



THE MIDDLESEX WATER ENTERPRISE

Middlesex Water Company • Pinelands Water & Wastewater Company • Southern Shores Water Company • Tidewater Utilities, Inc. • Tidewater Environmental Services, Inc. • Twin Lakes Utilities, Inc. • Utility Service Affiliates, Inc. • Utility Service Affiliates (Avalon) • Utility Service Affiliates (Perth Amboy) Inc. • White Marsh Environmental Systems, Inc.

August 24, 2018
(Via Federal Express)

Honorable Aida Camacho Welch
Secretary of the Board
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
Trenton, NJ 08625-0350

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CASE MANAGEMENT

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AUG 27 2018

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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Re: In the Matter of the Petition of Middlesex Water Company for
Approval To Change The Levels of Its Purchased Water Adjustment
Clause Pursuant to N.J.A.C. 14:9-7.1, et seq.
BPU Docket No. WR18080948

Dear Secretary Camacho Welch:

Enclosed herewith for filing please find the original and ten (10) copies of Middlesex Water Company's Petition and supporting Exhibits and Testimony in the above-referenced matter.

Two copies of this Petition have also been served, via Federal Express, upon the Department of Law and Public Safety and upon the Director of the Division of Rate Counsel and, by first class mail upon our Contract customers and upon the clerks of the various municipalities comprising the Petitioner's service territory.

The case may be summarized as a petition for approval to change the levels of a purchase water adjustment clause (PWAC).

Kindly stamp "filed" on the extra copy of the Petition enclosed herewith, and please return it to us in the enclosed, stamped return envelope.

CMS
LEGAL
DAG
RPA
M. MORAN
M. KAMMER
WATER(S)

Very truly yours,

Jay L. Kooper
Vice President, General Counsel & Secretary

JLK:sm
Enclosures

cc: Service List A
Service List B

"A Provider of Water, Wastewater & Related Products and Services"

**In the Matter of the Petition of Middlesex Water Company for
Approval to Change The Levels of its Purchased Water Adjustment Clause
BPU Docket No. WR1801_____
OAL Docket No. PUC _____-2018_
~ Service List A ~**

MIDDLESEX WATER COMPANY

<p>Jay L. Kooper Middlesex Water Company 1500 Ronson Road Iselin, NJ 08830 jkooper@middlesexwater.com</p>	<p>A. Bruce O'Connor Middlesex Water Company 1500 Ronson Road Iselin, NJ 08830 aboconnor@middlesexwater.com</p>	<p>Robert J. Capko Middlesex Water Company 1500 Ronson Road Iselin, NJ 08830 rcapko@middlesexwater.com</p>
<p>Ada Soto Middlesex Water Company asoto@middlesexwater.com (electronic only)</p>	<p>Selena Montero Middlesex Water Company smontero@middlesexwater.com (electronic only)</p>	<p>Michele Tilley Middlesex Water Company 1500 Ronson Road Iselin, NJ 08830 mtilley@middlesexwater.com</p>

BOARD OF PUBLIC UTILITIES

<p>Aida Camacho-Welch, Secretary Board of Public Utilities Secretary 44 South Clinton Ave., Suite 314 PO Box 350 Trenton, NJ 08625 secretary@bpu.nj.gov</p>	<p>Emma Xiao, DAG Division of Law Board of Public Utilities 124 Halsey Street, 5th Floor Newark, NJ 07102 emma.xiao@dol.lps.state.nj.us</p>	<p>Kofi Ocansey Board of Public Utilities Division of Water 44 South Clinton Ave., 9th Floor P.O. Box 350 Trenton, NJ 08625 Kofi.Ocansey@bpu.nj.gov</p>
<p>Michael Kammer Board of Public Utilities Division of Water 44 South Clinton Ave., 9th Floor P.O. Box 350 Trenton, NJ 08625 Mike.kammer@bpu.nj.gov</p>	<p>Alex Moreau, DAG Division of Law Board of Public Utilities 124 Halsey Street, 5th Floor Newark, NJ 07102 Alex.Moreau@dol.lps.state.nj.us</p>	<p>Kyle Felton Board of Public Utilities Division of Water 44 South Clinton Ave., 9th Floor P.O. Box 350 Trenton, NJ 08625 Kyle.felton@bpu.nj.gov</p>

