

**SUEZ WATER RHODE ISLAND, INC.**  
**Docket No. 4800**  
**Fifth Set of Data Requests of the**  
**Division of Public Utilities and Carriers**  
**March 12, 2018**

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**5-1**  
**(Walker)**

**5-1** Please provide Witness Walker’s return on equity (“ROE”) and capital structure recommendations for the last three years in water and wastewater utility rate cases. In each such case, please also include the regulatory jurisdiction, utility, docket number, and approximate date when his recommendation was submitted.

**Response:**

Below is the requested information.

<u>Utility</u>	<u>Docket</u>	<u>Year</u>	<u>Jurisdiction</u>	<u>ROE</u>	<u>Capital Structure Ratios</u>		<u>Date of Study</u>
					<u>Debt</u>	<u>Equity</u>	
City of Dubois – Bureau of Water	R-2016-2554150	2016	PA	10.50%	50.00%	50.00%	Jun-16
Suez Water Owego-Nichols, Inc.	17-W-0528	2017	NY	10.25%	45.69%	54.31%	Aug-17

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**5-2**  
**(Walker)**

**5-2** Please provide the consolidated SUEZ Water Resources, Inc. (“SWR”) balance of short-term debt and interest rate for each month for January 2016 to February 2018.

**Response:** Please see 5-2 Attachment.



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**5-3**  
**(Walker)**

**5-3** Please explain why short-term debt is excluded from the recommended capital structure in this case. As part of the response, please state whether the Company believes that this exclusion is consistent with Rhode Island Commission ratemaking precedent, and if so, please provide any case citation supporting that position.

**Response:**

Mr. Walker did not consider if exclusion of short-term debt is consistent with Rhode Island Commission ratemaking precedent. Rather, his recommended capital structure is based upon the standards presented on pages 12 through 16 of his direct testimony. Mr. Walker believes SWRI's rate making capital structure ratios are reasonable for the reasons stated in his testimony and because the comparison of his recommendation for SWRI's capital structure ratios are similar to those recently employed and forecasted to be employed by his Comparison Group.

Further, short term debt should not be included in the capital structure because it does not finance rate base. Short-term debt is primarily used to fund interim capital projects before being refinanced with long term debt. The intermittent use of short-term debt balance indicates that it is not used continuously to fund rate base.

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**5-5**  
**(Walker)**

**5-5** Please provide pages 2 and 3 of Exhibit 2.8 (c), which appear to be inadvertently omitted from the filing. As part of the response, please ensure that the statement of long-term debt (and the calculation of the embedded cost rate of long-term debt) is included.

**Response:** Please see 5-5 Attachment.

SUEZ WATER RESOURCES  
Actual  
COMPOSITE COST RATE OF DEBT

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	
Line #	Description of Debt	Issue Date	Maturity Date	[a] Amount Outstanding	Unamortized Net Discount, Premium and Expense	Net Proceeds (C.4+/-C.5)	Stated Interest Rate	Annual Interest Expense (C.4xC.7)	Amortization of Net Discount Premium and Expense	Annual Cost (C.8+C.9)	Effective Cost Rate	Weighted Embedded Cost Rate
1	Medium Term Note Series A 1998	Feb-98	Feb-23	25,000,000	494,161	24,505,839	6.97%	1,742,500	97,212	1,839,712	7.51%	0.20%
2	Medium Term Note Series A 1998	Dec-98	Dec-17		0	0	6.90%	0	0	0	0.00%	0.00%
3	Medium Term Note Series A 1998	Feb-98	Feb-28	15,000,000	80,828	14,919,172	7.10%	1,065,000	8,016	1,073,016	7.19%	0.11%
4	Tax Exempt-Dauphin 92 TEF Series B	Jun-92	Jun-17	0	0	0	6.70%	0	0	0	0.00%	0.00%
5	NEW UWR SENIOR NOTES 2015 SERIES A	Aug-15	Aug-30	75,000,000	379,713	74,620,287	3.80%	2,850,000	29,977	2,879,977	3.86%	0.31%
6	NEW UWR SENIOR NOTES 2015 SERIES B	Aug-15	Aug-31	75,000,000	384,084	74,615,916	3.60%	2,700,000	28,104	2,728,104	3.66%	0.29%
7	NEW UWR SENIOR NOTES 2015 SERIES C	Aug-15	Aug-35	125,000,000	662,145	124,337,855	4.09%	5,112,500	37,480	5,149,980	4.14%	0.55%
8	Tax Exempt-Dauphin 92 TEF Series A	Jun-92	Jun-24	10,000,000	124,700	9,875,300	6.90%	690,000	18,480	708,480	7.17%	0.08%
9	Tax Exempt-Boise 05 TEF	May-05	May-35	0	0	0	4.55%	0	0	0	0.00%	0.00%
10	Tax Exempt-Pennsylvania Series 2007	Feb-07	Feb-37	0	0	0	4.50%	0	0	0	0.00%	0.00%
11	Senior Note Series 2010	Jan-10	Jan-25	45,000,000	629,000	44,371,000	4.92%	2,214,000	88,800	2,302,800	5.19%	0.25%
12	Senior Note Series A	Nov-07	Nov-17	0	0	0	0.00%	0	0	0	0.00%	0.00%
13	Senior Note Series B	Nov-07	Nov-28	15,000,000	79,386	14,920,614	6.13%	919,500	7,272	926,772	6.21%	0.10%
14	Medium Term Note Mutual of Omaha A	Oct-08	Oct-29	7,500,000	29,046	7,470,954	6.54%	490,500	2,472	492,972	6.60%	0.05%
15	Medium Term Note Mutual of Omaha B	Dec-08	Dec-29	7,500,000	29,458	7,470,542	6.59%	494,250	2,472	496,722	6.65%	0.05%
16	Medium Term Note NY Life A	Oct-08	Oct-18	12,500,000	6,480	12,493,520	6.21%	776,250	8,640	784,890	6.28%	0.08%
17	Medium Term Note NY Life B	Dec-08	Dec-18	12,500,000	7,964	12,492,036	6.31%	788,750	8,688	797,438	6.38%	0.09%
18	Tax-Exempt-NY Series 2010A	Sep-10	Sep-40	35,000,000	818,992	34,181,008	4.88%	1,706,250	36,132	1,742,382	5.10%	0.19%
19	Senior Note Series 2011	Dec-11	Dec-27	20,000,000	529,680	19,470,320	4.10%	820,000	52,968	872,968	4.48%	0.09%
20	Private Placement Note Series A	Apr-11	Apr-21	35,000,000	66,423	34,933,577	4.38%	1,533,000	20,388	1,553,388	4.45%	0.17%
21	Private Placement Note Series B	Apr-11	Apr-26	40,000,000	583,338	39,416,662	4.68%	1,872,000	70,704	1,942,704	4.93%	0.21%
22	Senior Note 2017 Series C	Jan-18	Jan-33	65,000,000	390,000	64,610,000	3.30%	2,145,000	2,167	2,147,167	3.32%	0.23%
23	Senior Note 2017 Series D	Jan-18	Jan-48	65,000,000	390,000	64,610,000	3.77%	2,450,500	1,083	2,451,583	3.79%	0.26%
24	Senior Note 2017 Series A	Dec-17	Dec-47	75,000,000	401,716	74,598,284	3.77%	2,827,500	1,116	2,828,616	3.79%	0.30%
25	Senior Note 2017 Series B	Dec-17	Dec-32	70,000,000	374,935	69,625,065	3.30%	2,310,000	2,083	2,312,083	3.32%	0.25%
26	North Jersey Water District	n/a	Jul-24	107,382		107,382	6.58%	7,066		7,066	6.58%	0.00%
27	Senior Note 2012 Series A	Oct-12	Oct-27	10,000,000	335,400	9,664,600	3.47%	347,000	34,392	381,392	3.95%	0.04%
28	Senior Note 2012 Series B	Oct-12	Oct-32	30,000,000	1,138,366	28,861,634	3.91%	1,173,000	77,172	1,250,172	4.33%	0.13%
29	Senior Note	Jan-95	Jan-25	12,000,000	28,227	11,971,773	8.98%	1,077,600	4,032	1,081,632	9.03%	0.12%
30	Senior Note Series 2010	Feb-10	Feb-20	30,000,000	49,556	29,950,444	4.74%	1,422,000	22,872	1,444,872	4.82%	0.15%
31	UWR			5,000,000	9,000	4,991,000	7.04%	352,000	3,000	355,000	7.11%	0.04%
32	UWR			25,000,000	0	25,000,000	7.90%	1,975,000		1,975,000	7.90%	0.21%
33	UWR			1,538,461	4,500	1,533,961	6.70%	103,077	1,500	104,577	6.82%	0.01%
34	Total Long-Term Debt			943,645,843	8,027,099	935,618,743		41,964,243	667,222	42,631,464		4.56%

	Case No.	SUEZ Water Rhode Island				
35 Additional Debt Costs						
36 Unamortized Costs Associated With Retired Medium Term Note (\$10M@8.84%)	39,780	5,616	5,616	0.00%	0.00%	0.00%
37 Premium on Retirement of Medium Term Note	156,485	22,092	22,092	0.00%	0.00%	0.00%
38 Premium on Retirement of Prudential Capital Corp. Debt (\$20M @10.05%, and \$15M @ 9.57%)	2,159,616	340,992	340,992	0.00%	0.04%	0.04%
39 SWNJ EDA Retired - 50% 15 years	2,524,228	14,023	14,023	0.00%	0.00%	0.00%
40 SWNJ EDA Retired - 50% 30 years	2,524,228	7,012	7,012	0.00%	0.00%	0.00%
41 SWNJ EDA Premium - 50% 15 years	1,300,000	7,222	7,222	0.00%	0.00%	0.00%
42 Premium on Amortized \$25MM 4.392%, \$20MM 4.318% and \$20MM 4.319%	55,891	17,458	17,458	0.00%	0.00%	0.00%
43 Unamortized Costs Associated With Retired 06/1/2002 Jacksonville Debt (\$12M @ 6.75%)	110,081	24,924	24,924	0.00%	0.00%	0.00%
44 Tax Exempt-Boise 05 TEF - Called Dec 2017	1,181,232	3,281	3,281	0.00%	0.00%	0.00%
45 Tax Exempt-Pennsylvania Series 2007 - Called Dec 2017	834,934	4,639	4,639	0.00%	0.00%	0.00%
46 EDA Fixed Rate Bonds - Retired 08/31/15	616,605	42,048	42,048	0.00%	0.00%	0.00%
47 EDA Fixed Rate Bonds - Retired 08/31/15	1,852,824	126,324	126,324	0.01%	0.01%	0.01%
48 Tax Exempt-Boise 2001 TEF - Retired 08/31/15	1,829,970	124,776	124,776	0.01%	0.01%	0.01%
49 Tax Exempt-DE 2002 TEF - Retired 08/31/15	1,144,054	78,000	78,000	0.01%	0.01%	0.01%
50 Totals	26,509,157	1,547,332	43,511,575	4.65%		

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**5-6**  
**(Walker)**

**5-6** Please identify consolidated SWR's plans for the issuance of long-term debt during 2018. Identify each such planned long-term debt issue and any actual long-term debt issue which has occurred so far during 2018.

