

AGENDA DATE: 02/18/04
AGENDA ITEM: 5A-3



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

WATER AND WASTEWATER

IN THE MATTER OF THE PETITION OF)	ORDER ADOPTING INITIAL
NEW JERSEY-AMERICAN WATER)	DECISION/SETTLEMENT
COMPANY, INC., FOR AN INCREASE IN)	
RATES FOR WATER AND SEWER SERVICE)	DOCKET NO. WR03070511
AND OTHER TARIFF MODIFICATIONS)	OAL DOCKET NO. PUCRL0729-2003N

(SERVICE LIST ATTACHED)

BY THE BOARD:

On July 10, 2003, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12, New Jersey-American Water Company (NJAW or Company), a public utility of the State of New Jersey, filed a petition with the Board of Public Utilities (Board) seeking approval of an increase in rates for water and wastewater service.

The Company provides water service to approximately 348,000 customers in certain municipalities in the counties of Atlantic, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Union, and Warren and provides wastewater services to approximately 25,000 customers in certain municipalities in the counties of Monmouth and Cape May. The Company's rate request would have resulted in an increase in total Company revenues of \$51,908,023 or 20.60% over annual pro forma current rate revenues for the period ending December 31, 2003. In addition NJAW proposed to pass through to ratepayers certain "Synergy Savings" that will result from the joint ownership of the NJAW, Elizabethtown Water Company, Inc. (EWC) and the Mount Holly Water Company (MHWC) (collectively the New Jersey Operating Utilities or NJOUs).

After extensive settlement discussions, an increase of \$24,147,323 representing a 9.56% increase over current rates was agreed to by the Parties and is approved herein by this Order.

PROCEDURAL HISTORY

On July 18, 2003, this matter was transmitted to the Office of Administrative Law (OAL) and eventually assigned to Administrative Law Judge (ALJ) Barry N. Frank. A pre-hearing conference was conducted by ALJ Frank on October 15, 2003.

Public hearings were held on December 3, 2003, at the Maplewood Town Hall, Maplewood, New Jersey; December 10, 2003, at the Voorhees Middle School, Voorhees, New Jersey; and on December 12, 2003, at the Eatontown Borough Hall, Eatontown, New Jersey.

Several individuals at the Eatontown public hearing, presented comments regarding fire hydrant services and the increases associated with these services. Other comments centered on the proposed overall increase. Lastly, one individual voiced concern regarding the Adelphia and the former Howell systems being in conformance with NJAW's statewide rates.

In addition to the Company, the Ratepayer Advocate (RPA) and the Board Staff (Staff), intervention status was also granted to: the Township of Maplewood (Maplewood), the Manasquan Customer Group (MCG), the Bulk Purchaser Coalition (BPC), the City of Ocean City (Ocean City), and the Department of the Navy (Navy) (collectively, the Parties). Additionally, participant status was granted to the Deptford Township Municipal Utilities Authority (DTMUA), Utility Workers Union of America, Local 391 and Local 423, and The Utilities Workers Union of America, (UWUA) AFL-CIO and the Local Union No. 395 (AFL-CIO) (UWUA 395).¹

Subsequent to the public hearings, the Parties engaged in settlement negotiations on December 10, 12, 29 and 30, 2003, and telephonically on December 19, 22, 23, January 2, 5, 6, 7, and 12 2004. As a result of these discussions, the Parties reached a stipulated settlement of all the issues (Stipulation or settlement).

On February 2, 2004, ALJ Frank issued his Initial Decision recommending adoption of the stipulation executed by the Parties, finding that the Parties had voluntarily agreed to the settlement and that the settlement fully disposes of all issues and was consistent with the law.

STIPULATION

As more fully set forth in the attached Stipulation², the Parties agreed that:

RATE BASE, CAPITAL STRUCTURE, RATE OF RETURN, OPERATING REVENUES AND EXPENSES

1. The twelve months ended December 31, 2003 is a reasonable test year and has been used for the purposes of this Stipulation (settlement paragraph 1).
2. The rate base has been revised through December 31, 2003, to reflect construction projects completed and in-service as of that date. Schedule A attached to the Stipulation reflects a rate base of \$841,127,977 (settlement paragraph 3).

¹ On appeal to the Board, the AFL-CIO Local 395 was granted intervenor status. By letter dated January 7, 2004, a Notice of Withdrawal was filed with ALJ Frank of the UWUA and UWUA 395's intention to withdraw from participating in this proceeding. This withdrawal was pursuant to an agreement between the UWUA and UWUA 395 and NJAW and Elizabethtown Water Company.

² Cited paragraphs referenced below are to the settlement document. This is only a summary, the full settlement document controls, subject to the Board's findings and conclusions contained herein.

3. The capital structure and the weighted cost of the debt and equity components thereof, as agreed to by the Parties, yield an overall rate of return of 7.91% inclusive of a return on common equity of 9.75 % (settlement paragraph 2).
4. The pro forma present rate revenues are \$252,528,385 and the revenue requirement increase is stipulated at \$24,147,323 representing an increase of 9.56% as shown on Schedule A, attached to the Stipulation. The revenue requirement increase reflects adjustments by the Parties to various components of O & M expenses which include, but are not limited to: labor and labor related costs; purchased water; tank painting; purchased power; chemicals; deferred purchased water; depreciation; business services; other O & M; and waste disposal charges (settlement paragraph 4).
5. The Company's pension expense should be based on Financial Accounting Standards (FAS) 87 for the year 2003, in addition to a 20-year amortization of the deferred portion of the pension expenses reflected on Exhibit P-2, Schedule 12, in the total amount of \$12,025,851 (settlement paragraph 5).
6. In view of the possibility of future Purchased Water Adjustment Clause filings and/or Purchased Sewerage Treatment Adjustment Clause filings, attached to the Stipulation as Schedule B, attached to the Stipulation, is a summary schedule depicting the Company's base costs for purchased water and sewage treatment (settlement paragraph 6).
7. With respect to the new acquisitions described in the testimony of H. Edward Rex, PT-7, the acquisition adjustments, and the associated amortization thereof, have been reflected in rates utilizing a 40-year amortization period. The net effect of reflecting these acquisition adjustments in rates accomplishes a slight reduction in the overall level of the acquisition adjustments balance in rate base and the associated amortization thereof reflected in the Company's rates (SIR-58) (settlement paragraph 7).
8. When the rates become effective in this case, the Delaware River Regional Water Treatment Plant (DRRWTP) deferral mechanism, at issue in the Company's last two rate proceedings, associated with sales to resale customers from the Company's DRRWTP in New Jersey Department of Environmental Protection's Critical Area #2, will cease (settlement paragraph 8).

SYNERGY SAVINGS

9. At the time of the Board approval of the change of control of NJAW through the acquisition of the common stock of American Water Works Company, Inc. (AWWC) by RWE Aktiengesellschaft (RWE) and Thames Water Holdings, Inc. (Thames) (collectively referred to RWE/Thames) (Change in Control) the Joint Petitioners in the Change in Control proceeding agreed to pass through payments of \$3 million for the benefit of ratepayers. That sum represented Synergy Savings expected to be achieved through the common ownership of the NJOUs by RWE/Thames that were to be achieved in advance of the completion

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of the next rate cases. In connection with these pending rate case proceedings, a Synergy Savings Study was submitted on behalf of the NJOUs which evidenced additional annual reductions to the revenue requirements of \$6,157,678, offset by annual amortized costs to achieve of \$1,082,000, for a net savings of \$5,075,678; as a consequence of a 75%/25% sharing of the net Synergy Savings between ratepayers and shareholders, the stipulated revenue requirements in these cases reflect an additional \$3,806,758 of savings annually.³ The provisions of this Stipulation and the related Stipulations in the EWC and the MHWC rate cases, when considered with the Change in Control Proceeding Order, reflects the flow through to ratepayers of substantial Synergy Savings (settlement paragraph 9A).

10. Additional Synergy Savings may result in the future, and in order to permit the Board to continue to monitor Synergy Savings on an ongoing basis, NJAW agrees to compile and submit to the Board annually, 45 days after calendar year end, comprehensive reviews for each year of data regarding cost reductions resulting from additional Synergy Savings and costs to achieve those savings. The data to be relied upon to calculate the future synergy savings will be compiled for any Synergy Savings achieved during the period commencing with the year beginning July 1, 2004 and ending with the rate effective date of the next rate case. The data relied upon to calculate the future Synergy Savings should not include; 1) the savings from synergies that were relied upon to calculate the \$3 million of payments made after the approval of the change in control, attributable to savings expected to be achieved in advance of the completion of the next rate cases; or 2) the savings of \$6,157,678 that were anticipated in the Synergy Savings Study presented in the current rate case (Exhibit PT-11A) (settlement paragraph 9B).
11. These additional net Synergy Savings data will be submitted to the Board for its review and consideration of the impact thereof in future rate case proceedings. The Parties agree that if such additional net Synergy Savings are determined to exist, and if the Board determines that it is appropriate to share them with ratepayers, such additional net Synergy Savings achieved commencing with the year beginning July 1, 2004 and the rate effective date of the next rate case shall be shared 50% to the ratepayers and 50% to the shareholder, with any allocation of the savings to ratepayers to be made as the Board may find appropriate. The Parties agree and recommend that a one-time bill credit to ratepayers no later than one hundred and twenty (120) days after the conclusion of the next rate case for each of the NJOUs could be issued for these purposes. The Parties have agreed to this 50% sharing formula in order to: (a) reflect the fact that the NJOUs are agreeing to relinquish any claim they may have that such sharing constitutes retroactive ratemaking; (b) provide an incentive for the NJOUs to

³ The Board has historically used a 75%/25% sharing split when determining the allocation of merger synergies to ratepayers and shareholders. See I/M/O Petition of Atlantic City Electric and Connectiv, Inc. for Approval of a Change in Ownership and Control, BPU Docket No. EM97020103 dated January 7, 1998; I/M/O Consideration of the Joint Petition of Orange and Rockland Utilities, Inc. for Approval of the Agreement and Plan of Merger and Transfer of Control, BPU Docket No. EM98070433 dated April 1, 1999; I/M/O Joint Petition of FirstEnergy Corp. and Jersey Central Power & Light Company, D/B/A GPU Energy, for Approval of a Change in Ownership and Acquisition of Control of a New Jersey Public Utility and Other Relief, BPU Docket No. EM00110870 dated October 9, 2001.

achieve such savings; and (c) reflect the fact that in the Change in Control Proceeding, the Board determined that all transaction costs, as well as any premium paid for the stock of AWWC in connection with the change in control, would have to be borne completely by the shareholders of RWE (settlement paragraph 9C).