DIVISION OF RATE COUNSEL

<p>Stefanie A. Brand, Esq. Director Division of Rate Counsel 140 East Front Street - 4th Floor Trenton, NJ 08625 sbrand@rpa.state.nj.us</p>	<p>Susan McClure, Esq. Assistant Deputy Rate Counsel Division of Rate Counsel 140 East Front Street - 4th Floor Trenton, NJ 08625 smcclure@rpa.state.nj.us</p>	<p>Debra F. Robinson, Esq. Managing Attorney Water & Wastewater Division of Rate Counsel 140 East Front Street - 4th Floor Trenton, NJ 08625 drobinso@rpa.state.nj.us</p> <p style="text-align: center;"><i>* Correspondence Only</i></p>
<p>Darlene Duque-Garcia Water Paralegal Division of Rate Counsel 140 East Front Streets, 4th Floor P.O. Box 003 Trenton, NJ 08625 dduque-garcia@rpa.state.nj.us</p> <p><i>* Electronic Mail Only</i></p>		

08/22/2018

**In the Matter of the Petition of Middlesex Water Company for
Approval to Change The Levels of its Purchased Water Adjustment Clause
BPU Docket No. WR1808 _____**

~ Service List B ~

Clerk, Borough of Carteret
Municipal Building
61 Cooke Avenue
Carteret, NJ 07008

Clerk, Township of Clark
Municipal Building
430 Westfield Avenue
Clark, NJ 07066

Clerk, Township of Edison
Municipal Building
100 Municipal Boulevard
Edison, NJ 08817

Clerk, Borough of Highland Park
221 South Fifth Avenue
Highland Park, NJ 08904

Clerk, Township of Marlboro
1979 Township Drive
& Wyncrest Road
Marlboro, NJ 07746

Clerk, Borough of Metuchen
Borough Hall
Main and Middlesex Avenues
Metuchen, NJ 08840

Clerk, Township of Old Bridge
Municipal Plaza
Old Bridge, NJ 08857

Clerk, Borough of South Plainfield
Borough Hall
2840 Plainfield Avenue
South Plainfield, NJ 07080

Clerk, Township of Woodbridge
1 Main Street
Woodbridge, NJ 07095

Old Bridge Municipal Utilities Authority
71 Boulevard West
Cliffwood Beach, NJ 07735

Clerk, City of South Amboy
140 North Broadway
South Amboy, NJ 08879-1647

Clerk, Middlesex County
Board of Chosen Freeholders
1 J.F. Kennedy Square
New Brunswick, NJ 08903

Clerk, Monmouth County
Board of Chosen Freeholders
Hall of Records
Freehold, NJ 07728

Clerk, Union
Board of Chosen Freeholders
Administration Building - 2nd Floor
Elizabeth, NJ 07207

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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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AUG 27 2018

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

IN THE MATTER OF THE PETITION OF : PETITION
MIDDLESEX WATER COMPANY FOR :
APPROVAL TO CHANGE THE LEVELS : Docket No.: WR1808____
OF ITS PURCHASED WATER :
ADJUSTMENT CLAUSE PURSUANT TO :
N.J.A.C. 14:9-7.1, ET SEQ. :

 :

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

Petitioner, Middlesex Water Company (hereinafter “Middlesex,” “Company” or “Petitioner”), respectfully represents as follows:

1. This Petition is filed pursuant to N.J.A.C. 14:9-7.1, et seq., and seeks Board approval of a change to the level of Middlesex’s purchased water adjustment clause (“PWAC”) to recover increased purchased water costs, together with deferred costs, PWAC rate case expenses and associated gross receipts and franchise taxes, all as more particularly set forth and described in the exhibits attached hereto.