**Response:** SWR does not have any plans for additional debt to be issued in 2018. There was a issuance in Jan 2018. Please see response to 5-5 for details.



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**5-7**  
**(Walker)**

**5-7** If not included in the SRW statement of long-term debt, please provide the maturity date of each long-term debt issue.

**Response:** Please see response to 5-5.

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**5-8**  
**(Prettyman)**

**5-8** For each of the U.S. water utility affiliates of SUEZ Water Rhode Island (“SWRI” or “the Company”), please identify the currently approved ROE and capital structure.

**Response:** Please see 5-8 Attachment.

SUEZ Water Rhode Island

5-8 Attachment

	Approved ROE	Approved Capital Structure		
		Debt	Equity	Other
Pennsylvania	Not Stated	Not Stated	Not Stated	
Bethel	Not Stated	Not Stated	Not Stated	
Delaware	9.75%	46.66%	53.34%	
New Jersey	9.75%	47.00%	53.00%	
Toms River	9.75%	47.00%	53.00%	
New York	8.86%	54.00%	41.25%	4.75%
Westchester	9.20%	53.00%	47.00%	
Owego/Nichols	9.58%	55.65%	44.35%	
Idaho	Not Stated	Not Stated	Not Stated	
Rhode Island	9.65%	46.24%	53.13%	
Arlington Hills, NJ	9.75%	47.00%	53.00%	
West Milford, NJ	10.30%	50.00%	50.00%	

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**5-9**  
**(Walker)**

**5-9** For consolidated SWR, please state the portion of 2017 operating revenue that is considered to be water utility versus the portion considered to be non utility. As part of the response please briefly describe the non utility businesses of SWR.

**Response:** The non-regulated revenue is coming from O&M contracts that are rolling up into SWR. The contracts are specifically; Allendale, Saddle River, Manalapan and LeakGuard. The total revenue from these companies in 2017 was \$4,332,572.71. This represented less than 1% of the total revenue for SWR in 2017.

Contract	2017 YTD Revenue
Allendale	666,344.46
Saddle River	28,965.68
Manalapan	1,514,994.71
Leakguard	2,122,267.86
Total Non Utility revenue	4,332,572.71
Approx Total 2017 Revenue	570,832,870.00
Percentage of Non Reg revenue	0.759%

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**5-10**  
**(Walker)**

**5-10** If SWR prepares a SEC Form 10-k or an annual report to investors, please provide for 2017 or the most recent year available.

**Response:** SWR does not prepare either SEC form 10-k or an annual report to investors.

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**5-11**  
**(Walker)**

**5-11** Please provide the SWR consolidated balance sheet (with all footnotes) at December 31, 2017.

**Response:** Please see attached.

MAZARS USA LLP

**SUEZ Water Resources Inc.  
and Subsidiaries**

Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016  
With Independent Auditors' Report



MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.

## SUEZ Water Resources Inc. and Subsidiaries

### Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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## Independent Auditors' Report

To the Board of Directors and Shareholder of  
SUEZ Water Resources Inc.

We have audited the accompanying consolidated financial statements of SUEZ Water Resources Inc. and subsidiaries (the "Company", a New Jersey corporation and a wholly-owned subsidiary of SUEZ Water Inc.), which comprise the consolidated balance sheets and statements of capitalization as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SUEZ Water Resources Inc. and subsidiaries as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MAZARS USA LLP

April 6, 2018

MAZARS USA LLP

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MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.



SUEZ Water Resources Inc. and Subsidiaries

Consolidated Balance Sheets  
(in thousands of dollars)

	December 31	
	2017	2016
<b>Assets</b>		
Property, plant and equipment		
less accumulated depreciation of \$753,011 and \$715,224	<u>\$ 2,632,675</u>	<u>\$ 2,454,532</u>
Goodwill and intangibles	<u>41,319</u>	<u>41,391</u>
Equity investments and other investments	<u>2,293</u>	<u>2,640</u>
Current assets:		
Cash and cash equivalents	49	62
Restricted cash	9,053	8,979
Intercompany money pool receivable	24,993	-
Billed and unbilled accounts receivable		
less allowance of \$4,747 and \$5,066	59,333	58,023
Assets held for sale	6,661	6,661
Prepaid and other current assets	<u>19,289</u>	<u>19,001</u>
Total current assets	<u>119,378</u>	<u>92,726</u>
Deferred charges and other assets:		
Regulatory assets	256,096	252,613
Other deferred charges and assets	<u>3,919</u>	<u>3,263</u>
Total deferred charges and other assets	<u>260,015</u>	<u>255,876</u>
Total assets	<u>\$ 3,055,680</u>	<u>\$ 2,847,165</u>
<b>Capitalization and liabilities</b>		
<b>Capitalization:</b>		
Common stock and retained earnings	\$ 1,148,878	\$ 1,053,402
Accumulated other comprehensive loss	(15,177)	(11,170)
Long-term debt, net of unamortized debt issuance costs	<u>760,574</u>	<u>825,072</u>
Total capitalization	<u>1,894,275</u>	<u>1,867,304</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Long-term debt due within one year	170,776	24,967
Accounts payable and other current liabilities	70,840	66,993
Intercompany money pool payable	-	7,062
Accrued taxes	78,017	77,702
Accrued interest	<u>10,352</u>	<u>10,926</u>
Total current liabilities	<u>329,985</u>	<u>187,650</u>
<b>Deferred credits and other liabilities:</b>		
Deferred income taxes and investment tax credits	193,468	346,899
Accrued employee benefits	111,877	102,309
Customer advances for construction	40,395	41,455
Contributions in aid of construction	245,188	233,622
Regulatory liabilities	238,564	65,498
Other deferred credits and liabilities	<u>1,928</u>	<u>2,428</u>
Total deferred credits and other liabilities	<u>831,420</u>	<u>792,211</u>
Commitments and contingencies		
Total capitalization and liabilities	<u>\$ 3,055,680</u>	<u>\$ 2,847,165</u>

SUEZ Water Resources Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income  
(in thousands of dollars)

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Operating revenues	<u>\$ 570,833</u>	<u>\$ 563,750</u>
Operating expenses:		
Operation and maintenance	217,593	216,027
Depreciation and amortization	75,742	69,537
General taxes	<u>85,371</u>	<u>91,432</u>
Total operating expenses	<u>378,706</u>	<u>376,996</u>
Operating income	<u>192,127</u>	<u>186,754</u>
Other (income) expenses:		
Impairment of regulatory assets and other deferred charges and assets	204	-
Interest expense	46,476	46,258
Allowance for funds used during construction	(1,613)	(5,296)
Equity in losses of affiliates	35	242
Other expense (income), net	<u>(1,150)</u>	<u>878</u>
Total other expenses, net	<u>43,952</u>	<u>42,082</u>
Income before provision for income taxes	148,175	144,672
Provision for income taxes	<u>53,117</u>	<u>51,929</u>
Net income	<u>95,058</u>	<u>92,743</u>
Other comprehensive income (loss):		
ASC 715 employee benefits adjustment (net of tax of (\$1,845) and \$741)	<u>(4,007)</u>	<u>(736)</u>
Comprehensive income	<u>\$ 91,051</u>	<u>\$ 92,007</u>

SUEZ Water Resources Inc. and Subsidiaries  
Consolidated Statements of Changes in Shareholder's Equity  
Years Ended December 31, 2017 and 2016  
*(in thousands of dollars)*

	<u>Contributed Common Equity</u>			<u>Retained Earnings</u>	<u>Total Common Equity</u>	<u>Accumulated Other Comprehensive Loss</u>
	<u>Number of Common Shares</u>	<u>Common Stock Par Value</u>	<u>Amounts in Excess of Par Value</u>			
Balance at December 31, 2015	40,971	\$ -	\$ 531,093	\$ 498,566	\$ 1,029,659	\$ (10,434)
Net income				92,743	92,743	
Other comprehensive loss, net						(736)
Cash dividends on common stock				(69,000)	(69,000)	
Balance at December 31, 2016	40,971	-	531,093	522,309	1,053,402	(11,170)
Net income				95,058	95,058	
Other comprehensive loss, net						(4,007)
Share-based compensation			418		418	
Balance at December 31, 2017	<u>40,971</u>	<u>\$ -</u>	<u>\$ 531,511</u>	<u>\$ 617,367</u>	<u>\$ 1,148,878</u>	<u>\$ (15,177)</u>

SUEZ Water Resources Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands of dollars)