12. The lower level of costs, on an ongoing annual basis achieved as a result of identified synergies, including those categories of costs previously subject to sharing should be reflected in the pro forma test year numbers in the NJOU's next rate cases. The NJOUs agree that the revenue requirement claims for each individual NJOU for the pro forma test year in their next base rate cases will reflect 100% of the impact of all Synergy Savings realized, on an on-going annual basis, through the end of that test year, irrespective of the sharing treatment applied to those Synergy Savings (settlement paragraph 9D).
13. NJAW shall not be required to maintain a specific deferred account with respect to any net Synergy Savings, and NJAW expressly agrees that NJAW shall not object in the next rate case to the above-stated sharing of any net Synergy Savings on the basis that such sharing constitutes retroactive ratemaking (settlement paragraph 9E).
14. Any incremental post test year Synergy Savings identified in any future rate case, net of costs to achieve, will be shared 75% to the ratepayers and 25% to the NJOUs. Those post-test year Synergy Savings will be fully reflected in any future revenue requirement claims made by each of the NJOUs in any future base rate case, with the effect that the then lower cost of service as a result of all Synergy Savings realized through the end of the test year in such future base rate case, regardless of past sharing, will be fully reflected in rates on an annual basis (settlement paragraph 9F).
15. An annual comprehensive review regarding Synergy Savings will be submitted to the Board at calendar year end and will include: (a) a summary of the activities undertaken as a result of the combined ownership of the NJOUs, prior to the filing of these rate cases, and following the approval of the Change in Control Proceeding; with respect to such anticipated savings, \$3 million was already paid; (b) a report regarding whether the NJOUs were successful in achieving the \$5,075,678 of net annual cost savings described in the Synergy Savings Study presented in the pending rate cases (Exhibit PT-11A); (c) a report regarding any additional net cost savings achieved above the \$6,157,678 of annual revenue requirement reductions described in the Synergy Savings Study; and (d) a projection of future cost savings that are anticipated to be achieved during the next year (settlement paragraph 9G).
16. Nothing in this settlement shall limit the Board's jurisdiction or authority under N.J.S.A. 48:2-51.1 in a future proceeding initiated by any party to this settlement. The Parties acknowledge that the consolidation activities described in the Synergy Savings Study submitted by the NJOUs, including the moving of certain functions for NJAW, EWC and MHC to a single headquarters and the joint

provisioning of certain aspects of the service by the NJOU's, will have an effect on the level of employees needed by the NJOUs to provide safe, adequate and proper utility service. In order to provide for the personal and financial welfare of all those employees who may be affected by the consolidation of the NJOUs, the Synergy Study includes specific provisions regarding job placement, severance benefits, an early retirement option, outplacement counseling services, and relocation benefits. The NJOUs reaffirm their commitments set forth in the Synergy Study and the Parties agree that these provisions are necessary if an appropriate balance of compassion and financial discipline is to be achieved in the consolidation, and for this reason the NJOUs agree to provide these services to affected employees. In addition, the NJOUs agree that the benefits and other matters in the case of union-represented employees shall be subject to the terms of their bargaining units' agreements with the Company (whose terms shall control) and the Company's bargaining obligations. These commitments will remain in effect until the NJOUs obtain approval from the Board to merge or consolidate the NJOUs. The NJOUs agree that they will provide to Board Staff and the RPA quarterly reports showing the level of employee's positions filled after consolidation, and the number of employee positions filled after consolidation, and the number of positions open but unfilled. These quarterly reports will be filed starting the first quarter after the effective date of the rates for the NJOUs and will continue absent further direction of the Board until one quarter after issuance of a Board Order approving a merger application involving the NJOUs. (settlement paragraph 9H).

LOW INCOME BILL PAYMENT ASSISTANCE PROGRAM

17. The Parties shall work together to develop a method of enrolling customers in a Low Income Payment Program (LIPP), for customers who are eligible to participate in one or more of the following programs: Low Income Home Energy Assistance Program (LIHEAP), Lifeline Energy Assistance, Pharmaceutical Assistance to the Aged and Disabled (PAAD), and the N.J. Senior Gold Prescription Discount Program. The Parties will work on developing a method to ascertain the pool of eligible households that includes households already enrolled in or otherwise qualified to enroll in one or more of the listed programs and that have a monthly household gross income at or below 175% of the federal poverty guidelines. The details of how the program will operate and how the customers will be notified are to be determined as part of a cooperative process. The Parties have agreed to develop a tariff that will set forth a description of the LIPP and the eligibility criteria. The LIPP details and mechanics developed in the cooperative process must be acceptable to all Parties prior to implementation of the LIPP. The Parties also agree to revisit the eligibility criteria and/or level of benefit as needed (settlement paragraphs 10, 11 and 12).
18. The revenue requirement effect of the LIPP for the NJOUs is as follows: NJAW - \$1,370,000; EWC - \$590,000; MHWC - \$50,000. The NJOUs and the Parties will develop a method to track and evaluate the costs and savings. Based on this method, the NJOUs will track and defer, for disposition in the NJOU's next base

rate case proceedings, the amount of net costs over or under the agreed upon amount established above for recovery in these cases (settlement paragraph 13).

19. The Parties agree that all retail customers and retail customer classes shall reimburse the NJOUs for the incremental costs of this program and that these costs shall be reflected in usage-based charges as determined in the future base rate cases. The contributions to this program by any one customer shall not exceed \$5,000 per customer, per year (settlement paragraph 14).
20. The NJOUs agree to continue the H2O Help to Others program and to expand its availability to EWC and MHWC customers by April 30, 2004. This program shall respond to emergency or crisis needs of low-income customers consistent with the program presently administered for NJAW. The shareholders of each NJOU agree to contribute an amount to this program equal to the amount donated by the customers of each water company on a \$1 for \$1 basis, up to an amount of \$25,000 for NJAW, \$20,000 for EWC, and \$5,000 for MHWC (settlement paragraph 15).

CONSERVATION

21. NJAW will use the experience gained from NJAW's ownership by RWE/Thames to help NJAW meet future challenges and to reduce future expenditures as the infrastructure ages. NJAW commits to join with the other NJOUs to undertake a systematic study of the potential opportunities for conservation and water reuse throughout its service territory (Conservation Study). The NJOUs agree: (a) to commence the Conservation Study no later than three (3) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide a copy of a draft of the study to Board Staff and the other parties subject to confidentiality protections if applicable within four (4) months thereafter, and (c) complete the study no later than six (6) months after commencing the study. The NJOUs agree to submit the final Conservation Study to the Board Staff no later than nine (9) months after the effective date of the Board Order in the last of the three NJOU rate cases. The NJOUs hereby agree that in the formulation of the Conservation Study the NJOUs will identify initiatives that will maximize the conservation of potable water use. The Conservation Study shall include analyses of the level of conservation initiatives that may be obtainable and the time frame necessary to attain the identified initiatives. For example, the Conservation Study may find that total potable water savings of 10% is attainable by 2008; and that of this total system potable water savings of 10%, that 3% is a result of water reuse; 6% due to seasonal rate differentials, and 1% from household conservation education programs.

In addition, the Company shall include a new tariff page that will provide language to establish, on a trial basis, terms and conditions for separate categories of usage for residential and commercial water usage. The tariff provisions will include a special seasonal rider to the General Metered Service (GMS) tariff for both residential and commercial customers, which will provide for indoor and outdoor (odd/even watering and swimming pool) usage. However, the rates used

for each such tariff for the respective categories of service will remain the same as the rate for GMS customers and the Board will examine whether and on what basis to establish such terms and conditions in the next rate case (settlement paragraph 16).

LONG TERM PLANNING

22. NJAW will undertake the formulation of a long term master plan, along with its NJOU affiliates, to develop a least cost strategy to economically satisfy the long term consolidation needs of NJOU customers consistent with the continued provision of safe and adequate service (Long Term Planning Study). The Company agrees to: (a) commence the study no later than six (6) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide a draft copy of the study to Board Staff within eleven (11) months thereafter, and (c) complete the study no later than twelve months after commencing the study. Subject to confidentiality protections, if applicable, when the study is completed, a copy will be provided to Board Staff and the Ratepayer Advocate, and an executive summary will be provided to the parties who are signatories to this Stipulation. The NJOUs hereby agree that in the formulation of the Long Term Planning Study, the NJOUs will include, but not be limited to, consideration of the following: (a) an individual analysis of system growth for each NJOU, by planning area, where feasible, wherein "planning area" has the meaning assigned by the Office of State Planning; (b) an evaluation of initiatives to support Smart Growth; (c) individual NJOU system maps identifying planning areas, where feasible, and (d) other concepts as the NJOUs believe necessary (settlement paragraph 17)

RATE DESIGN AND COST OF SERVICE

23. GMS rates for the Company's service territories in Howell Township (including customers of the former Adelpia Water Company), Ortle Beach and in the Borough of Chester will be equalized with the Company's statewide GMS rates, both fixed and volumetric. In the Company's Logan service area, the volumetric rate will be equalized with the statewide GMS volumetric rate, while the fixed service charge schedule of rates will be moved toward the statewide GMS fixed service charge so that in the Company's next rate proceeding, the Logan service area fixed service charge will be equalized with the statewide GMS service charge. The statewide GMS rates for a 5/8" meter will be increased to \$8.01 per month and the remaining schedule of fixed service charges will be adjusted in accordance with the agreement of the Parties. In the Company's next rate proceeding, the fixed service charges will be developed in accordance with the AWWA meter capacity ratios (settlement paragraph 18).

The Company's Commodity Demand Service rates will increase overall by 7.70% while rates for Off-Peak Service will increase overall by 7.60% (settlement paragraph 19).

The Manasquan Service Uninterruptible rate will remain unchanged. The Company will file a separate "stand alone" cost of service study for Manasquan Service in the Company's next rate case (settlement paragraph 20).

The rates for Private Fire Protection Service customers pursuant to the Company's Rate Schedule J will increase 15.70%. Customers service pursuant to the Company's Rate Schedule L, the highest present rates for this class of customer, will receive no increase in rates in this proceeding. The Private Fire Protection Service rates for the Ortley Beach service territory will be set at the rates set forth in the Company's Rate Schedule L. The Private Fire Protection Service in the former Howell Township system service area, the Standby Facilities charge will remain unchanged and the Private Fire Hydrant charge will increase by 18.60%. The Private Fire Protection Service in the Logan service area, rates for Sprinkler Head service will increase by 18.80%, while the rates for service provided through Private Fire Hydrants will increase by 18.60%. Private Fire Protection Service rates for the Company's Adelpia service area will decrease by 19.80% (settlement paragraph 21).

24. The Public Fire Protection Service rates for the Company's entire service territory, except for the Howell and Adelpia systems will increase by 7.90%. In order to move the Ortley Beach and Logan Public Fire Protection Service hydrant rates toward equalization with the Company's statewide Public Fire Protection Service rate, the Ortley Beach and Logan Public Fire Protection Service hydrant rates will increase by 5.00% on January 1 of each calendar year until the Company's next base rate proceeding or until equalization is achieved, whichever occurs first.⁴

Public Fire Protection Service rates in the Howell system service area will increase by 1.30% and the Public Fire Protection Service rates in the Adelpia Service area will increase by 15.60% (settlement paragraph 22).

25. The rates in the Company's Lakewood Sewer service area will increase by 8.11%; in the Company's Ocean City sewer service area by 9.90% and in the Company's Adelpia sewer service area by 9.91% (settlement paragraph 23).
26. In the Company's next rate case proceeding, the Company will examine the impact on customers in the Lakewood Sewer service area that would occur if sewer bills to these customers were to be based on year-round monthly water usage rather than the present system of basing sewer bills on annualized winter quarter water usage only (settlement paragraph 24).

⁴ This rate design is consistent with the Board's Order I/M/O New Jersey-American Water Company for an Increase in Rates for Water and Sewer Service and Other Tariff Modifications, BPU Docket No. WR98010015 dated April 6, 1999.

SERVICE QUALITY

27. The Company will agree to continue to report its customer service performance measures as established in the Change in Control Proceeding (settlement paragraph 25).
28. No later than April 1, 2005, NJAW, EWC and MHCW will jointly submit a proposed service quality performance plan to the Board for approval to take effect July 1, 2005. Such proposed service quality performance plan shall be served on all Parties to this Stipulation. This plan shall reflect a uniform set of performance requirements standard and reporting requirements for all three Companies. Annual performance shall be measured for each NJOU separately unless the measurement reflects a performance area that is provided by the NJOUs without regard to the individual service territory of each NJOU (settlement paragraph 26).
29. At a minimum, the Parties agree that the NJOUs will include measurements that reflect call center performance, length of outage, response to customer complaints, and a measurement of bill accuracy in their proposed service quality performance plan as well as the Board's Report Card Initiative, if applicable. In addition, such plan shall include a requirement that the three NJOUs post on their websites by March 31, and include in a bill insert by September 30, an annual service quality report that reflects the prior calendar year performance (settlement paragraph 27).
30. The NJOUs will negotiate with the other Parties to this Stipulation concerning the proposed service quality performance plan that is required to be filed with the Board no later than April 1, 2005. In the event that an agreement cannot be reached, the NJOU's proposal shall be filed with the Board and served upon all other Parties to this Stipulation, subject to comment and public hearing prior to the final decision of the Board. The filing, if necessary, will include costs incurred by the NJOUs to conduct customer polling, focus groups and/or other similar activities to determine customer expectations. The Parties agree that the NJOUs can seek recovery of such costs in such proceeding as the Board deems appropriate. It is the intent of the Parties that the Board finalizes its decision on this matter no later than July 1, 2005 (settlement paragraph 28).

