questions. First, was LIAW charged the  
15 lower of cost or market for managerial and professional services provided by the Service  
16 Company during 2006? Second, were the 2006 costs of the Service Company's customer  
17 accounts services, including those of the National Call Centers, reasonable? Third, are  
18 the services LIAW receives from Service Company necessary?

19 **6. Q. What conclusions were you able to draw concerning question number 1, whether**  
20 **LIAW was charged the lower of cost or market services provided by the Service**  
21 **Company?**

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1       A. I was able to draw the following conclusions:

2           (1)     LIAW was charged the lower of cost or market for managerial and professional  
3                   services during the 12 months ended December 31, 2006.

4           (2)     On average, the hourly rates for outside service providers are 59% higher than  
5                   the Service Company's hourly rates.

6           (3)     The managerial and professional services provided by the Service Company are  
7                   vital and could not be procured externally by LIAW without careful supervision  
8                   on the part of LIAW. If these services were contracted entirely to outside  
9                   providers, LIAW would have to add at least one position to manage activities of  
10                  outside firms. These positions would be necessary to ensure the quality and  
11                  timeliness of services provided.

12          (4)     If all the managerial and professional services now provided by the Service  
13                   Company had been out-sourced during the 12-months ended December 31, 2006,  
14                   LIAW and its ratepayers would have incurred an additional \$1.8 million in  
15                   expenses. This amount includes the higher cost of outside providers and the cost  
16                   of a LIAW position needed to direct the outsourced work.

17          (5)     This study's hourly rate comparison actually understates the cost advantages that  
18                   accrue to LIAW from its use of the Service Company. Outside service providers  
19                   generally bill for every hour worked. Service Company personnel, on the other  
20                   hand, charge a maximum 8 per day even when they work more. If the overtime  
21                   hours of Service Company personnel had been factored into the hourly rate

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1 calculation, the Service Company would have had an even greater annual dollar  
2 advantage than the \$1.8 million cited above.

3 (6) It would be difficult for LIAW to find local service providers with the same  
4 specialized water industry expertise as that possessed by the Service Company  
5 staff. Service Company personnel spend substantially all their time serving  
6 operating water companies. This specialization brings with it a unique  
7 knowledge of water utility operations and regulation that is most likely  
8 unavailable from local service providers.

9 (7) Service Company fees do not include any profit markup. Only its actual cost of  
10 service is being recovered from LIAW ratepayers.

11 **7. Q. What is your conclusion regarding the reasonableness of the costs of the National**  
12 **Call Center that provides service to LIAW?**

13 A. I was able to determine that the cost of the Service Company's customer accounts  
14 services, including those provided by the National Call Center, is below the average of  
15 the comparison group of neighboring electric utilities. As will be explained further  
16 herein, this group of companies provides a reasonable proxy group for comparison to a  
17 regulated utility of the size and scope of LIAW. During the 12-months ended December  
18 31, 2006, the customer accounts cost for LIAW customers was \$26.98 compared to the  
19 2005 average of \$29.32 for neighboring electric utilities. The highest comparison group  
20 per customer cost was \$77.79 and the lowest \$13.83.

21 **8. Q. What conclusions were you able to draw concerning the necessity of the services**  
22 **LIAW receives from the Service Company?**

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1       A. I was able to draw the following conclusions:

2               (1)   The services that the Service Company provides are necessary and would be  
3                       required even if LIAW were a stand-alone water utility.

4               (2)   There is no redundancy or overlap in the services provided by the Service  
5                       Company to LIAW. For all of the services listed in Schedule 11 of my study,  
6                       there was only one entity that was primarily responsible for the service.

7       **9. Q. Does this complete your testimony?**

8       A. Yes.

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**Market Cost Comparison of Service Company Charges to  
Long Island American Water**

**12-Months Ended December 31, 2006**

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**Long Island American Water  
Market Cost Comparison of Service Company Charges  
12-Months Ended December 31, 2006**

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## I - Introduction

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### Purpose Of This Study

This study was undertaken to answer three questions concerning the services provided by American Water Works Service Company, Inc. (Service Company) to Long Island American Water (LIAW):

1. Was LIAW charged the lower of cost or market for managerial and professional services provided by the Service Company during 2006?
2. Were the 2006 cost of the Service Company's customer accounts services, including those of the National Call Centers, reasonable?
3. Are the services LIAW receives from Service Company necessary?

### Study Results

Concerning question 1, the following conclusions can be drawn from this study:

- LIAW was charged the lower of cost or market for managerial and professional services during the 12-months ended December 31, 2006.
- On average, the hourly rates for outside service providers are **59% higher** than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by LIAW without careful supervision on the part of LIAW. If these services were contracted entirely to outside providers, LIAW would have to add at least one position to manage activities of outside firms. These positions would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been out-sourced during the 12-months ended December 31, 2006, LIAW and its ratepayers would have incurred an **additional \$1.8 million** in expenses. This amount includes the higher cost of outside providers and the cost of a LIAW position needed to direct the outsourced work.
- This study's hourly rate comparison actually understates the cost advantages that accrue to LIAW from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company personnel, on the other hand, charge a maximum 8 per day even when they work more. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$1.8 million cited above.
- It would be difficult for LIAW to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from LIAW ratepayers.

Concerning question 2, it was determined that the cost of the Service Company's customer accounts services, including those provided by the National Call Center, **is below the average of the comparison group of neighboring electric utilities**. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of LIAW. During the 12-months ended December 31, 2006, the customer accounts cost for LIAW customers was \$26.98 compared to the 2005 average of \$29.32 for neighboring electric utilities. The highest comparison group per customer cost was \$77.79 and the lowest \$13.83.

Concerning question 3, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if LIAW were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to LIAW. For all of the services listed in Schedule 11, there was only one entity that was primarily responsible for the service.

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## II - Background

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### Overview Of American Water Service Company

The Service Company maintains several types of offices from which it provides services to American Water operating companies. They include:

- Corporate Office – Includes American Water's executive management and personnel from the various corporate support services. American Water's corporate office is located in Voorhees, New Jersey.
- National Call Centers – Perform customer service functions, including: customer call processing, service order processing, correspondence processing, credit and collections. American Water maintains two call centers. One in Alton, Illinois that went into operation in the second quarter of 2001 and a second in Pensacola, Florida that went into operation in April 2005. Prior to the establishment of these national call centers, customer service functions were performed by employees of LIAW, which incurred the expense on its books. LIAW transitioned to the Call Center in October 2003.
- National Shared Services Center – The Shared Services Center, located in Cherry Hill, New Jersey, provides various financial, accounting and treasury functions that had been performed by individual operating companies. This arrangement has improved and streamlined the Company's financial processes and allowed operating companies to focus on providing utility service.
- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they have not been consolidated into the National Shared Services Center. Examples of regional office services include rates and revenues, engineering and operations.
- Belleville Lab – The national trace substance laboratory is located in Belleville, Illinois and performs testing for all American Water operating companies.
- Information Technology Service Centers – American Water's principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and the email system. IT personnel rotate, as needed, throughout the regional offices and operating companies.

### Service Company Expense Categories

The Service Company renders a monthly bill to operating companies. Charges are broken down into the following expense categories:

- Labor – base pay (salaries) of managerial and professional employees
- Labor-Related Overheads - employee benefit costs (payroll taxes, medical coverage, pensions, disability insurance) and other general expenses
- Support - wages and salaries of office support personnel, including secretaries, clerical personnel, telephone operators and mail clerks

- Office Expenses - office rent, equipment leases, telephone, electric, office supplies, property taxes, office maintenance
- Vouchers/Journal Entries – (1) travel expenses incurred by Service Company personnel, (2) other items submitted for reimbursement by employees, including professional association dues, (3) outside service contracts for such things as actuarial services, and (4) various other expenditures, including data center expenses for software licenses and hardware maintenance.

Service Company expenses are either assigned directly or allocated to operating companies, as shown in the table below.

Expense Category	Direct Charged	Allocated	Comments
Labor	X	X	Professional personnel working for one or several operating companies
Labor-Related Overheads	X	X	These are primarily employee benefit costs that relate directly to labor
Support		X	Administrative personnel support the professional staff, thus support costs are allocated on the basis of professional labor
Office Expense		X	Are all allocated on the basis of professional labor
Vouchers/Journals	X	X	May be either directly in support of one operating company (e.g., an engineer traveling from the Corporate Office to the operating company) or allocated to several operating companies

A direct charge occurs when Service Company work or expenses are incurred in support of only one operating company. Direct charge examples include work in support of an operating company's rate case, engineering design work on an operating company's project and the preparation of an operating company's financial statements.

Service Company expenses are allocated when more than one operating company benefits from the underlying work. Examples include assessments of new Federal water quality regulations, development of the company-wide materials procurement contracts and creation of company-wide engineering design standards.

#### **Charging and Assignment Of Service Company Time and Expenses**

Service Company transactions are assigned with the following information so there is a proper accounting and eventual charging to an operating company:

- Operating company number, if transaction is a direct charge
- Formula number if transaction is allocated
- Employee hours worked
- Account number for non-labor charges

Charges can originate from the following systems:

- Payroll System
- RVI System (outside vendor payments)
- PCard System (credit card payments)
- Internal Purchase Order System
- Journal entries

The Service Company's time reporting process enables labor and support charges to be assigned to the proper operating company. Labor charges are based on the time reported by managerial and professional Service Company employees. Every week, Service Company professional employees complete an electronic time sheet (see example in Schedule 1) that shows:

- Operating company (for direct charge)
- Formula number (for allocation)
- Work order (where applicable)
- Authorization number (where applicable)

At month-end, time report information is processed and direct and allocated professional labor hours tabulated for each operating company. Dollar charges are then calculated using the hourly rate of each Service Company professional employee based upon their base salary (i.e., an employee's hours times their hourly rate of pay).

Support (administrative) personnel charge their time to the activity "General Admin." As described in the table on page 4, their labor charges are allocated to operating companies based upon how their office's professional personnel labor charges are assigned. For instance, if 2% of the Voorhees Data Center's professional labor is assigned to LIAW during a month, then 2% of that office's monthly administrative labor charges also is assigned to the operating company.

The overhead cost category is next assigned based on professional and administrative labor costs. Thus, if 2% of the Corporate Office's accumulated professional and support labor is charged to LIAW during the month, then 2% of that month's overhead expenses will be assigned to LIAW.

Each Service Company location's office expenses are allocated to operating companies based on how professional labor charges for that office have been assigned. For instance, if 2% of professional labor from one Service Company office is assigned to LIAW, then 2% of that office's office expenses would be assigned to LIAW. Thus, office expenses are allocated in the very same way as administrative labor.

Vouchers/journal entries may be charged directly or allocated, depending on who benefits from the expenditure. For instance, the cost of a continuing professional education course taken by a professional in a regional office is allocated to the operating companies served by that office. Travel expenses by that same professional to a state rate case proceeding are charged directly to the operating company whose case is being heard.

Long Island American Water  
Sample Electronic Time Sheet

American Water Works Company (581020) - 3/23/07

File Edit Help

15:31:54

Week Ending: 2/25/07 Watkins, John M.

Emp#: 03002531

Dept: 036507 NE-Finance View Mode

		Time Entry								
		Mo	Tu	We	Th	Fr	Sa	Su	Total	Meal
Totals:		8.00	8.00	8.00	8.00	8.00			40.00	
Formula	Typ	2/19	2/20	2/21	2/22	2/23	2/24	2/25	Hours	Money
100074	001					4.00			4.00	
100082	001								.00	
100084	001			3.00	3.00	4.00			10.00	
100229	001								.00	
100231	001								.00	
100625	001		8.00	5.00	5.00				18.00	
100074	250								.00	
100074	300	8.00							8.00	
100074	400								.00	
100074	430								.00	

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F1-Search

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F3-Save/Exit

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F6-Submit

Help

F9-Comments

F7-Display Errors

F10-Save Template

### III – Service Company Cost Comparison Approach

During 2006, the Service Company billed LIAW \$4,089,726 in O&M-related and \$208,686 in capital-related charges. Included in the O&M amount is \$513,501 for which LIAW will not seek recovery. As calculated in the table below, the net O&M and capital charges of \$3,784,911 were subjected to a market cost comparison.

#### Reconciliation to 2006 Testable Service Co Charges

O&M Per LIAW G/L	\$ 4,089,726
Net O&M Adjustments	\$ (513,501)
Net Testable O&M	\$ 3,576,225
Capital per LIAW G/L	\$ 208,686
Net Testable SC Charges	\$ 3,784,911

For purposes of comparing these charges to outside benchmarks, Service Company services were placed into two categories:

- **Managerial and Professional Services** – Includes such services as management, accounting, legal, human resources, information technology, and engineering.
- **Customer Accounts Services** – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total test period Service Company charges break down between management/professional services and customer account services as follows:

	2006	
	Amount	Hours
Management and Professional Services	\$ 2,876,809	28,705
Customer Account Services	\$ 908,103	30,197
Total	\$ 3,784,911	58,902

This study's first question—whether the Service Company charges the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to LIAW during 2006. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by the Service Company.

The second question—reasonableness of the National Call Center costs—was addressed by comparing LIAW's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be obtained from the FERC Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The third question—the necessity of Service Company services—was first investigated by determining the services provided to LIAW. A determination was then made as to whether these services would be required if LIAW were a stand-alone utility.

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## IV – Managerial And Professional Services Hourly Rate Comparison

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### Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management services, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, information technology and rates and revenues services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar educational backgrounds as Service Company engineering personnel. In fact, many Belleville employees have engineering degrees. Thus, it is valid to compare the hourly rates of Belleville services to those of outside engineering firms.

Service Company's hourly rate were calculated for each of the four outside service provider categories, based on the dollars and hours charged to LIAW during 2006. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged LIAW during 2006, its hourly rates are actually overstated because Service Company personnel charge a maximum 8 per day even when they work more. Outside service providers generally bill for every hour worked. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the market cost comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

### Service Company Hourly Rates

Schedule 2 (page 10) details the assignment of 2006 management and professional Service Company charges to outsider provider categories. Schedule 3 (page 11) shows the same assignment for Service Company management and professional hours charged to LIAW during 2006.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2006 test period non-labor Service Company charges:



- **Contract Services** – 2006 Service Company charges to LIAW include over \$350,000 in charges associated with existing arrangements with outside professional firms who perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- **Travel Expenses** – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rate. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- **Computer Hardware and Software Expenses** – Included in 2006 Service Company charges to LIAW are charges for outside expenses related to leases and maintenance fees related to mainframe, server and network infrastructure, corporate business applications and the email system. An outside provider that would take over operation of a data center would recover these expenses over and above the labor necessary to operate the data center.

Schedule 4 (page 12) shows how contract services, travel expenses and computer hardware/software-related Service Company charges are assigned among the four outside provider categories.