2. Middlesex is a duly organized and existing public utility of the State of New Jersey, subject to the jurisdiction of the Board. Middlesex provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. Middlesex treats, stores and distributes water for residential, commercial, industrial and fire protection purposes. Middlesex also provides water

treatment and pumping services to the Township of East Brunswick under contract. Middlesex recorded revenues of approximately \$76.2 million in 2017.

3. The Middlesex System's retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County, and a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey.

4. The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 300,000. Contract sales to Edison, Old Bridge, Marlboro and Rahway are supplemental to the existing water systems of these customers. The Middlesex System provides treated surface water under long-term agreements to Highland Park, Rahway, East Brunswick, Marlboro and Old Bridge.

5. Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview, and is not physically interconnected with the Middlesex System. The Company owns and operates water treatment, supply, transmission and distribution systems for these purposes. The Company also owns subsidiaries that provide utility and utility-related services in Southampton Township in Burlington County, New Jersey, and portions of Delaware, Maryland and Pennsylvania.

11. Under the provisional rates placed into effect by NJAW on June 15, 2018, Petitioner has incurred an increase in its NJAW base rate from \$2,388.50 per tg to \$2,524.90 per tg, with the Board's June 22, 2018 Order effective July 2, 2018 leaving these provisional rates in effect, subject to refund.

12. As of the date of this filing, it remains unclear and undetermined what final rates will be granted to NJAW in its 2017 Base Rate Case, whether such rates will result in a decrease from NJAW's provisional rates, and if so by how much. While the outcome of NJAW's 2017 Base Rate Case remains uncertain, it is unlikely that it will result in a return of base rates to the same level in effect immediately prior to NJAW's implementation of the provisional rates on June 15, 2018.

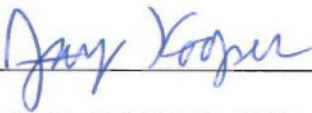
13. Petitioner's last base rate case was filed with the Board on October 10, 2017 in BPU Docket No. WR17101049 and was resolved by stipulation. Attached hereto and made part hereof is a copy of the fully executed Stipulation of Settlement in that matter; the Initial Decision by the OAL dated March 14, 2018 recommending approval of the Stipulation (both of which are attached to the Board Order and are part of Exhibit A); and the Board Order dated March 26, 2018 adopting the Initial Decision and Stipulation and approving a base rate increase in accordance therewith (Exhibit A).

14. Attached hereto and made part hereof are the following Exhibits detailing the specific costs comprising the rate adjustment proposed herein and the proposed PWAC increase need to recover those costs and providing other data requirements pursuant to N.J.A.C. 14:9-7.4(a):

EXHIBIT A - Board Order; March 26, 2018, BPU Docket No. WR17101049 (Including Stipulation of Settlement and Initial Decision by OAL)

WHEREFORE, Petitioner respectfully requests that the Board grant the following relief: (a) approving a PWAC rate as proposed herein for recovery of increased water purchase costs and authorizing same to be placed into effect at the earliest date possible; and (b) for such other further relief as may be just and equitable.

Respectfully Submitted,

By:  _____

JAY L. KOOPER, ESQ.
Vice President, General Counsel & Secretary
Middlesex Water Company
1500 Ronson Road
Iselin, NJ 08830
Attorney for Petitioner

Dated: August 24, 2018
Iselin, New Jersey



Agenda Date: 03/26/18
Agenda Item: 5D

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

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AUG 27 2018
BOARD OF PUBLIC UTILITIES
TRENTON, NJ