REQUIRED REVENUE INCREASE

31. The revenue requirement increase stipulated herein, is \$24,147,323, 9.56% over present rate revenues of \$252,528,385 and is the level of revenue appropriate to ensure that the Company will continue to provide safe, adequate and proper service to its customers (settlement paragraph 31).

DISCUSSIONS AND FINDINGS

The Board, having reviewed ALJ Barry Frank's Initial Decision and the Stipulation, FINDS that the Parties have voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues in this proceeding and is consistent with the law. The Board FINDS the Stipulation to be

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reasonable and in the public interest. The Board HEREBY ADOPTS the Initial Decision and the Stipulation attached hereto as its own incorporating by reference the terms and conditions as if fully set forth at length, herein, subject to the following:

- a) The twelve months ended December 31, 2003 is a reasonable test year and shall be used for the purposes of this Stipulation.
- b) The rate base shall be revised through December 31, 2003, to reflect construction projects completed and in-service as of that date to a maximum rate base of \$841,127,977.
- c) The capital structure and the weighted cost of the debt and equity components shown on Schedule A of the Stipulation, as agreed to by the Parties, shall yield an overall rate of return on 7.91%, inclusive of a return on common equity of 9.75 %.
- d) The pro forma present rate revenues shall be \$252,528,385 and the revenue requirement increase shall be \$24,147,323 (9.56%) as shown on Schedule A to the Stipulation.
- e) In view of the possibility of future Purchased Water Adjustment Clauses and/or Purchased Sewerage Treatment Adjustment Clause filings, attached to the Stipulation as Schedule B is a summary schedule which shall depict the Company's base costs for purchased water and sewage treatment.
- f) The effect of acquisition adjustments in rates shall accomplish a reduction in the overall level of the acquisition adjustments balance in rate base and the associated amortization thereof reflected in the Company's rates.
- g) Effective with the rates effective in this case, the DRRWTP deferral mechanism, at issue in the Company's last two rate proceedings, associated with sales to resale customers from the Company's Delaware River Regional Treatment Plant in NJDEP Critical Area #2, will cease.

SYNERGY SAVINGS

- h) In connection with these pending rate case proceedings, a Synergy Savings Study was submitted on behalf of the NJOUs which evidenced annual reductions to the revenue requirements of \$6,157,678, offset by annual amortized costs to achieve of \$1,082,000, for a net savings of \$5,075,678; as a consequence of a 75%/25% sharing of the net Synergy Savings between ratepayers and shareholders, the stipulated revenue requirements in these cases shall reflect an additional \$3,806,758 of savings annually in customers rates.
- i) NJAW shall compile and shall submit to the Board annually, 45 days after calendar year end, comprehensive reviews for each year of data regarding cost reductions resulting from additional Synergy Savings and costs to achieve those savings.

- j) Any additional net Synergy Savings achieved, commencing with the year beginning July 1, 2004, and the rate effective date of the next rate case shall be shared 50% to the ratepayers and 50% to the shareholder, with any allocation of the savings to ratepayers to be made as the Board may find appropriate.
- k) The lower level of costs, on an ongoing annual basis achieved as a result of identified synergies, including those categories of costs previously subject to sharing shall be reflected in the pro forma test year numbers in the NJOU's next rate cases. The pro forma test year revenue requirement in each NJOU's next base rate case shall reflect 100% of the impact of all Synergy Savings realized, on an on-going annual basis, through the end of that test year, irrespective of the sharing treatment applied to those Synergy Savings.
- l) NJAW is not to be required to maintain a specific deferred account with respect to any net Synergy Savings, and NJAW agrees expressly that NJAW shall not object in the next rate case to the above-stated sharing of any net Synergy Savings on the basis that such sharing constitutes retroactive ratemaking.
- m) Any incremental post test year Synergy Savings identified in any future rate case, net of costs to achieve, shall be shared 75% to the ratepayers and 25% to the NJOUs. Those post-test year Synergy Savings shall be fully reflected in any future revenue requirement claims made by each of the NJOUs in any future base rate case, with the effect that the then lower cost of service as a result of all Synergy Savings realized through the end of the test year in such future base rate case, regardless of past sharing, shall be fully reflected in rates on an annual basis.
- n) An annual comprehensive review regarding Synergy Savings shall be submitted to the Board at calendar year end and shall include: (a) a summary of the activities undertaken as a result of the combined ownership of the NJOUs, prior to the filing of these rate cases, and following the approval of the Change in Control Proceeding; with respect to such anticipated savings, \$3 million was already paid; (b) a report regarding whether the NJOUs were successful in achieving the \$5,075,678 of net annual cost savings described in the Synergy Savings Study presented in their pending rate cases; (c) a report regarding any additional net cost savings achieved above the \$6,157,678 of annual revenue requirement reductions described in the Synergy Savings Study; and (d) a projection of future cost savings that are anticipated to be achieved during the next year.
- o) Nothing in this settlement shall limit the Board's jurisdiction or authority under N.J.S.A. 48:2-51.1 in a future proceeding initiated by the Board or any Party to this settlement. The Synergy Savings Study submitted by the NJOUs may have an effect on the level of employees needed by the NJOUs to provide safe, adequate and proper utility service. The commitments set forth in the Synergy Study may be offered to affected employees. These provisions shall be applied to affected employees on the terms indicated in the Synergy Study. In addition, the benefits and other matters, in the case of union-represented employees, shall be subject to the terms of their bargaining units' agreements with the Company (whose terms shall control) and the Company's bargaining obligations. These commitments shall remain

in effect until the NJOUs obtain approval from the Board to merge or consolidate the relevant NJOUs. The NJOUs shall provide to Board Staff and the RPA quarterly reports showing the level of employee's positions filled after consolidation, and the number of employee positions filled after consolidation, and the number of positions open but unfilled. These quarterly reports shall be filed starting the first quarter after the effective date of the rates for the last rate proceeding and shall continue absent further direction of the Board until one quarter after a Board Order approving a merger application involving the NJOUs.

LOW INCOME BILL PAYMENT ASSISTANCE PROGRAM

- p) The NJOUs shall work together with the Parties to this proceeding to develop a method of enrolling customers in a Low Income Payment Program (LIPP) for customers who are eligible to participate in one or more of the following programs: Low Income Home Energy Assistance Program (LIHEAP), Lifeline Energy Assistance, Pharmaceutical Assistance to the Aged and Disabled (PAAD), and the N.J. Senior Gold Prescription Discount Program. The details of how the program shall operate and how the customers shall be notified are to be determined as part of a cooperative process. As part of the cooperative process, the Parties shall agree to develop a tariff that shall set forth a description of the LIPP and the eligibility criteria. The eligibility criteria shall be revisited if it appears that the estimated number of eligible households shall require financial resources that exceed those estimates established in this stipulation.
- q) The revenue requirement effect of the LIPP for the NJOUs shall be set in these cases to include recovery of the following costs in rates: NJAW - \$1,370,000; EWC - \$590,000; MHWC - \$50,000. All monies collected for the LIPP shall accrue interest. The interest rate shall be at the Company's overall rate of return approved herein. The NJOU shall track and evaluate the costs and savings associated with any LIPP developed. The NJOUs shall track and may defer, for disposition in the NJOU's next base rate case proceedings, the amount of net costs over or under the amount established above for recovery in these cases.
- r) All retail customers and retail customer classes may reimburse the NJOUs for the incremental costs of this program and that these costs may be reflected in usage-based charges as determined in the future base rate cases. The contributions to this program by any one customer shall not exceed \$5,000 per customer, per year. The Companies may revisit this \$5,000 in the Companies' future base rate proceedings.
- s) The NJOUs shall continue the H2O Help to Others program and shall expand its availability to EWC and MHWC customers by April 30, 2004. The shareholders of each NJOU shall contribute an amount to this program equal to the amount donated by the customers of each water company on a \$1 for \$1 basis, up to an amount of \$25,000 for NJAW, \$20,000 for EWC, and \$5,000 for MHWC.
- t) Should the LIPP not come to fruition, the Company shall refund all monies collected, with interest, in a manner to be determined by the Board.

CONSERVATION

- u) NJAW shall use all reasonable methods and the full experience of its parent and affiliates to meet future challenges and to reduce future expenditures. NJAW shall, with the other NJOUs undertake a systematic study of the opportunities for conservation and water reuse throughout its service territory (Conservation Study). The NJOUs shall: (a) commence the study no later than three (3) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide a copy of a draft of the study to Board Staff and the other parties subject to confidentiality protections if applicable within four (4) months thereafter, and (c) complete the study no later than six (6) months after commencing the study. The NJOUs shall agree to submit the final Conservation Study to the Board Staff no later than nine (9) months after the effective date of the Board Order in the last of the three NJOU rate cases.

The NJOUs shall, in the formulation of the Conservation Study, identify initiatives that will maximize the conservation of potable water use. The Conservation Study shall include an analysis of the level of conservation initiatives that may be obtainable and the time frame necessary to attain the identified initiatives.

The Company shall include a new tariff page that shall provide language to establish, on a trial basis, terms and conditions for separate categories of usage for residential and commercial water usage. The tariff provisions shall include a special seasonal rider to the General Metered Service (GMS) tariff for both residential and commercial customers, which shall provide for indoor and outdoor (odd/even watering and swimming pool) usage. However, the rates used for each such tariff for the respective categories of service shall remain the same as the rate for GMS customers.

LONG TERM PLANNING

- v) The NJOUs shall undertake the formulation of a long term master plan to develop a least cost strategy to economically satisfy the long term consolidation needs of NJOU customers, consistent with the continued provision of safe and adequate service (Long Term Planning Study). The NJOUs shall: (a) commence the study no later than six (6) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide draft copy of the study to Board Staff within eleven (11) months thereafter; and (c) complete the study no later than twelve months after commencing the study. Subject to confidentiality protections, if applicable, when the study is completed, a copy shall be provided to Board Staff and the Ratepayer Advocate, and an executive summary shall be provided to the parties who are signatories to this Stipulation.

In the formulation of the Long Term Planning Study, the NJOUs shall include, but not be limited to, consideration of the following: (a) an individual analysis of system growth for each NJOU, by planning area, where feasible, wherein "planning area" has the meaning assigned by the Office of State Planning; (b) an evaluation of initiatives to support Smart Growth; (c) individual NJOU system maps identifying planning areas, where feasible; and (d) other concepts as the NJOUs believe necessary.