Based on the assignment of expenses and hours shown in Schedules 2 and 3 and the excludable items shown in Schedule 4, the Service Company's equivalent costs per hour for 2006 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total management, professional & technical services charges	\$ 124,825	\$ 969,933	\$ 1,442,053	\$ 339,998	\$ 2,876,809
Less:					
Contract services	\$ 3,840	\$ 129,633	\$ 202,147	\$ 16,455	\$ 352,074
Travel expenses	\$ 1,180	\$ 10,745	\$ 6,009	\$ 2,021	\$ 19,955
Computer hardware/software	\$ 3	\$ 14,014	\$ 38,751	\$ 306	\$ 53,074
Net Service Charges (A)	\$ 119,803	\$ 815,540	\$ 1,195,146	\$ 321,217	\$ 2,451,706
Total Hours (B)	1,139	7,681	16,109	3,776	28,705
<b>Average Hourly Rate (A / B)</b>	<b>\$ 105</b>	<b>\$ 106</b>	<b>\$ 74</b>	<b>\$ 85</b>	

**Long Island American Water**  
**Analysis of 2006 Service Company Charges By Location And Function**

Location	Function	2006 Service Company Charges				Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	
Belleville Lab	Water Quality				\$ 113,087	\$ 113,087
Call Center	Human Resources		\$ 23,399			\$ 23,399
Corporate	Accounting			\$ 87,694		\$ 87,694
	Administration	\$ 11,963	\$ 249,597	\$ 169,128	\$ 39,641	\$ 470,329
	Audit			\$ 24,684		\$ 24,684
	Communications		\$ 46,969			\$ 46,969
	Finance			\$ 104,329		\$ 104,329
	Human Resources		\$ 100,540			\$ 100,540
	Legal	\$ 49,234				\$ 49,234
	Operations		\$ 69,376		\$ 68,283	\$ 137,658
	Rates & Revenue			\$ 70,022		\$ 70,022
	Risk Management		\$ 29,498			\$ 29,498
	Water Quality				\$ 27,228	\$ 27,228
Regional Offices	Accounting			\$ 15,269		\$ 15,269
	Administration		\$ 148,995			\$ 148,995
	Communications		\$ 42,207			\$ 42,207
	Customer Service					\$ -
	Engineering				\$ 20,088	\$ 20,088
	Finance			\$ 147,578		\$ 147,578
	Human Resources		\$ 110,059			\$ 110,059
	Legal	\$ 63,628				\$ 63,628
	Operations		\$ 38,470		\$ 52,397	\$ 90,867
	Risk Management		\$ 71,627			\$ 71,627
	Water Quality				\$ 19,274	\$ 19,274
Information Technology	Audit			\$ 6,542		\$ 6,542
	Information Technology			\$ 522,204		\$ 522,204
Shared Services	Accounting			\$ 256,550		\$ 256,550
	Administration		\$ 39,197			\$ 39,197
	Finance			\$ 25,472		\$ 25,472
	Rates & Revenue			\$ 12,582		\$ 12,582
<b>Total Dollars Charged</b>		<b>\$ 124,825</b>	<b>\$ 969,933</b>	<b>\$ 1,442,053</b>	<b>\$ 339,998</b>	<b>\$ 2,876,809</b>

**Long Island American Water**  
**Analysis of 2006 Service Company Hours By Location And Function**

Location	Function	2006 Service Company Hours				Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	
Belleville Lab	Water Quality				1,711	1,711
Call Center	Human Resources		328			328
Corporate	Accounting			1,458		1,458
	Administration		704			704
	Audit			412		412
	Communications		265			265
	Finance			1,030		1,030
	Human Resources		1,111			1,111
	Legal	325				325
	Operations		477		1,012	1,488
	Rates & Revenue			292		292
	Risk Management		267			267
	Water Quality				476	476
Regional Offices	Accounting			263		263
	Administration		969			969
	Communications		892			892
	Customer Service					-
	Engineering				219	219
	Finance			1,971		1,971
	Human Resources		1,075			1,075
	Legal	815				815
	Operations		320		358	677
	Risk Management		998			998
	Water Quality				-	-
Information Technology	Audit			110		110
	Information Technology			4,352		4,352
Shared Services	Accounting			5,115		5,115
	Administration		276			276
	Finance			898		898
	Rates & Revenue			207		207
<b>Total Hours Charged</b>		<b>1,139</b>	<b>7,681</b>	<b>16,109</b>	<b>3,776</b>	<b>28,705</b>

**Long Island American Water**  
**2006 Service Company Charges Excludable From The Hourly Rate Calculation**

Charges By Function	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Accounting	\$ 95,996	\$ 1,109	\$ 646	\$ 97,750
Administration	\$ 37,019	\$ 4,693	\$ 6,131	\$ 47,843
Audit	\$ (68)	\$ 274		\$ 207
Communications	\$ 13,323	\$ 329	\$ 137	\$ 13,788
Engineering				\$ -
Finance	\$ 30,379	\$ 2,064	\$ 391	\$ 32,834
Human Resources	\$ 62,699	\$ 3,221	\$ 775	\$ 66,695
Information Technology	\$ 67,009	\$ 934	\$ 37,714	\$ 105,656
Legal	\$ 3,840	\$ 1,180	\$ 3	\$ 5,022
Operations	\$ 21,101	\$ 2,644	\$ 242	\$ 23,987
Rates & Revenue	\$ 8,831	\$ 1,628		\$ 10,459
Risk Management	\$ 2,613	\$ 1,390	\$ 6,927	\$ 10,931
Water Quality	\$ 9,333	\$ 489	\$ 108	\$ 9,930
<b>Total</b>	<b>\$ 352,074</b>	<b>\$ 19,955</b>	<b>\$ 53,074</b>	<b>\$ 425,103</b>

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Professional Engineer
Certified Public Accountant
Management Consultant
Certified Public Accountant
Attorney
Management Consultant,
Professional Engineer
Certified Public Accountant
Management Consultant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Attorney	\$ 3,840	\$ 1,180	\$ 3	\$ 5,022
Management Consultant	\$ 129,633	\$ 10,745	\$ 14,014	\$ 154,392
Certified Public Accountant	\$ 202,147	\$ 6,009	\$ 38,751	\$ 246,907
Professional Engineer	\$ 16,455	\$ 2,021	\$ 306	\$ 18,781
<b>Total</b>	<b>\$ 352,074</b>	<b>\$ 19,955</b>	<b>\$ 53,074</b>	<b>\$ 425,103</b>

## **Outside Service Provider Hourly Rates**

The next step in the cost comparison was to obtain the average billing rates for each outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

### **Attorneys**

The New York Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for New York attorneys. Therefore, a New York estimate was developed from a survey of Massachusetts lawyers conducted annually by the Massachusetts Lawyers Weekly. As presented in Schedule 5, the average rate for each Massachusetts firm respondent was adjusted for the cost of living differential between their location and Lynbrook, New York. The survey includes rates that were in effect at December 31, 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Management Consultants**

The cost per hour for management consultants was developed from the 2006 annual survey performed by the Association of Management Consulting Firms—an industry trade organization. The first step in the calculation, presented in Schedule 6, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey includes rates that were in effect during 2005 for firms in the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. The survey includes rates that were in effect at December 31, 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Certified Public Accountants**

The average hourly rate for New York certified public accountants was developed from a 2006 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. Hourly rates in the AICPA survey are the average of firms in New York. The average hourly rate was calculated for a set of typical accountant positions, as shown in Schedule 7. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. The survey includes rates that were in effect at December 31, 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Professional Engineers**

The Service Company provided hourly rate information for outside engineering firms that could have been utilized by LIAW 2006. As presented in Schedule 8, an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

**Long Island American Water  
Estimated Billing Rates Of New York Attorneys**

Billing rates as of December 31, 2005 (Note A)						Cost of Living Adjust	Adjusted Rate
Firm	Massachusetts Location	Number Of Mass Lawyers	Billing Rate Range			(C)	
			Associate	Partner	Average		
Edwards Angel Palmer & Dodge	Boston	264	\$ 315	\$ 513	\$ 414	87%	\$ 476
Foley Hoag	Boston	225	\$ 333	\$ 503	\$ 418	87%	\$ 480
Holland & Knight	Boston	140	\$ 378	\$ 438	\$ 408	87%	\$ 469
Sullivan & Worcester	Boston	129	\$ 335	\$ 525	\$ 430	87%	\$ 494
Burns & Levinson	Boston	121	\$ 258	\$ 388	\$ 323	87%	\$ 371
Hinckley, Allen & Snyder	Boston	61	\$ 235	\$ 395	\$ 315	87%	\$ 362
Robinson & Cole	Boston	55	\$ 275	\$ 400	\$ 338	87%	\$ 388
Prince Lobel Glosky & Tye	Boston	50	\$ 243	\$ 375	\$ 309	87%	\$ 355
DLA Piper Rudnick Gray Cary US	Boston	49	\$ 365	\$ 560	\$ 463	87%	\$ 532
Murtha Cullina	Boston	33	\$ 185	\$ 338	\$ 261	87%	\$ 300
Lawson & Weitzen	Boston	32	\$ 175	\$ 288	\$ 231	87%	\$ 266
Lahive & Cockfield	Boston	31	\$ 313	\$ 488	\$ 400	87%	\$ 460
Melick, Porter & Shea	Boston	31	\$ 158	\$ 188	\$ 173	87%	\$ 198
Bernkopf Goodman	Boston	27	\$ 238	\$ 393	\$ 315	87%	\$ 362
Marcus Errico Emmer & Brooks	Braintree	26	\$ 300	\$ 325	\$ 313	87%	\$ 359
Eckert Seamans Cherin & Mellott	Boston	22	\$ 323	\$ 323	\$ 323	87%	\$ 371
Keegan Werlin	Boston	22	\$ 225	\$ 388	\$ 306	87%	\$ 352
Barron & Stadfeld	Boston	21	\$ 195	\$ 300	\$ 248	87%	\$ 285
Cain Hibbard Myers & Cook	Great Barrington	20	\$ 175	\$ 278	\$ 226	74%	\$ 304
Cushing & Dolan	Boston	20	\$ 225	\$ 295	\$ 260	87%	\$ 299
Lowrie, Lando & Anastasi	Cambridge	20	\$ 260	\$ 388	\$ 324	100%	\$ 325
Donovan & O'Connor	North Adams	19	\$ 175	\$ 175	\$ 175	67%	\$ 263
Overall Average at December 31, 2005							\$ 367
<u>Escalation to Mid-Point of Year - June 30, 2006 (Note B)</u>							
CPI at December 31, 2005							196.8
CPI at June 30, 2006							202.9
Inflation/Escalation							3.1%
Average Billing Rate At June 30, 2006							\$ 378

Note A: Source is Massachusetts Lawyers Weekly, April 2006

Note B: Source is US Bureau of Labor Statistics (<http://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/coll/col.aspx>). This number represents the cost of living difference between the Massachusetts city and Lynbrook, NY. A number over 100% indicates the Massachusetts city's cost of living is higher than Lynbrook. A number less than 100% indicates Lynbrook's cost of living is higher.

**Long Island American Water  
Billing Rates of U.S. Management Consultants**

**A. Calculation of Average Hourly Billing Rate by Consultant Position**  
Survey billing rates were those in effect in 2005 (Note A)

Average	Average Hourly Rates (Note A)				
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
	\$ 141	\$ 186	\$ 234	\$ 320	\$ 350

**B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement**

	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 141	\$186	\$234	\$320	\$350	
Typical Percent of Time Spent on a Consulting Project	30%	30%	20%	10%	10%	Weighted Average
	\$ 42	\$ 56	\$ 47	\$ 32	\$ 35	<b>\$ 212</b>

Escalation to Test Year Mid-Point June 30, 2006 (Note B)

CPI at December 31, 2005	196.8
CPI at June 30, 2006	202.9
Inflation/Escalation	3.1%
Estimated Average Hourly Billing Rate For Consultants At June 30, 2006	<b>\$ 218</b>

Note A: source: "Operating Ratios For Management Consulting Firms, 2006 Edition" Association of Management Consulting Firms

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

**Long Island American Water**  
**Estimated Billing Rates Of New York Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2005 (Note A)				
Type of Firm	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Rate	\$ 64	\$ 90	\$ 109	\$ 166
B. Calculation of Overall Average Accountant Billing Rate Based Upon Typical Distribution of Time on an Engagement				
Average Hourly Billing Rate (From Above)	Staff Accountant	Senior Accountant	Manager	Partner
	\$ 64	\$ 90	\$ 109	\$ 166
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%
	\$ 19	\$ 27	\$ 22	\$ 33
				Weighted Average
				\$ 101
CPI at December 31, 2005				196.8
CPI at June 30, 2006				202.9
Inflation/Escalation				3.1%
Estimated Average Hourly Billing Rate For New York CPAs At June 30, 2006				<b>\$ 104</b>

Note A: Source is AICPA's 2006 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)



**Long Island American Water  
Billing Rates Of New York Engineers**

Note: Billing rates were those in effect during 2006

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates			
	CAD Drafter Engineer Tech	Engineer	Project Manager	Officer
		Design Engineer	Project Associate	Principal Engineer
		Project Engineer	Sr. Mgr. Engineer	
Firm #1	\$62	\$104	\$168	\$180
Firm #2	\$53	\$67	\$118	\$165
Firm #3	\$65	\$85	\$148	\$200
Firm #4	\$62	\$80	\$129	\$170
Firm #5	\$76	\$86	\$135	\$180
Firm #6	\$62	\$81	\$121	\$170
Firm #7	\$64	\$94	\$147	\$185

B. Calculation of Overall Average Engineering Hourly Billing Rate

	Engineer		Project Manager		
	Design Engineer	Project Associate	Officer		
	CAD Drafter	Project Engineer			Principal Engineer
	Engineer Tech	Elect Proj Engineer	Sr. Mgr. Engineer		
Average Hourly Billing Rate (From Above)	\$63	\$85	\$138	\$179	Weighted Average
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	
	\$19	\$30	\$34	\$18	

Source: Information provided by American Water Works Service Company. Firm names have not been disclosed to preserve the confidentiality of their hourly rates.

### Service Company Versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	12 Months Ended December 31, 2006		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 105	\$ 378	\$ (273)
Management Consultant	\$ 106	\$ 218	\$ (112)
Certified Public Accountant	\$ 74	\$ 104	\$ (30)
Professional Engineer	\$ 85	\$ 101	\$ (16)

Based on these cost per hour differentials and the number of managerial and professional services hours billed to LIAW during the 12-months ended December 31, 2006, outside service providers would have cost \$1,710,628 more than the Service Company (see table below). Thus, on average, outside provider's hourly rates are almost 59% higher than those of the Service Company (\$1,710,628/ \$ 2,876,809).

Service Provider	12 Months Ended December 31, 2006		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (273)	1,139	\$ (310,921)
Management Consultant	\$ (112)	7,681	\$ (858,841)
Certified Public Accountant	\$ (30)	16,109	\$ (480,198)
Professional Engineer	\$ (16)	3,776	\$ (60,668)
Service Company Less Than Outside Providers			\$ (1,710,628)

If LIAW were to use outside service providers rather than the Services Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform 28,705 hours of work (about 19 full-time equivalents at 1,500 billable hours per FTE) would add a significant workload to the existing LIAW management team. Thus, it would be necessary for LIAW to add at least one position to supervise the outside firms and ensure they delivered quality and timely services. The individuals that would fill this position would need a good understanding of each profession being managed. They must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, this position would add another \$121,400 per year to LIAW's personnel expenses.

#### Cost of Adding Administrative Positions To LIAWC's Staff

	Total
New Positions' Salary	\$ 85,000
Benefits (at 52%)	\$ 36,400
Total Cost of the New Position	\$ 121,400

Thus, the total effect on the ratepayers of LIAW of contracting all services now provided by Service Company would be an increase in their costs of **\$1,832,028** (\$1,710,628 + \$121,400).

### Other Cost Comparisons

Every year, the Belleville Lab conducts a comparison of its cost for performing major tests to the cost of using outside testing laboratories. Over the past several years, these surveys have shown the following results been as follows:

Year	Number of Major Tests Surveyed	Percent Belleville Lower Than Outside Labs
2000	26	15%
2001	25	19%
2002	24	16%
2003	23	10%
2004	24	9%
2005	24	25%

These studies provide additional evidence that the Service Company arrangement is the lowest-cost alternative for LIAW.

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## V – Customer Account Services Cost Comparison

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### Background

It is difficult to compare the cost of American Water's National Call Centers with outside providers of the same call center-related services. Call center survey data is proprietary and expensive to obtain. For this reason, LIAW's National Call Center costs are compared to those of neighboring electric utilities because the data necessary to make this comparison is readily available to the public.

Electric utility cost information comes from their FERC Form 1. FERC's chart of accounts is defined in chapter 18, part 101 of Code of Federal Regulations. FERC accounts that contain call center-related expenses and are used in this study's comparison are:

- Account 903 Customer Accounts Expense – Records and Collection Expense
- Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense.

In addition, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905.

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA).

Schedule 9 provides FERC's description of what should be charged to these accounts. In questioning the controller of a large Southeastern electric utility, it was determined that expenses of the activities described below are recorded in the designated FERC accounts.

#### **903 Records and Collection Expense**

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing of customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

#### **905 Miscellaneous Customer Accounts Expense**

- Customer Information System IT – maintenance and support of the customer information system

This study assumes the FERC accounts for other electric and gas utilities contain expenses for the same activities.

**Long Island American Water**  
**FERC Account Descriptions**

**903 – Customer Records and Collection Expenses**

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**Long Island American Water**  
**FERC Account Descriptions**

**905 – Miscellaneous Customer Accounts Expenses**

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

### Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 show amounts for accounts 903 and 905.

Connecticut	• Connecticut Light & Power	• United Illuminating
Massachusetts	• Boston Edison	• Massachusetts Electric
	• Commonwealth Electric	• Western Massachusetts Electric
	• Fitchburg Electric & Gas	
New Jersey	• Atlantic City Electric	• Rockland Electric
	• Jersey Central Power	
New York	• Central Hudson Electric & Gas	• NY State Electric & Gas
	• Consolidated Edison	• Niagara Mohawk
		• Rochester Gas & Electric
Pennsylvania	• Duquesne Light	• Pennsylvania Power
	• Philadelphia Electric	• Pennsylvania Power & Light
	• Pennsylvania Electric	• West Penn Power
Vermont	• Central Vermont Public Svc	• Green Mountain Power

Some neighboring electric utilities could not be included in the comparison group because they did not submit the necessary FERC Form 1 data.

### Comparison Approach

The basis for this comparison is customer account services expenses per customer. LIAW's cost pool was developed to include the same expenses included in electric utility's FERC accounts 903 and 905. As shown in the graphic below, LIAW's resultant cost pool contains the expenses of Service Company locations and certain operating company expenses.