WATER

IN THE MATTER OF MIDDLESEX WATER COMPANY)	ORDER ADOPTING INITIAL
FOR APPROVAL OF AN INCREASE IN ITS RATES)	DECISION/SETTLEMENT
FOR WATER SERVICE AND OTHER TARIFF)	
CHANGES, AND FOR AN ORDER AUTHORIZING)	
SPECIAL ACCOUNTING TREATMENT OF INCOME TAX)	
REFUND PROCEEDS AND FUTURE INCOME TAX)	BPU DOCKET NO. WR17101049
DEDUCTIONS)	OAL DOCKET NO. PUC 16144-2017S
IN THE MATTER OF THE NEW JERSEY BOARD OF)	BPU DOCKET NO. AX180010001
PUBLIC UTILITIES' CONSIDERATION OF THE TAX)	BPU DOCKET NO. WR18030242
CUTS AND JOBS ACT OF 2017)	

Parties of Record:

Stephen B. Genzer, Esq., Saul Ewing Arnstein & Lehr LLP, on behalf of Middlesex Water Company
Jay L. Kooper, Esq., Vice President, General Counsel & Secretary, Middlesex Water Company
Louis S. Rainone, Esq., Rainone, Coughlin & Minchello, LLC, on behalf of the Old Bridge Municipal Utilities Authority and the Township of Marlboro
Michael J. Baker, Esq., Hoagland, Longo, Moran, Dunst & Doukas, LLP on behalf of the Township of East Brunswick
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:¹

BACKGROUND/PROCEDURAL HISTORY

On October 10, 2017, pursuant to N.J.S.A. 48:2-21, N.J.A.C. 14:1-5.11, N.J.A.C. 14:1-5.12, N.J.A.C. 14:9-7.1, and N.J.A.C. 14:9-10.1 et seq., Middlesex Water Company ("Middlesex Water," "Company," or "Petitioner"), a public utility company of the State of New Jersey subject to the jurisdiction of the Board of Public Utilities ("Board"), filed a petition seeking to increase its rates for water service amounting to \$15.26 million or approximately 19.76% above the adjusted annual level of revenues for the test year ending December 31, 2017. The Company also requested approval to increase its rates for water service on or after November 13, 2017. The

¹ Commissioner Richard S. Mroz recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

Company also sought approval for deferred accounting treatment of regulatory case intervention costs on behalf of its customers in New Jersey-American Water Company's ("NJAWC") current base rate case, I/M/O the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Sewer Service; Change in Depreciation Rates and Other Tariff Modifications (BPU Docket No. WR17090985; OAL Docket No. PUC 14251-2017S) and special accounting treatment to reflect Middlesex's tax accounting change for repair and maintenance expenditures in accordance with the Internal Revenue Service's final Tangible Property Regulations issued on September 9, 2013² and adopted by Middlesex on September 9, 2015.

Middlesex also sought to update the base consumption and base costs established in the last base rate case proceeding³ within the meaning of the applicable Purchased Water Adjustment Clause ("PWAC") regulations, N.J.A.C. 14:9-7.1 *et seq.* as referenced in the BPU Order Adopting the Initial Decision and Order (Docket No. WR15030391), and to reinstate a Distribution System Improvement Charge ("DSIC") to recover a portion of the costs of necessary improvements in the Company's distribution system pursuant to N.J.A.C. 14:9-10.1 *et seq.*⁴

Middlesex services approximately 61,000 retail water customers in the Township of Edison and Woodbridge, the Boroughs of South Plainfield, Metuchen, and Carteret, and the City of South Amboy in Middlesex County. On a contract basis, the Company serves part of the Township of Edison, the Borough of Highland Park, the Old Bridge Municipal Utilities Authority ("Old Bridge MUA"), the Marlboro Township Municipal Utilities Authority, and the City of Rahway. The Company also services under a special contract basis for water treatment and pumping services in the Township of East Brunswick ("East Brunswick").

By this Order, the Board considers the Initial Decision which adopted the Stipulation of Settlement ("Stipulation") executed by the Petitioner, the Division of Rate Counsel ("Rate Counsel"), East Brunswick, and Board Staff (collectively, "Signatory Parties"), agreeing to an overall increase of \$5,486,500 or 7.18% over the present rate revenue of \$76,361,490.