	Years Ended December 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 95,058	\$ 92,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75,742	69,537
Provision for bad debts	1,937	2,927
Deferred income taxes and investment tax credits	16,799	24,033
Equity in losses of affiliates	35	242
Impairment of regulatory assets	204	479
Amortization of debt discount and premium	2,270	2,277
Allowance for funds used during construction	(1,613)	(5,296)
Share-based compensation (income) expense	150	(293)
Unrealized (gain) loss on warrants	(5)	1,002
Changes in operating assets and liabilities:		
Billed and unbilled accounts receivable	(4,697)	(6,327)
Intercompany money pool receivable/payable, net	(32,055)	47,851
Prepaid and other current assets	(288)	(1,000)
Intangible assets	-	(1,450)
Accounts payable and other current liabilities	3,112	(14,455)
Accrued taxes	315	13,360
Accrued interest	(574)	(28)
Accrued employee benefits	(2,812)	2,190
Regulatory assets	538	11,599
Regulatory liabilities	6,538	(5,279)
Other, net	(2,631)	3,056
Net cash provided by operating activities	<u>158,023</u>	<u>237,168</u>
<b>Cash flows from investing activities:</b>		
Capital expenditure (excludes allowance for funds used during construction)	(238,166)	(170,036)
Increase in restricted cash	(74)	(33)
Net cash used in investing activities	<u>(238,240)</u>	<u>(170,069)</u>
<b>Cash flows from financing activities:</b>		
Issuance of notes payable	-	305,280
Repayment of notes payable	-	(305,280)
Proceeds from issuance of long-term debt	145,000	-
Repayment of long-term debt	(66,358)	(974)
Dividend on common stock	-	(69,000)
Debt issuance and redemption costs	(42)	-
Net customer advances and contributions in aid of construction	1,604	2,855
Net cash provided by (used in) financing activities	<u>80,204</u>	<u>(67,119)</u>
Net decrease in cash and cash equivalents	(13)	(20)
Cash and cash equivalents, beginning of year	62	82
Cash and cash equivalents, end of year	<u>\$ 49</u>	<u>\$ 62</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 49,176	\$ 49,114
Income taxes paid	\$ 36,473	\$ 16,335

SUEZ Water Resources Inc. and Subsidiaries

Consolidated Statements of Capitalization  
(in thousands of dollars, except share amounts)

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Common stock and retained earnings:</b>		
Common stock, no par value, authorized 100,000,000 shares, issued and outstanding 40,971,323 shares	\$ -	\$ -
Amount in excess of par value of common stock	531,511	531,093
Retained earnings	617,367	522,309
Total common stock and retained earnings	<u>1,148,878</u>	<u>1,053,402</u>
<b>Accumulated other comprehensive loss:</b>		
ASC 715 adjustment (net of tax of \$4,803 and \$6,649)	(15,177)	(11,170)
Total accumulated other comprehensive loss	<u>(15,177)</u>	<u>(11,170)</u>
<b>Long-term debt:</b>		
SUEZ Water Resources Inc., senior notes, due 2019-2022, 6.70%-7.90% (weighted average 7.73% and 7.71%)	30,769	31,538
SUEZ Water Resources Inc., senior notes, due 2030-2035, 3.60%-4.09% (weighted average 3.88%)	275,000	275,000
SUEZ Water Resources Inc., senior notes, due 2032-2047, 3.30%-3.77% (weighted average 3.54%)	145,000	-
SUEZ Water Resources Inc., senior notes, due 2018-2029, 4.10%-6.59% (weighted average 5.20% and 5.42%)	95,000	120,000
Medium-term notes, due 2023, 6.97%	25,000	40,000
Tax-exempt debt:		
Idaho 2006, due 2035, 4.55%	-	18,225
New York 2010, due 2040, 4.875%	35,000	35,000
Pennsylvania 1992 Series A, due 2024, 6.90%	10,000	10,000
Pennsylvania 2007, due 2037, 4.5%	-	23,165
SUEZ Water New Jersey Inc.:		
Promissory notes, due 2025-2026, 4.50%-4.875% (weighted average 4.66%)	-	130,000
Senior notes, due 2021 and 2026, 4.38%-4.68% (weighted average 4.54%)	75,000	75,000
Contractual obligation, due 2018-2024, 6.30%	101	108
SUEZ Water New York Inc., senior notes and promissory notes, due 2020-2032, 3.47%-8.98% (weighted average 4.90%)	82,000	82,000
Total long-term debt	<u>772,870</u>	<u>840,036</u>
Unamortized debt issuance costs	(12,296)	(14,964)
Total long-term debt, net	<u>760,574</u>	<u>825,072</u>
Total capitalization	<u>\$ 1,894,275</u>	<u>\$ 1,867,304</u>

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

December 31, 2017 and 2016

#### **1. Description of Business**

SUEZ Water Resources Inc. and its wholly-owned subsidiaries (“SWR” or the “Company”) provides water and wastewater services to approximately 2.1 million customers throughout the United States, primarily in New York, New Jersey, Pennsylvania, Delaware and Idaho. The Company is a wholly-owned subsidiary of SUEZ Water Inc. (“SWI” or the “Parent Company”), which itself is a wholly-owned subsidiary of SUEZ North America Inc.

The Company’s principal utility subsidiaries include SUEZ Water New Jersey Inc. (“SWNJ”) and SUEZ Water New York Inc. (“SWNY”).

#### **2. Summary of Significant Accounting Policies**

##### **Principles of Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of the SWR and all of its subsidiaries in which a controlling interest is maintained. All intercompany accounts and transactions have been eliminated.

The Company uses the equity method of accounting for its investments in affiliates, which are 50% or less owned, as the Company has the ability to exercise significant influence over the operating and financial policies of the affiliates but does not control the affiliate. The Company’s share of the earnings or losses of the affiliates is included in the consolidated statements of income as other income (expense).

The accounting policies of the Company’s utility subsidiaries comply with the uniform systems of accounts as prescribed by the commissions of the states in which the Company’s utility subsidiaries operate (“the Commissions”) and conform to accounting principles generally accepted in the United States of America (“GAAP”), as applied to rate regulated utilities. The Company follows Accounting Standards Codification topic (“ASC”) 980, Regulated Operations. ASC 980 sets forth the accounting for the effects of certain types of regulation, including the recognition of regulatory assets and liabilities that are allowed by state regulators and are considered probable of recovery or refund.

##### **Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Regulatory Accounting**

The Commissions regulate the rates the Company charges its customers. In certain cases, the rate actions of the Commissions can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the statements of income and comprehensive income consistent with the treatment of the related costs in the ratemaking process.

##### **Intercompany Money Pool**

The Company and other subsidiaries of SWI participate in a money pooling arrangement sponsored by a shared service company, SUEZ Water Management and Services Inc. ("M&S"), a subsidiary of SWI. For the most part, the participants of the money pool do not maintain separate cash balances. The Company's working capital needs are primarily funded through its participation in the money pool. Almost all of the cash generated from billings and operations, and almost all the payments to third parties and to affiliates for payables, are processed through the money pool on the Company's behalf. M&S does not charge or pay any interest to the participants of the money pool.

##### **Assets Held for Sale**

In 2014, SWNJ entered into a purchase and sale agreement to sell its corporate office which is awaiting certain regulatory approvals. In 2015, the Company reclassified the fair value of the building to assets held for sale and it expects the sale to take place in the first half of 2018.

##### **Revenue Recognition**

The Company recognizes revenue (i) when services are provided which include amount billed to customers on a cycle basis and (ii) for the unbilled amount for the estimated amount of service rendered from the time the meters are last read to the end of the accounting period.

As approved by the New York Public Service Commission ("NY PSC"), the New York subsidiaries of the Company are allowed to pass through production-related costs to customers and also bill for approved rate adjustment mechanisms. Any difference between the net balance of allowed revenue and production costs and the net balance of earned revenue and incurred production costs is recorded as a regulatory asset or regulatory liability.



## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Income Taxes**

The Company is included in a consolidated federal income tax return with other affiliated entities. The tax allocated to the Company represents the tax, or credit in lieu of tax, including the effect of any excess tax deductions, computed on a separate return basis. Accrued taxes on the consolidated balance sheet at December 31, 2017 and 2016 include \$33.6 million and \$34.6 million, respectively, of federal income taxes payable to the Parent Company. There were no uncertain tax positions identified at December 31, 2017 or 2016. The Company's tax returns are subject to examination by taxing authorities, generally for three years after they are filed. As of December 31, 2017, the tax years 2016, 2015, 2014, and 2013 were subject to examination by taxing authorities.

Federal and state income taxes are recorded pursuant to the asset and liability method that requires the recognition of deferred income tax assets and liabilities by applying enacted tax rates applicable to future years to the difference between the financial statement carrying amount and tax bases of existing assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities were recorded to recognize income taxes recoverable or refundable through future revenues.

Investment tax credits arising from property additions were deferred and are being amortized over the useful life of the underlying property. The unamortized balances of investment tax credits at December 31, 2017 and 2016 were \$8.4 million and \$8.9 million, respectively.

##### **Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy for disclosure of fair value measurements under ASC 820 is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices, other than quoted prices included in Level 1, that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Valuation inputs are unobservable and significant to the fair value measurement.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### 2. Summary of Significant Accounting Policies (continued)

##### Property, Plant and Equipment

Property, plant and equipment include only utility plant which is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of utility plant are capitalized. The capitalized cost of additions to utility plant includes costs such as direct material, labor and benefits, overheads, and an allowance for funds used during construction ("AFUDC"). The original cost of utility property retired or otherwise disposed of in the normal course of business is charged to accumulated depreciation, and salvage (net of removal cost) is credited thereto; no gain or loss is recognized.

##### *Depreciation*

The Company accounts for the depreciation of utility plant using groups of property items having the same or similar service life expectancies. Based on the weighted average service life and the cost of the group of similar property items, the depreciation rate is determined for the group by applying the straight-line method, as prescribed by the Commissions and consistent with GAAP. The provision for depreciation in both 2017 and 2016 was equivalent to 2.3%, of average depreciable utility plant in service.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers.

For federal income tax purposes, depreciation is computed using accelerated methods and, in general, shorter depreciable lives as permitted under the Internal Revenue Code.

##### *Allowance for Funds Used During Construction (AFUDC)*

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new utility plant. AFUDC is a credit to income and includes both the cost of borrowed funds and a return on equity funds attributable to plant under construction. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of \$0.8 million and \$2.3 million and AFUDC related to debt of \$0.4 million and \$1.6 million for the years ended December 31, 2017 and 2016, respectively.

Gross-up of AFUDC was \$0.4 million and \$1.4 million at December 31, 2017 and 2016, respectively, and is included in regulatory assets and credited to income.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Goodwill and Intangible Assets**

###### *Goodwill*

Goodwill represents the difference between the purchase price and the fair value of net assets acquired. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level at least annually and whenever events or changes in circumstances indicate that goodwill might be impaired. No indicators of impairment were identified upon completion of the annual assessment as required by ASC 350, Intangibles - Goodwill and Other, for the years ended December 31, 2017 and 2016.