American Water	Electric Utilities
<u>Service Company</u>	FERC Acct 903 - Records and Collection Expense <u>and</u> FERC Acct 905 - Misc Customer Accounts Expense
Pensacola & Alton Call Centers	
a. Customer contact	a. Customer contact
b. Customer order processing	b. Customer order processing
c. Billing information processing	c. Bill preparation and mailing
d. Collections	d. Collections
e. Correspondence processing	e. Payment processing
f. Payment processing	f. Correspondence processing
<u>IT Service Centers</u>	
a. Support expenses for the customer information system (ORCOM)	

**LIAW Cost Per Customer**

In order to make a valid comparison to neighboring electric utilities, certain adjustments had to be made to the applicable Service Company charges to LIAW. It was necessary to adjust the National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.28 calls per customer. Thus, National Call Center expenses had to be increased, for comparison purposes, to reflect its costs at a 2.50 calls per customer level. As shown below, LIAW's adjusted annual expense per customer is \$26.98—the number that can be compared to neighboring electric utilities' expenses.

Long Island American Water 2006 Cost Per Customer		2006 Service Co Charges	Adjustment Fewer Calls For Water Cos. (A)	Adjusted
Service Company				
Call Centers	Call processing, order processing, credit, bill collection	\$ 845,905	\$ 806,254	\$ 1,652,159
Regional Offices		\$ 62,197		\$ 62,197
IT/Data Centers	Bill preparation and mailing	\$ 172,533		\$ 172,533
Operating Company	Customer payment processing			\$ 95,715
		Cost Pool Total		\$ 1,982,605
		Total Customers		73,495
<b>2006 Cost Per Long Island American Water Customer</b>				<b>\$ 26.98</b>

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Test year annualized Call Center charges	\$ 845,905
Electric utility industry's avg calls/customer	2.50
American Water's avg calls/customer	1.28
Percent different	95%
Total Adjustment B	\$ 806,254

Note B: Estimated customer payment processing expenses

Number of customers	73,495
Number of payments/customer/year	12
Total payments processed/year	881,940
Bank charge per item	\$ 0.1085
Total estimated annual expense	\$ 95,715



### Electric Utility Group Cost Per Customer

Schedule 9 shows the actual 2005 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

### Summary Of Results

As shown in the table below, LIAW's cost per customer is below the average of the electric utility comparison group. It can therefore be concluded that the customer accounts-related expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to LIAW are reasonable.

Average Customer Accounts Expense Per Customer	
West Penn Power	\$ 13.83
Central Vermont Pub Service	\$ 14.90
Duquesne Light	\$ 15.52
Massachusetts Electric	\$ 16.68
Jersey Central Power	\$ 16.96
Pennsylvania Electric	\$ 19.13
Pennsylvania Power	\$ 19.69
Green Mountain Power	\$ 20.44
Connecticut Light & Power	\$ 21.58
PPL Electric	\$ 22.28
Rochester Gas & Electric	\$ 25.52
Central Hudson Gas & Electric	\$ 26.91
<b>Long Island American Water</b>	<b>\$ 26.98</b>
Commonwealth Electric	\$ 27.83
Western Mass Electric	\$ 28.44
New York State Electric & Gas	\$ 28.87
<b>Comparison Group Average</b>	<b>\$ 29.32</b>
Niagra Mohawk Power	\$ 32.59
United Illuminating	\$ 36.63
Consolidated Edison	\$ 37.29
Boston Edison	\$ 37.49
PECO Energy	\$ 46.94
Atlantic City Electric	\$ 49.33
Fitchburg Gas & Electric	\$ 50.85
Rockland Electric	\$ 77.79

**Long Island American Water**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

		New York				
		Central Hudson Gas & Electric	Consolidated Edison	New York State Electric & Gas	Niagara Mohawk Power	Rochester Gas & Electric
<b>Customer Account Services Cost Pool</b>						
FERC Account Balances:						
Acct 903 - Customer Records & Collection (page 322, line 131)		\$ 5,905,516	\$ 102,727,772	\$ 21,597,780	\$ 36,083,949	\$ 8,735,793
Acct 905 - Misc Customer Accounts (page 322, line 133)		\$ 1,808,920	\$ 471,463	\$ 1,651,337	\$ 754,473	\$ 7,122
Subtotal		\$ 7,714,436	\$ 103,199,235	\$ 23,249,117	\$ 36,838,422	\$ 8,742,915
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits	Note A	\$ (374,830)	\$ 7,792,121	\$ 153,908	\$ 9,149,442	\$ 159,601
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	Note B	\$ 463,522	\$ 7,468,619	\$ 1,421,815	\$ 2,348,143	\$ 252,708
<b>Total Cost Pool</b>		<b>\$ 7,803,128</b>	<b>\$ 118,459,974</b>	<b>\$ 24,824,841</b>	<b>\$ 48,336,007</b>	<b>\$ 9,155,224</b>
Total Customers (page 304, line 43)		289,956	3,176,355	859,868	1,483,040	358,785
<b>Customer Account Services Expense per Customer</b>		<b>\$ 26.91</b>	<b>\$ 37.29</b>	<b>\$ 28.87</b>	<b>\$ 32.59</b>	<b>\$ 25.52</b>
<b>Note A: Calculation of Pension &amp; Benefits Pertaining to Customer Acct Mgmt</b>						
Account 926 - Employee Pension & Benefits (page 323, line 158)		\$ (4,404,273)	\$ 87,983,157	\$ 1,564,876	\$ 99,508,678	\$ 3,696,707
Total Payroll (page 355, line 96)		\$ 71,194,915	\$ 1,102,358,207	\$ 188,972,981	\$ 333,833,107	\$ 76,513,025
Total Benefits as Percent of Payroll		-6.2%	8.0%	0.8%	29.8%	4.8%
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 6,059,108	\$ 97,629,004	\$ 18,585,821	\$ 30,694,676	\$ 3,303,368
Pension & Benefits Pertaining to Customer Accts Expenses		\$ (374,830)	\$ 7,792,121	\$ 153,908	\$ 9,149,442	\$ 159,601
<b>Note B: Calculation of Employer's Payroll Taxes Pertaining to Cust Acct Mgmt</b>						
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 6,059,108	\$ 97,629,004	\$ 18,585,821	\$ 30,694,676	\$ 3,303,368
Employer's Portion of FICA (6.20%) and Medicare (1.45%)		7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA and Medicare		\$ 463,522	\$ 7,468,619	\$ 1,421,815	\$ 2,348,143	\$ 252,708

**Long Island American Water**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

		Pennsylvania				
		Duquesne Light	PECO Energy	Pennsylvania Electric	Pennsylvania Power	PPL Electric
<b>Customer Account Services Cost Pool</b>						
FERC Account Balances						
Acct 903 - Customer Records & Collection (page 322, line 131)		\$ 7,630,920	\$ 51,262,973	\$ 10,706,242	\$ 2,660,189	\$ 24,785,789
Acct 905 - Misc Customer Accounts (page 322, line 133)		\$ -	\$ 17,091,051	\$ 98,990	\$ 121,055	\$ 602,445
Subtotal		\$ 7,630,920	\$ 68,354,024	\$ 10,805,232	\$ 2,781,244	\$ 25,388,234
Add Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits	Note A	\$ 729,457	\$ 2,946,156	\$ 11,831	\$ 227,639	\$ 3,320,449
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	Note B	\$ 732,520	\$ 1,155,943	\$ 419,574	\$ 94,893	\$ 1,618,783
<b>Total Cost Pool</b>		<b>\$ 9,092,897</b>	<b>\$ 72,456,123</b>	<b>\$ 11,236,637</b>	<b>\$ 3,103,776</b>	<b>\$ 30,327,466</b>
Total Customers (page 304, line 43)		586,050	1,543,543	587,533	157,660	1,361,407
<b>Customer Account Services Expense per Customer</b>		<b>\$ 15.52</b>	<b>\$ 46.94</b>	<b>\$ 19.13</b>	<b>\$ 19.69</b>	<b>\$ 22.28</b>
 <b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt						
Account 926 - Employee Pension & Benefits (page 323, line 158)		\$ 8,677,884	\$ 36,605,786	\$ 136,028	\$ 2,618,720	\$ 37,811,499
Total Payroll (page 355, line 96)		\$ 113,912,649	\$ 187,745,320	\$ 63,058,697	\$ 14,269,687	\$ 240,965,158
Total Benefits as Percent of Payroll		7.6%	19.5%	0.2%	18.4%	15.7%
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 9,575,422	\$ 15,110,369	\$ 5,484,627	\$ 1,240,430	\$ 21,160,563
Pension & Benefits Pertaining to Customer Accts Expenses		\$ 729,457	\$ 2,946,156	\$ 11,831	\$ 227,639	\$ 3,320,449
 <b>Note B:</b> Calculation of <u>Employer's Payroll Taxes</u> Pertaining to Cust. Acct Mgmt						
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 9,575,422	\$ 15,110,369	\$ 5,484,627	\$ 1,240,430	\$ 21,160,563
Employer's Portion of FICA (6.20%) and Medicare (1.45%)		7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA and Medicare		\$ 732,520	\$ 1,155,943	\$ 419,574	\$ 94,893	\$ 1,618,783

**Long Island American Water**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

**Customer Account Services Cost Pool**

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)

Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal:

Add. Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

**Note A:** Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 158)

Total Payroll (page 355, line 96)

Total Benefits as Percent of Payroll

Payroll Charged to Customer Accts Expenses (page 354, line 6)

Pension & Benefits Pertaining to Customer Accts Expenses

**Note B:** Calculation of Employer's Payroll Taxes Pertaining to Cust Acct Mgmt

Payroll Charged to Customer Accts Expenses (page 354, line 6)

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA and Medicare

Pennsylvania		New Jersey	
West Penn Power	Atlantic City Electric	Jersey Central Power	Rockland Electric
\$ 7,219,187	\$ 24,903,319	\$ 15,935,970	\$ 2,588,716
\$ -	\$ 15,492	\$ 641,165	\$ 1,010,864
\$ 7,219,187	\$ 24,918,811	\$ 16,577,135	\$ 3,599,580
\$ 1,860,894	\$ 968,590	\$ 781,635	\$ 1,811,442
\$ 637,822	\$ 171,115	\$ 736,750	\$ 153,635
<b>\$ 9,717,903</b>	<b>\$ 26,058,516</b>	<b>\$ 18,095,520</b>	<b>\$ 5,564,656</b>
702,792	528,271	1,067,246	71,533
<b>\$ 13.83</b>	<b>\$ 49.33</b>	<b>\$ 16.96</b>	<b>\$ 77.79</b>
\$ 17,383,598	\$ 24,202,520	\$ 8,893,834	\$ 11,348,816
\$ 77,885,393	\$ 55,891,648	\$ 109,583,104	\$ 12,582,149
22.3%	43.3%	8.1%	90.2%
\$ 8,337,540	\$ 2,236,796	\$ 9,630,718	\$ 2,008,300
\$ 1,860,894	\$ 968,590	\$ 781,635	\$ 1,811,442
\$ 8,337,540	\$ 2,236,796	\$ 9,630,718	\$ 2,008,300
7.65%	7.65%	7.65%	7.65%
\$ 637,822	\$ 171,115	\$ 736,750	\$ 153,635

**Long Island American Water**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

**Customer Account Services Cost Pool**

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)

Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

**Note A**  
**Note B**

Massachusetts				
Boston Edison	Commonwealth Electric	Fitchburg Gas & Electric	Massachusetts Electric	Western Mass Electric
\$ 20,638,108	\$ 7,444,540	\$ 1,333,809	\$ 18,581,920	\$ 4,884,652
\$ 1,204,133	\$ 477,905	\$ -	\$ 82,379	\$ 71,304
\$ 21,842,241	\$ 7,922,445	\$ 1,333,809	\$ 18,664,299	\$ 4,955,956
\$ 3,506,628	\$ 1,764,043	\$ 64,987	\$ 1,165,079	\$ 608,959
\$ 991,277	\$ 445,248	\$ 23,703	\$ 242,974	\$ 241,374
<b>\$ 26,340,146</b>	<b>\$ 10,131,736</b>	<b>\$ 1,422,499</b>	<b>\$ 20,072,352</b>	<b>\$ 5,806,288</b>
702,551	364,081	27,973	1,203,637	204,134
<b>\$ 37.49</b>	<b>\$ 27.83</b>	<b>\$ 50.85</b>	<b>\$ 16.68</b>	<b>\$ 28.44</b>
\$ 41,548,735	\$ 14,712,905	\$ 1,024,678	\$ 38,460,497	\$ 6,540,025
\$ 153,532,940	\$ 48,543,337	\$ 4,885,476	\$ 104,847,578	\$ 33,886,005
27.1%	30.3%	21.0%	36.7%	19.3%
\$ 12,957,865	\$ 5,820,233	\$ 309,846	\$ 3,176,134	\$ 3,155,213
\$ 3,506,628	\$ 1,764,043	\$ 64,987	\$ 1,165,079	\$ 608,959
\$ 12,957,865	\$ 5,820,233	\$ 309,846	\$ 3,176,134	\$ 3,155,213
7.65%	7.65%	7.65%	7.65%	7.65%
\$ 991,277	\$ 445,248	\$ 23,703	\$ 242,974	\$ 241,374

**Note A:** Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 158)

Total Payroll (page 355, line 96)

Total Benefits as Percent of Payroll

Payroll Charged to Customer Accts Expenses (page 354, line 6)

Pension & Benefits Pertaining to Customer Accts Expenses

**Note B:** Calculation of Employer's Payroll Taxes Pertaining to Cust Acct Mgmt

Payroll Charged to Customer Accts Expenses (page 354, line 6)

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA and Medicare

**Long Island American Water**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

	Vermont		Connecticut		Group Average
	Central Vermont Pub Service	Green Mountain Power	Connecticut Light & Power	United Illuminating	
<b>Customer Account Services Cost Pool</b>					
FERC Account Balances:					
Acct 903 - Customer Records & Collection (page 322, line 131)	\$ 1,581,249	\$ 1,555,251	\$ 21,335,988	\$ 9,169,343	\$ 409,268,975
Acct 905 - Misc Customer Accounts (page 322, line 133)	\$ 38,699	\$ 249,491	\$ 1,319,778	\$ -	\$ 27,718,066
Subtotal	\$ 1,619,948	\$ 1,804,742	\$ 22,655,766	\$ 9,169,343	\$ 436,987,041
Add: Employee Benefits & Employer FICA (not included in above amounts)					
Account 926 - Employee Pension & Benefits	\$ 764,945	\$ 64,614	\$ 1,968,068	\$ 2,054,857	\$ 41,500,515
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	\$ 199,722	\$ 31,424	\$ 929,600	\$ 522,927	\$ 21,304,089
<b>Total Cost Pool</b>	<b>\$ 2,584,615</b>	<b>\$ 1,900,780</b>	<b>\$ 25,553,434</b>	<b>\$ 11,747,126</b>	<b>\$ 499,791,645</b>
Total Customers (page 304, line 43)	173,459	92,994	1,184,032	320,672	17,047,572
<b>Customer Account Services Expense per Customer</b>	<b>\$ 14.90</b>	<b>\$ 20.44</b>	<b>\$ 21.58</b>	<b>\$ 36.63</b>	<b>\$ 29.32</b>
<b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt					
Account 926 - Employee Pension & Benefits (page 323, line 158)	\$ 10,307,260	\$ 2,363,604	\$ 30,525,226	\$ 22,533,403	\$ 504,044,163
Total Payroll (page 355, line 96)	\$ 35,178,479	\$ 15,026,234	\$ 188,474,934	\$ 74,959,127	\$ 3,308,100,150
Total Benefits as Percent of Payroll	29.3%	15.7%	16.2%	30.1%	15.2%
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 2,610,744	\$ 410,773	\$ 12,151,635	\$ 6,835,642	\$ 278,484,827
Pension & Benefits Pertaining to Customer Accts Expenses	\$ 764,945	\$ 64,614	\$ 1,968,068	\$ 2,054,857	\$ 42,431,802
<b>Note B:</b> Calculation of <u>Employer's Payroll Taxes</u> Pertaining to Cust. Acct Mgmt					
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 2,610,744	\$ 410,773	\$ 12,151,635	\$ 6,835,642	\$ 278,484,827
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA and Medicare	\$ 199,722	\$ 31,424	\$ 929,600	\$ 522,927	\$ 21,304,089

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**VI - Need For Service Company Services**

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**Analysis Of Services**

The final aspect of this study was an assessment of whether the services that are provided to LIAW by the Service Company would be necessary if LIAW were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for LIAW. Based on discussions with Service Company personnel, the matrix in Schedule 11 was created showing which entity—LIAW or a Service Company location—is responsible for each of the functions LIAW requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Schedule 11, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if LIAW were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to LIAW. For all of the services listed in Schedule 11, there was only one entity that was primarily responsible for the service.