The Board transmitted the matter to the Office of Administrative Law ("OAL") for hearing as a contested case and Administrative Law Judge Tricia M. Caliguire ("ALJ Caliguire") was assigned to the base rate proceeding. On November 21, 2017, the Board issued an Order suspending the proposed rate increase until March 15, 2018. A telephone pre-hearing conference was held on December 11, 2017. A pre-hearing order, identifying issues and scheduling the evidentiary hearings, was circulated on December 26, 2017. After proper notice, a public hearing in the service territory was held in Woodbridge, New Jersey on the evening of January 17, 2018. No members of the public appeared at the public hearing and no written comments were received.

² Guidance Regarding Deduction and Capitalization of Expenditures Related To Tangible Property, 78 Fed.Reg. 57747 (Sept. 19, 2013) (amending 26 C.F.R. parts 1 and 602) <<https://www.gpo.gov/fdsys/pkg/FR-2013-09-19/pdf/2013-21756.pdf>>.

³ The Company's prior base rate case in BPU Docket No. WR15030391 concluded by Order of the Board dated August 19, 2015, with rates effective August 29, 2015.

⁴ The Company's last DSIC Foundational Filing was approved by the Board on August 20, 2014 in BPU Docket No. WR14050508. The DSIC rate was thereafter reset to zero in August 2015 at the conclusion of the Company's last base rate case in BPU Docket No. WR15030391.

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By Order dated January 31, 2018, the Board: (i) granted Petitioner's motion for interlocutory review of ALJ Caliguire's January 18, 2018 Order granting intervenor status to NJAWC; (ii) determined that NJAWC had not met the criteria for intervenor status under N.J.A.C. 1:1-16.1(a) and therefore rescinded intervenor status to NJAWC; and (iii) remanded the matter back to ALJ Caliguire to consider, if necessary, whether any participation by NJAWC was warranted under N.J.A.C. 1:1-16.6 in light of the new information regarding the Township of Marlboro's ("Marlboro") intervention request. (Also, besides Marlboro, Old Bridge MUA and East Brunswick received intervenor status.) On February 28, 2018, the Board issued an Order further suspending the proposed rate increase until July 15, 2018, unless the Board, prior to that date, makes a determination disposing of the Petition.

By a letter filing dated March 2, 2018, in response to the Board's directives in In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017, Docket No. AX18010001 (January 31, 2018) ("Tax Order"), Middlesex requested that the Board find Middlesex to be in full compliance with the requirements of the Tax Order as reflected in the executory settlement in the base rate case, which will afford customers on rate change reflecting both the results of the full base rate case and the Tax Order⁵.

DISCUSSIONS AND FINDINGS

Numerous conferences and settlement discussions were held among the Parties, and this process resulted in the following terms:⁶

1. The Company's total rate base is agreed to be \$245,154,300 based on a 12-month test year ending December 31, 2017, adjusted for certain known and measurable changes.
2. The Signatory Parties agree to a capital structure consisting of 47.00% long-term debt, 0.25% preferred stock, and 52.75% common equity with respective cost rates of 3.02%, 5.06%, and 9.60%. Based on this capital structure and cost rates, the Signatory Parties have therefore calculated an overall rate of return ("ROR") of 6.496%. The table below shows how this ROR is obtained.

	Capital Structure	Cost Rate	Weighted Cost Rate
Long-Term Debt	47.00%	3.02%	1.419%
Preferred Stock	0.25	5.06	0.013
Common Equity	<u>52.75</u>	9.60	<u>5.064</u>
	100.00%		6.496%

3. The Signatory Parties agree that applying this 6.496% ROR to the rate base of \$245,154,300 results in a \$5,486,500 increase to the Company's revenue requirement, which represents an approximate 7.18% increase over the present rate revenue of

⁵ As reflected in part of the captions of this Order, Middlesex's filing was assigned docket number WR18030242.