###### *Intangible Assets*

Other intangible assets includes contract concession fees that are being amortized over the lives of the applicable contracts. In 2017 and 2016, there was no impairment of intangible assets.

##### **Billed and Unbilled Accounts Receivable**

Billed accounts receivable are recorded at the invoiced amounts, which represent the amount billed to customers on a cycle basis. Unbilled accounts receivable are accrued for services that have been provided but have not been billed to customers. Unbilled accounts receivable included in accounts receivable were \$36.1 million and \$31.6 million at December 31, 2017 and 2016, respectively.

The allowance for doubtful accounts in accounts receivable is the Company's best estimate of the amounts of probable credit losses in existing accounts receivable, and is primarily based on the aging of accounts receivable. Account balances are written-off when it is probable the receivable will not be recovered.

##### **Unamortized Debt Expense**

Debt expenses are classified within long-term debt on the balance sheets and are amortized to interest expense over the lives of the applicable debt issues.

##### **Customer Advances and Contributions for Construction**

The Company may receive advances for construction from outside parties, generally customers and real estate developers, to fund certain utility capital expenditures to provide water service to new customers. Non-refundable amounts received are recorded as a contribution in aid of construction or as a direct offset to property, plant and equipment on the consolidated balance sheets, as prescribed by the applicable Commissions. Refundable amounts received are recorded initially as customer advances for construction on the consolidated balance sheets and are refundable, for limited periods of time, generally when new customers begin to receive service. The remaining balance of any advances received, after the Company has made all required refunds of such advances, is transferred to contribution in aid of construction or offset against property, plant and equipment as prescribed by the applicable Commissions.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Employee Benefits**

The Company has defined benefit pension and postretirement benefits other than pensions ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the consolidated balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end fair value of those assets.

##### **Reclassifications**

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

##### **New Accounting Pronouncements**

###### *Stock Compensation*

In May 2017, the Financial Accounting Standards Board (FASB) issued Stock Compensation - Scope of Modification Accounting. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendment is effective for annual periods beginning after December 15, 2017, and interim periods within those annual years. This amendment is not expected to have a material impact to the Company's financial position or results of operations.

*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*  
In March 2017, the FASB issued authoritative guidance that requires an employer to disaggregate the service cost component from the other components of the net benefit cost. The amendments provide explicit guidance on how to present the service cost component and the other components of the net benefit cost in the income statement and allow only the service cost component of the net benefit cost to be eligible for capitalization. The updated guidance does not impact the accounting for net periodic benefit costs as regulatory assets or liabilities. This guidance will be effective for interim and annual periods beginning after December 15, 2018. The amendments will be applied retrospectively. The impact of this adoption will be limited to changes in classification of non-service costs in the income statements.

###### *Statement of Cash Flows*

In August 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance intended to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows in order to reduce the existing diversity in practice. These updates are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption permitted. This update will be applied using the retrospective transition method. Adoption of this standard will only affect the presentation of the Company's cash flows and is not expected to have a material impact on the Company's financial statements.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### 2. Summary of Significant Accounting Policies (continued)

In November 2016, FASB issued a new guidance which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact of this pronouncement on its financial statements.

##### *Leases*

In February 2016, the FASB issued a pronouncement that requires lessees to recognize assets and liabilities on the balance sheet for leases with accounting lease terms of more than 12 months. This guidance is effective for annual periods beginning in 2020. The Company is currently evaluating the impact of capitalizing operating leases on its balance sheets.

##### *Revenue from Contracts with Customers*

In May 2014, the FASB issued guidance based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Companies may apply this update retrospectively or using a modified retrospective approach to adjust retained earnings. In August 2015, the FASB deferred the effective date of adoption of this guidance to annual periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of this guidance will have no impact on the Company's consolidated financial statements, as there are no changes to the timing of the recognition of revenue.

#### 3. Regulatory Assets and Liabilities

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Regulatory assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Deferred employee benefits	\$ 110,734	\$ 104,282
Deferred legal costs	9,975	10,605
Rate adjustment mechanisms	14,669	15,832
Income taxes recoverable	17,209	18,479
AFUDC - gross-up	6,542	5,078
Tank painting costs	13,787	11,354
Deferred project cost	50,398	53,973
Remediation costs	11,717	12,357
Other	21,065	20,653
Total regulatory assets	<u>\$ 256,096</u>	<u>\$ 252,613</u>

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**3. Regulatory Assets and Liabilities (continued)**

Regulatory liabilities included on the consolidated balance sheets are amounts which are expected to be refunded to customers. Regulatory liabilities consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Deferred gain on sale of land	\$ 14,999	\$ 8,505
Income taxes	188,399	20,653
Deferred employee benefits	33,066	35,486
Other	2,100	854
Total regulatory liabilities	<u>\$ 238,564</u>	<u>\$ 65,498</u>

*Deferred employee benefits*

Deferred employee benefits represent the underfunded status of its pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods.

*Rate adjustment mechanisms*

The wholly-owned New York subsidiaries of the Company are subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NY PSC. These amounts will be refunded to, or recovered from, customers.

*Deferred project cost*

In December 2015, the NY PSC directed SWNY to abandon the Haverstraw Water Supply Project (the "Haverstraw Project") upon which, the company reclassified the cost of the project from construction work-in-process to regulatory assets (see Note 4).

*Remediation costs*

Remediation costs represents costs incurred on one of SWNJ's properties which it plans to sell. In April 2016, the New Jersey Board of Utilities ("NJ BPU") approved the recovery of the amount spent on remediation over a 20 year period, as discussed in Note 5.

*Deferred gain on sale of land*

The deferred gain on sale of land, which resulted from a 2011 sale, will be netted against a loss expected to be realized on the sale of an additional parcel of land in the future, and the net gain or loss will be apportioned between SWNJ and its customers, as directed by the NJ BPU. The proceeds of \$8.9 million from the 2011 sale is included as restricted cash on the balance sheet at December 31, 2017.

*Income taxes*

Income tax primarily represents regulatory liability recorded due to tax reform as discussed in Note 13.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

*(in thousands of dollars, except where noted otherwise)*

#### 3. Regulatory Assets and Liabilities (continued)

The regulatory assets and liabilities above are not included in rate base. The Company is allowed to recover carrying charges on costs associated with certain deferred employee benefits and other regulatory assets, although the Company is also required to record carrying charges on certain of its regulatory liabilities. The Company is not allowed to recover carrying charges on its other regulatory assets.

In management's opinion, the Company's operations will be subject to ASC 980 for the foreseeable future. However, in the event that regulation significantly changes the opportunity for the Company to recover its costs in the future, all or a portion of the Company's regulated operations may no longer meet the criteria for the application of ASC 980, in which case a write-down of all or a portion of the existing regulatory assets and liabilities could result. The Company estimates that a write-off of its net regulatory assets at December 31, 2017 would result in a pre-tax loss of approximately \$17.5 million.

#### 4. Rate Matters

##### *Rate Filings*

During 2017, the Company's regulated utility subsidiaries put into effect three rate increases, for a total increase in revenue of approximately \$9.9 million of which approximately \$7.9 million relates to 2017.

During 2016, the Company's regulated utility subsidiaries put into effect six rate increases, for a total increase in revenue of approximately \$15.9 million of which approximately \$8.6 million relates to 2016.

The following are the key highlights in 2017 and 2016:

- In February 2016, SWNY filed an application for a one-year increase in rates of approximately \$11.6 million or 13.7%. In January 2017, the commission issued its Order for the period from February 2017 through January 2020, which includes a base rate increase of \$12.7 million over 3 year period. The agreement also includes amortization of Haverstraw Project costs over 15 years, and reconciliation of revenue and production costs, Pension/PBOP and property taxes. The rate increase was approved by the NY PSC in January 2017, which included \$53.7 million of recovery for Haverstraw Project costs.
- In February 2016, Suez Water Delaware, a wholly-owned subsidiary of the Company, filed an application with the Delaware Public Service Commission requesting additional revenue of approximately \$4.9 million or 19.96% and in February 2017, Suez Water Delaware settled the base rate case at \$3.5 million.
- In June 2016, Suez Water Arlington Hills, a wholly-owned subsidiary of the Company, filed an application seeking board approval for an increase in rates to produce additional revenue of \$1.4 million over a period of four years. In October 2017, the Company was granted an increase of \$1.3 million, return on equity of 9.75%, phased in over four years with the first year being 50% or approximately \$0.7 million. The rates became effective November 2017.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

(in thousands of dollars, except where noted otherwise)

#### 4. Rate Matters (continued)

- In October 2015, SWNJ filed an application for a rate increase of additional revenue of approximately \$29.5 million or 13.5% and in April 2016, the NJ BPU approved the rate increase of \$11.0 million or 5.0%.

In 2017 and 2016, various wholly-owned subsidiaries of the Company also filed Distribution System Improvement Charge (“DSIC”) with their commissions, reflecting DSIC investment made throughout the year, which led to a total increase in revenue of \$8.8 million and \$5.9 million, respectively. For the years ended December 31, 2017 and 2016, the impact of such revenue increases was approximately \$8.3 million and \$2.0 million, respectively.

#### 5. Property, Plant and Equipment

The following table summarizes property, plant and equipment at cost along with accumulated depreciation:

	<u>Useful Lives</u>	<u>2017</u>	<u>2016</u>
Transmission and distribution	15-149	\$ 2,038,298	\$ 1,874,830
Water treatment	7-81	444,236	440,461
Source of supply	4-100	323,888	272,122
General structures and equipment	14-86	228,196	216,945
Pumping	14-86	230,900	267,379
Wastewater	7-50	44,215	41,229
Other		4,539	7,578
Property held for future use		8,898	8,795
Construction work-in-process		62,516	40,417
Property, plant and equipment - gross		<u>3,385,686</u>	<u>3,169,756</u>
Less accumulated depreciation		<u>(753,011)</u>	<u>(715,224)</u>
Property, plant and equipment - net		<u>\$ 2,632,675</u>	<u>\$ 2,454,532</u>

For the years ended December 31, 2017 and 2016, depreciation expense totaled \$74.3 million and \$68.7 million, respectively. The Company retired \$40.1 million and \$27.6 million of property, plant and equipment during 2017 and 2016, respectively.