**Long Island American Water  
Designation Of Responsibility For Water Utility Functions**

Primarily Responsible Provides Support	P S	Performed By:					
		American Water Service Company					
		Customer Call Center	Northeast Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Water Company Function	LIAW						
<b>Engineering and Construction Management</b>							
CPS Preparation	S				P		
Five-Year System Planning	P		S				
Engineering Standards & Policies Development					P		
Project Design							
Major Projects (e.g., new treatment plant)	P				S		
Special Projects	P		S		S		
Minor Projects (e.g., pipelines)	P						
Construction Project Management							
Major Projects	P		S				
Special Projects	P		S				
Minor Projects	P						
Hydraulics Review	P		S				
Developers Extensions	P						
Tank Painting	P		S				
<b>Water Quality and Purification</b>							
Water Quality Standards Development			S		P		S
Research Studies	S		S		P		S
Water Quality Program Implementation	P		S		S		
Water Treatment Operations & Maintenance	P		S				
Compliance Sampling	P		S				S
Testing/Other Sampling	S		S				P
<b>Transmission and Distribution</b>							
Preventive Maintenance Program Development	P						
System Maintenance	P						
Leak Detection	S		P				
<b>Customer Service</b>							
Community Relations	P		S		S		
Customer Contact	S	P					
Call Processing		P					
Service Order Processing	S	P					
Customer Credit		P					
Meter Reading	P						
Customer Bill Preparation						P	
Bill Collection	S	P					
Customer Payment Processing	S			P			
Meter Standards Development			S		P		
Meter Testing, Maintenance & Replacement	P						



**Long Island American Water  
Designation Of Responsibility For Water Utility Functions**

Primarily Responsible Provides Support	P S	Performed By:					
		American Water Service Company					
Water Company Function	LIAW	Customer Call Center	Northeast Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
<b>Financial Management</b>							
Financial Planning	S		P		S		
Financings—Equity	S				S		
Financings--Long Term Debt & Preferred (A)	S		S				
Short Term Lines of Credit Arrangements (A)	S		S				
Investor Relations					P		
Insurance Program Administration			S		P		
Loss Control/Safety Program Administration	S		P		S		
Pension Fund Asset Management					P		
Cash Management/Disbursements				P			
<b>Internal Auditing</b>					P		
<b>Budgeting and Variance Reporting</b>					P		
Corporate Guidelines & Instructions					P		
Regional Guidelines & Instructions			P				
Budget Preparation							
Revenue and O&M	P		S				
Depreciation and Interest Expense	S		S	P			
Budget Preparation--Service Company Charges		S	P	S	S	S	S
Capital Budget Preparation—Projects	P		S				
Capital Budget Preparation--Non-Project Work	P		S				
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	P		S				
Prepare Capital Project Budget Status Report	P		S				
Year-End Projections	P		S				
<b>Accounting and Taxes</b>							
Accounts Payable Accounting	S			P			
Payroll Accounting	S			P			
Work Order Accounting	S		S	P			
Fixed Asset Accounting	S		S	P			
Journal Entry Preparation--Billing Corrections	S		S	P			
Journal Entry Preparation--All Others	S		S	P			
Financial Statement Preparation	S		S	P			
State Commission Reporting	S		S	P			
Income Taxes—State				P			
Income Taxes—Federal				P			
Property Taxes			S	P			
Town Taxes	S		S	P			

Note A: Financings and lines of credit are the responsibility of American Capital Corporation

**Long Island American Water  
Designation Of Responsibility For Water Utility Functions**

Primarily Responsible P Provides Support S		Performed By:					
Water Company Function	LI/AW	American Water Service Company					Belleville Lab
		Customer Call Center	Northeast Regional Office	Shared Services	Corporate Office	IT Service Centers	
<b>Rates</b>							
Rate Studies & Tariff Change Administration	S		P	S			
Rate Case Planning and Preparation	S		P	S			
Rate Case Administration	S		P				
Commission Inquiry Response	S		P		S		
<b>Legal</b>							
<b>Purchasing and Materials Management</b>							
Specification Development	S		S		P		
Bid Solicitation	S			P			
Contract Administration	S			P			
Ordering	P						
Inventory Management	P			S			
<b>Human Resources Management</b>							
Benefit Program Development			S		P		
Benefits Program Administration							
Management Compensation Administration				S			
Wage & Salary Program Design			P		S		
Wage & Salary Administration			S		P		
Labor Negotiations--Wages	P		P		S		
Labor Negotiations--Benefits	P		S				
Labor Negotiations-- Work Rules	P		S		S		
Training Program Development			P				
Training--Course Delivery			P		S		
Affirmative Action/EEO--Plan Development			P				
Affirmative Action/EEO--Implementation			P				
<b>Information Systems Services</b>							
Service Company Data Centers							
System Operations & Maintenance							P
Software Maintenance							P
Network Administration							P
PC Acquisition & Support							P
Help Desk							P

### Governance Practices Associated With Service Company Charges

There are several ways by which LIAW exercises control over Service Company services and charges. The most important of these are described below.

- **Regional President Oversight** – The Regional President of the Northeast Region is on the Executive Management Team (EMT) of American Water. The Regional President is responsible for the overall performance of each operating company in the region, including LIAW. As part of the EMT, each Regional President has equal say with other EMT members in major business decisions of American Water and has the ability to monitor Service Company performance quality and spending.
- **Regional Vice President & Treasurer** – The Regional Vice President and Treasurer of the Northeast Region is responsible for the financial reporting, performance and internal controls of each of the operating companies in the region. The Vice President and Treasurer monitor the performance and reporting from the Service Company and pushes back whenever the quality and service are not appropriate.
- **Operating Company Board Oversight** – LIAW board of directors includes members of American Water's EMT, members of the regional management team and business and community leader(s) from outside the Company. This helps ensure that Northeast Region's needs are a factor in the delivery of Service Company services.
- **Service Company Budget Review/Approval** – Every Regional President sits on the Service Company board and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company's own spending into an overall budget which must be approved by the operating company's board of directors.
- **Major Project Review And Approval** – Major projects undertaken by the Service Company must first be reviewed by American Water's Executive Management Team, which includes the Regional President. The Regional President, with input from the regional management team has the ability to impact all new initiatives and projects before they are authorized.
- **Service Company Bill Scrutiny** – Operating company personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. Any mistakes or overcharges are credited on a subsequent billing.
- **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the "Statement of Expenses and Billed Charges," is produced by Service Company location and shows actual spending for the month.
- **Operating Company Budget Variance Reporting** – The "Budget/Plan Analysis," produced monthly by each operating company, has a line item for Management Fees (i.e., Service Company charges). In this way, Service Company budget versus actual charges can be monitored for the month and year-to-date.
- **Capital Investment Management (CIM)** – CIM is one of American Water's primary business planning processes. It covers capital and asset planning and is employed throughout American Water. The current CIM process and procedures were established in 2003 as part of an initiative to implement leading water industry practices. CIM provides a full range of governance practices, including a formal protocol for assessing

system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:

- Capital expenditure plans are aligned with the strategic intent of the business,
- The impact of capital expenditure and income plans are fully reflected in operating expense plans,
- The impacts of these plans are understood and affordable, and
- Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIM process was designed to optimize the effectiveness of asset investment. The process is managed at three levels for all American Water companies, including LIAW.

Long Island American Water

Index to Exhibits

<u>Exhibit</u>	<u>Witness Responsible</u>	<u>Schedule Name</u>
1	Simpson	Comparative Balance Sheet
2	Simpson	Comparative Statement of Income
3	Simpson	Comparative Statement of Retained Earnings
4	Simpson	Comparative Statement of Operating Revenue
5	Simpson	Comparative Statement of Operation and Maintenance Expenses
6	Simpson	Comparative Statement of Taxes Charged to Operations
7	Simpson	Capital Structure and Capitalization Ratios
8	Tambini	Committed Construction
9	Simpson/Watkins/ Casillo/Rex/ Hunter/Pierse	Operating Forecast for the Twelve Months Ended December 31, 2006, 2007, 2008 and March 31, 2009
10	Rex	Rate Base
11	Watkins	Tariff Comparison - Present vs. Proposed Rates
12	See Index	Workpapers
13	Varley	PSC Complaint History

# Comparative Balance Sheet

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 1  
Page 1 of 2

Line No.	Account No.	Account Title	Balance As Of			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1		Assets and Other Debits				
2						
3		Utility Plant				
4	101	Water Plant in Service	\$124,445,613	\$116,586,734	\$99,853,247	\$94,563,602
5	108	Reserve for Depreciation of Water Plant	(37,697,191)	(35,457,235)	(33,754,820)	(32,071,359)
6	105	Water Plant Held for Future Use	110,933	110,933	110,933	0
7	107	Construction Work in Progress	830,267	1,256,367	10,646,483	3,866,555
8	114/115	Water Plant Acquisition Adjustments	0	0	0	44,279
9						
10		Net Utility Plant	<u>87,689,621</u>	<u>82,496,799</u>	<u>76,855,844</u>	<u>66,403,077</u>
11						
12		Other Property & Investments				
13	121	Other Physical Property	<u>63,368</u>	<u>63,368</u>	<u>63,368</u>	<u>63,368</u>
14						
15		Total Other Property and Investments	<u>63,368</u>	<u>63,368</u>	<u>63,368</u>	<u>63,368</u>
16						
17		Current and Accrued Assets				
18	131	Cash	465,472	653,990	5,020,064	451,959
19	132/134	Special Deposits		15,250	15,250	15,250
20	142	Customer Accounts Receivable	3,411,586	4,862,875	3,533,781	2,923,082
21	143/146	Other Accounts Receivable	1,163,695	1,491,016	2,605,996	224,574
22	144	Accum. Provision for Uncollectible Accounts	(513,500)	(593,256)	(90,269)	(82,373)
23	151-163	Materials and Supplies	491,414	516,420	593,848	546,909
24	165	Prepayments	592,064	584,473	539,960	555,877
25	173	Accrued Utility Revenue	<u>3,873,634</u>	<u>3,991,711</u>	<u>3,542,439</u>	<u>3,607,300</u>
26						
27		Total Current and Accrued Assets	<u>9,484,365</u>	<u>11,522,479</u>	<u>15,761,068</u>	<u>8,242,578</u>
28						
29		Deferred Debits				
30	181	Unamortized Debt Discount and Expense	2,125,749	2,228,166	2,274,037	1,170,196
31	183	Preliminary Survey Charges	546,899	693,915	819,615	959,314
32	184	Clearing Accounts	55	17,206	4,469	25,480
33	186	Other Deferred Debits	<u>8,914,051</u>	<u>8,641,852</u>	<u>7,927,416</u>	<u>7,781,374</u>
34						
35		Total Deferred Debits	<u>11,586,753</u>	<u>11,581,139</u>	<u>11,025,537</u>	<u>9,936,364</u>
36						
37		Total Assets and Other Debits	<u>\$108,824,108</u>	<u>\$105,663,785</u>	<u>\$103,705,817</u>	<u>\$84,645,387</u>

# Comparative Balance Sheet

Long Island American Water

Case No:

Witness Responsible: F. X. Simpson

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

Exhibit 1

Page 2 of 2

Line No.	Account Title	Balance As Of			
		12/31/2006	12/31/2005	12/31/2004	12/31/2003
1	Liabilities and Other Credits				
2	Capital Stock				
3	201 Common Capital Stock	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
4	204 Preferred Capital Stock	1,125,000	1,125,000	1,125,000	1,125,000
5	211 Paid In Capital	10,500,000			
6					
7	Total Capital Stock	<u>21,625,000</u>	<u>11,125,000</u>	<u>11,125,000</u>	<u>11,125,000</u>
8					
9	Retained Earnings				
10	216 Retained Earnings	<u>16,110,878</u>	<u>17,313,010</u>	<u>17,788,288</u>	<u>18,334,269</u>
11					
12	Long-Term Debt				
13	221/224 Long Term Debt	<u>38,930,000</u>	<u>38,930,000</u>	<u>38,930,000</u>	<u>22,930,000</u>
14					
15	Current and Accrued Liabilities				
16	231/233 Notes Payable	60,369	10,246,180	13,315,548	12,525,121
17	232/234 Accounts Payable	784,212	1,714,499	3,360,074	1,526,871
18	235 Customer Deposits		3,767	3,792	3,792
19	236 Taxes Accrued	678,992	(636,821)	(158,619)	268,662
20	237 Interest Accrued	557,845	546,057	487,257	356,591
21	238 Dividends Declared	12,516	12,656	12,656	13,609
22	241/242 Other Accrued Liabilities	<u>1,457,098</u>	<u>1,794,536</u>	<u>2,538,241</u>	<u>1,740,893</u>
23					
24	Total Current and Accrued Liabilities	<u>3,551,032</u>	<u>13,680,874</u>	<u>19,558,949</u>	<u>16,435,539</u>
25					
26	Deferred Credits				
27	252/271 Customer Advances for Construction	109,553	44,553	18,953	66,751
28	253 Other Deferred Credits	<u>12,373,686</u>	<u>6,711,685</u>	<u>(107,039)</u>	<u>2,539,763</u>
29					
30	Total Deferred Credits	<u>12,483,239</u>	<u>6,756,238</u>	<u>(88,086)</u>	<u>2,606,514</u>
31					
32	Reserves				
33	255 Reserve for Def. Invest Tax Credits	328,822	343,822	358,822	373,822
34	282/283 Reserves for Deferred Income Tax	<u>15,795,137</u>	<u>17,514,841</u>	<u>16,032,844</u>	<u>12,840,243</u>
35					
36	Total Reserves	<u>16,123,959</u>	<u>17,858,663</u>	<u>16,391,666</u>	<u>13,214,065</u>
37					
38	Total Liabilities & Other Credits	<u>\$108,824,108</u>	<u>\$105,663,785</u>	<u>\$103,705,817</u>	<u>\$84,645,387</u>
39					
40					

# Comparative Statement of Income

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 2  
Page 1 of 1

Line No.	Account No.	Account Title	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1		Utility Operating Income				
2	400	Operating Revenues	\$39,292,737	\$40,521,136	\$37,564,640	\$36,261,005
3						
4		Operating Revenue Deductions:				
5	401	Operating Expense	16,418,849	15,857,682	15,207,757	13,019,125
6	402	Maintenance Expense	2,990,332	2,382,768	2,710,051	2,372,185
7	403	Depreciation Expense	2,654,440	2,162,728	1,910,421	1,803,402
8	404-407	Amortization Expense	525	525	1,051	0
9	408	Taxes Other Than Income Taxes	12,774,455	15,149,366	15,305,328	14,163,422
11	409	Federal and State Income Taxes	(332,849)	754,450	544,723	1,307,202
10	412.2	Amortization of Investment Tax Credit	(15,000)	(15,000)	(15,000)	(15,000)
12		Total Operating Expenses	<u>34,490,752</u>	<u>36,292,519</u>	<u>35,664,331</u>	<u>32,650,336</u>
13						
14		Total Utility Operating Income	<u>4,801,985</u>	<u>4,228,617</u>	<u>1,900,309</u>	<u>3,610,669</u>
15						
16		Other Income				
17	419	Interest and Dividend Income	269,802	47,072	0	0
18	420	AFUDC - Debt/Equity	76,140	413,794	472,095	250,270
19	415-417/421	Miscellaneous Non-Operating Income	(83,427)	(9,581)	(48,954)	(21,117)
20	422	Gain (Loss) from Disposition of Property	0	0	0	0
21		Total Other Income	<u>262,515</u>	<u>451,285</u>	<u>423,141</u>	<u>229,153</u>
22						
23		Gross Income	<u>5,064,500</u>	<u>4,679,902</u>	<u>2,323,450</u>	<u>3,839,822</u>
24						
25		Income Deductions				
26	427	Interest on Long Term Debt	2,288,512	2,276,725	1,623,392	1,492,725
27	428	Amortization of Debt Discount	102,417	101,686	72,961	60,331
28	431	Other Interest Charges	3,743,215	565,078	264,813	123,195
29	426	Miscellaneous Income Deductions				(550)
30	425	Amort. Of Plant Acq. Adjustments			44,279	44,278
31	409	Federal and State Income Taxes on Other Inc	82,004	147,316	88,861	49,119
32		Total Income Deductions	<u>6,216,148</u>	<u>3,090,805</u>	<u>2,094,306</u>	<u>1,769,098</u>
33						
34		Net Income	<u>(\$1,151,648)</u>	<u>\$1,589,097</u>	<u>\$229,144</u>	<u>\$2,070,724</u>
35						



# Comparative Statement of Retained Earnings

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 3  
Page 1 of 1

Line No.	Description	Twelve Months Ended			
		12/31/2006	12/31/2005	12/31/2004	12/31/2003
1					
2					
3	Balance at beginning of Period	\$17,313,010	\$17,788,288	\$18,334,269	\$17,778,920
4					
5	Add				
6	Net Income for Period	(1,151,648)	1,589,097	229,144	2,070,724
7	Adjustment to Retained Earnings	0	0		0
8					
9	Deduct				
10	Declaration of Preferred Stock Dividends	50,484	50,625	50,625	50,625
11	Declaration of Common Stock Dividends	0	2,013,750	724,500	1,464,750
12	Adjustment to Retained Earnings	0	0	0	0
13	Adjustment for Prior Years Pension Liabilities	0	0	0	0
14					
15	Balance at End of Period	<u>\$16,110,878</u>	<u>\$17,313,010</u>	<u>\$17,788,288</u>	<u>\$18,334,269</u>
16					
17					
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# Comparative Statement of Operating Revenue