⁶ Although described in the Order at some length, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions in this Order.

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\$76,361,490. The table below shows how the \$5,486,500 increase in revenue requirement can be obtained.

Rate Base	\$245,154,300
Rate of Return	x 6.496%
Required Operating Income	\$ 15,935,223
Operating Income-Present Rates	- 12,180,427
Deficiency	3,744,796
Revenue Conversion Factor	x 1.46510
Revenue Requirement	\$ 5,486,500

4. The \$5,486,500 increase to the Company's revenue requirement represents a level of revenue necessary to ensure that the Company will continue to provide safe, adequate, and proper water service to its customers. See Exhibit A (Proof of Revenues).
5. The Company has submitted its proposed tariff pages, annexed hereto as Exhibit B (Tariff), pursuant to N.J.A.C. 14:3-1.3, and the Signatory Parties agree that those Rate Schedules implement the terms of the Stipulation. The proposed tariff pages reflect an increase of approximately 8.40% for General Metered Service [Rate Schedule No. 1].
6. The Company agrees that its request to approve a new DSIC Foundational Filing as part of this base rate case docket is hereby withdrawn.
7. The Signatory Parties agree that the Company shall be allowed to recover its regulatory case intervention costs in the NJAWC base rate proceeding, pending in BPU Docket No. WR17090985, and that the actual incremental costs incurred by the Company shall be deferred on its books as a regulatory asset, without interest, and shall be recovered in its next immediate PWAC filing following the conclusion of BPU Docket No. WR17090985. The Signatory Parties further agree that should the NJAWC rates be increased by a revised Rate Schedule G – Sales for Resale – Service to Other Systems (Base Rate), then the Company shall be allowed to recover the increased costs in its next immediate PWAC filing following the conclusion of BPU Docket No. WR17090985.
8. The Signatory Parties acknowledge and recognize the need of the Company to explore other means of contracting to purchase water from NJAWC.⁷ The Company has agreed to undertake diligent negotiations in good faith on a new purchased water contract with NJAWC such as a commodity-demand contract, at more favorable contract rates. In the event that the Company and NJAWC are able to agree to a new purchased water contract, then the costs incurred by the Company, if different from the current cost of purchased water from NJAWC, will be recovered in the Company's next immediate PWAC filing. In the event that the Company and NJAWC are not able to agree to a new purchased water contract then the Company shall continue to evaluate those transmission and distribution improvements that would be necessary to enable Middlesex to terminate the current purchase water agreement with NJAWC effective when the current contract ends in the year 2021.

⁷ As a direct customer of NJAWC, the Middlesex-NJAWC contract currently requires the purchase of 3 million gallons per day of treated water at a minimum annual cost of \$2.62 million under the Board-approved Rate Schedule G – Sales For Resale – Service to Other Systems (Base Rate) under the NJAWC tariff. By its petitioned base rate case filing in BPU Docket No. WR17090985, NJAWC proposes a rate increase of approximately 27.4% to Middlesex.