SWNY conducted a depreciation study, which was approved by NY PSC in the 2016 rate case, effective February 2017. This primarily resulted in increased depreciation rates and reduced useful lives for the asset class shown above.

Property, plant and equipment includes SWNJ’s 50% co-tenancy interest in the Wanaque South Water Supply Project, the net book value of which was \$32.1 million and \$28.3 million at December 31, 2017 and 2016, respectively. Company’s share of the project’s operating expenses is included in the consolidated statements of income and comprehensive income.



SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**6. Goodwill and Intangible Assets**

The components of goodwill and intangible assets are as follows:

	<u>2017</u>	<u>2016</u>
Goodwill	\$ 39,947	\$ 39,947
Intangible assets:		
Concession fees	1,450	1,450
Accumulated amortization	<u>(78)</u>	<u>(6)</u>
Total intangible assets - net	<u>1,372</u>	<u>1,444</u>
Total goodwill and intangible assets	<u>\$ 41,319</u>	<u>\$ 41,391</u>

The Company determined that no qualitative factors were present that would indicate the estimated fair values of its reporting units were less than the respective carrying values. As such, the Company determined that the two-step goodwill impairment test was not necessary at December 31, 2017 or 2016.

Concession fees are amortized on a straight-line basis over the lives of the underlying contracts. For the years ended December 31, 2017 and 2016, the Company recorded amortization expense of \$0.1 million and less than \$0.1 million, respectively. In 2017 and 2016, there was no impairment of intangible assets.

The table below shows the expected amortization expense for the next five years for intangible assets as of December 31, 2017:

2018	\$ 72
2019	72
2020	72
2021	72
2022	72

**7. Fair Value of Financial Instruments**

The carrying amounts reported in the consolidated balance sheet for current assets and current liabilities approximate their fair value because of their short-term maturities. Such current assets and liabilities on the consolidated balance sheets include cash and cash equivalents, accounts receivable and unbilled revenues, prepaid and other current assets, accounts payable and other current liabilities, and accrued interest.

The Company's long-term debt has no quoted market prices; consequently, the Company's long-term debt is a Level 3 financial instrument under the fair value hierarchy for fair value measurements (see Note 2). The fair value of this debt, measured using a discounted cash flow analysis based on current rates for similar debt, was \$842.0 million and \$903.5 million at December 31, 2017 and 2016, respectively.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### 7. Fair Value of Financial Instruments (continued)

The fair value of customer advances and contribution for construction cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

See Note 9 for the Company's fair value of qualified pension and PBOP plan assets.

#### 8. Debt

##### *Credit Facilities*

The Company has uncommitted credit lines with several banks. Borrowings under these credit lines generally bear interest at rates based on the London Interbank Offered Rate ("LIBOR"). There are no fees associated with these lines of credit. None of the credit lines extends beyond 2018, however, the Company anticipates renewing them through 2018. There are no legal restrictions placed on the withdrawal or other use of these credit lines.

In addition, the Company has a \$250.0 million committed credit line with SUEZ Groupe S.A.S ("Suez Groupe"), which can only be used to meet the funding needs of subsidiaries of the Company for \$75.0 million and SWNJ for \$175.0 million. There were no borrowings under the committed credit line during 2017 and 2016.

The Company paid a commitment fee of \$0.5 million each in 2017 and 2016, respectively, to Suez Groupe on the committed \$250.0 million credit line.

The total credit lines available, the amounts utilized and the weighted average interest rates on outstanding borrowings at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Total credit lines available	\$ 415,000	\$ 505,000
Utilized:		
Pledged as letters of credit	\$ 16,613	\$ 21,863

##### *Debt*

In 2017, the Company issued \$145.0 million of Senior Notes, of which \$75.0 million carry a fixed interest rate of 3.77% and due date of December 2047, \$70.0 million carry a fixed interest rate of 3.30% and due date of December 2032. The proceeds were primarily used to refinance or redeem existing debt.

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars, except where noted otherwise)

**8. Debt (continued)**

The long-term debt repayments over each of the next five years are anticipated to be as follows:

2018	\$ 170,776
2019	5,784
2020	30,015
2021	35,016
2022	25,017

The Company reclassified \$130.0 million of debt to current liabilities in the accompanying balance sheet due to early redemption of debt in January 2018, as discussed in Note 15.

The Company is subject to certain restrictive covenants related to its long-term debt, such as minimum shareholder's equity levels, maximum long-term debt levels and minimum net utility plant. At December 31, 2017 and 2016, the Company was in compliance with its covenants.

**9. Employee Benefits**

Most employees are covered by a trustee non-contributory defined benefit pension plan sponsored by SWR. Benefits under this plan are based upon years of service and the employee's compensation during the last five years of employment. The Company's policy is to fund amounts accrued for pension expense to the extent deductible for federal income tax purposes. The Company anticipates funding this plan by \$15.5 million in 2018.

SWR sponsors a defined benefit postretirement plan that covers hospitalization, major medical and life insurance benefits to those retirees who meet the requirements to receive benefits under the plan. The Company is funding a portion of its postretirement health care benefits through contributions to Voluntary Employees' Beneficiary Association ("VEBA") Trusts. The Company does not expect to contribute to this plan in 2018.

The following table provides the components of the Company's regulatory assets and liabilities that have not been recognized as components of periodic benefit costs as of December 31, 2017 and 2016:

	Pension Plan		PBOP Plan	
	2017	2016	2017	2016
Net actuarial loss	\$ 133,042	\$ 125,983	\$ 6,373	\$ 5,230
Prior service cost (benefit)	231	332	(32,537)	(36,783)
	\$ 133,273	\$ 126,315	\$ (26,164)	\$ (31,553)

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**9. Employee Benefits (continued)**

The prior service costs and actuarial (gains) losses included in regulatory assets that are expected to be recognized during the year ending December 31, 2018 are as follows:

	<u>Pension Plan</u>	<u>PBOP Plan</u>
Prior Service Cost (Benefit)	\$ 99	\$ (4,218)
Actuarial Loss (Gain)	\$ 12,641	\$ (3)

SWR sponsors a single defined benefit pension plan for its subsidiary employees and certain employees of an affiliated company. The allocated fair value of plan assets and funded status associated with employees of the Company participating in this plan are included in the table below. The following table sets forth the plan's funded status, measured as of December 31, 2017 and 2016 and recognized in the Company's consolidated balance sheets in accrued employee benefits:

	<u>Pension Plan</u>		<u>PBOP Plan</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Change in benefit obligation:				
Benefit obligation, at beginning of year	\$ 302,592	\$ 282,094	\$ 83,735	\$ 76,556
Service cost	6,108	5,765	2,131	1,742
Interest cost	12,758	12,862	3,543	3,471
Actuarial loss	30,020	15,245	7,587	5,590
Benefits paid	(13,980)	(13,374)	(4,062)	(3,624)
Benefit obligation, at end of year	<u>337,498</u>	<u>302,592</u>	<u>92,934</u>	<u>83,735</u>
Change in plan assets:				
Fair value of plan assets, at beginning of year	207,351	198,996	77,815	75,534
Actual return on plan assets	27,363	14,209	11,434	5,905
Company contributions	13,872	7,520	-	-
Benefits paid	(13,980)	(13,374)	(4,062)	(3,624)
Fair value of plan assets, at end of year	<u>234,606</u>	<u>207,351</u>	<u>85,187</u>	<u>77,815</u>
Funded status	<u>\$ (102,892)</u>	<u>\$ (95,241)</u>	<u>\$ (7,747)</u>	<u>\$ (5,920)</u>

At December 31, 2017 and 2016, the pension and PBOP obligation exceeded the fair value of plan assets for the total SWR plan.

	<u>Pension Plan</u>		<u>PBOP Plan</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Projected Benefit Obligation	\$ 464,052	\$ 411,343	n/a	n/a
Accumulated Benefit Obligation	427,480	375,473	\$ 119,644	105,572
Fair Value of Plan Assets	313,541	268,643	91,916	84,259

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**9. Employee Benefits (continued)**

The components of net periodic plan costs were as follows for the years ended December 31, 2017 and 2016:

	Pension Plan		PBOP Plan	
	2017	2016	2017	2016
Service cost	\$ 6,108	\$ 5,765	\$ 2,131	\$ 1,742
Interest cost	12,758	12,862	3,543	3,471
Expected return on plan assets	(14,390)	(13,635)	(4,986)	(4,798)
Amortization of prior service cost (benefit)	101	102	(4,246)	(4,246)
Amortization of actuarial loss (gain)	9,989	8,825	(5)	(107)
Net periodic plan cost	<u>\$ 14,566</u>	<u>\$ 13,919</u>	<u>\$ (3,563)</u>	<u>\$ (3,938)</u>

The weighted-average assumptions at December 31, 2017 and 2016 were as follows:

	Pension Plan		PBOP Plan	
	2017	2016	2017	2016
Benefit Obligation				
Discount rate	3.75%	4.28%	3.74%	4.28%
Range of compensation increase	3.50% - 3.75%	3.50% - 3.75%	n/a	n/a
Net Periodic Benefit Costs				
Discount rate	4.28%	4.68%	4.28%	4.69%
Range of compensation increase	3.50% - 3.75%	3.50% - 3.75%	n/a	n/a
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%

The discount rate is determined based on the investment yields available as of the measurement date on investment grade corporate bonds of various maturities that are consistent with the maturity of the plan's benefit obligation.

Based on current assumptions, the Company expects to make the following benefit payments for the years ended:

	Pension Plan	PBOP Plan
2018	\$ 15,088	\$ 3,463
2019	15,639	3,816
2020	16,143	4,139
2021	16,596	4,435
2022	17,054	4,748
Thereafter	90,558	25,832

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars, except where noted otherwise)

**9. Employee Benefits (continued)**

The associated health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2017 was 6.5%, gradually declining to 4.75% in 2027 and thereafter, for costs for those under 65 years of age, and 3.0%, for costs for those over 65 years of age.