RATE DESIGN AND COST OF SERVICE

- w) General Metered Service (GMS) Rates for the Company's service territories in Howell Township (including customers of the former Adelpia Water Company), Ortley Beach and in the Borough of Chester shall be equalized with the Company's statewide GMS rates, both fixed and volumetric. In the Company's Logan service area, the volumetric rate shall be equalized with the statewide GMS volumetric rate, while the fixed service charge schedule of rates shall be moved toward the statewide GMS fixed service charge so that in the Company's next rate proceeding, the Logan service area fixed service charge shall be equalized with the statewide GMS service charge. The statewide GMS rates for a 5/8" meter shall be increased to \$8.01 per month and the remaining schedule of fixed service charges shall be adjusted in accordance with the agreement of the Parties. In the Company's next rate proceeding, the fixed service charges shall be developed in accordance with the AWWA meter capacity ratios.
- x) The Company's Commodity Demand Service rates shall increase overall by 7.70% while rates for Off-Peak Service will increase overall by 7.60%.
- y) The Manasquan Service Uninterruptible rate shall remain unchanged. The Company shall file a separate "stand alone" cost of service study for Manasquan Service in the Company's next rate case.
- z) The rates for Private Fire Protection Service customers pursuant to the Company's Rate Schedule J shall increase 15.70%. Customers served pursuant to the Company's Rate Schedule L, the highest present rates for this class of customer, shall receive no increase in rates in this proceeding. The Private Fire Protection Service rates for the Ortley Beach service territory shall be set at the rates set forth in the Company's Rate Schedule L. With respect to the Private Fire Protection Service tariff for the former Howell Township system service area, the Standby Facilities charge shall remain unchanged, and the Private Fire Hydrant charge shall increase by 18.60%. With respect to the Private Fire Protection Service tariff for the Logan service area, rates for Sprinkler Head Service shall increase by 18.80%, while the rates for service provided through Private Fire Hydrants shall increase by 18.60%. Private Fire Protection Service rates for the Company's Adelpia service area shall decrease by 19.80%.
- aa) The Public Fire Protection Service rates for the Company's entire service territory, except for the Howell and Adelpia systems shall increase by 7.90%. In order to move the Ortley Beach and Logan Public Fire Protection Service hydrant rates toward equalization with the Company's statewide Public Fire Protection Service rate, the Ortley Beach and Logan Public Fire Protection Service hydrant rates shall increase by 5.00% on January 1 of each calendar year until the Company's next base rate proceeding or until equalization is achieved, whichever occurs first. The Company shall provide at least thirty (30) days notice to the municipalities of Ortley Beach and Logan prior to the implementation of the new rates in each calendar year.

- bb) Public Fire Protection Service rates in the Howell system service area shall increase by 1.30% and the Public Fire Protection Service rates in the Adelphia Service area shall increase by 15.60%.
- cc) The rates in the Company's Lakewood Sewer service area shall increase by 8.11%; in the Company's Ocean City sewer service area by 9.90% and in the Company's Adelphia sewer service area by 9.91%.
- dd) In the Company's next rate case proceeding, the Company shall examine the impact on customers in the Lakewood Sewer service area that would occur if sewer bills to these customers were to be based on year-round monthly water usage rather than the present system of basing sewer bills on annualized winter quarter water usage only.

SERVICE QUALITY

- ee) The Company shall continue to report its customer service performance measures as established in the Board's Order in the Change in Control Proceeding.
- ff) No later than April 1, 2005, the NJOUs shall jointly submit a proposed service quality performance plan for Board approval to take effect July 1, 2005. Such proposed service quality performance plan shall be served on all Parties to this Stipulation. This service quality plan shall reflect a uniform set of performance requirements standard and reporting requirements for all three Companies. Annual performance shall be measured for each NJOU separately unless the measurement reflects a performance area that is provided by the NJOUs without regard to the individual service territory of each NJOU.
- gg) The NJOUs shall include measurements that reflect call center performance, length of outage, response to customer complaints, and a measurement of bill accuracy in their proposed service quality performance plan as well as the Board's Report Card initiative, if applicable. In addition, such plan shall include a requirement that the three NJOUs post on their websites by March 31, and shall include in a bill insert by September 30, an annual service quality report that reflects the prior calendar year performance.
- hh) The NJOUs shall negotiate with the Parties to this Stipulation concerning the proposed service quality performance plan that is required to be filed with the Board no later than April 1, 2005. In the event that an agreement cannot be reached, the NJOU's proposal shall be filed with the Board and served upon all Parties to this Stipulation, subject to comment and public hearing prior to the final decision of the Board. The filing, if necessary, may include costs incurred by the NJOUs to conduct customer polling, focus groups and/or other similar activities to determine customer expectations. The NJOUs may seek recovery of such costs in such proceeding as the Board deems appropriate.

REQUIRED REVENUE INCREASE

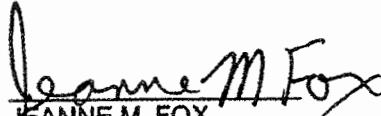
- ii) The revenue requirement increase stipulated herein, shall be \$24,147,323, and shall represent a 9.56% increase over current rate revenues of \$252,528,385 and is the level of revenue appropriate to ensure that the Company shall continue to provide safe, adequate and proper service to its customers.

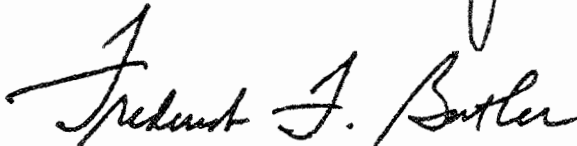
The Board ORDERS the Company to submit revised tariff pages conforming to the terms and conditions of this Order within ten (10) days from the effective date of this Order.

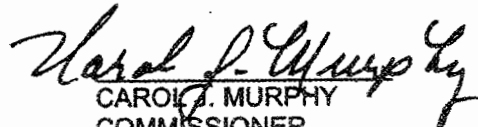
The effective date of this Order is as dated below:

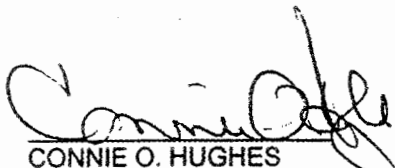
DATED: 2/19/04

BOARD OF PUBLIC UTILITIES
BY:


 JEANNE M. FOX
 PRESIDENT


 FREDERICK F. BUTLER
 COMMISSIONER


 CAROL J. MURPHY
 COMMISSIONER

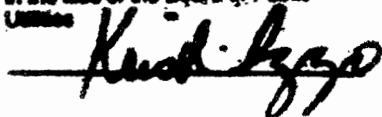

 CONNIE O. HUGHES
 COMMISSIONER


 JACK ALTER
 COMMISSIONER

ATTEST:

 KRISTI IZZO
 SECRETARY

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



BPU Docket No. WR03070511
OAL Docket No. PUCRL07279-2003N

I/M/O the Petition of New Jersey-American Water Company, Inc.
For an Increase in Rates for Water and Sewer Service and Other
Tariff Modifications

BPU Docket No. WR 03070511
OAL Docket No. PUCRL07279-2003N

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BPU Docket No. WR03070511
OAL Docket No. PUCRL07279-2003N

Honorable Barry Frank
Office of Administrative Law
33 Washington Street
Newark, NJ 07102

BPU Docket No. WR03070511
OAL Docket No. PUCRL07279-2003N

COPY



STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW

COPY

INITIAL DECISION
SETTLEMENT

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PUBLIC UTILITIES
DIVISION
TRENTON, NJ

In the Matter of the Petition of New Jersey-
American Water Co., Inc., for an Increase in
Rates for Water and Sewer Service and other
Tariff Modification

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: OAL Docket No. PUC 7279-03
: Agency Docket No. WR03070511
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CMS
BESLOW
RPA

William D. Lavery, Jr., Esq.

(New Jersey-American Water Company, Inc.,
Petitioner)

MOREAU - DG.
SLUTZKY - AG.
JAY WR. AG.

Alex Moreau, Deputy Attorney General
Jeff Slutzky, Deputy Attorney General
Brian Lipman, Deputy Attorney General

(Division of Law, Peter C. Harvey, Attorney
General of New Jersey, attorney on behalf
of Staff of the Board of Public Utilities)

WEBB SEWER
MORAN

Robert J. Brabston, Esq, Deputy Ratepayer
Advocate
Susan E. McClure, Esq., Assistant Deputy
Ratepayer Advocate
Sarah H. Steindel, Esq., Deputy Ratepayer
Advocate
Seema M. Singh, Esq., Ratepayer Advocate

(Township of Maplewood, Intervenor)
(Manasquan Customer Group, Intervenor)
(City of Ocean City, Intervenor)
(Bulk Purchase Coalition, Intervenor)
(Department of the Navy, Intervenor)

Paul Flanagan, Esq.,
Bruce S. Edington, Esq.
Douglas K. Walker, Esq.
Anthony R. Francioso, Esq.
Audrey Van Dyke, Esq.

(Utilities Workers Union of America, AFL-CIO)
Local Union No. 395, Intervenor)
(Utilities Workers Union of America, AFL-CIO)
Local Union No. 391 and Local 423,
Participant)

David Lieb, Esq.
George Duggan, Esq.
Anthony Lumia, Esq.
David A. Davis

Harvey C. Johnson, Esq.

(Deptford Township Municipal Utilities Authority,
Participant

Record Closed: January 30, 2004
BEFORE BARRY N. FRANK, ALJ

Decided: February 2, 2004

OAL Dkt No. 03-127-03

STATEMENT OF THE CASE

On July 10, 2003, New Jersey-American Water Co., Inc. (Petitioner, NJAW or the Company), a public utility of the State of New Jersey filed a petition with the Board of Public Utilities ("BPU") pursuant to *N.J.S.A. 48:2-2*, *N.J.A.C. 14:1-5.12*, and in compliance with the Board's decision in Docket No. WM01120833, dated November 26, 2002, captioned *I/M/O the Joint Petition of New Jersey-American Water Company and Thames Water Aqua Holdings, GNBH, for Approval of Change in Control of New Jersey-American Water Company, Inc.* ("Change in Control" proceeding). Petitioner sought approval to increase its revenues for water and sewer service by \$51,908,023 or 20.6% as a result of substantial investments being added to the rate base since the last rate case and to pass through synergy savings to the ratepayers that would result from the joint ownership of the Company, Elizabethtown Water Co., Inc. ("EWC") and Mount Holly Water Company ("MHWC"), otherwise known as the three New Jersey operating utilities referred to as "NJOU's" by RWE Aktiengesellschaft together with its subsidiary, Thames Water Holdings, Inc. ("Thames"). At the same time the company filed its petition, simultaneous petitions were also filed requesting increase in revenues with the Board by EWC and MHWC.

This case was transmitted to the Office of Administrative Law ("OAL") on July 18, 2003 as a contested case for a hearing pursuant to *N.J.S.A. 52:14B-1 to 15* and *N.J.S.A. 52:14F-1 to 13*.

A conference was held on October 15, 2003 at OAL before the undersigned and prehearing conferences were simultaneously held for the companion rate cases filed by MHWC and NJAW and hearings were scheduled for coordinated hearing processes among the three cases. Dates were also scheduled during the prehearing conference and subsequent to said conference for public hearings. Public hearings were held in the service territory on December 3, 2003 at 7:00 p.m. in the Maplewood Town Hall, Maplewood, New Jersey, December 10, 2003 at 7:00 p.m. at the Voorhees Township Middle School in Voorhees, New Jersey; and on December 12, 2003 at 7:00 p.m. at the Eatontown Borough Hall in Eatontown, New Jersey..

Substantial prefiled testimony was filed simultaneously with the petitions and substantial discovery took place and was completed. Thereafter, numerous settlement conferences took place together with numerous telephone conferences with the court and ultimately the parties reached an agreement.