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9. The Signatory Parties request that the PWAC base consumption and base costs data annexed hereto as Exhibit C (PWAC Settlement) be adopted and the findings required by N.J.A.C. 14:9-7.1 et seq. related to the Company's PWAC be entered.
10. In 2013, the Internal Revenue Service ("IRS") issued final Tangible Property Regulations ("TPR")⁸ to provide clarity to the question of whether expenditures to maintain, replace or improve tangible property must be capitalized or charged to expense for income tax purposes. Middlesex adopted the final TPR by timely filing with the IRS a required accounting change form as part of, and included with, the Company's 2014 federal income tax return. IRS rules allow taxpayers changing their accounting method to apply the change retroactively or, apply it prospectively only. Middlesex elected to apply the change retroactively. Because this accounting change applies only for income tax purposes and not financial or regulatory accounting, it creates book/tax differences for reporting purposes. Middlesex has proposed the Board approve special accounting treatment of the associated net income tax benefit with the adoption of the final TPR for all relevant tax years before the tax year of adoption of the final TPR ("Look Back Period"), the tax year of adoption (2014), and the subsequent tax years (2015, 2016 and 2017). Specifically, Middlesex proposes to defer, for financial accounting purposes only, \$28,738,642 for the Look Back Period and years 2014, 2015, 2016 and 2017. This deferred amount shall be recorded as a regulatory liability in accordance with financial and regulatory accounting requirements and amortized as a reduction of income tax expense over 48 months. Beginning with the tax year 2018, the TPR related income tax benefits are recognized in the year incurred and shall also be recorded in accordance with financial and regulatory accounting requirements. Current capital planning estimates indicate that Utility Plant investment will likely grow by approximately an additional \$305 million by the end of 2022. By the Board specifically authorizing the special accounting treatment described herein, Middlesex expects to mitigate prospectively the impact on customers of future base rate filings. The Signatory Parties therefore do not oppose the Company's request to receive approval, in its entirety, of the special accounting treatment described herein.
11. The Financial Accounting Standards Board ("FASB") issued new guidance on the accounting and presentation for retirement benefits (pension plans and other retirement benefits such as health plans).⁹ The Company is required to adopt FASB's new guidance on January 1, 2018. Prior to the issuance of this guidance, the Company's revenue requirement was determined in part by recording its Net Periodic Benefit Costs ("NPBC") as an Operations and Maintenance ("O&M") cost. Currently, NPBC is determined by reducing periodic benefit cost by the capitalized component of the periodic benefit costs ("Historic NPBC"). This new guidance requires that only the

⁸ Guidance Regarding Deduction and Capitalization of Expenditures Related To Tangible Property, 78 Fed. Reg. 57747 (Sept 19, 2013) (amending 26 C. F. R. parts 1 and 602)
 <<https://www.gpo.gov/fdsys/pkg/FR-2013-09-19/pdf/2013-21756.pdf>>

⁹ New Guidance Regarding Accounting and Reporting for Postretirement Benefit Costs, FASB Accounting Standards Update 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*
 <http://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176168888120&d=&pagename=FASB%2FDocument_C%2FDocumentPage>

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service cost component of the NPBC is recorded in the same O&M line item as other compensation costs arising from services rendered by employees during the period. The other components of the NPBC (interest cost, expected return on plan assets, amortization of prior service cost/credit, actuarial gain/loss, transition asset/obligation, etc.) are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations (i.e., below the line). In addition, under this new accounting guidance, only the service cost component of the NPBC is subject to capitalization. Accounting for NPBC under this new guidance would result in higher NPBC in O&M, increasing revenue requirements (the increase would be partially offset by lower capitalized periodic benefit cost that would otherwise become part of utility plant). The Signatory Parties agree that the Company shall continue to utilize the Historic NPBC method in its cost of service for setting revenue requirement.

12. Pursuant to the Tax Order, New Jersey utilities were directed to calculate and defer with interest the adjustment to rates from January 1, 2018 through March 31, 2018, to defer the adjustment of rates related to the accumulated deferred income tax (ADIT), and to change rates effective April 1, 2018 on an interim basis ("Phase One"). Stakeholders were offered an opportunity to examine the calculations of deferrals so that an accurate additional adjustment to rates could be determined for a rate effective date of July 1, 2018 on a final basis ("Phase Two").