Changing the assumed health care cost trend rate by one percentage point in each year results in changes in service cost and interest, and plan obligations as follows:

	<u>2017</u>	<u>2016</u>
Effect of 1% point increase		
On total service cost and interest cost	\$ 1,027	\$ 997
On post retirement benefit obligation	14,417	12,615
Effect of 1% point decrease		
On total service cost and interest cost	\$ (802)	\$ (776)
On post retirement benefit obligation	(11,529)	(10,065)

Plan investment strategies include enhancing the plan's diversification, reducing overall portfolio risk and enhancing the expected return. To support these strategies, the equity securities component is further broken down into domestic equities and international equities, which are both passively managed. Within the fixed income portfolios, derivative securities are utilized by the bond managers to facilitate liquidity and duration management, but are not used to create leverage in the portfolio in any way.

The long-term return expectation for the pension and VEBA portfolio effective for 2018 is 7.0% and the strategy noted above has been developed to meet that objective over the long-term. The portfolio is actively managed in all of the asset classes with the exception of large cap domestic equity, which is indexed to the S&P 500. The Investment Committee of SWI reviews the long-term investment strategies on an ongoing basis. This includes reviewing historical returns for the various asset classes and adjusting prospective returns for the plan's allocation of assets. Prospective expectations of the market are also reviewed, which are similar for domestic equity and international equity, and slightly lower for domestic fixed income, based on long-term expectations.

The target allocation of the benefit plans' (including VEBA portfolio) total assets as of December 31, 2017 and 2016 are as follows:

	<u>Pension Plan</u>		<u>PBOP Plan</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term investments	1.0%	1.0%	5.0%	5.0%
US equities	20.0%	20.0%	35.0%	35.0%
International equities	17.5%	17.5%	15.0%	15.0%
Private equities and hedge funds	17.5%	17.5%	0.0%	0.0%
Fixed income	44.0%	44.0%	45.0%	45.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**9. Employee Benefits (continued)**

Under the fair value hierarchy for fair value measurements (see Note 2); the fair value of the Company's share of the pension and PBOP assets was as follows at December 31, 2017 and 2016:

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
<b>Pension Plan</b>				
Short-term investments	\$ 2,227	\$ -	\$ -	\$ 2,227
Fixed income	33,275	-	-	33,275
US equities	55,237	-	-	55,237
International equities	49,577	-	-	49,577
Private equities and hedge funds	-	-	5,183	5,183
Total investments in the fair value hierarchy	<u>140,316</u>	<u>-</u>	<u>5,183</u>	<u>145,499</u>
Bonds / High yield <sup>(a)</sup>				25,171
Bonds / Fixed income <sup>(a)</sup>				40,681
Hedge funds <sup>(a)</sup>				23,255
Total investment at fair value				<u>\$ 234,606</u>
<b>PBOP Plan</b>				
Short-term investments	\$ 2,774	\$ -	\$ -	\$ 2,774
Bonds	8,358	-	-	8,358
US equities	36,995	-	-	36,995
International equities	9,416	-	-	9,416
Total investments in the fair value hierarchy	<u>57,543</u>	<u>-</u>	<u>-</u>	<u>57,543</u>
Bonds / Fixed income <sup>(a)</sup>				27,644
Total investment at fair value				<u>\$ 85,187</u>

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

9. Employee Benefits (continued)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Pension Plan</b>				
Short-term investments	\$ 1,592	\$ -	\$ -	\$ 1,592
Fixed income	30,328	-	-	30,328
US equities	46,633	-	-	46,633
International equities	37,963	-	-	37,963
Private equities and hedge funds	-	-	6,176	6,176
Total investments in the fair value hierarchy	116,516	-	6,176	122,692
Bonds / High yield <sup>(a)</sup>				24,100
Bonds / Fixed income <sup>(a)</sup>				37,614
Hedge funds <sup>(a)</sup>				22,945
Total investment at fair value				\$ 207,351
<b>PBOP Plan</b>				
Short-term investments	\$ 782	\$ -	\$ -	\$ 782
Bonds	8,071	-	-	8,071
US equities	35,667	-	-	35,667
International equities	7,423	-	-	7,423
Total investments in the fair value hierarchy	51,943	-	-	51,943
Bonds / Fixed income <sup>(a)</sup>				25,872
Total investment at fair value				\$ 77,815

(a) In accordance with new pronouncements stated in Note 2, certain investments that were measured at net asset value per share (or its equivalent) as a practical expedient to fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items embedded in the funded status table (page 21).

The pension plans' assets have been invested in various investment fund options under a master trust arrangement with Wells Fargo Bank, N.A. ("Wells Fargo Bank"). The Company is funding a portion of its PBOP share through contributions to VEBA Trusts. The VEBA's assets are also held by Wells Fargo Bank, and are invested in mutual funds and a common collective trust fund. The investments are stated at fair value, which represents the daily calculated value of units of participation in the collective trust. The daily calculated unit values are determined and reported by the funds in which the plan assets are invested. The fair value of these assets are measured as follows:

- Short-term investments having remaining maturities of 60 days or less are valued at amortized cost, which approximates market value.
- Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets, which are valued at the official closing price or last sale price on the exchange on which they are primarily traded, or at the last quoted bid price for securities in which there were no sales during the day or for unlisted securities. The Company can exchange shares of the publicly traded securities



## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

#### **9. Employee Benefits (continued)**

and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments.

- Fixed income, which includes mutual funds invested in bonds and related securities, are valued at the official closing price or last sale price on the exchange on which they are primarily traded, at the last quoted bid price for securities in which there were no sales during the day, or at the last available bid prices.
- Hedge funds are considered Level 3 investments in the hierarchy for fair value measurements and include a number of partnerships. The investment objective is to invest, typically over three to four years, in private equity funds that in turn invest a substantial portion of their assets in US and Canadian based companies, companies located in developed markets outside the U.S. and Canada and in primarily late-stage venture capital and growth equity portfolio companies (a majority of which are located in North America).
- Alternatives: The Plan invests in high yield/fixed income bonds and hedge funds, including nonmarketable, nonredeemable investments in partnerships. Because observable prices are not available for these securities, the fund management has valued the investments based solely on the capital account balances reported by the underlying investments. The capital account balances may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated.

While fund management for the alternatives believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

#### **Defined Contribution Plans**

The Company's employees participate in defined contribution savings plans sponsored by SWR which permit employees to make voluntary contributions that are matched in part by the Company, as set forth in the plan agreements. The Company's expense for its contributions to the defined contribution plans was \$2.2 million each in 2017 and 2016, respectively, and was included in operation and maintenance expense in the consolidated statements of income and comprehensive income.

#### **Supplemental Benefit Plans**

Certain categories of employees are covered by non-funded supplemental plans. The unfunded projected benefit obligation of these plans was \$1.2 million and \$1.3 million each at December 31, 2017 and 2016, and has been

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

#### **9. Employee Benefits (continued)**

recorded in accrued employee benefits on the consolidated balance sheets. The net periodic pension cost associated with these plans was \$0.1 million both in 2017 and 2016, respectively.

#### **10. Stock Compensation**

The employees of the Company are offered the opportunity to participate in share-based payment programs Suez Groupe, ultimate parent.

These programs include employee stock purchase plans ("ESPPs") and stock appreciation rights ("SARs") that are linked to the ESPPs. No shares of the Company's stock are issued to employees under these programs. Further, the Company is reimbursed for any cash payments made to employees pursuant to these programs by third parties under funding arrangements made by Suez Groupe (see discussion of warrants, below). As a result, these programs do not result in any net cash outflow for the Company.

Suez Groupe has periodically offered ESPPs pursuant to which employees can purchase shares of their stock at discounts ranging from 15% to 20%. The most recent such offering took place during 2017 for Suez Groupe stock. The Company records the discounts its employees receive as compensation expense in the year of purchase by the employees, with an offsetting credit to contributed common equity.

Employees participating in the ESPPs also may receive one SAR for each share of stock purchased. These SARs vest over a five-year period, at which time the Company pays its employees in cash based upon a multiple of the performance of the publicly traded shares of Suez Groupe over that period. The fair value of unpaid SARs at each balance sheet date is computed based on the publicly traded shares of stock using a Black-Scholes-Merton option pricing model, which incorporates various assumptions as determined by Suez Groupe, including expected volatility, expected dividend yield, expected life and applicable interest rates. The Company records this value as compensation expense, with an offsetting payable to the employees, on a straight-line basis over the five-year term of the SARs. At December 31, 2017 and 2016, SARs issued in connection with two ESPPs and two ESPPs, respectively, were outstanding.

Suez Groupe set in place a mechanism to reimburse the Company for cash payments made to participating employees under the SARs program. When the Company's employees purchased stock under an ESPP and received SARs, the Company received at no cost an equal number of warrants ("Warrants") from Suez Groupe, which entitle the Company to receive a cash payment from a third party at the time the SARs are paid to the employees. The initial fair value of the Warrants is recorded as an asset by the Company, with an offsetting credit to contributed common equity. Each year thereafter, the Company adjusts the carrying value of the Warrant assets to 100% of their then fair value, recording any gain or loss in other income. Over the five-year term of the SAR and Warrant agreements, the Company expects to record compensation expense in excess of any gain or loss on the Warrants in an amount approximately equal to the initially recorded cost of the Warrants.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements *(in thousands of dollars, except where noted otherwise)*

#### 10. Stock Compensation (continued)

In 2017 and 2016, the Company recorded less than \$0.1 million of income and \$1.0 million of expense from changes in fair value of the Warrants, respectively. In 2017 and 2016, the Company recorded \$0.1 million of compensation expense and \$0.3 million of compensation income from a change in in the vested value of the SARs liability, respectively. During 2017, in connection with a 2017 ESPP, the Company recorded \$0.3 million of initial value of Warrants received from Suez Groupe with a corresponding credit to contributed common equity. At December 31, 2017 and 2016, \$0.6 million and \$0.3 million, respectively, of Warrants were recorded in other deferred charges and assets, and \$0.2 million and \$0.2 million, respectively, of SARs liability to employees was recorded in other deferred credits and liabilities.