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 4  
Page 1 of 1

Line No.	Account No.	Sales of Water	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1						
2						
3		<u>Metered Sales</u>				
4	461 Residential	\$29,261,991		\$30,477,780	\$27,941,656	\$26,979,413
5	461 Commercial	4,994,339		5,235,951	5,206,055	4,973,085
6	461 Industrial	226,664		289,080	285,149	216,940
7	464 Other Public Authority	1,323,736		1,063,702	985,841	949,119
8	466 Sales for Resale	0		0	0	0
9						
10	Total Metered Sales	<u>35,806,730</u>		<u>37,066,513</u>	<u>34,418,701</u>	<u>33,118,557</u>
11						
12						
13		<u>Fire Protection</u>				
14	462 Private	704,677		786,036	655,445	649,404
15	463 Public	2,425,209		2,326,403	2,144,695	2,190,980
16						
17	Total Fire Protection	<u>3,129,886</u>		<u>3,112,439</u>	<u>2,800,140</u>	<u>2,840,384</u>
18						
19	Total Sales of Water	<u>38,936,616</u>		<u>40,178,952</u>	<u>37,218,841</u>	<u>35,958,941</u>
20						
21						
22		<u>Other Water Revenue</u>				
23	471.1 Reconnection Charges	8,950		2,800	2,475	6,550
24	471.2 Other Miscellaneous Service Revenue	347,171		339,384	343,324	295,514
25						
26	Total Operating Revenues	<u>\$39,292,737</u>		<u>\$40,521,136</u>	<u>\$37,564,640</u>	<u>\$36,261,005</u>
27						
28						
29						
30						
31						
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34						
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# Comparative Statement of Operation and Maintenance Expenses

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 5  
Page 1 of 3

Line No.	Account No.	Account Title	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1						
2		Source of Supply				
3	600	Supervision & Engineering	\$0	\$5,420	\$13,301	\$14,258
4	601	Labor Expenses	157,546	142,821	132,575	100,741
5	602	Purchased Water				
6	603	Miscellaneous Expenses	(35,365)	15,549	(46,418)	68,598
7						
8		Total Source of Supply	122,181	163,790	99,458	183,597
9						
10		Pumping				
11	620	Supervision & Engineering	149,782	127,081	111,645	87,173
12	621	Fuel for Power Production	273,161	122,496	108,967	109,632
13	622	Power Production Labor & Expense				0
14	623.1	Fuel for Power Purchased for Pumping	2,421,348	2,052,195	1,790,714	1,560,823
15	624	Pumping Labor & Expense	1,048,106	1,019,895	942,929	894,384
16	626/627	Miscellaneous Expenses	167,837	69,457	80,860	54,415
17						
18		Total Pumping	4,060,234	3,391,124	3,035,115	2,706,427
19						
20		Water Treatment				
21	640	Supervision & Engineering	195,954	178,725	212,460	173,281
22	641	Chemicals	683,601	606,355	503,130	480,458
23	642	Labor Expenses	418,950	380,683	300,484	253,506
24	643/644	Miscellaneous Expenses	55,082	13,119	33,237	62,848
25						
26		Total Water Treatment	1,353,587	1,178,882	1,049,311	970,093
27						
28		Transmission & Distribution				
29	660	Supervision & Engineering	102,172	113,613	103,625	155,128
30	661	Storage Facilities Expense	0	0	26	890
31	662	Transmission & Distribution Lines	223,661	189,315	185,387	154,382
32	663	Meter Expenses	79,378	87,658	91,441	130,332
33	664	Customer Installation Expense	81,600	123,759	105,771	81,786
34	665	Miscellaneous Expenses	242,374	312,730	278,834	281,575
35	666	Rents	2,231	466	6,862	2,194
36						
37		Total Transmission & Distribution	\$731,416	\$827,541	\$771,946	\$806,287
38						
39						
40						

**Comparative Statement of Operation and Maintenance Expenses**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 5  
Page 2 of 3

Line No.	Account No.	Account Title	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1						
2		Customer Accounts				
3	901	Supervision	\$33,803	\$29,404	\$38,663	\$53,130
4	902	Meter Reading Expense	349,077	386,036	466,257	484,491
5	903	Customer Records & Collection Expense	478,289	414,526	430,236	418,393
6	904	Uncollectible Accounts	236,006	795,677	251,221	229,218
7	905	Miscellaneous Expenses	8,315	5,882	16,149	26,943
8						
9		Total Customer Accounts	<u>1,105,490</u>	<u>1,631,525</u>	<u>1,202,526</u>	<u>1,212,175</u>
10						
11		Sales				
12	910	Sales Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
13						
14		Total Sales	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
15						
16		Administrative & General				
17	920	Salaries	326,176	515,288	620,659	696,238
18	921.1	General Officers Expense				0
19	921.2	General Office Employees Expense	340,253	62,795	61,105	49,130
20	921	Office Supplies & Other Expenses	698,315	867,755	587,823	464,288
21	923	Outside Services Employed	4,252,516	3,515,077	3,922,139	2,445,279
22	924	Property & Liability Insurance	677,836	976,352	980,923	830,032
23	926.1	Employees Pension Expense	1,352,691	1,129,292	1,429,125	595,985
24	926	Employees Welfare Expense	778,491	1,010,326	931,327	1,621,120
25	928	Regulatory Commission Expense	133,333	106,339	0	
26	930.1	Institutional or Goodwill Advertising Expenses	0	0	0	1,384
27	930	Miscellaneous Expenses	412,707	362,685	385,917	295,995
28	931	General Rents	73,623	118,911	130,383	141,095
29						
30		Total Administrative & General	<u>9,045,941</u>	<u>8,664,820</u>	<u>9,049,401</u>	<u>7,140,546</u>
31						
32						
33		Total Operating Expense - Operations	<u>\$16,418,849</u>	<u>\$15,857,682</u>	<u>\$15,207,757</u>	<u>\$13,019,125</u>
34						
35						
36						
37						
38						
39						
40						

**Comparative Statement of Operation and Maintenance Expenses**

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

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 5**  
**Page 3 of 3**

Line No.	Account No.	Account Title	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1						
2		<u>Maintenance Expenses</u>				
3						
4		<u>Source Of Supply</u>				
5	610	Supervision & Engineering	\$0	\$0	\$0	\$0
6	614	Wells & Springs	0	0	0	0
7	617	Miscellaneous Plant	125,432	43,973	117,374	25,175
8						
9		Total Source Of Supply	<u>125,432</u>	<u>43,973</u>	<u>117,374</u>	<u>25,175</u>
10						
11		<u>Pumping</u>				
12	630	Supervision & Engineering	0	10,841	28,707	43,696
13	631	Structures & Improvements	20,283	18,285	24,157	17,925
14	632	Power Production Equipment	3,655	5,848	6,327	70,467
15	633	Pumping Equipment	48,518	(10,733)	48,781	35,216
16						
17		Total Pumping	<u>72,456</u>	<u>24,241</u>	<u>107,972</u>	<u>167,304</u>
18						
19		<u>Water Treatment</u>				
20	650	Supervision & Engineering	923	7,557	13,472	13,952
21	651	Structures & Improvements	18,766	2,031	11,919	510
22	652	Water Treatment Equipment	382,431	272,526	228,560	192,076
23						
24		Total Water Treatment	<u>402,120</u>	<u>282,114</u>	<u>253,951</u>	<u>206,538</u>
25						
26		<u>Transmission &amp; Distribution</u>				
27	670	Supervision & Engineering	162,984	207,596	200,117	152,004
28	671	Struct & Improve	907	0	0	
29	672	Dist. Reservoirs & Standpipes	3,829	0	0	
30	673/674	Transmission & Distribution Mains	964,611	666,484	704,883	621,844
31	675	Services	573,478	411,282	391,204	426,645
32	676	Meters	120,207	95,072	99,786	81,142
33	677	Hydrants	175,366	138,156	118,742	99,783
34	678	Miscellaneous Equipment	336,476	411,862	655,775	453,813
35						
36		Total Transmission & Distribution	<u>2,337,858</u>	<u>1,930,452</u>	<u>2,170,507</u>	<u>1,835,231</u>
37						
38		<u>Administrative &amp; General</u>				
39	932	Structures, Off Furn & Equip, Comm & Misc E	52,466	101,988	60,247	137,937
40						
41		Total Administrative & General	<u>52,466</u>	<u>101,988</u>	<u>60,247</u>	<u>137,937</u>
42						
43		Total Operating Expense - Maintenance	<u>2,990,332</u>	<u>2,382,768</u>	<u>2,710,051</u>	<u>2,372,185</u>
44						
45		Total Operation & Maintenance Expenses	<u>\$19,409,181</u>	<u>\$18,240,450</u>	<u>\$17,917,808</u>	<u>\$15,391,310</u>

# Comparative Statement of Taxes Charged to Operations

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 6  
Page 1 of 1

Line No.	Account No.	Account Title	Twelve Months Ended			
			12/31/2006	12/31/2005	12/31/2004	12/31/2003
1						
2		<u>Taxes Other Than Income</u>				
3						
4	408.10	Property Taxes	\$12,746,260	\$14,535,217	\$14,441,760	\$13,137,807
5						
6	408.11	State and Local Franchise and Gross Sales Tax	(64,503)		147,870	303,703
7						
8	408	State Unemployment	12,005	15,371	25,532	36,406
9						
10	408.13	State Sales and Use Tax				0
11						
12	408	Federal Social Security	398,342	417,461	367,066	395,262
13						
14	408	Federal Unemployment	13,914	5,011	5,210	10,903
15						
16	408.22	Enviromental Tax				0
17						
18	408.33	Other Taxes and Licenses	(454,620)	(34)	216,686	150,811
19						
20	408	Gross Receipts Tax	<u>123,057</u>	<u>176,340</u>	<u>101,204</u>	<u>128,530</u>
21						
22		Total Taxes Other Than Income	<u>12,774,455</u>	<u>15,149,366</u>	<u>15,305,328</u>	<u>14,163,422</u>
23						
24		<u>Federal &amp; State Income Tax</u>				
25						
26	409/410	Federal	(261,741)	156,073	481,504	1,086,645
27						
28	409/410	State	(71,108)	598,377	63,219	220,557
29						
30	412	Amortization of ITC	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>
31						
32		Total Federal & State Income Tax	<u>(347,849)</u>	<u>739,450</u>	<u>529,723</u>	<u>1,292,202</u>
33						
34						
35		Total Taxes Charged to Operations	<u>\$12,426,606</u>	<u>\$15,888,816</u>	<u>\$15,835,051</u>	<u>\$15,455,624</u>

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 7  
Page 1 of 5

Page 1 of 5

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

Line No.	Twelve Months Ended			
	12/31/2006	12/31/2005	12/31/2004	12/31/2003
1				
2				
3 Long-Term Debt	\$38,930,000	\$38,930,000	\$38,930,000	\$22,930,000
4				
5 Short-Term Debt	<u>60,369</u>	<u>10,246,180</u>	<u>13,315,548</u>	<u>12,525,121</u>
6				
7 Total Debt	38,990,369	49,176,180	52,245,548	35,455,121
8				
9 Preferred Stock	1,125,000	1,125,000	1,125,000	1,125,000
10				
11 Common Equity	<u>36,610,878</u>	<u>27,313,010</u>	<u>27,788,288</u>	<u>28,334,269</u>
12				
13 Total Capitalization	<u>\$76,726,247</u>	<u>\$77,614,190</u>	<u>\$81,158,836</u>	<u>\$64,914,390</u>
14				
15				
16				
17				
18				
19 Long-Term Debt	50.7%	50.2%	48.0%	35.3%
20				
21 Short-Term Debt	<u>0.1%</u>	<u>13.2%</u>	<u>16.4%</u>	<u>19.3%</u>
22				
23 Total Debt	50.8%	63.4%	64.4%	54.6%
24				
25 Preferred Stock	1.5%	1.4%	1.4%	1.7%
26				
27 Common Equity	<u>47.7%</u>	<u>35.2%</u>	<u>34.2%</u>	<u>43.7%</u>
28				
29 Total Capitalization	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
30				
31				
32				
33				
34				
35				

**Funds Requirement Statement**  
**Long Island American Water Stand-Alone**

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 7  
Page 2 of 5

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

Line No.		Twelve Months Ended	
		12/31/07	12/31/08
1			
2	<u>Cash Resources</u>		
3			
4	Net Income	(\$532,339)	\$418,633
5	Depreciation	2,899,192	3,040,149
6	Deferred Taxes	521,778	514,307
7	Amortization Of Other Deferred Charges	205,216	325,215
8	Issue Long-Term Debt, Common Stock, and Equity Infusions	<u>6,000,000</u>	<u>9,000,000</u>
9			
10		<u>9,093,847</u>	<u>13,298,304</u>
11			
12	<u>Cash Requirements</u>		
13			
14	Construction Net of Customer Advances	10,918,200	9,781,000
15	Sinking Funds and Maturities	0	0
16	Dividends	0	313,975
17	Unpaid Invoices/Construction Costs Payable	0	0
18	Deferred Expenses	871,923	203,077
19	Repay Short-Term Debt	<u>6,000,000</u>	<u>7,000,000</u>
20			
21		<u>17,790,123</u>	<u>17,298,052</u>
22			
23	Funds Required		
24		<u>\$8,696,276</u>	<u>\$3,999,748</u>
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			



**Estimate of Capital Structure for the Dates Shown  
Long Island American Water Stand-Alone**

**Base Year: Twelve Months Ended: 12/31/06**

**Exhibit 7**

**Page 3 of 5**

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

Line No.		Actual 12/31/06	Estimated	
			12/31/07	12/31/08
1				
2	<u>Long-Term Debt</u>			
3				
4	General Mortgage Bonds:			
5	8.46%	\$9,000,000	\$9,000,000	\$9,000,000
6	5.25%	13,930,000	13,930,000	13,930,000
7	4.90%	16,000,000	16,000,000	16,000,000
8	Proposed Series at 5.77%			7,000,000
9				
10	Total Long-Term Debt	<u>38,930,000</u>	<u>38,930,000</u>	<u>45,930,000</u>
11				
12	<u>Short-Term Debt</u>			
13				
14	Notes Pending Issuance of Securities	<u>60,369</u>	<u>7,396,276</u>	<u>0</u>
15				
16				
17	<u>Preferred Stock</u>			
18				
19	4.50 % Series	<u>1,125,000</u>	<u>1,125,000</u>	<u>1,125,000</u>
20				
21				
22	<u>Common Equity</u>			
23				
24	Common Stock	10,000,000	10,000,000	10,000,000
25	Proposed Issue	0	6,000,000	2,000,000
26	Paid-In Capital	10,500,000	10,500,000	16,500,000
27	Retained Earnings	<u>16,110,878</u>	<u>15,578,539</u>	<u>15,997,172</u>
28				
29	Total Common Equity	<u>36,610,878</u>	<u>42,078,539</u>	<u>44,497,172</u>
30				
31				
32	Total Capitalization	<u>\$76,726,247</u>	<u>\$89,529,815</u>	<u>\$91,552,172</u>
33				
34				

**Computation of the Effective Cost Rate of Long-Term Debt and Preferred Stock by Issue**  
**Long Island American Water Stand-Alone**

**Base Year: Twelve Months Ended: 12/31/06**

**Exhibit 7**

**Page 4 of 5**

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

Line No.	Date of Issue	Date Of Maturity	Term	Principal Amount Issued	Issuance Expenses	Net Proceeds	Net Proceeds Ratio	Effective Cost Rate
1								
2	<u>Long-Term Debt</u>							
3								
4	General Mortgage Bonds:							
5	8.46 % Series Due 12/01/2022	12/15/92	12/1/22	\$9,000,000	\$268,902	\$8,731,098	97.01%	8.72%
6	5.25 % Series Due 08/01/2027	8/28/97	8/1/27	13,930,000	881,745	13,048,255	93.67%	5.60%
7	4.9% Series Due 10/01/2034	10/28/04	10/1/34	16,000,000	1,250,149	14,749,851	92.19%	5.32%
8	Proposed Series at 5.77%			7,000,000	300,000	6,700,000	95.71%	6.03%
9								
10								
11	<u>Preferred Stock</u>							
12								
13	4.50 % Series	----	----	\$1,125,000	\$0	\$1,125,000	100.00%	4.50%
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
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31								
32								
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34								

**Proposed Cost of Capital  
Long Island American Water Stand-Alone**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 7  
Page 5 of 5