UAL DKL NO. PUC 1219-03

After reviewing the record and settlement, I **FIND**:

1. The parties have voluntarily agreed to the settlement as evidenced by the signatures or the signatures of the representatives.
2. The settlement fully disposes of all issues in controversy and is consistent with the law and is in the public interest.
3. The Stipulation of Settlement has been signed by all parties with the following exceptions:
 - a) Intervenor, Township of Maplewood. However by means of letter dated January 26, 2004, and addressed to the court, Paul E. Flanagan, Esq., as representative of the Intervenor advised the court that the Township of Maplewood would take no position regarding the proposed settlement and therefore would not sign said document.
 - b) Intervenor, City of Ocean City. However by means of letter dated January 26, 2004, and addressed to the court, Douglas K. Walker, Esq., as representative of the Intervenor, advised the court that the City of Ocean City would not sign the stipulation but also would not oppose same.
 - c) Intervenor, Bulk Purchasers Coalition ("BPC"). However by means of letter dated January 26, 2004, and addressed to the court, Anthony R. Francioso, Esq. As representative of the Intervenor advised the court that the BPC would not sign the stipulation but also would not oppose same.

Therefore, I **CONCLUDE** that this agreement meets the requirements of *N.J.A.C. 1:1-19.1(d)* and should be approved. It is further **ORDERED** that the parties comply with the settlement terms and the proceedings be **CONCLUDED**.

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

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES**, which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five (45) days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

February 2, 2004
DATE

Barry N. Frank
BARRY N. FRANK, ALJ

Receipt Acknowledged:

DATE

BOARD OF PUBLIC UTILITIES

Mailed to Parties:

DATE

OFFICE OF ADMINISTRATIVE LAW

cb

**IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN
WATER COMPANY FOR APPROVAL OF AN
INCREASE IN RATES FOR WATER SERVICE**

**BPU DOCKET NO. WR03070511
OAL DOCKET NO. PUCRL 07279-2003N**

RECORD EVIDENCE

Petitioner NJAWC

Petition	July 10, 2003
Exhibit P-1	New Jersey-American Water Company, Inc., Certificate of Service for Water and Sewer Service
Exhibit P-2	Supporting Schedules 1 through 53
Exhibit P-3	Original tariff as filed with Petition
Exhibit P-4	Calculations supporting Stipulation
Exhibit P-5	Various schedules of proposed rates under Stipulated Revenue Requirement
Exhibit P-6	SIR's 1 through 62
Exhibit PT-1	Direct Testimony of Andrew M. Chapman
Exhibit PT-2	Direct Testimony of Dennis L. Ciemniecki
Exhibit PT-3	Direct Testimony of Steven J. Tambini, P.E.
Exhibit PT-4	Direct Testimony of William B. Davis
Exhibit PT-5	Direct Testimony of John M. Watkins
Exhibit PT-6	Direct Testimony and Exhibits of Rod P. Nevirauskas
Exhibit PT-7	Direct Testimony and Exhibits of H. Edward Rex
Exhibit PT-8	Direct Testimony and Exhibits of Paul R. Herbert
Exhibit PT-9	Direct Testimony and Exhibits of Harold Walker, III
Exhibit PT-10	Direct Testimony and Exhibits of Pauline M. Ahern, CRRRA

Exhibit PT-11	Direct Testimony of Dennis W. Doll
Exhibit PT-11A	Synergy Study
Exhibit PT-12	Testimony and Exhibits of Thomas J. Flaherty, III
Exhibit PT-13	Direct Testimony of Edward A. Clerico
Exhibit PRT-1	Rebuttal Testimony of Steven J. Tambini
Exhibit PRT-2	Rebuttal Testimony of John M. Watkins
Exhibit PRT-3	Rebuttal Testimony of Rod P. Nevirauskas
Exhibit PRT-4	Rebuttal Testimony of H. Edward Rex
Exhibit PRT-5	Rebuttal Testimony of Paul R. Herbert
Exhibit PRT-6	Rebuttal Testimony of Harold Walker, III
Exhibit PRT-7	Rebuttal Testimony of Pauline M. Ahern, CRRRA
Exhibit PRT-8	Rebuttal Testimony of Derek P. Stroud
Exhibit PRT-9	Rebuttal Testimony of Edward A. Clerio, P.E.
<u>Intervenor RPA</u>	
Exhibit R-1	Direct Testimony and Exhibits of Robert J. Henkes
Exhibit R-2	Direct Testimony and Exhibits of Howard J. Woods, Jr., P.E.
Exhibit R-3	Direct Testimony and Exhibits of Brian Kalcic
Exhibit R-4	Direct Testimony and Exhibits of James A. Rothschild
Exhibit R-5	Direct Testimony and Exhibits of Barbara R. Alexander
Exhibit R-6	Surrebuttal Testimony of Robert J. Henkes
Exhibit R-7	Surrebuttal Testimony of Howard J. Woods, Jr., P.E.
Exhibit R-8	Surrebuttal Testimony of Brian Kalcic
Exhibit R-9	Surrebuttal Testimony of James A. Rothschild

Exhibit R-10

Surrebuttal Testimony of Barbara R. Alexander

Intervenor Bulk
Purchasers Coalition
("BPC")

Exhibit BPC-1

Initial Direct Testimony Prepared by Raymond Makul

Manasquan Consumers
Group ("MCG")

Exhibit MCG-1

Direct Testimony of David E. Peterson

U.S. Dept. of Navy
("DON")

Exhibit DON-1

Direct Testimony of Ernest Harwig

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF : BPU DOCKET NO. WR03070511
NEW JERSEY-AMERICAN WATER :
COMPANY, INC. FOR AN INCREASE IN : OAL DOCKET NO. PUCRL07279-2003N
RATES FOR WATER AND SEWER :
SERVICE AND OTHER TARIFF : STIPULATION
MODIFICATIONS :

APPEARANCES:

William D. Lavery, Jr., Esq., Cozen O'Connor, on behalf of New Jersey-American Water Company, Inc., Petitioner;

Alex Moreau, Esq., Deputy Attorney General, Jeff Slutzky, Deputy Attorney General, and Brian Lipman, Deputy Attorney General (Peter C. Harvey, Attorney General of New Jersey) on behalf of the Staff of the Board of Public Utilities;

Robert Brabston, Esq., Deputy Ratepayer Advocate, Susan E. McClure, Esq., Assistant Deputy Ratepayer Advocate, and Sarah H. Steindel, Esq., Deputy Ratepayer Advocate (Seema M. Singh, Esq., Ratepayer Advocate), Division of the Ratepayer Advocate;

Paul Flanagan, Esq., on behalf of the Township of Maplewood, Intervenor;

Bruce S. Edington, Esq., St. John & Wayne on behalf of the Manasquan Customer Group, Intervenor;

Douglas K. Walker, Esq., on behalf of the City of Ocean City, Intervenor;

Anthony R. Francioso, Esq., on behalf of the Bulk Purchaser Coalition, Intervenor;

Audrey Van Dyke, Esq., on behalf of the Department of the Navy, Intervenor;

David Lieb, Esq., and George Duggan Esq., on behalf of the Utilities Workers Union of America, AFL-CIO and Local Union No. 395 Intervenor;

David A. Davis and Anthony Lumia, Esq., on behalf of Utility Workers Union of America, Local 391 and Local 423, Participant

Harvey C. Johnson, Esq., on behalf of the Deptford Township Municipal Utilities Authority, Participant

On July 10, 2003, New Jersey-American Water Company, Inc. ("Petitioner," "NJAW" or "Company"), a public utility of the State of New Jersey, filed a Petition with the Board of Public Utilities ("Board"), pursuant to N.J.S.A. 48:2-21, N.J.A.C. 14:1-5.12 and pursuant to the requirements of the Board Order in Docket No. WM01120833, dated 11/26/02, captioned In the Matter of the Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc. ("Change in Control Proceeding"). In its Petition, the Company sought: to increase its revenues for water and sewer service by \$51,908,023 or 20.6%; implement other tariff modifications; and pass through to ratepayers certain synergy savings that will result from the joint ownership of the Company, the Elizabethtown Water Company, Inc. ("EWC") and the Mount Holly Water Company ("MHWC") (collectively all three entities being referred to as the "NJOUs") by RWE Aktiengesellschaft ("RWE") in conjunction with its subsidiary, Thames Water Holdings, Inc. ("Thames") (RWE and Thames are collectively referred to herein as "RWE/Thames"). At the time of the filing of NJAW's Petition, petitions requesting increases in revenues were also filed with the Board by EWC and MHWC.¹

The Company's filing was accompanied by pre-filed direct testimony on behalf of 13 Company witnesses. A filing conference was held at the Board of Public Utilities ("Board") on July 10, 2003, and thereafter the matter was referred to the Office of Administrative Law

¹ In the Matter of the Petition of Elizabethtown Water Company for Approval of an Increase in Rates for Service, BPU Docket No. WR03070510, OAL Docket No. PUCRL07281-2003N; and In the Matter of the Petition of Mount Holly Water Company, Inc. for an Increase in Rates for Water Service, BPU Docket No. WR03070509, OAL Docket No. PUCRL07280-2003N.

("OAL") on July 18, 2003. The matter was assigned to the Honorable Barry N. Frank, ALJ. Following initial notification that the matter was pending at the OAL, discovery was commenced by the parties.

On October 15, 2003, a pre-hearing conference was held by the Honorable Barry N. Frank, ALJ, for each of the cases filed by each NJOU on July 10, 2003. The prehearing conference was held at the same time for the companion rate cases filed by EWC and MHWC and hearings were scheduled for a coordinated hearing process among the three cases. At issue at the pre-hearing conference were substantive case issues, discovery deadlines and public and evidentiary hearings. Evidentiary hearing dates were set for each of the NJOUs for January 2004. Subsequent to the pre-hearing conference public hearing dates were set and confirmed with Judge Frank. At or subsequent to the pre-hearing conference, Judge Frank granted intervenor status to the following: Township of Maplewood; Manasquan Customer Group; Bulk Purchaser Coalition; City of Ocean City; and, the Department of the Navy. Additionally, participant status was granted to Utilities Workers Union of America, AFL-CIO and Local Union No. 395 ("AFL-CIO/395"), Utility Workers Union of America, Local 391 and Local 423 and the Deptford Township Municipal Utilities Authority. The Board subsequently permitted AFL-CIO/395 to intervene. However, by letter dated January 7, 2004, addressed to Judge Frank, AFL-CIO/395 withdrew from this proceeding. Notice of the filing and of the public hearings was accomplished by mailing copies of such notice to all parties of record, to municipal utilities authorities, public utilities and other entities to which the Company provides service, to the Clerks of the Municipalities and the Clerks and Executive Officers of the Counties within the Company's service territory, and by publication in newspapers circulated within the Company's service territory, all in accordance with N.J.S.A. 14:1-5.2. Three public hearings were held across the service territory as follows:

1. December 3, 2003, 7:00 p.m., Maplewood Town Hall, Maplewood, New Jersey;
2. December 10, 2003, 7:00 p.m., Voorhees Township Middle School, Voorhees, New Jersey; and
3. December 12, 2003, 7:00 p.m., Eatontown Borough Hall, Eatontown, New Jersey.

During the discovery phase of the case, which commenced in August 2003 and continued into January 2004, the Petitioner responded to approximately 680 discovery requests. Other parties to the proceeding also responded to discovery requests served upon them. Pre-filed direct testimony was filed by any intervenor choosing to do so on December 1, 2003 (Department of the Navy filed on December 17, 2003) with pre-filed rebuttal testimony thereto filed by the Petitioner and other parties on December 17, 2003. Pre-filed surrebuttal testimony was filed on December 23, 2003.

Discovery and settlement conferences were held at the Office of the Ratepayer Advocate on November 3, December 10, 12, 29 and 30, 2003 and telephonically on December 19, 22 and 23, 2003 and January 2, 5, 6, 7, 9 and 12, 2004. As a result of review and analysis of the pre-filed direct testimony and exhibits of all the parties, discovery and negotiation conferences among the parties, agreement has been reached regarding the matters set forth in this Stipulation. The undersigned parties agree to submit the following Stipulation to Judge Frank for approval and to the Board for adoption. Accordingly, the parties hereto stipulate and agree as follows:

TEST YEAR

1. The twelve months ended December 31, 2003 is a reasonable test year and has been used for the purposes of this Stipulation.