By the Stipulation, the Signatory Parties agree that the Company has included the effect on rates of both phases of the required calculations as set forth in the Tax Order, except as noted below, no further action is necessary at this time in the base rate proceeding. In addition, the Signatory Parties propose that Middlesex has accounted for the first and second phases of the rate impact of the *Tax Cuts and Jobs Act of 2017* pursuant to the Tax Order. Nevertheless, if the Board determines a further adjustment is required to account for more than the \$500,000 second phase recovery already accounted for as a result of the analysis already performed, the Company and the Signatory Parties agree to convene and jointly determine the most efficient method for refunding those dollars in addition to the already refunded \$500,000. The Company and Signatory Parties further stipulate that the Company will share with them the calculation of the second phase adjustment, review with them the adjustment, and resolve those second phase issues. However, the Company agrees that should the second phase adjustment result in less than the \$500,000 already returned to customers with this settlement, no further adjustment will be made. With these provisions, the Signatory Parties stipulate and agree that all issues and requirements set forth in the Tax Order as applied to Middlesex are resolved in the Stipulation.

By letter dated March 8, 2018, both Marlboro and Old Bridge MUA advised of their decision not to oppose the settlement.

On March 14, 2018, ALJ Caliguire issued an Initial Decision in this matter, recommending adoption of the Stipulation executed by the Signatory Parties, finding that they had voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues and is consistent with the law.

Having reviewed the record in this matter, as well as the initial Decision and Stipulation, the Board **HEREBY FINDS** that the Stipulation is reasonable, in the public interest and in accordance with the law.

BPU DOCKET NO. WR17101049
OAL DOCKET NO. PUC 16144-2017S

Agenda Date: 03/26/18
Agenda Item: 5D

The Board is mindful of the impact any rate increase has on its customers. However, having reviewed the record in this matter, including the Initial Decision, the Stipulation, and the letters from Marlboro and Old Bridge MUA indicating that they do not oppose the Stipulation, the Board **FINDS** that the Signatory 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. In reaching this decision, the Board must balance the needs of the ratepayer to receive safe, adequate and proper service at reasonable rates, while allowing the utility the opportunity to earn a fair rate of return. See FPC v. Hope Natural Gas, 320 U.S. 591 (1944); N.J.S.A. 48:2-21 and N.J.S.A. 48:3-1.

Therefore, the Board **HEREBY ADOPTS** the Initial Decision and the Stipulation attached hereto, including all attachments and schedules, as its own, incorporating by reference the terms and conditions of the Stipulation, and the Board **HEREBY APPROVES** the Company's compliance with the Tax Order, consistent with the Stipulation.

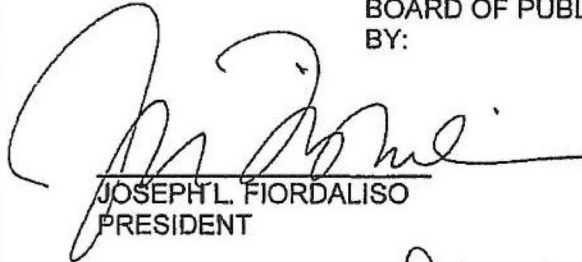
Based upon the foregoing, the Board **HEREBY APPROVES** an overall increase in revenues in the amount of \$5,486,500, representing an approximate 7.18% increase over Company revenues totaling \$76,361,490.

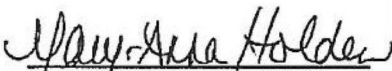
The Board **HEREBY DIRECTS** the Company to file tariff pages conforming to the terms and conditions of the Stipulation and this Order within five (5) days from the effective date of this Order.

The effective date of this Order is March 26, 2018, with rates to become effective on April 1, 2018.

DATED: 3/26/18

BOARD OF PUBLIC UTILITIES
BY:

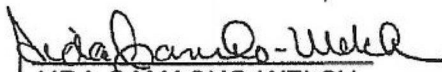

JOSEPH L. FIORDALISO
PRESIDENT


MARY-ANNA HOLDEN
COMMISSIONER


DIANNE SOLOMON
COMMISSIONER


UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:


AIDA CAMACHO-WELCH
SECRETARY

BPU DOCKET NO. WR17101049
OAL DOCKET NO. PUC 16144-2017S

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