Line No.		Pro Forma	% to Total	Cost Rate	Weighted Cost
1					
2	<u>Long-Term Debt</u>				
3					
4	General Mortgage Bonds:				
5	8.46 % Series Due 12/01/2022	\$9,000	19.60%	8.72%	
6	5.25 % Series Due 08/01/2027	13,930	30.33%	5.60%	
7	4.9% Series Due 10/01/2034	16,000	34.83%	5.32%	
9	Proposed Series at 5.77%	7,000	15.24%	6.03%	
10					
11	Total Long-Term Debt	<u>45,930</u>	<u>100.00%</u>		
12					
13			49.97%	6.18%	3.09%
14	<u>Short-Term Debt</u>				
15					
16	Notes Pending Issuance of Securities	<u>0</u>	<u>0.00%</u>		
17					
18	<u>Preferred Stock</u>				
19					
20	4.50 % Series	<u>1,125</u>	<u>1.22%</u>	4.50%	0.05%
21					
22					
23	<u>Common Equity</u>				
24					
25	Common Stock	10,000			
26	Proposed Issue	2,000			
27	Paid-In Capital	16,500			
28	Retained Earnings	<u>16,370</u>			
29					
30	Total Common Equity	<u>44,870</u>	<u>48.81%</u>	11.00%	<u>5.37%</u>
31					
32					
33	Total Capitalization	<u>\$91,925</u>	<u>100.00%</u>		<u>8.51%</u>
34					
35					

# Utility Plant In Service Additions

Long Island American Water  
Case No:  
Witness Responsible: S. J. Tambini

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 8  
Page 1 of 1

Line No.	Twelve Months Ending		Three Mos. Ending	
	12/31/2007	12/31/2008	3/31/2009	
1				
2	<b>Ongoing Routine Construction, Replacement</b>			
3	<b><u>and Purchase of Equipment and Facilities</u></b>			
4	Mains, Hydrants, Valves, Meters - Deposit/Contribution	\$163,000	\$185,200	\$31,700
5	Network - Replacement Renewal	1,528,100	2,503,000	217,600
6	Hydrants-Replacements	254,700	350,400	68,900
7	Hydrants-New	29,000	28,600	800
8	Services-Replacements	865,800	1,101,300	245,300
9	Services-New	407,400	400,500	41,700
10	ITS Equipment & Systems	20,000	30,000	4,600
11	Offices and Operations Centers	15,000	15,000	200
12	Tools and Equipment	60,000	157,700	30,500
13	Process Plant - Replacement	550,000	557,500	64,300
14	Process Plant - Additions	50,400	52,400	4,200
15	Meters - Replacement	61,000	60,000	16,850
16	Meters - New	14,000	15,000	1,900
17	Treatment Media Replacement & Rehabilitation	30,000	30,000	3,700
18	Security	175,000	250,000	
19	Network - Extension		1,000	
20	Comprehensive Planning Studies	95,400	95,000	
21				
22	<b><u>Major Investment Projects</u></b>			
23	Plant 5 Filter Plant Upgrade	2,875,000		
24	LIRR Ocean & Atlantic Avenue	2,494,400		
25	North Clearwell Tank Roof at Plant 11	1,200,000		
26	Starter and MCC Replacements	30,000	520,000	50,000
27	20" Transmission Main - Plant 12 to South Baldwin		2,528,000	
28	SCADA Improvements		350,400	
29	Well # 14-2		550,000	
30				
31	Total	<u>\$10,918,200</u>	<u>\$9,781,000</u>	<u>\$782,250</u>
32				
33				
34				
35				

**Operation and Maintenance Expenses**  
**Forecasted Twelve Months Ended December 31, 2007**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 10 of 47

Line No.	Description	Payroll	Power	Fuel	Chemical	Invoices	Other	Total
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$13,811	\$15,398	\$1,508	\$0	\$128,162	\$0	\$158,879
6	Pumping	1,361,983	2,350,857	223,509	0	173,896	0	4,110,245
7	Water Treatment	653,467	148,850	16,906	729,202	139,887	119,184	1,807,496
8	Transmission & Distribution	683,331	58,770	83,479	0	183,277	0	1,008,857
9	Customer Accounts	753,616	0	0	0	128,627	1,376,831	2,259,074
10	Administrative & General	395,581	23,868	4,718	0	1,107,122	7,816,448	9,347,737
11								
12	<b>Total Operation</b>	<b>3,861,789</b>	<b>2,597,743</b>	<b>330,120</b>	<b>729,202</b>	<b>1,860,971</b>	<b>9,312,463</b>	<b>18,692,288</b>
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	0	0	0	0	95,889	32,884	128,773
18	Pumping	0	0	0	0	152,639	0	152,639
19	Water Treatment	247,208	0	0	0	193,725	0	440,933
20	Transmission & Distribution	2,288,703	0	0	0	466,978	0	2,755,681
21	Administrative & General	44,834	0	0	0	16,057	0	60,891
22								
23	<b>Total Maintenance</b>	<b>2,580,745</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>925,288</b>	<b>32,884</b>	<b>3,538,917</b>
24								
25								
26	<b>Total Operation &amp; Maintenance</b>	<b>\$6,442,534</b>	<b>\$2,597,743</b>	<b>\$330,120</b>	<b>\$729,202</b>	<b>\$2,786,259</b>	<b>\$9,345,347</b>	<b>\$22,231,205</b>
27								
28								
29								
30								
31								
32								
33								
34								
35								

**Operation and Maintenance Expenses**  
**Forecasted Twelve Months Ended December 31, 2008**

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

Base Year: Twelve Months Ended: 12/31/06  
**Exhibit 9**  
Page 11 of 47

Line No.	Description	Payroll	Power	Fuel	Chemical	Invoices	Other	Total
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$14,397	\$16,320	\$1,809	\$0	\$132,789	\$0	\$165,315
6	Pumping	1,419,775	2,491,673	268,077	0	180,174	0	4,359,699
7	Water Treatment	681,195	157,766	20,277	766,974	144,937	123,697	1,894,846
8	Transmission & Distribution	712,326	62,290	100,125	0	189,893	0	1,064,634
9	Customer Accounts	785,593	0	0	0	133,270	1,441,406	2,360,269
10	Administrative & General	412,366	25,298	5,659	0	1,147,089	8,787,212	10,377,624
11								
12	<b>Total Operation</b>	<b>4,025,652</b>	<b>2,753,347</b>	<b>395,947</b>	<b>766,974</b>	<b>1,928,152</b>	<b>10,352,315</b>	<b>20,222,387</b>
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	0	0	0	0	99,351	32,884	132,235
18	Pumping	0	0	0	0	158,149	0	158,149
19	Water Treatment	257,697	0	0	0	200,718	0	458,415
20	Transmission & Distribution	2,385,818	0	0	0	483,836	0	2,869,654
21	Administrative & General	46,736	0	0	0	16,637	0	63,373
22								
23	<b>Total Maintenance</b>	<b>2,690,251</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>958,691</b>	<b>32,884</b>	<b>3,681,826</b>
24								
25								
26	<b>Total Operation &amp; Maintenance</b>	<b>\$6,715,903</b>	<b>\$2,753,347</b>	<b>\$395,947</b>	<b>\$766,974</b>	<b>\$2,886,843</b>	<b>\$10,385,199</b>	<b>\$23,904,213</b>
27								
28								
29								
30								
31								
32								
33								
34								
35								

**Operation and Maintenance Expenses**  
**Forecasted Twelve Months Ended March 31, 2009**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 12 of 47

Line No.	Description	Payroll	Power	Fuel	Chemical	Invoices	Other	Total
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$14,758	\$16,564	\$1,899	\$0	\$137,583	\$0	\$170,804
6	Pumping	1,455,382	2,528,986	281,441	0	186,678	0	4,452,487
7	Water Treatment	698,279	160,129	21,288	776,906	150,169	124,867	1,931,638
8	Transmission & Distribution	730,191	63,223	105,116	0	196,748	0	1,095,278
9	Customer Accounts	805,295	0	0	0	138,081	1,625,921	2,569,297
10	Administrative & General	422,708	25,677	5,941	0	1,188,499	9,025,249	10,668,074
11								
12	<b>Total Operation</b>	<b>4,126,613</b>	<b>2,794,578</b>	<b>415,685</b>	<b>776,906</b>	<b>1,997,758</b>	<b>10,776,037</b>	<b>20,887,577</b>
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	0	0	0	0	102,938	32,884	135,822
18	Pumping	0	0	0	0	163,858	0	163,858
19	Water Treatment	264,160	0	0	0	207,964	0	472,124
20	Transmission & Distribution	2,445,651	0	0	0	501,302	0	2,946,953
21	Administrative & General	47,908	0	0	0	17,238	0	65,146
22								
23	<b>Total Maintenance</b>	<b>2,757,719</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>993,300</b>	<b>32,884</b>	<b>3,783,903</b>
24								
25	Productivity Adjustment	(68,843)						(68,843)
26								
27	<b>Total Operation &amp; Maintenance</b>	<b>\$6,815,489</b>	<b>\$2,794,578</b>	<b>\$415,685</b>	<b>\$776,906</b>	<b>\$2,991,058</b>	<b>\$10,808,921</b>	<b>\$24,602,637</b>
28								
29								
30								
31								
32								
33								
34								
35								

**Payroll**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 13 of 47

Line No.	Description	Actual 12 Months Ended 12/31/2006 (1)	Adjustment (2)	Forecast 12/31/2007 (3)	Adjustment (4)	Forecast 12/31/2008 (5)	Adjustment (6)	Forecast 3/31/2009 (7)
4	Operations:							
5	Source of Supply	\$11,388	\$2,423	\$13,811	\$586	\$14,397	\$361	\$14,758
6	Pumping	1,123,023	238,960	1,361,983	57,792	1,419,775	35,607	1,455,382
7	Water Treatment	538,816	114,651	653,467	27,728	681,195	17,084	698,279
8	Transmission & Distribution	563,441	119,890	683,331	28,995	712,326	17,865	730,191
9	Customer Accounts	621,394	132,222	753,616	31,977	785,593	19,702	805,295
10	Administrative & General	326,176	69,405	395,581	16,785	412,366	10,342	422,708
11								
12	Total Operation	3,184,238	677,551	3,861,789	163,863	4,025,652	100,961	4,126,613
13								
14								
15								
16	Maintenance:							
17	Source of Supply	0	0	0	0	0	0	0
18	Pumping	0	0	0	0	0	0	0
19	Water Treatment	203,835	43,373	247,208	10,489	257,697	6,463	264,160
20	Transmission & Distribution	1,887,151	401,552	2,288,703	97,115	2,385,818	59,833	2,445,651
21	Administrative & General	36,988	7,868	44,834	1,902	46,736	1,172	47,908
22								
23	Total Maintenance	2,127,954	452,791	2,580,745	109,506	2,690,251	67,468	2,757,719
24								
25								
26	Total Operation & Maintenance	5,312,192	1,130,342	6,442,534	273,369	6,715,903	168,429	6,884,332
27								
28	Productivity Adjustment						(68,843)	(68,843)
29								
30	Total Operation & Maintenance with Productivity Adj.	\$5,312,192	\$1,130,342	\$6,442,534	\$273,369	\$6,715,903	\$99,586	\$6,815,489
31								
32								
33								
34								
35								



**Power**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 14 of 47

Line No.	Description	Actual 12 Months Ended 12/31/2006 (1)	Adjustment (2)	Forecast 12/31/2007 (3)	Adjustment (4)	Forecast 12/31/2008 (5)	Adjustment (6)	Forecast 3/31/2009 (7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$14,528	\$870	\$15,398	\$922	\$16,320	\$244	\$16,564
6	Pumping	2,188,414	162,443	2,350,857	140,816	2,491,673	37,313	2,528,986
7	Water Treatment	140,438	8,412	148,850	8,916	157,766	2,363	160,129
8	Transmission & Distribution	55,449	3,321	58,770	3,520	62,290	933	63,223
9	Customer Accounts	0	0	0	0	0	0	0
10	Administrative & General	22,519	1,349	23,868	1,430	25,298	379	25,677
11								
12	<b>Total Operation</b>	<b>2,421,348</b>	<b>176,395</b>	<b>2,597,743</b>	<b>155,604</b>	<b>2,753,347</b>	<b>41,231</b>	<b>2,794,578</b>
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	0	0	0	0	0	0	0
18	Pumping	0	0	0	0	0	0	0
19	Water Treatment	0	0	0	0	0	0	0
20	Transmission & Distribution	0	0	0	0	0	0	0
21	Administrative & General	0	0	0	0	0	0	0
22								
23	<b>Total Maintenance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
24								
25								
26	<b>Total Operation &amp; Maintenance</b>	<b>\$2,421,348</b>	<b>\$176,395</b>	<b>\$2,597,743</b>	<b>\$155,604</b>	<b>\$2,753,347</b>	<b>\$41,231</b>	<b>\$2,794,578</b>
27								
28								
29								
30								
31								
32								
33								
34								
35								

**Fuel**

**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water

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

Case No:

Exhibit 9

Witness Responsible: J. N. Casillo

Page 15 of 47

Line	No. Description	Actual 12 Months Ended 12/31/2006 (1)	Adjustment (2)	Forecast 12/31/2007 (3)	Adjustment (4)	Forecast 12/31/2008 (5)	Adjustment (6)	Forecast 3/31/2009 (7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$1,257	\$251	\$1,508	\$301	\$1,809	\$90	\$1,899
6	Pumping	184,274	39,235	223,509	44,568	268,077	13,364	281,441
7	Water Treatment	14,095	2,811	16,906	3,371	20,277	1,011	21,288
8	Transmission & Distribution	69,601	13,878	83,479	16,646	100,125	4,991	105,116
9	Customer Accounts	0	0	0	0	0	0	0
10	Administrative & General	3,934	784	4,718	941	5,659	282	5,941
11								
12	Total Operation	273,161	56,959	330,120	65,827	395,947	19,738	415,685
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	0	0	0	0	0	0	0
18	Pumping	0	0	0	0	0	0	0
19	Water Treatment	0	0	0	0	0	0	0
20	Transmission & Distribution	0	0	0	0	0	0	0
21	Administrative & General	0	0	0	0	0	0	0
22								
23	Total Maintenance	0	0	0	0	0	0	0
24								
25								
26	Total Operation & Maintenance	273,161	56,959	330,120	65,827	395,947	19,738	415,685
27								
28								
29								
30								
31								
32								
33								
34								
35								

**Chemicals**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 16 of 47

Line No. Description	Actual 12 Months Ended 12/31/2006 (1)	Adjustment (2)	Forecast 12/31/2007 (3)	Adjustment (4)	Forecast 12/31/2008 (5)	Adjustment (6)	Forecast 3/31/2009 (7)
1							
2							
3							
4	<b>Operations:</b>						
5	Source of Supply	\$0	\$0	\$0	\$0	\$0	\$0
6	Pumping	0	0	0	0	0	0
7	Water Treatment	683,601	45,601	729,202	37,772	9,932	776,906
8	Transmission & Distribution	0	0	0	0	0	0
9	Customer Accounts	0	0	0	0	0	0
10	Administrative & General	0	0	0	0	0	0
11							
12	Total Operation	<u>683,601</u>	<u>45,601</u>	<u>729,202</u>	<u>37,772</u>	<u>9,932</u>	<u>776,906</u>
13							
14							
15							
16	<b>Maintenance:</b>						
17	Source of Supply	0	0	0	0	0	0
18	Pumping	0	0	0	0	0	0
19	Water Treatment	0	0	0	0	0	0
20	Transmission & Distribution	0	0	0	0	0	0
21	Administrative & General	0	0	0	0	0	0
22							
23	Total Maintenance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
24							
25							
26	Total Operation & Maintenance	<u>\$683,601</u>	<u>\$45,601</u>	<u>\$729,202</u>	<u>\$37,772</u>	<u>\$9,932</u>	<u>\$776,906</u>
27							
28							
29							
30							
31							
32							
33							
34							
35							

**Invoices**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

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

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 17 of 47**

Line No.	Description	Actual 12 Months Ended 12/31/2006	Adjustment	Forecast 12/31/2007	Adjustment	Forecast 12/31/2008	Adjustment	Forecast 3/31/2009
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								
2								
3								
4	<b>Operations:</b>							
5	Source of Supply	\$123,697	\$4,465	\$128,162	\$4,627	\$132,789	\$4,794	\$137,583
6	Pumping	167,837	6,059	173,896	6,278	180,174	6,504	186,678
7	Water Treatment	135,013	4,874	139,887	5,050	144,937	5,232	150,169
8	Transmission & Distribution	176,891	6,386	183,277	6,616	189,893	6,855	196,748
9	Customer Accounts	124,145	4,482	128,627	4,643	133,270	4,811	138,081
10	Administrative & General (1)	1,068,547	38,575	1,107,122	39,967	1,147,089	41,410	1,188,499
11								
12	<b>Total Operation</b>	<b>1,796,130</b>	<b>64,841</b>	<b>1,860,971</b>	<b>67,181</b>	<b>1,928,152</b>	<b>69,606</b>	<b>1,997,758</b>
13								
14								
15								
16	<b>Maintenance:</b>							
17	Source of Supply	92,548	3,341	95,889	3,462	99,351	3,587	102,938
18	Pumping	147,321	5,318	152,639	5,510	158,149	5,709	163,858
19	Water Treatment	186,975	6,750	193,725	6,993	200,718	7,246	207,964
20	Transmission & Distribution	450,707	16,271	466,978	16,858	483,836	17,466	501,302
21	Administrative & General	15,498	559	16,057	580	16,637	601	17,238
22								
23	<b>Total Maintenance</b>	<b>893,049</b>	<b>32,239</b>	<b>925,288</b>	<b>33,403</b>	<b>958,691</b>	<b>34,609</b>	<b>993,300</b>
24								
25								
26	<b>Total Operation &amp; Maintenance</b>	<b>\$2,689,179</b>	<b>\$97,080</b>	<b>\$2,786,259</b>	<b>\$100,584</b>	<b>\$2,886,843</b>	<b>\$104,215</b>	<b>\$2,991,058</b>