CAPITAL STRUCTURE, RATE OF RETURN AND RATE BASE

2. The capital structure and weighted cost of the debt and equity components thereof, as agreed to by the parties, yield an overall rate of return of 7.91%, inclusive of a common equity return of 9.75%. (See Schedule A attached hereto.)

3. With respect to rate base, the rate base has been revised through December 31, 2003, to reflect construction projects completed and in-service as of that date. Schedule A attached hereto reflects a rate base of \$841,127,977.

OPERATING REVENUE AND EXPENSES AND REVENUE INCREASE

4. As a result of negotiations among the parties, the parties have agreed that the pro forma present rate revenues are \$252,528,385. Petitioner's revenue increase is stipulated at \$24,147,323 and is shown on Schedule A. The revenue requirement increase reflects adjustments by the parties to various components of O&M expenses which include, but are not limited to: labor and labor related costs; purchased water; tank painting; purchased power; chemicals; deferred purchased water; depreciation; Business Services; security; Other O&M; and waste disposal charges.

5. With respect to the Company's claim for pension expense in this case, the parties agree that the Company's pension expense should be based on FAS 87 for the year 2003, in addition to a 20-year amortization of the deferred portion of the pension expenses reflected on Exhibit P-2, Schedule 12, in the total amount of \$12,025,851.

6. In view of the possibility of future Purchased Water Adjustment Clause and/or Purchased Sewerage Treatment Adjustment Clause filings, attached hereto as Schedule B is a

summary schedule depicting the Company's base costs for purchased water and sewage treatment.

7. With respect to the new acquisitions described in the testimony of H. Edward Rex, PT-7, the acquisition adjustments, and the associated amortization thereof, have been reflected in rates utilizing a 40-year amortization period. The net effect of reflecting these acquisition adjustments in rates accomplishes a slight reduction in the overall level of the acquisition adjustments balance in rate base and the associated amortization thereof reflected in the Company's rates. (See SIR-58)

8. The parties agree that, effective with the rates effective date in this case, the DRRWTP deferral mechanism, at issue in the Company's last two rate proceedings, associated with sales to resale customers from the Company's Delaware River Regional Treatment Plant in NJDEP Critical Area #2, will cease.

SYNERGY SAVINGS

9.A. At the time of BPU approval of the change of control of NJAW through the acquisition of the common stock of American Water works Company, Inc. ("AWW") by RWE/Thames (the aforementioned Change In Control Proceeding), the joint petitioners in that proceeding agreed to pass through payments of \$3 million for the benefit of ratepayers. That sum represented synergy savings expected to be achieved through the common ownership of the NJOUs by RWE/Thames that were expected to be achieved in advance of the completion of the next rate cases.

In connection with these pending rate case proceedings, a Synergy Savings Study was submitted on behalf of the NJOUs which evidenced additional annual reductions to the revenue

requirements of \$6,157,678, offset by annual amortized costs to achieve of \$1,082,000, for a net savings of \$5,075,678; as a consequence of a 75%/25% sharing of the net Synergy Savings between ratepayers and shareholders, the stipulated revenue requirements in these cases reflect an additional \$3,806,758 of savings annually. Thus the provisions of this Stipulation and the related Stipulations in the EWC and MHWC rate cases, when considered with the Change in Control Proceeding Order, reflect the flow through to ratepayers of substantial savings. Such savings, whether already achieved or to be achieved in the future as a result of the joint provisioning of services and joint purchasing made possible by the common ownership of NJAWC, EWC and MHWC, are referred to herein as "Synergy Savings."

B. Additional net Synergy Savings may result in the future, and in order to permit the Board to continue to monitor Synergy Savings on an ongoing basis, NJAW agrees to compile and submit to the Board annually, 45 days after calendar year end, comprehensive reviews for each year of data regarding cost reductions resulting from additional Synergy Savings and costs to achieve those savings. The data to be relied upon to calculate the future synergy savings will be compiled for any Synergy Savings achieved during the period commencing with the year beginning July 1, 2004 and ending with the rate effective date of the next rate case. The data relied upon to calculate the future synergy savings should not include: (1) the savings from synergies that were relied upon to calculate the \$3 million of payments made after the approval of the change in control, attributable to savings expected to be achieved in advance of the completion of the next rate cases; or (2) the savings of \$6,157,678 that were anticipated in the Synergy Savings Study presented in the current rate case (Exhibit PT-11A).

C. These additional net Synergy Savings data will be submitted to the Board for its review and consideration of the impact thereof in future rate case proceedings. The parties agree

that if such additional net Synergy Savings are determined to exist, and if the Board determines that it is appropriate to share them with ratepayers, such additional net Synergy Savings achieved commencing with the year beginning July 1, 2004 and the rate effective date of the next rate case shall be shared 50% to the ratepayers and 50% to the shareholders, with any allocation of the savings to ratepayers to be made as the Board may find appropriate. The parties hereto agree and recommend that a one-time bill credit to ratepayers no later than one hundred twenty (120) days after the conclusion of the next rate case for each of the NJOUs could be issued for these purposes. The parties hereto have agreed to this 50% sharing formula in order to (a) reflect the fact that the NJOUs are agreeing to relinquish any claim they may have that such sharing constitutes retroactive ratemaking, (b) provide an incentive for the NJOUs to achieve such savings and (c) reflect the fact that in the Change in Control Proceeding, the Board determined that all transaction costs, as well as any premium paid for the stock of AWW in connection with the change in control, would have to be borne completely by the shareholders of RWE.

D. The lower level of cost, on an ongoing annual basis, achieved as a result of identified synergies, including those categories of costs previously subject to sharing, should be reflected in the pro forma test year numbers in the NJOUs' next rate cases. The Companies agree that the revenue requirement claims for each individual NJOU for the pro forma test year in their next base rate cases will reflect the then lower cost of service as a result of impact of all Synergy Savings realized, on an on-going annual basis, through the end of that test year, irrespective of the sharing treatment applied to those Synergy Savings.

E. NJAW shall not be required to maintain a specific deferred account with respect to any net Synergy Savings, and NJAW agrees expressly that NJAW shall not object in the next

rate case to the above-stated sharing of any net Synergy Savings on the basis that such sharing constitutes retroactive ratemaking.

F. Any incremental post-test year Synergy Savings identified in any future rate case, net of costs to achieve, will be shared 75% to the ratepayers and 25% to the NJOUs. Those post-test year Synergy Savings will be fully reflected in any future revenue requirement claims made by each of the NJOUs in any future base rate case, consistent with the requirements of paragraph 9 D, above, with the effect that the then lower cost of service as a result of all Synergy Savings realized through the end of the test year in such future base rate case, regardless of past sharing, will be fully reflected in rates on an annual ongoing basis.

G. An annual comprehensive review regarding Synergy Savings will be submitted to the Board at calendar year end and will include: (a) a summary of the activities undertaken as a result of the combined ownership of the NJOUs, prior to the filing of these rate cases, and following the approval of the Change in Control Proceeding; with respect to such anticipated savings, \$3 million were already paid as described above; (b) a report regarding whether the NJOUs were successful in achieving the \$5,075,678 of net annual cost savings described in the Synergy Savings Study presented in the pending rate cases (Exhibit PT-11A); (c) a report regarding any additional cost savings achieved above the \$6,157,678 of annual revenue requirement reductions described in the Synergy Savings Study; and (d) a projection of future cost savings that are anticipated to be achieved during the next year.

H. Nothing in this settlement shall limit the Board's jurisdiction or authority under N.J.S.A. 48:2-51.1 in a future proceeding initiated by any party to this settlement. The parties acknowledge that the consolidation activities described in the Synergy Savings Study submitted by the NJOU's, including the moving of certain functions for NJAW, EWC and MHWC to a

single headquarters and the joint provisioning of certain aspects of the service by the NJOUs, will have an effect on the level of employees needed by the NJOUs to provide safe, adequate, and proper utility service. In order to provide for the personal and financial welfare of all those employees who may be affected by the consolidation of the NJOUs, the aforementioned Synergy Study (PT-5A in EWC, PT-11A in NJAW and PT-5A in MHWC and attached Appendices) includes specific provisions regarding job placement, severance benefits, an early retirement option, outplacement counseling services, and relocation benefits. The NJOUs reaffirm their commitments set forth in Appendix 3 of the Synergy Study and the parties agree that these provisions are necessary if an appropriate balance of compassion and financial discipline is to be achieved in the consolidation, and for this reason the NJOUs agree to provide these services to affected employees. These provisions will be applied to affected employees on the terms indicated in Appendix 3. In addition, the NJOUs agree that the benefits and other matters in the case of union-represented employees shall be subject to the terms of their bargaining units' agreements with the Company (whose terms shall control) and the Company's bargaining obligations. These commitments will remain in effect until the NJOUs obtain approval from the Board to merge or consolidate the relevant NJOUs. Lastly, the NJOUs agree that they will provide the Board Staff and RPA quarterly reports showing the level of employees in each company before consolidation, the number of employees positions filled after consolidation, and the number of positions open but unfilled. These quarterly reports will be filed starting the first quarter after the effective date of the rates for the last rate proceeding and will continue absent further direction of the Board until one quarter after issuance of a Board Order approving a merger application involving the NJOUs..

LOW INCOME PAYMENT PROGRAM

10. The NJOUs shall work together with the parties to this proceeding to endeavor to develop a Low Income Payment Program ("LIPP") for customers who are eligible to participate in one or more of the following programs: Low Income Home Energy Assistance Program ("LIHEAP"), Lifeline Energy Assistance, Pharmaceutical Assistance to the Aged and Disabled ("PAAD"), and the N. J. Senior Gold Prescription Discount Program. It is the intent of the parties to investigate the feasibility of an automatic enrollment process for such LIPP, taking into consideration the eligibility and enrollment processes used by the programs listed above. The parties shall endeavor to develop a method to ascertain the pool of eligible households that includes households already enrolled in or otherwise qualified to enroll in one or more of the above listed programs and that have a monthly household gross income at or below 175% of the federal poverty guidelines. Depending on household size, annual and monthly gross income levels of 175% of federal poverty guidelines as of the current time for FY 2004 are as follows:

Household Size	Annual Poverty Level Income	175% of Annual Poverty Level Income	175% of Monthly Poverty Level Income
1	\$8,980	\$15,715	\$1,310
2	\$12,120	\$21,210	\$1,768
3	\$15,260	\$26,705	\$2,225
4	\$18,400	\$32,200	\$2,683
5	\$21,540	\$37,695	\$3,141
6	\$24,680	\$43,190	\$3,599
7	\$27,820	\$48,685	\$4,057
8	\$30,960	\$54,180	\$4,515
9	\$34,100	\$59,675	\$4,973
10	\$37,240	\$65,170	\$5,431
11	\$40,380	\$70,665	\$5,889
12	\$43,520	\$76,160	\$6,347

11. The LIPP will consist of a percentage reduction in both usage based rates and fixed customer charges for residential water service with a goal of providing aid in an amount not less than 15% with respect to rates otherwise applicable to such qualifying customers.

12. The details of how the program will operate and how the customers will be notified are to be determined as part of the cooperative process described in paragraph 10 above. As part of the cooperative process, the parties will agree to develop a tariff that will set forth a description of the LIPP and the eligibility criteria. The LIPP details and mechanics developed in the cooperative process described above must be acceptable to all parties prior to implementation of the LIPP. The parties also agree to revisit the eligibility criteria and/or level of the benefit if it appears that the financial resources established in paragraphs 13 and 14 below are inadequate to meet the benefit goals outlined in paragraphs 10 and 11 above.