As of December 31, 2017, the total unrecognized compensation expense related to unvested SAR awards was \$0.4 million. This amount, along with any future changes in the fair value of such unvested awards, will be recognized in compensation expense over the next five years.

#### 11. Related Party Transactions

##### *Service Company Charges*

In the ordinary course of business, M&S provides services (i.e., legal, corporate accounting and finance, regulatory, human resources, information technology, etc.) to all of the subsidiaries of SWI. The Company recorded expenses for these services of \$54.5 million and \$53.0 million in 2017 and 2016, respectively, as operation and maintenance expense in the consolidated statements of income and comprehensive income. The service company costs are generally allocated to affiliated companies through a tiered approach. In the first step, costs are directly charged to the benefited company whenever practicable. In the second step, majority of the other costs are allocated based on a general allocator determined using a 3-factor formula based on revenue, property, plant and equipment and payroll expenses.

##### *Intercompany Money Pool*

The Company participates in the money pool arrangement with its affiliated companies, as discussed in Note 2 above. The Company's working capital needs are primarily funded through its participation in the money pool. Almost all of the cash generated from billings and operations, and almost all the payments to third parties and to affiliates for payables, are processed through the money pool on the Company's behalf.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest. A summary of outstanding accounts receivable from associated companies and accounts payable to associated companies balances is as follows:

	2017	2016
SUEZ Water Management & Services Inc.	\$ 176,547	\$ 112,126
Other affiliates	6,050	3,343
SUEZ Water Inc.	(157,604)	(122,531)
Total intercompany money pool	\$ 24,993	\$ (7,062)

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
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**11. Related Party Transactions (continued)**

*Other*

The Company has various transactions with affiliated entities owned by SUEZ North America Inc. and Suez Groupe. The amount of such transactions with affiliated entities were \$7.2 million and \$4.6 million in 2017 and 2016, respectively. Of this amount, \$2.5 million and \$1.9 million was incurred in 2017 and 2016, respectively, the cost of which is deferred in the accompanying balance sheets as permitted by the Commissions.

*Dividends to Parent*

In 2017, the Company did not declare or pay any dividends to SWI. In 2016, the Company paid SWI a dividend of \$69.0 million.

**12. General Taxes**

The components of general tax expense for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Real estate	\$ 20,016	\$ 20,705
Gross receipt	21,347	21,381
Franchise	36,503	36,735
Excise	4,164	4,174
Payroll and other taxes	3,341	8,437
	<u>\$ 85,371</u>	<u>\$ 91,432</u>

**13. Income Taxes**

*Provision for Income Taxes*

The provision for income taxes included in the consolidated statements of income and comprehensive income for 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Current:		
Federal	\$ 33,311	\$ 28,434
State	3,007	(538)
Total current	<u>36,318</u>	<u>27,896</u>
Deferred:		
Federal	12,749	22,758
State	4,050	1,275
Total deferred	<u>16,799</u>	<u>24,033</u>
Total provision for income taxes	<u>\$ 53,117</u>	<u>\$ 51,929</u>

Deferred income tax expense includes a benefit from the amortization of investment tax credits of \$0.5 million in each of 2017 and 2016, respectively.

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
(in thousands of dollars, except where noted otherwise)

**13. Income Taxes (continued)**

A reconciliation of the provision for income taxes at the statutory federal income tax rate to the actual income tax expense in the consolidated statements of income and comprehensive income was as follows for 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Statutory federal income tax rate	35%	35%
Federal taxes at statutory tax rates on pretax income	\$ 51,862	\$ 50,635
State income taxes, net of federal benefit	4,587	479
Amortization of investment tax credits	(531)	(531)
Amortization of tax on regulatory assets	787	803
Tax reform on non utility	(3,904)	-
Other	316	543
Total provision for income taxes	<u>\$ 53,117</u>	<u>\$ 51,929</u>

*Deferred Income Taxes and Investment Tax Credits*

Deferred income taxes and deferred investment tax credits included on the consolidated balance sheets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Property related differences	\$ 224,253	\$ 321,992
Employee benefits	(2,485)	(4,799)
Other regulatory assets	17,787	23,553
Other deferred income tax assets and liabilities, net	8,093	15,831
Tax reform gross up	(43,971)	-
Deferred income taxes	<u>203,677</u>	<u>356,577</u>
Alternative minimum tax credit carryforwards	(18,565)	(18,565)
Deferred investment tax credits	8,356	8,887
Total deferred income taxes and investment tax credits	<u>\$ 193,468</u>	<u>\$ 346,899</u>

Other deferred income tax assets and liabilities at December 31, 2017 and 2016 include \$3.0 million and \$0.1 million, respectively, of state taxes related to state tax net operating loss carryforwards (“NOLs”). The state NOLs begin to expire after 2030.

*Tax Reform*

On December 22, 2017, the President signed H.R. 1, the “Tax Cuts and Jobs Act” (TCJA). The newly enacted federal tax law becomes effective for tax years beginning on January 1, 2018. However, ASC 740 requires that the tax effects of changes in tax laws or rates be recognized in the period in which the law is enacted. Specifically, deferred tax liabilities and assets are adjusted for the effect of a change in tax rates. TCJA reduces the top corporate income tax rate from 35% to 21%. As a result of this law change and pursuant to ASC 980 guidance, the Company recorded a \$190.8 million reduction to its net deferred tax liabilities and reclassified \$186.9 million to regulatory liabilities, while pursuant to ASC 740, \$3.9 million of this reduction was recorded as a component of provision for income taxes. In accordance with the guidance prescribed in the Security and Exchange Commission’s Staff Accounting Bulletin (“SAB”) 118, the \$190.8 million represents a reasonable estimate at

SUEZ Water Resources Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
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**13. Income Taxes (continued)**

this time. Although we do not anticipate any material adjustments in the following year, the Company continues to analyze this adjustment.

*New York Qualified Manufacturer*

For taxable years beginning on or after January 1, 2014, qualified New York manufacturers were eligible for a zero percent corporate tax rate on business income base. Based on new statute passed during 2017, the state of New York clarified the definition of a “qualified New York manufacturer” to exclude water utilities. As a result, effective January 1, 2018, the Company will no longer be a qualified New York manufacturer and receive the benefit of the zero percent corporate tax rate. Accordingly, the Company reestablished \$13.6 million of deferred tax liabilities through a reclassification from the Regulatory Liability with \$3.2 million of this amount recorded as a component of income tax expense.

**14. Commitments and Contingencies**

*Operating Leases*

The total rent incurred for the Company’s non-cancellable operating leases was approximately \$6.6 million and \$4.7 million for the year ended December 31, 2017 and 2016, respectively. The minimum future lease payments due each year subsequent to December 31, 2017 are as follows:

2018	\$	7,415
2019		6,507
2020		6,160
2021		5,142
2022		4,517
Thereafter		76,730
Total minimum future lease payments	\$	<u>106,471</u>

*Bonding and Guarantees*

At December 31, 2017, the Company had \$6.6 million of corporate performance bonds and bids outstanding. SWI and SUEZ North America Inc., the parent of SWI, serve as guarantors for bonds issued on behalf of the Company. In addition, the Company has issued performance guarantees on contracts on behalf of its affiliate, SUEZ Water Environmental Services Inc., with two municipal clients. The aggregate annual revenues of those two contracts are approximately \$5.5 million.

*Legal Matters*

The Company is involved in various litigation and other disputes routine to the nature of its business. In the opinion of management, none of these matters will have a material adverse impact on the Company’s financial position or results of operations.

## SUEZ Water Resources Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands of dollars, except where noted otherwise)

#### 14. Commitments and Contingencies (continued)

##### *Purchase Commitments*

The Company has various purchase commitments for materials, supplies and other services incidental to the ordinary conduct of business. The Company is liable for these payments regardless of the level of services required from third parties. In addition, the Company has an agreement to purchase approximately \$7.6 million of electricity from several suppliers through December 31, 2019.

#### 15. Subsequent Events

The Company has evaluated subsequent events through April 6, 2018, the date of issuance of these financial statements and concluded that there were no events or transactions, except as discussed below, that require adjustment to, or disclosure in the financial statements as of and for the year ended December 31, 2017.

In January 2018, the Company issued \$130.0 million of long-term debt, which was used to redeem the existing debt of SWNJ. The NJ BPU approved this transaction and in February 2018, SWNJ removed the unamortized debt issuance cost of \$5.0 million relating to its redeemed debt from its balance sheet. The Company recorded this unamortized debt issuance cost over the life of the new long-term debt.

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**SUEZ WATER RHODE ISLAND, INC.**  
**Docket No. 4800**  
**Fifth Set of Data Requests of the**  
**Division of Public Utilities and Carriers**  
**March 12, 2018**

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**5-12**  
**(Prettyman)**

**5-12** Please state the number of consolidated SWR water utility retail customers as of December 31, 2017.

**Response:** SWR had 575,355 water utility retail customers at December 31, 2017.

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**5-13**  
**(Walker)**

**5-13** Please provide SWRI financial statements (balance sheet, income statement and cash flow statement) for 2017.

**Response:** Please see 5-13 Attachment.

Report ID: ISCOR100  
Layout ID: ISCOR100

Business Unit: 00061  
Period Ending: Dec 31, 2017

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**SUEZ Water Rhode Isla  
General Ledger System  
Corp I/S C/Mos and YI**

	<u>Actual</u>
Regulated sales	4,759,081.25
Other regulated revenues	26,655.68
Non-regulated revenues	0.00
Non-core revenues	0.00
Unbilled revenue	61,511.00
Intercompany revenues	0.00
<b>OPERATING REVENUES</b>	<b><u>4,847,247.93</u></b>
Operation, Maintenance and G&A	2,136,217.80
Depreciation and Amortization	779,597.67
General Taxes	559,486.38
<b>TOTAL OPERATING EXPENSES</b>	<b><u>3,475,301.85</u></b>
<b>NET OPERATING INCOME</b>	<b><u>1,371,946.08</u></b>
Interest expense	0.00
Amortization debt prem & exp	0.00
Intercompany interest expense	443,756.63
AFUDC	(12,294.21)
Dividend income	0.00
Preferred stock dividends	0.00
Other income	(46,934.16)
Equity earnings of affiliates	0.00
Subsidiary Income	0.00
<b>OTHER EXPENSES &amp; INCOME</b>	<b><u>384,528.26</u></b>
<b>INCOME BEFORE INCOME TAX</b>	<b><u>987,417.82</u></b>
<b>PROVISION FOR INCOME TAXES</b>	<b><u>341,384.55</u></b>
<b>NET INCOME</b>	<b><u>646,033.27</u></b>