Inflation Rate = 3.61%

**Other Operation Expenses**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 18 of 47

Line No.	Description	Reference Exh/Page	Actual 12 Months Ended 12/31/2006	Adjustment	Forecast 12/31/2007	Adjustment	Forecast 12/31/2008	Adjustment	Forecast 3/31/2009
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	<b>Operations:</b>								
2	<b>Water Treatment</b>								
3	Service Company	9 / 25	\$114,837	\$4,347	\$119,184	\$4,513	\$123,697	\$1,170	\$124,867
4	Total Water Treatment		114,837	4,347	119,184	4,513	123,697	1,170	124,867
5	<b>Transmission &amp; Distribution</b>								
6	Rents	9 / 29	2,231	(2,231)	0	0	0	0	0
7	Total T&D		2,231	(2,231)	0	0	0	0	0
8	<b>Customer Accounts</b>								
9	Service Company	9 / 25	868,952	89,596	958,548	37,007	995,555	9,601	1,005,156
10	Uncollectible Expense	9 / 27	236,006	42,008	278,014	27,568	305,582	(8,423)	297,159
11	Postage	9 / 34	123,945	16,324	140,269	0	140,269	183,337	323,606
12	Total Customer Accounts		1,228,903	147,928	1,376,831	64,575	1,441,406	184,515	1,625,921
13	<b>Administrative &amp; General</b>								
14	Group Insurance	9 / 19	610,573	230,668	841,241	98,889	940,130	108,949	1,049,079
15	PBOP	9 / 20	666,742	33,336	700,079	35,005	735,083	9,189	744,272
16	Pensions	9 / 21	830,478	41,524	872,002	43,600	915,602	11,445	927,047
17	Pension and PBOP Deferral	9 / 22	0	0	0	(79,171)	(79,171)	(26,390)	(105,561)
18	401k Expense	9 / 23	79,221	40,555	119,776	5,078	124,854	3,069	127,923
19	Defined Contribution Plan	9 / 24	28,320	40,047	68,367	2,192	70,559	259	70,818
20	Service Company	9 / 25	3,105,937	(10,956)	3,094,981	128,847	3,223,828	30,842	3,254,670
21	Ins Other Than Group	9 / 26	709,110	581,199	1,290,308	74,661	1,364,969	19,099	1,384,068
22	Rate Case Expense	9 / 28	133,333	(1)	133,332	119,999	253,331	39,997	293,328
23	Rents	9 / 29	73,623	29,951	103,574	3,202	106,776	822	107,598
24	Leased Vehicles Maintenance & Fuel	9 / 30	339,116	154,608	493,724	135,368	629,092	13,629	642,721
25	Overearnings Adjustment	9 / 32	0	0	0	0	0	0	0
26	Low Income Program	9 / 33	0	0	0	73,125	73,125	54,375	127,500
27	Asbestos Removal	9 / 35	0	39,000	39,000	0	39,000	0	39,000
28	Safety Award	9 / 36	0	23,126	23,126	1,850	24,976	0	24,976
29	RAC and PTC	9 / 37	0	0	0	0	0	(28,507)	(28,507)
30	Audit Fees	9 / 38	38,451	(1,513)	36,938	328,120	365,058	1,259	366,317
31	Total Admin & General		6,614,905	1,201,543	7,816,448	970,764	8,787,212	238,036	9,025,249
32									
33	Total Operations		7,960,876	1,351,587	9,312,463	1,039,852	10,352,315	423,721	10,776,037
34	<b>Maintenance:</b>								
35	<b>Source of Supply</b>								
36	Tank Painting	9 / 31	32,884	0	32,884	0	32,884	0	32,884
37	Total Source of Supply		32,884	0	32,884	0	32,884	0	32,884
38	Total Maintenance		32,884	0	32,884	0	32,884	0	32,884
39									
40	Total Operation & Maintenance		\$7,993,760	\$1,351,587	\$9,345,347	\$1,039,852	\$10,385,199	\$423,721	\$10,808,921

**Group Insurance**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**

**Case No:**

**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**

**Exhibit 9**

**Page 19 of 47**

Line No.	Description	Twelve Months Ended 12/31/2007 (1)	Twelve Months Ended 12/31/2008 (2)	Twelve Months Ended 3/31/2009 (3)
1				
2				
3	Pro Forma Expense	\$954,329	\$1,066,512	\$1,190,107
4				
5	Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6				
7	Amount Chargeable to Capital and Other	113,088	126,382	141,028
8				
9	Pro Forma Chargeable to Operating Expenses	841,241	940,130	1,049,079
10				
11	Actual Test Year Expense	610,573	841,241	940,130
12				
13	Pro Forma Adjustment	\$230,668	\$98,889	\$108,949
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**Post-Retirement Other than Pensions (PBOP's)**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 20 of 47

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Annual FAS 106 PBOP Cost	\$794,191	\$833,900	\$844,324
4			
5 Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6			
7 Amount Chargeable to Capital and Other	<u>94,112</u>	<u>98,817</u>	<u>100,052</u>
8			
9 Pro Forma Expense	700,079	735,083	744,272
10			
11 Actual Base Year Expense	<u>666,742</u>	<u>700,079</u>	<u>735,083</u>
12			
13 Pro Forma Adjustment	<u>\$33,336</u>	<u>\$35,005</u>	<u>\$9,189</u>
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**Pension Expense**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 21 of 47

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Expense	\$989,225	\$1,038,686	\$1,051,670
4			
5 Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6			
7 Amount Chargeable to Capital and Other	<u>117,223</u>	<u>123,084</u>	<u>124,623</u>
8			
9 Pro Forma Chargeable to Operating Expense	872,002	915,602	927,047
10			
11 Actual Base Year Expense	<u>830,478</u>	<u>872,002</u>	<u>915,602</u>
12			
13 Pro Forma Adjustment	<u>\$41,524</u>	<u>\$43,600</u>	<u>\$11,445</u>
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**Pension and PBOP Deferral**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 22 of 47

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pension and PBOP Deferral	\$0	(\$237,512)	(\$316,682)
4			
5 Amortization Period (in Years)	<u>3</u>	<u>3</u>	<u>3</u>
6			
7 Pro Forma Expense	0	(79,171)	(105,561)
8			
9 Actual Test Year Expense	<u>0</u>	<u>0</u>	<u>(79,171)</u>
10			
11 Pro Forma Adjustment	<u>\$0</u>	<u>(\$79,171)</u>	<u>(\$26,390)</u>
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**401(k) Expense**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 23 of 47

Line No.	Description	Twelve Months Ended 12/31/2007 (1)	Twelve Months Ended 12/31/2008 (2)	Twelve Months Ended 3/31/2009 (3)
1				
2				
3	Pro Forma Expense	\$135,877	\$141,638	\$145,120
4				
5	Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6				
7	Amount Chargeable to Capital and Other	16,101	16,784	17,197
8				
9	Pro Forma Chargeable to Operating Expenses	119,776	124,854	127,923
10				
11	Actual Test Year Expense	79,221	119,776	124,854
12				
13	Pro Forma Adjustment	\$40,555	\$5,078	\$3,069
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**Defined Contribution Plan**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 24 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Expense	\$77,558	\$80,044	\$80,338
4			
5 Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6			
7 Amount Chargeable to Capital and Other	<u>9,191</u>	<u>9,485</u>	<u>9,520</u>
8			
9 Pro Forma Chargeable to Operating Expenses	68,367	70,559	70,818
10			
11 Actual Test Year Expense	<u>28,320</u>	<u>68,367</u>	<u>70,559</u>
12			
13 Pro Forma Adjustment	<u>\$40,047</u>	<u>\$2,192</u>	<u>\$259</u>
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**Service Company Expense**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 25 of 47

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3			
4			
5 Pro Forma Labor Expenses - AG	\$2,009,498	\$2,099,161	\$2,119,881
6 Pro Forma Labor Expenses - CA	616,168	640,815	647,223
7 Pro Forma Labor Expenses - WT	53,631	55,777	56,335
8			
9 Pro Forma Other Expenses -AG	1,085,483	1,124,667	1,134,789
10 Pro Forma Other Expenses -CA	342,380	354,740	357,933
11 Pro Forma Other Expenses -WT	65,553	67,920	68,532
12			
13 Total Pro Forma Expense	<u>4,172,713</u>	<u>4,343,080</u>	<u>4,384,693</u>
14			
15			
16 Actual Test Year Labor Expenses - AG	1,704,550	2,009,498	2,099,161
17 Actual Test Year Labor Expenses - CA	538,501	616,168	640,815
18 Actual Test Year Labor Expenses - WT	51,568	53,631	55,777
19			
20 Actual Test Year Other Expenses -AG	1,401,387	1,085,483	1,124,667
21 Actual Test Year Other Expenses -CA	330,451	342,380	354,740
22 Actual Test Year Other Expenses -WT	63,269	65,553	67,920
23			
24 Total Test Year Expense	<u>4,089,726</u>	<u>4,172,713</u>	<u>4,343,080</u>
25			
26 Pro Forma Adjustment	<u>\$82,987</u>	<u>\$170,367</u>	<u>\$41,613</u>
27			
28			
29 WT = Water Treatment			
30 CA = Customer Accounting			
31 AG = Administrative & General			
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**Insurance Other Than Group**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: D. C. Hunter

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 26 of 47

Line No.	Description	Twelve Months Ended 12/31/2007 (1)	Twelve Months Ended 12/31/2008 (2)	Twelve Months Ended 3/31/2009 (3)
3	Pro Forma Expense	\$1,290,308	\$1,364,969	\$1,384,068
5	Actual Test Year Expense	709,110	1,290,308	1,364,969
7	Pro Forma Adjustment	\$581,199	\$74,661	\$19,099

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**Uncollectible Expense**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**

**Case No:**

**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 27 of 47**

Line No.	Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
		(1)	(2)	Present Rates (3) Proposed Rates (4)
3	Pro Forma Expense	\$278,014	\$305,582	\$297,159 \$364,886
5	Actual Test Year Expense	236,006	278,014	305,582 297,159
7	Pro Forma Adjustment	\$42,008	\$27,568	(\$8,423) \$67,727

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**Rate Case Expense**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: D. C. Hunter

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 28 of 47

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Expense	\$133,332	\$253,331	\$293,328
4			
5 Actual Test Year Expense	<u>133,332</u>	<u>133,332</u>	<u>253,331</u>
6			
7 Pro Forma Adjustment	<u>\$0</u>	<u>\$119,999</u>	<u>\$39,997</u>
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**Rents**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: P. E. Pierse**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 29 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3			
4 Pro Forma Expenses - AG	\$103,574	\$106,776	\$107,598
5			
6			
7 Actual Test Year Expense - TD	2,231	0	0
8 Actual Test Year Expense - AG	<u>73,623</u>	<u>103,574</u>	<u>106,776</u>
9			
10 Pro Forma Adjustment	<u>\$27,720</u>	<u>\$3,202</u>	<u>\$822</u>
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**Leased Vehicles Maintenance & Fuel**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: P. E. Pierse**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 30 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Expense	\$560,095	\$713,661	\$729,122
4			
5 Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
6			
7 Amount Chargeable to Capital and Other	<u>66,371</u>	<u>84,569</u>	<u>86,401</u>
8			
9 Pro Forma Chargeable to Operating Expenses	493,724	629,092	642,721
10			
11 Actual Test Year Expense	<u>339,116</u>	<u>493,724</u>	<u>629,092</u>
12			
13 Pro Forma Adjustment	<u>\$154,608</u>	<u>\$135,368</u>	<u>\$13,629</u>
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**Tank Painting**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

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

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 31 of 47

Line No.	Description	Twelve Months Ended 12/31/2007 (1)	Twelve Months Ended 12/31/2008 (2)	Twelve Months Ended 3/31/2009 (3)
3	Pro Forma Expense	\$32,884	\$32,884	\$32,884
5	Actual Test Year Expense	32,884	32,884	32,884
7	Pro Forma Adjustment	\$0	\$0	\$0

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**Overearnings Adjustment**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. N. Casillo**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 32 of 47**

Line No. Description	Twelve Months Ended 3/31/2009
1	(1)
2	
3 Overearnings	\$0
4	
5 Amortization Period (Years)	3
6	
7 Pro Forma Amortization	\$0
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**Safety Award**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 36 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3 Pro Forma Expense	\$23,126	\$24,976	\$24,976
4			
5 Actual Test Year Expense	<u>0</u>	<u>23,126</u>	<u>24,976</u>
6			
7 Pro Forma Adjustment	<u>\$23,126</u>	<u>\$1,850</u>	<u>\$0</u>
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**RAC and Property Tax Reconciliation Clause (PTC)**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 37 of 47**

Line No.	Description	Twelve Months Ended 3/31/2009
1		(1)
2		
3	RAC, PTC & Property Tax Refund	(\$85,522)
4		
5	Amortization Period (Years)	<u>3</u>
6		
7	Pro Forma Amortization	<u>(\$28,507)</u>
8		
9		
10		
11		
12		
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34		
35		

**Audit Fees**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 38 of 47

Line No.	Description	Twelve Months Ended 12/31/2007 (1)	Twelve Months Ended 12/31/2008 (2)	Twelve Months Ended 3/31/2009 (3)
1				
2				
3	Pro Forma Audit Expense	\$36,938	\$38,271	\$38,617
4				
5	Pro Forma Sabanes Oxley Expense	0	326,787	327,700
6				
7	Total Pro Forma Expense	36,938	365,058	366,317
8				
9	Actual Base Year Expense	38,451	36,938	365,058
10				
11	Pro Forma Adjustment	<u>(\$1,513)</u>	<u>\$328,120</u>	<u>\$1,259</u>
12				
13				
14				
15				
16				
17				
18				
19				
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21				
22				
23				
24				
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31				
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34				
35				

**Depreciation**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: H. E. Rex

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 39 of 46

Line Account No. No.	Description	Current Depreciation Rate	Twelve Months Ended 12/31/2007		Twelve Months Ended 12/31/2008		Twelve Months Ended 3/31/2009	
			Depr. Plant	Depreciation Expense	Depr. Plant	Depreciation Expense	Depr. Plant	Depreciation Expense
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1								
2								
3	301	Organization	\$151	\$0	\$151	\$0	\$151	\$0
4	302	Franchises	518	0	518	0	518	0
5	310	Land & Ld Rights SS	435,601	0	435,601	0	435,601	0
6	320	Land & Ld Rights P	162,627	0	162,627	0	162,627	0
7	340	Land & Ld Rights TD	21,026	0	21,026	0	21,026	0
8	340	Land TD	8,502	0	8,502	0	8,502	0
9	389	Land & Land Rights AG	631	0	631	0	631	0
10	321	Struct & Imp P	3,324,652	66,227	4,040,652	80,490	4,138,483	82,439
11	331	Struct & Imp WT	6,555,809	130,592	6,517,347	129,826	6,517,347	129,826
12	390	Struct & Imp Offices	2,450,418	40,285	2,533,341	41,648	2,554,410	41,995
13	390	Struct & Imp Store,Shop,Gar	542,457	15,493	546,157	15,598	547,011	15,623
14	314	Wells & Springs	1,623,889	53,978	1,623,889	53,978	1,623,889	53,978
15	314	Wells Only (LI)	4,213,493	83,933	4,417,086	87,988	4,484,263	89,327
16	323	Power Generation Equip Othe	700,144	27,978	700,144	27,978	700,144	27,978
17	325	Pump Equip Electric	4,939,750	133,373	5,237,827	141,421	5,380,535	145,274
18	326	Pump Equip Diesel	1,301,803	35,149	1,301,803	35,149	1,301,803	35,149
19	332	WT Equip Non-Media	2,405,879	40,130	2,405,879	40,130	2,405,879	40,130
20	332	WT Equip Purification (LI)	10,208,187	382,195	11,295,325	422,897	11,422,402	427,655
21	342	Dist Reservoirs & Standpipe	3,154,315	42,015	3,923,546	52,262	3,923,546	52,262
22	343	TD Mains Not Classified by	0	0	0	0	0	0
23	343	TD Mains Paving (LI)	6,438,182	75,713	8,256,807	97,100	8,804,592	103,542
24	343	TD Mains 4in & Less	966,536	24,125	966,180	24,116	966,125	24,114
25	343	TD Mains 6in & Grtr (LI)	30,325,648	302,043	32,608,140	324,777	33,222,648	330,898
26	344	Fire Mains	2,112,652	42,084	2,358,667	46,985	2,435,982	48,525
27	345	Services	23,020,472	458,568	24,389,691	485,843	24,766,548	493,350
28	346	Meters Other	9,725,224	374,421	9,736,646	374,861	9,741,146	375,034
29	347	Meter Installations	4,629,585	115,554	4,629,585	115,554	4,629,585	115,554
30	348	Hydrants	5,090,963	72,699	5,604,763	80,036	5,749,886	82,108
31	349	Other P/E CPS	256,562	51,312	256,562	51,312	256,562	51,312
32	391	Office Furniture & Equip	331,253	12,554	361,207	13,690	369,876	14,018
33	391	Comp & Periph Equipment	137,725	13,773	130,687	13,069	128,379	12,838
34								
35		Subtotal	\$125,084,654	\$2,594,194	\$134,470,987	\$2,756,708	\$136,700,097	\$2,792,929