13. Initially, the revenue requirement effect of the LIPP for the NJOUs is being set in these cases to include recovery of the following net costs in rates: NJAWC - \$1,370,000; EWC - \$590,000; MHWC - \$50,000. The term "net costs" refers to the costs associated with the customer benefits themselves, the incremental administrative costs incurred by the NJOUs to implement the LIPP, as well as incremental costs incurred to communicate and advertise the existence of this program to customers, offset by the savings to the water company in the form of reduced credit and collection and related costs and revenue enhancements that may occur if the water bill is more affordable and capable of regular payment by households that participate in the program. The NJOUs and the parties will develop a method to track and evaluate these net costs and savings. Based on this method, the NJOUs will track and defer, for disposition in the NJOUs next base rate case proceeding, the amount of net costs over or under the agreed upon amount established above for recovery in these rate cases.

14. The parties agree that all retail customers and retail customer classes shall reimburse the NJOUs for the incremental costs of this program and that these costs shall be reflected in usage-based charges as determined in the future base rate case.² The incremental costs of this program paid by any one customer shall not exceed \$5,000 per year.

15. The NJOUs agree to continue the "H2O Help to Others" program and to expand its availability to EWC and MHWC customers by April 30, 2004. This program shall respond to emergency or crisis needs of low-income customers consistent with the program presently being administered for NJAW. The shareholders of each NJOU agree to contribute an amount to this program equal to the amount donated by the customers of each water company on a \$1 for \$1 basis, up to an annual amount of \$25,000 for NJAW, \$20,000 for EWC, and \$5,000 for MHWC.

CONSERVATION

16. RWE/Thames has a technological focus on alternative treatment solutions such as desalination and water reuse projects. NJAW commits to rely upon this experience in a variety of ways for the benefit of ratepayers and the State. Among other things, NJAW will use that experience to help it meet future challenges and to reduce future expenditures as the infrastructure ages. In addition, NJAW commits to join with the other NJOUs to undertake a systematic study of the potential opportunities for conservation and water reuse throughout its service territory ("Conservation Study"). The NJOUs or NJAW agrees: (a) to commence the study no later than three (3) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide a copy of a draft of the study to Board Staff and the other parties subject to confidentiality protections if applicable, within four (4) months thereafter, and (c) complete the study no later than six (6) months after commencing the study. The NJOUs

² The parties agree that resale customers are not responsible for the costs associated with this program.

agree to submit the final Conservation Study to the Board Staff no later than nine (9) months after the effective date of the Board Order in the last of the three NJOU rate cases. The NJOUs hereby agree that in the formulation of the Conservation Study the NJOUs will identify initiatives that will maximize the conservation of potable water use. The Conservation Study shall include analysis of the level of conservation initiatives that may be obtainable and the time frame necessary to attain the identified initiatives. For example, the Conservation Study may find that total potable water savings of 10% is attainable by 2008; and that of this total system potable water savings of 10%, that 3% is a result of water reuse, 6% due to seasonal rate differentials, and 1% from household conservation education programs. The study shall investigate the feasibility of such reuse and will include an analysis of seasonal water use, and identification of customers who presently use potable water for uses for which non-potable water can be employed, taking into account technical and economic practicability. The NJOUs hereby agree that, in the formulation of the Conservation Study, they will include consideration of the following: (a) defining the conservation efforts that will maximize potential benefits to users -- i.e., odd/even watering may or may not work based on a particular customer base, and (b) focus on the economics of re-use and the development of infrastructure to construct a re-use system.

Additionally, the Company shall include a new tariff page that will provide language to establish, on a trial basis, terms and conditions for separate categories of usage for residential and commercial water usage. The provisions will include a special seasonal rider to the General Metered Service tariff for both residential and commercial customers, which will provide for indoor and outdoor (odd/even watering and swimming pool) usage. However the rates used for each such tariff for the respective categories of service will remain the same as the rate for General Metered Service customers and the Board will examine whether and on what basis to establish such terms and conditions in the next rate case.

LONG TERM PLANNING

17. NJAW commits to undertake the formulation of a long term master plan, along with its NJOU affiliates, to develop a least cost strategy to economically satisfy the long term consolidated needs of NJOU customers consistent with the continued provision of safe and adequate service ("Long Term Planning Study"). The Company agrees: (a) to commence the study no later than six (6) months after the effective date of the Board Order in the last of the three NJOU rate cases; (b) provide a draft copy of the study to Board Staff within eleven (11) months thereafter, (c) complete the study no later than twelve months after commencing the study. Subject to confidentiality protections, if applicable, when the study is completed, a copy will be provided to Board Staff and the Ratepayer Advocate, and an executive summary will be provided to the parties who are signatories to this Stipulation. The NJOUs hereby agree that in the formulation of the Long Term Planning Study, they will include, but not be limited to, consideration of the following: (a) an individual analysis of system growth for each NJOU, by planning area, where feasible, wherein "planning area" has the meaning assigned by the Office of State Planning, (b) an evaluation of initiatives to support Smart Growth, (c) individual NJOU system maps identifying planning areas, where feasible, and (d) other concepts as the NJOUs believe necessary.

RATE DESIGN AND COST OF SERVICE

18. General Metered Service Rates for the Company's service territories in Howell Township (including customers of the former Adelpia Water Company), Ortleigh Beach and in the Borough of Chester will be equalized with the Company's statewide GMS rates, both fixed and volumetric. With respect to GMS rates in the Company's Logan service area, the volumetric rate will be equalized with the statewide GMS volumetric rate while the fixed service charge schedule of rates will be moved toward the statewide GMS fixed service charge so that in the

Company's next rate proceeding, the Logan service area fixed service charge will be equalized with the statewide GMS service charge. The statewide GMS fixed service charge for a 5/8" meter will be increased to \$8.01 per month and the remaining schedule of fixed service charges will be adjusted in accordance with the agreement of the parties. In the Company's next rate proceeding, the fixed service charges will be developed in accordance with the AWWA meter capacity ratios.

19. The Company's Commodity Demand Service rates will increase overall by 7.7% while rates for Off-Peak Service will increase overall by 7.6%.

20. The Manasquan Service Uninterruptible rate will remain unchanged. The Company will file a separate "stand alone" cost of service study for Manasquan Service in the Company's next rate case.

21. Rates for those Private Fire Protection Service customers served pursuant to the Company's Rate Schedule J will experience a 15.7% increase. Customers served pursuant to Rate Schedule L, the highest present rates for this class of customer, will receive no increase in rates in this proceeding. Private Fire Protection Service rates for the Ortley Beach service territory will be set at the rates set forth in Rate Schedule L. With respect to Private Fire Protection Service in the former Howell Township system service area, the Stand-By Facilities charge will remain unchanged and the Private Fire Hydrant charge will increase by 18.6%. With respect to Private Fire Protection Service in the Logan service area, rates for Sprinkler Head service will increase by 18.8%, while rates for service provided through Private Fire Hydrants will increase by 18.6%. Private Fire Protection Service rates for the Company's Adelphia service area decrease by 19.8%.

22. With respect to Public Fire Protection Service, for the Company's entire service territory, except for the Howell and Adelphia systems, rates will increase by 7.9%. In addition, in order to move the Ortley Beach and Logan Public Fire Protection Service hydrant rates toward equalization with the Company's statewide Public Fire Protection Service rate, the Ortley Beach and Logan Public Fire Protection Service hydrant rates will increase by 5.0% on January 1 of each calendar year until the Company's next base rate case proceeding or until equalization is achieved, whichever first occurs. Public Fire Protection Service rates in the Howell system service area will increase by 1.3% while Public Fire Protection Service rates in the Adelphia service area will increase by 15.6%.

23. With respect to rates for sewer service, rates in the Company's Lakewood sewer service area will increase by 8.11%, by 9.90% for the Ocean City sewer service area and by 9.91% for the Company's Adelphia sewer service area.

24. In the Company's next rate case proceeding, it will examine the impact on customers in the Lakewood Sewer service area that would occur if sewer bills to these customers were to be based on year-round monthly water usage rather than the present system of basing sewer bills on annualized winter quarter water usage only.

SERVICE QUALITY

25. The Company agrees to continue to report its customer service performance measures as established in the Board Order in the Change in Control Proceeding.

26. No later than April 1, 2005, NJAW, EWC, and MHWC will jointly submit a proposed service quality performance plan to the Board for approval to take effect July 1, 2005. Such proposed service quality performance plan shall be served on

all parties to this Stipulation. This plan shall reflect a uniform set of performance requirements, standards and reporting requirements for all three companies.³ Annual performance shall be measured for each NJOU separately unless the measurement reflects a performance area that is provided by the NJOUs without regard to the individual service territory of each NJOU.

27. At a minimum, the parties agree that the NJOUs will include measurements that reflect call center performance, length of outage, response to customer complaints, and a measurement of bill accuracy in their proposed service quality performance plan, as well as the Board's Consumer Report Card initiative, if applicable. In addition, such plan shall include a requirement that the three NJOUs post on their websites by March 31, and include in a bill insert by September 30, an annual service quality report that reflects the prior calendar year performance.

28. The NJOUs will negotiate with the parties to this Stipulation concerning the proposed service quality performance plan that is required to be filed with the Board no later than April 1, 2005. In the event that an agreement cannot be reached, the NJOUs' proposal shall be filed with the Board and served upon all parties to this Stipulation, subject to comment and public hearing prior to the final decision of the Board. The filing, if necessary, will include costs incurred by the NJOUs to conduct customer polling, focus groups and/or other similar activities to determine customer

³ The parties agree that the NJOUs may not be able to develop uniform standards for some time into the future due to differences in operations, and/or may choose to phase in the requirement of uniformity of performance areas and standards over a reasonable period of time, but that during this period customers of one NJOU shall not suffer a degradation of service quality for any performance area compared to standards that are applicable to 2003 performance.

expectations. The parties agree that the NJOUs can seek recovery of such costs in such proceeding as the Board deems appropriate. It is the intent of the parties that the Board finalize its decision on this matter no later than July 1, 2005.

REQUIRED REVENUE INCREASE

29. The parties agree that it is an essential element of this Stipulation that the Company have the opportunity to implement new rates at the earliest practicable time. In that connection, the parties agree that they will use their best efforts to cause this matter to be listed on the Board's Agenda in a timely fashion so as to enable the Board to consider and decide this case on or before February 18, 2004.

30. Upon execution of this Stipulation and the submission of the same to Judge Frank for his review and incorporation in an Initial Decision, the Company will prepare tariff sheets, which will reflect the settlement provisions of this Stipulation, for submission to Board Staff and the Division of the Ratepayer Advocate for review and approval by the Board. Board Staff agrees to work expeditiously to review and approve the form of the tariff so that upon Board approval of an Initial Decision, the proposed increase can become effective not later than February 18, 2004.

31. The revenue requirement increase stipulated to herein, is \$24,147,323, 9.56% over present rate revenues of \$252,528,385, and is a level of revenue appropriate to ensure that the Company will continue to provide safe, adequate and proper service to its customers.

32. Except as expressly set forth herein, the signatories agree that this Stipulation has been made exclusively for the purpose of this proceeding and that the Stipulation contained herein, in total or by specific items, is in no way binding upon the parties in other proceedings

before the Board or in other forums or jurisdictions, nor are the contents of this Stipulation, in total or by specific items, by inference, inclusion or deletion, in any way to be considered used by another party as any indication of the position of any party hereto on any issue litigated or to be litigated in other proceedings. If any provisions of this Stipulation are held to be invalid or unenforceable by a court of competent jurisdiction, the remaining provisions of this Stipulation shall remain in full force and effect.

33. The parties further agree that the purpose of this Stipulation is to reach a fair and reasonable settlement, and that the settlement will serve to avoid protracted and costly litigation of certain issues and that with respect to any policy or other issues which were compromised in the spirit of reaching an agreement, none of the parties shall be prohibited from or prejudiced in arguing a different policy or position before the Board in any other proceeding, as such agreements pertain only to this matter and to no other matter.

34. This Stipulation contains terms, each of which is interdependent on the others and essential in its own right to the signing of this Stipulation. Each term is vital to the agreement as a whole, since the parties expressly and jointly state that they would not have signed the agreement had any term been modified by the Board in any way. Each party is entitled to certain procedures in the event that any modifications whatsoever are made to this Stipulation by the Board. If any modification is made to the terms of this Stipulation by the Board, the signatory parties each must be given the right to be placed in the position it was in before the Stipulation was entered. Therefore, if any modification is made to the terms of this Stipulation by the Board, it is essential that each party be given the option, before the implementation of any new rate resulting from this action, either to modify its own position to accept the proposed changes, or to

resume the proceeding as if no agreement had been reached. It is also the intent of the signatories to this Stipulation that this settlement, once accepted and approved by the Board, shall govern all issues specified and agreed to herein for the purposes of this proceeding only. The parties to this Stipulation specifically agree that if adopted in its entirety by the Board, no appeal should be taken by them from the Order adopting same as to those issues upon which the parties have stipulated. The parties agree that the within Stipulation reflects a mutual balancing of various issues and positions and is intended to be accepted and approved in its entirety.

COUNTERPARTS

35. This Stipulation may be executed in as many counterparts as there are signatories of this Stipulation, each of which counterpart shall be an original, but all of which shall constitute one and the same instrument.

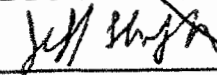
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OF THE BOARD OF PUBLIC UTILITIES

By: *Jeff Switzky*
~~JEFF SWITZKY~~ - ALEX MOREAU, DEPUTY ATTORNEY
GENERAL

TOWNSHIP OF MAPLEWOOD

By: _____
PAUL E. FLANAGAN, ESQ.
McDONOUGH BAUMAN TEEHAN
FLANAGAN & KAY

MANASQUAN CUSTOMER GROUP

By: *Bruce S. Edington*
BRUCE S. EDINGTON, ESQ.
ST. JOHN & WAYNE

BULK PURCHASER COALITION

By: _____
ANTHONY R. FRANCIOSO, ESQ.
FRANCIOSO & FRANCIOSO

CITY OF OCEAN CITY

By: _____
DOUGLAS K. WALKER, ESQ.
DOUGLAS K. WALKER, LLP

DEPARTMENT OF THE NAVY

By: _____
AUDREY VAN DYKE, ESQ.

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MANASQUAN CUSTOMER GROUP

By: _____
BRUCE S. EDINGTON, ESQ.
ST. JOHN & WAYNE

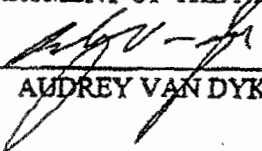
BULK PURCHASER COALITION

By: _____
ANTHONY R. FRANCIOSO, ESQ.
FRANCIOSO & FRANCIOSO

CITY OF OCEAN CITY

By: _____
DOUGLAS K. WALKER, ESQ.
DOUGLAS K. WALKER, LLP

DEPARTMENT OF THE NAVY

By:  _____
AUDREY VAN DYKE, ESQ.

SCHEDULE A
NEW JERSEY-AMERICAN WATER COMPANY, INC.

REVENUE REQUIREMENT

Rate Base		\$841,127,977
Rate of Return	X <u>7.91%</u>	
Pro Forma Utility Operating Income		\$66,533,223
Utility Operating Income at Present Rates*		<u>-\$53,143,923</u>
Utility Operating Income - Deficiency		\$13,389,300
Revenue Factor	X <u>1.80348</u>	
Revenue Requirement - Deficiency		<u>\$24,147,323</u>

Operating Revenues at Present Rates	\$252,528,385
Operating Expenses at Present Rates -	-\$199,384,462
*Utility Operating Income at Present Rates	<u>\$ 53,143,923</u>

STIPULATED CAPITAL STRUCTURE

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
Long-Term Debt	52.83%	6.29%	3.32%
Preferred Stock	0.18%	4.81%	0.01%
Common Equity	46.99%	9.75%	4.58%
Totals	100.00%		7.91%

New Jersey-American Water Company
 2003 Rate Case - BPU Docket No. WR03070511
 Base Cost of Purchased Water and Sewage Treatment
 Quantity and Expense per Stipulation

Schedule B

<u>BASE COSTS</u>	<u>Annual Volume in Million Gallons</u>	<u>Rate per Million Gallons</u>	<u>Total Expense</u>
<u>Purchased Water</u>			
Elizabethtown Water Company	4,723.542	\$1,519.65	\$7,178,131
Passaic Valley Water Commission			
- Commonwealth connections			
Water Rates	2,789.880	\$1,079.60	\$3,011,954
Electric Power	2,789.880	\$113.40	\$316,372
- Little Falls connection	580.390	\$1,079.60	\$626,589
Total PVWC			\$3,954,915
Morris County Municipal Utilities Authority	237.000	\$2,100.00	\$497,700
Montclair Water Bureau	82.957	\$1,190.00	\$98,719
Shorelands Water Company			
- Union Beach connections	182.500	\$1,999.78	\$364,960
- Holmdel connection	44.818	\$3,074.72	\$137,803
Total Shorelands			\$502,763
New Jersey Water Supply Authority			
- Contract Minimum	2,943.725	\$779.97	\$2,296,017
- Contract Minimum	365.000	\$1,050.45	\$383,414
- Contract Minimum	706.275	\$1,057.34	\$746,773
- Excess Purchases	0.000	\$0.00	\$0
Electric Power			\$170,087
Other Charges	4,015.000	\$15.00	\$60,225
Total NJWSA			\$3,656,516
Atlantic City Municipal Utilities Authority			
- Base Rate	180.000	\$2,676.47	\$481,765
- Excess Rate	550.000	\$2,228.61	\$1,225,736
Total ACMUA			\$1,707,501
City of Wildwood	44.000	\$1,500.00	\$66,000
Township of Maple Shade	7.216	\$5,226.60	\$37,716
Additional Purchased Water Cost due to New Customers and Normalization Adjustment			\$377,944
Borough of Seaside Heights	73.719	\$1,500.00	\$110,579
Total Company Purchased Water			\$18,188,484
<u>Sewage Treatment and Disposal Cost</u>			
Cape May County Municipal Utilities Authority	1,169.232	\$5,242.22	\$6,129,368
Ocean County Utilities Authority	882.00	\$3,253.00	\$2,869,146
Howell Twp. Sewer Dept.	171.00	\$4,152.00	\$709,992
Total Company Sewage Treatment and Disposal			\$9,708,506

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LEE C. WHITE

GOVERNMENT AFFAIRS DIRECTOR
KENNETH A. BROWN
2007 P. MEMBER OF THE BAR.

January 7, 2004

Via Overnight Courier

Honorable Barry Frank
Administrative Law Judge
Office of Administrative Law
33 Washington Street
Newark, NJ 07102

Re: *In the Matters of Petition of: Elizabethtown Water Company for an Increase in Rates for Water and Sewer Service and Other Tariff Modifications, OAL Docket No. PUCRL 07281-2003N; BPU Docket No. WR03070510; and New Jersey-American Water Company for an Increase in Rates for Water and Sewer Service and Other Tariff Modifications, OAL Docket No. PUCRL 07279-2003N; BPU Docket No. WR03070511*

Dear Judge Frank:

Enclosed please find an original and one copy of the Notice of Withdrawal of Utility Workers Union of America, AFL-CIO, and Utility Workers Union of American Local Union No. 395 from the above-referenced matters.

I have also included a self-addressed, stamped envelop and two additional copies of the Supplemental Motion which I ask be date stamped and returned to me.

Thank you for your consideration in this matter.

Yours truly,



David B. Lieb

DBL:fh

Enclosures

cc: All Parties

STATE OF NEW JERSEY
BEFORE THE
OFFICE OF ADMINISTRATIVE LAW

I/M/O the Petition of Elizabethtown
Water Company for an Increase in
Rates for Water and Sewer Service
and Other Tariff Modifications

BPU Docket No. WR03070510

OAL Docket No. PUCRL 07281-2003N

I/M/O the Petition of New Jersey-
American Water Company for an
Increase in Rates for Water and
Sewer Service and Other Tariff
Modifications

BPU Docket No. WR03070511

OAL Docket No. PUCRL 07279-2003N

**NOTICE OF WITHDRAWAL OF UTILITY
WORKERS UNION OF AMERICA, AFL-CIO, AND
UTILITY WORKERS UNION OF AMERICA
LOCAL 395**

The Utility Workers Union of America, AFL-CIO ("UWUA") and UWUA Local 395 hereby notify the Office of Administrative Law of their intent to withdraw from participation in the above-referenced proceedings. UWUA's and UWUA Local 395's withdrawal from these proceedings is pursuant to an agreement between UWUA and UWUA Local 395, and the New Jersey American, Elizabethtown, and Mount Holly Water Companies.

- 2 -

Respectfully submitted,

George Duggan

George Duggan *DSL*
Law Offices of George Duggan
24 Commerce Street
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Newark, New Jersey, 07102
Tel.: (973) 623-5946
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Scott H. Strauss
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Attorneys for Utility Workers Union
Of America, AFL-CIO and UWUA
Local Union No. 395

January 7, 2004

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FRANCIOSO AND FRANCI

PAGE 03/03

FRANCIOSO & FRANCIOSO
ATTORNEYS AT LAW
A PROFESSIONAL CORPORATION
2585 NOTTINGHAM WAY
HAMILTON, NEW JERSEY 08619

ANTHONY R. FRANCIOSO*
KATHLEEN A. FRANCIOSO*
*MEMBER OF THE NEW JERSEY AND PENNSYLVANIA BAR

TELEPHONE (609) 631-9700
TELEFAX (609) 584-5552

January 26, 2004

Via Fax (973)648-6124 & Regular Mail

The Honorable Barry N. Frank
Office of Administrative Law
33 Washington Street
Newark, New Jersey 07102

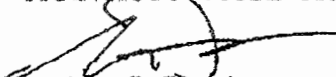
Re: *IMO the Petition of NJ American Water Company*
OAL DKT. NO. PUC7279-03
Agency Dkt. No. WR03070511

Dear Judge Frank:

With respect to the above referenced matter, please be advised that the Bulk Purchasers Coalition (BPC) will not be executing the stipulation, however does not oppose same.

Thank you for your attention to the foregoing.

Very truly yours,
FRANCIOSO & FRANCIOSO


Anthony R. Francioso

cc: Service List (via fax)

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DREW J BAUMAN

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Counselors at Law
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January 26, 2004

Honorable Barry Frank, ALJ
Office of Administrative Law
33 Washington Street
Newark, New Jersey 07102

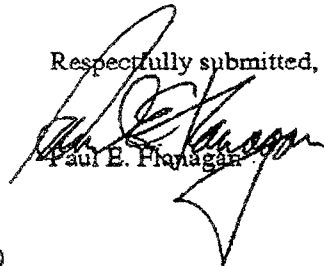
Re: New Jersey-American Water Co.
BPU Docket No. WR03070511
OAL Docket No. PUCRL07279-2003N

Dear Judge Frank:

This law firm represents the Township of Maplewood in the above captioned matter. I am writing concerning the Stipulation of Settlement that is currently under review by the parties.

Please be advised that the Township of Maplewood has determined not to take a position regarding the proposed settlement. Therefore, the Township does not intend to sign the Stipulation. Thank you for your attention to this letter.

Respectfully submitted,


Paul E. Flanagan

Cc: Roger J. Desiderio, Esq.
William D. Lavery, Jr., Esq. (via fax)