## Depreciation

**Long Island American Water**

**Case No:**

**Witness Responsible: H. E. Rex**

**Base Year: Twelve Months Ended: 12/31/06**

## Exhibit 9

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Line	Account No.	Description	Current Depreciation Rate	Twelve Months Ended 12/31/2007		Twelve Months Ended 12/31/2008		Twelve Months Ended 3/31/2009	
				Depreciation	Depreciation	Depreciation	Depreciation	Depreciation	Depreciation
				Plant	Expense	Plant	Expense	Plant	Expense
				(4)	(5)	(6)	(7)	(8)	(9)
1	(1)	(2)	(3)						
2									
3				\$125,084,654	\$2,594,194	\$134,470,987	\$2,756,708	\$136,700,097	\$2,792,929
4									
5	391	Computer Software	10.00%	2,061,457	206,146	2,061,457	206,146	2,061,457	206,146
6	391	Data Handling Equipment	10.00%	120,356	12,036	120,356	12,036	120,356	12,036
7	391	Other Office Equipment	4.74%	117,966	5,592	117,966	5,592	117,966	5,592
8	392	Trans Equip Lt Duty Trks	23.28%	371,863	86,570	34,197	7,961	32,193	7,495
9	392	Trans Equip Autos	23.28%	188,993	43,998	3,559	829	0	0
10	393	Stores Equipment	3.80%	8,985	342	8,985	342	8,985	342
11	394	Tools,Shop,Garage Equip	3.80%	470,807	17,909	565,369	21,507	601,984	22,899
12	394	Tools,Shop,Garage Equip Oth	4.00%	144,671	5,781	144,671	5,781	144,671	5,781
13	395	Laboratory Equipment	3.80%	90,954	3,460	92,108	3,504	92,281	3,510
14	396	Power Operated Equipment	8.89%	60,175	5,351	60,175	5,351	60,175	5,351
15	396	Power Oper Equip Other	5.33%	0	0	0	0	0	0
16	397	Comm Equip Non-Telephone	9.00%	155,145	13,963	152,607	13,735	152,261	13,703
17	398	Misc Equipment	6.32%	182,252	11,526	182,252	11,526	182,252	11,526
18									
19		Total		129,058,278	3,006,868	138,014,689	3,051,018	140,274,678	3,087,310
20									
21									
22		Less: Depr. Exp. on Cust. Adv.for Const.	0.996%	230,091	2,292	208,707	2,079	233,953	2,330
23		Less Annual Deprec. charged to capital			105,384		8,790		7,495
24									
25		Pro Forma Annual Expense		\$128,828,187	\$2,899,192	\$137,805,982	\$3,040,149	\$140,040,725	\$3,077,485



**Summary of Taxes Other Than Income**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. M. Watkins/J. N. Casillo**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 41 of 47**

Line No. Description	Exhibit 12 Reference Page No.	Actual	Twelve Months	Twelve Months	Twelve Months Ended 3/31/2009	
		Twelve Months Ended 12/31/2006	Ended 12/31/2007	Ended 12/31/2008	Present Rates	Proposed Rates
1		(1)	(2)	(3)	(4)	(5)
2						
3 Property Taxes	42	\$12,746,260	\$11,812,338	\$11,853,774	\$11,863,851	\$11,863,851
4						
5 Village Taxes	43	(64,503)	160,366	176,158	171,333	210,301
6						
7 PSC Assessment	44	122,975	134,638	147,220	143,376	174,424
8						
9 Payroll Taxes	45	424,261	436,151	452,797	463,128	463,128
10						
11 Miscellaneous Adjustments	43	<u>(454,538)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
12						
13 Total		<u>\$12,774,455</u>	<u>\$12,543,493</u>	<u>\$12,629,949</u>	<u>\$12,641,688</u>	<u>\$12,711,704</u>
14						
15						
16						
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**Property Taxes**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. N. Casillo

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
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Line No.	Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	Village of:	(1)	(2)	(3)
2	ATLANTIC BEACH	\$31,259	\$32,125	\$32,389
3				
4	CEDARHURST	7,365	7,358	7,356
5				
6	EAST ROCKAWAY	45,820	47,973	48,632
7				
8	HEWLETT BAY PARK	665	634	627
9				
10	HEWLETT HARBOR	236	207	199
11				
12	HEWLETT NECK	509	2,241	2,897
13				
14	ISLAND PARK	17,771	17,611	17,562
15				
16	LAWRENCE	6,865	6,596	6,515
17				
18	LYNBROOK	441,557	462,948	469,492
19				
20	MALVERNE	276,880	300,401	307,647
21				
22	VALLEY STREAM	430,698	448,297	453,674
23				
24	WOODSBURGH	1,009	1,132	1,166
25				
26	Town of:			
27	HEMPSTEAD-Town Taxes	5,385,965	5,411,644	5,418,094
28				
29	HEMPSTEAD-School Taxes	5,165,739	5,114,607	5,097,601
30				
31	Total Pro Forma Expense	<u>\$11,812,338</u>	<u>\$11,853,774</u>	<u>\$11,863,851</u>
32				
33				
34				
35				

**Village Taxes**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
Exhibit 9  
Page 43 of 47

Line No. Description	Twelve Months Ended 12/31/2007			Twelve Months Ended 12/31/2008		Twelve Months Ended 3/31/2009		
	(1)	(2)	(3)	(4)	(5)	Present Rates	Proposed Rates	
1								
2								
3								
4 Total Operating Revenues		\$39,431,073		\$43,313,924		\$42,127,650		\$51,709,066
5								
6 Taxes:								
7 New York State								
8								
9 Village Taxes	1.0000%	160,366	1.0000%	176,158	1.0000%	171,333	1.0000%	210,301
10								
11								
12 Pro Forma Expense		<u>\$160,366</u>		<u>\$176,158</u>		<u>\$171,333</u>		<u>\$210,301</u>
13								
14								
15 Village Taxes								
16 Total Revenues		\$39,431,073		\$43,313,924		\$42,127,650		\$51,709,066
17 Less Revenues from the Town of Hempstead		40.67%		40.67%		40.67%		40.67%
18 Total Revenue to Calculate Village Tax		<u>\$16,036,617</u>		<u>\$17,615,773</u>		<u>\$17,133,315</u>		<u>\$21,030,077</u>
19								
20								
21								
22								
23								
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25								
26								
27								
28								
29								
30								
31								
32								
33								
34								
35								

**PSC Assessment**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water

Case No:

Witness Responsible: J. M. Watkins

Base Year: Twelve Months Ended: 12/31/06  
 Exhibit 9  
 Page 44 of 47

Line No.	Description	Twelve Months Ended 12/31/2007 (1)		Twelve Months Ended 12/31/2008 (2)		Twelve Months Ended 3/31/2009 Present Rates (3)	
1							
2							
3	Total Operating Revenues	\$39,431,073		\$43,313,924		\$42,127,650	\$51,709,066
4							
5	Assessment Rate	0.32404%		0.32404%		0.32404%	0.32404%
6							
7	Pro Forma PSC Expense	127,772		140,354		136,510	167,558
8	Annual Assessment from Office of Real Property Services	6,866		6,866		6,866	6,866
9	Pro Forma Expense	134,638		147,220		143,376	174,424
10							
11	Actual Test Year Expense	122,975		134,638		147,220	143,376
12							
13	Pro Forma Adjustment	\$11,663		\$12,582		(\$3,844)	\$31,048
14							
15							
16							
17							
18							
19							
20							
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29							
30							
31							
32							
33							
34							
35							

**Payroll Taxes**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: J. M. Watkins**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 45 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009
1	(1)	(2)	(3)
2			
3			
4 Earning Subject to tax:			
5 FICA	\$6,202,138	\$6,443,460	\$6,595,425
6 FUTA	676,900	676,900	676,900
7 SUTA	821,950	821,950	821,950
8 Excess Medicare	177,613	206,752	213,271
9			
10 Tax Rate:			
11 FICA	7.65%	7.65%	7.65%
12 FUTA	0.80%	0.80%	0.80%
13 SUTA	1.50%	1.50%	1.50%
14 Excess Medicare	1.45%	1.45%	1.45%
15			
16 Tax:			
17 FICA	474,464	492,925	504,550
18 FUTA	5,415	5,415	5,415
19 SUTA	12,329	12,329	12,329
20 Excess Medicare	2,575	2,998	3,092
21			
22 Total Tax	494,783	513,667	525,386
23			
24 Percent Chargeable to Capital and Other	11.85%	11.85%	11.85%
25			
26 Amount Chargeable to Capital and Other	58,632	60,870	62,258
27			
28 Pro Forma Expense	\$436,151	\$452,797	\$463,128
29			
30			
31			
32			
33			
34			
35			

**State Income Tax**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

**Long Island American Water**  
**Case No:**  
**Witness Responsible: H. E. Rex**

**Base Year: Twelve Months Ended: 12/31/06**  
**Exhibit 9**  
**Page 46 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009	
			Present Rates	Proposed Rates
1	(1)	(2)	(3)	(4)
2 Operating Revenues	<u>\$39,431,073</u>	<u>\$43,313,924</u>	<u>\$42,127,650</u>	<u>\$51,709,066</u>
3 Less:				
4 Operation & Maintenance Expense	22,231,205	23,904,213	24,602,637	24,670,364
5 Depreciation Expense	2,899,192	3,040,149	3,077,485	3,077,485
6 Taxes Other Than Income	12,543,493	12,629,949	12,641,688	12,711,704
7 Amortization of Rate Case Expense	133,332	253,332	293,328	293,328
8 Amortization of Tank Painting	32,884	32,884	32,884	32,884
9 Amortization of Abestos Removal	0	29,250	39,000	39,000
10 Amortization of RAC/PTC & PT Refund	0	(21,375)	(28,500)	(28,500)
11 Amortization of Pensions & PBOP's	0	(79,173)	(105,564)	(105,564)
12				
13 Interest Charges (1)	2,463,102	2,761,388	2,815,269	2,815,269
14 Excess of Tax Depreciation Over Book	<u>974,058</u>	<u>741,411</u>	<u>732,679</u>	<u>732,679</u>
15 Total Deductions	<u>41,277,266</u>	<u>43,292,028</u>	<u>44,100,907</u>	<u>44,238,650</u>
16				
17 State Taxable Income	(1,846,193)	21,896	(1,973,257)	7,470,416
18				
19 State Income Tax Rate	7.50%	7.50%	7.50%	7.50%
20 MTA Tax	<u>1.28%</u>	<u>1.28%</u>	<u>1.28%</u>	<u>1.28%</u>
21 Total State Income Tax Rate	<u>8.78%</u>	<u>8.78%</u>	<u>8.78%</u>	<u>8.78%</u>
22				
23 Pro Forma State Income Tax Current	<u>(\$162,096)</u>	<u>\$1,922</u>	<u>(\$173,252)</u>	<u>\$655,903</u>
24				
25 Deferred State Income Tax:				
26 Excess tax depreciation over book plus amortizations	\$1,140,274	\$956,329	\$963,827	\$963,827
27 Tax rate	<u>8.78%</u>	<u>8.78%</u>	<u>8.78%</u>	<u>8.78%</u>
28				
29 Deferred S.I.T. (accel.depr.)	<u>\$100,116</u>	<u>\$83,966</u>	<u>\$84,624</u>	<u>\$84,624</u>
30				
31 Total State Income Tax	<u>(\$61,980)</u>	<u>\$85,888</u>	<u>(\$88,628)</u>	<u>\$740,527</u>
32 Note (1) Interest synchronization calculation:				
33 Rate Base	\$79,712,029	\$89,365,292	\$91,109,033	
34 Weighted Cost of Debt	<u>3.09%</u>	<u>3.09%</u>	<u>3.09%</u>	
35 Interest Charges	<u>\$2,463,102</u>	<u>\$2,761,388</u>	<u>\$2,815,269</u>	

**Federal Income Tax**  
**Forecast of the Twelve Months Ended December 2007, 2008 and March 2009**

Long Island American Water  
Case No:  
Witness Responsible: H. E. Rex

Base Year: Twelve Months Ended: 12/31/06  
**Exhibit 9**  
**Page 47 of 47**

Line No. Description	Twelve Months Ended 12/31/2007	Twelve Months Ended 12/31/2008	Twelve Months Ended 3/31/2009	
			Present Rates	Proposed Rates
1	(1)	(2)	(3)	(4)
2 Operating Revenues	<u>\$39,431,073</u>	<u>\$43,313,924</u>	<u>\$42,127,650</u>	<u>\$51,709,066</u>
3 Less:				
4 Operation & Maintenance Expense	22,231,205	23,904,213	24,602,637	24,670,364
5 Depreciation Expense	2,899,192	3,040,149	3,077,485	3,077,485
6 Amortization Expense				
7 Taxes Other Than Income	12,543,493	12,629,949	12,641,688	12,711,704
8 State Income Tax	(162,096)	1,922	(173,252)	655,903
9 Amortization of Rate Case Expense	133,332	253,332	293,328	293,328
10 Amortization of Tank Painting	32,884	32,884	32,884	32,884
11 Amortization of Abestos Removal	0	29,250	39,000	39,000
12 Amortization of RAC/PTC & PT Refund	0	(21,375)	(28,500)	(28,500)
13 Amortization of Pensions & PBOP's	0	(79,173)	(105,564)	(105,564)
14 Interest Charges (1)	2,463,102	2,761,388	2,815,269	2,815,269
15 Excess of Tax Depreciation Over Book	<u>964,702</u>	<u>739,141</u>	<u>729,518</u>	<u>729,518</u>
16 Total Deductions	<u>41,105,814</u>	<u>43,291,680</u>	<u>43,924,494</u>	<u>44,891,392</u>
17				
18 Taxable Income	(1,674,741)	22,244	(1,796,844)	6,817,674
19 Tax Rate	<u>34.00%</u>	<u>34.00%</u>	<u>34.00%</u>	<u>34.00%</u>
20				
21 Federal Income Tax (current)	<u>(\$569,412)</u>	<u>\$7,563</u>	<u>(\$610,927)</u>	<u>\$2,318,009</u>
22				
23 Deferred Federal Income Tax:				
24 Excess tax depreciation over book plus amortizations	\$1,130,918	\$954,059	\$960,666	\$960,666
25 Deferred S.I.T. (accel.depr.)	<u>100,116</u>	<u>83,966</u>	<u>84,624</u>	<u>84,624</u>
26 Deferral Base F.I.T.	1,030,802	870,093	876,042	876,042
27 Tax rate	<u>34.00%</u>	<u>34.00%</u>	<u>34.00%</u>	<u>34.00%</u>
28 Net	350,473	295,832	297,854	297,854
29 Excess Deferred Taxes Amortization	<u>(9,867)</u>	<u>(9,867)</u>	<u>(9,867)</u>	<u>(9,867)</u>
30 Deferred F.I.T. (accel.depr.)	<u>\$340,606</u>	<u>\$285,965</u>	<u>\$287,987</u>	<u>\$287,987</u>
31				
32 Deferred Federal Income Tax:				
33 Amortization of flow through tax	<u>\$81,056</u>	<u>\$144,376</u>	<u>\$160,659</u>	<u>\$160,659</u>
34				
35 Total Federal Income Tax	<u>(\$147,750)</u>	<u>\$437,904</u>	<u>(\$162,281)</u>	<u>\$2,766,655</u>
36				
37 Note (1) Interest synchronization calculation:				
38 Rate Base	\$79,712,029	\$89,365,292	\$91,109,033	
39 Weighted Cost of Debt	<u>3.09%</u>	<u>3.09%</u>	<u>3.09%</u>	
40 Interest Charges	<u>\$2,463,102</u>	<u>\$2,761,388</u>	<u>\$2,815,269</u>	