Report ID: BSCOR100

Layout ID: BSCOR100

Business Unit: 00061

Period Ending: Dec 31, 2017

Run on 03/13/18 at 01:28 PM

**SUEZ Water Rhode Island**  
General Ledger System  
Corp BS C/M vs Same Month P/Yr

	- Current Month -	
	<u>This Year</u>	<u>Last Year</u>
<b>Assets</b>		
Utility Plant	31,522,940.66	30,394,146.50
Net Utility Plant Acquist Adj	0.00	0.00
Less Accumulated Depr & Amort	(7,940,513.72)	(7,678,611.57)
Construction Work in Progress	2,155,223.56	147,745.39
Plant Held for Future Use	50,144.23	50,144.23
<b>Net Utility Plant</b>	<b><u>25,787,794.73</u></b>	<b><u>22,913,424.55</u></b>
Investments - LT Consol Comp	0.00	0.00
Investments - LT Non-Consol Co	0.00	0.00
Equity Investments	0.00	0.00
Non-Utility Property & Equip	0.00	0.00
Depreciation Non-Utility Prop	0.00	0.00
<b>Other Properties &amp; Investments</b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>
Goodwill, net	0.00	0.00
Other Intangibles, Net	0.00	0.00
<b>Goodwill &amp; Other Intangibles</b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>
Cash	2,250.00	4,250.00
Restricted Cash	0.00	0.00
Accounts Receivable - Customer	810,525.89	810,252.96
A/R - Associated Companies	0.00	(0.00)
A/R Affiliated Companies	0.00	0.00
Notes Receivable - Short Term	0.00	0.00
Materials & Supplies Inventory	234,042.22	200,995.03
Prepaid Expenses	0.00	0.00
Other Current Assets	0.00	0.00
<b>Total Current &amp; Accrued Assets</b>	<b><u>1,046,818.11</u></b>	<b><u>1,015,497.99</u></b>
Unamortized Debt Discount/Exp	0.00	0.00
Regulatory Assets	1,748,083.94	1,205,879.00
Other Deferred Charge & Assets	0.00	0.00
Notes Receivable - Long Term	0.00	0.00
Clearing Accounts	(0.13)	(0.09)
<b>Non Current Assets</b>	<b><u>1,748,083.81</u></b>	<b><u>1,205,878.91</u></b>
<b>Total Assets</b>	<b><u>28,582,696.66</u></b>	<b><u>25,134,801.45</u></b>

Report ID: BSCOR100

Layout ID: BSCOR100

Business Unit: 00061

Period Ending: Dec 31, 2017

Run on 03/13/18 at 01:28 PM

**SUEZ Water Rhode Island**  
General Ledger System  
Corp BS C/M vs Same Month P/Yr

	<i>- Current Month -</i>	
	<u><i>This</i></u> <u><i>Year</i></u>	<u><i>Last</i></u> <u><i>Year</i></u>
<b><i>Capitalization and Liabilities</i></b>		
<b>Total Capital Stock</b>	13,393,696.25	11,669,279.87
<b>Total Retained Earnings</b>	5,740,496.48	5,094,463.21
<b>Accum Other Comprehensive Inc</b>	0.00	0.00
<b>Oth Equity Noncontrol Interest</b>	0.00	0.00
<b>Long Term Debt</b>	0.00	0.00
<b>Total Capitalization</b>	<u><b>19,134,192.73</b></u>	<u><b>16,763,743.08</b></u>
<b>Accounts Payable</b>	870,030.59	132,461.02
<b>A/P Affiliated Companies</b>	0.00	0.00
<b>Notes Payable</b>	0.00	0.00
<b>N/P Affiliated Companies</b>	0.00	0.00
<b>Current Portion of LT Debt</b>	0.00	0.00
<b>Customer Deposits</b>	0.00	0.00
<b>Accrued Taxes</b>	104,179.60	555,575.28
<b>Accrued Interest</b>	0.00	0.00
<b>Dividend Payable</b>	0.00	0.00
<b>Other Current Liabilities</b>	143,858.00	162,239.68
<b>Total Current Liabilities</b>	<u><b>1,118,068.19</b></u>	<u><b>850,275.98</b></u>
<b>Deferred Income Taxes &amp; Credit</b>	1,545,320.61	2,477,749.93
<b>Cust Advances for Construction</b>	0.00	0.00
<b>Contribution in aid of Constr</b>	3,355,575.47	3,355,575.47
<b>Pension and Benefits</b>	1,839,793.34	1,645,740.99
<b>Regulatory Liabilities</b>	1,589,746.32	41,716.00
<b>Other Long Term Liabilities</b>	0.00	0.00
<b>Deferred Income Taxes &amp; Credit</b>	<u><b>8,330,435.74</b></u>	<u><b>7,520,782.39</b></u>
<b>Total Capital &amp; Liabilities</b>	<u><b>28,582,696.66</b></u>	<u><b>25,134,801.45</b></u>

**SUEZ WATER RHODE ISLAND, INC.**  
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**5-14**  
**(Walker)**

**5-14** For each of the last five years ending 2017, please provide the SWRI (a) earnings, (b) dividend payments to parent, and (c) equity infusions received from parent.

**Response:** Please see 5-14 Attachment.

Year	Capital Infusion Amount
2013	5,919,000.00
2014	-
2015	-
2016	225,765.66
2017	1,724,416.38

Year	Earnings
2013	400,144.32
2014	663,011.89
2015	899,643.27
2016	1,066,099.36
2017	646,033.27

Year	Dividends
2013	-
2014	1,018,000.00
2015	1,483,000.00
2016	974,432.00
2017	-

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**5-16**  
**(Walker)**

**5-16** With respect to Witness Walker's Schedule 18, page 2, please provide the calculation of and/or source for the 90 percent figure for "Estimated Risk Adjustment". Please provide all data and assumptions employed in that calculation or derivation.

**Response:**

Below is the requested information. The source data for the calculation is shown on page 1 of Schedule 17.

Market Premium	6.9 %
x Beta	<u>0.74</u>
Risk Adjusted Market Premium	5.1
Size Adjustment Premium	<u>1.1</u>
Risk Adjusted Premium	6.2
÷ Market Premium	<u>6.9</u>
Estimated Risk Difference	<u><u>90%</u></u>



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**5-17**  
**(Walker)**

**5-17** With regard to Witness Walker's Table 7 in his testimony, please provide the calculation and source documents for the 8.6 percent "Projected 5 Year Growth Rate for the Industry".

**Response:** Please see Attachment 5-17.

12/29/2017

AWK: American Water Works - Detailed Estimates - Zacks.com



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- Earnings Announcements
- Key Company Metrics
- Broker Reports
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- Fundamental Charts
- Comparative
- Interactive Charts
- Price and Consensus
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations

**Financials**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**Options**

- Option Chain
- Options Greek Montage

**American Water Works (AWK)**

(Real Time Quote from BATS)

**\$91.61 USD**

-0.01 (-0.01%)

Updated Dec 29, 2017 03:58 PM ET

After-Market: **\$91.48** 0.00 (0.00%)  
4:06 PM ET

Add to portfolio

Zacks Rank:

3-Hold

Style Scores:

Value |  Growth |  Momentum |  VGM

Industry Rank:

Bottom 35%(171 out of 265)

Industry: Utility - Water Supply

[American Water Works \(AWK\) Quote Overview](#) » [Estimates](#) » [American Water Works \(AWK\) Detailed Estimates](#)

**Detailed Estimates**

Enter Symbol

**Estimates**

Next Report Date	2/20/18	Earnings ESP	0.76%
Current Quarter	0.66	Current Year	3.01
EPS Last Quarter	1.08	Next Year	3.27
Last EPS Surprise	0.00%	EPS (TTM)	2.90
ABR	2.50	P/E (F1)	30.47

**Growth Estimates**

	AWK	IND	S&P
Current Qtr (12/2017)	14.91	NA	NA
Next Qtr (03/2018)	5.77	NA	NA
Current Year (12/2017)	5.87	6.10	23.75
Next Year (12/2018)	8.61	14.80	9.51
Past 5 Years	9.50	7.10	2.80
Next 5 Years	7.50	8.60	NA
PE	30.47	32.30	893.85
PEG Ratio	4.08	3.76	NA

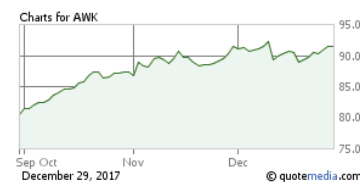
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**Research for AWK**

**Chart for AWK**



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**Premium Research for AWK**

**Zacks Rank**

▼ Hold

**Zacks Industry Rank**

Bottom 35%(171 out of 265)

**Zacks Sector Rank**

Bottom 0% (16 out of 16)

**Style Scores**

Value |  Growth |  Momentum |  VGM

Predict to see real-time community sentiment

AWK American Water ...	Tuesday	In a Week	In a Month	In 3 Months

Predicting constitutes acceptance of PredictWallStreet's terms of use.

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**5-18**  
**(Walker)**

**5-18** Witness Walker employs a 0.7 percent “Hamada” adjustment in his cost of equity studies. Please state whether he is aware of any state commission adopting his adjustment in any cost of equity determinations. Please also state whether he is aware of the Rhode Island Commission ever adopting this adjustment. If the response to either question is affirmative, please provide citations.

**Response:** An adjustment for the increased amount of leverage between market value derived cost rates and book value cost rates was utilized by the PA PUC on a number of occasions. Below is an example of the adoption of this adjustment by the ALJ and the PA PUC in the 2005 Lancaster Sewer case,

The City has proposed a market-to-book adjustment of .65%, as calculated by Mr. Walker. I acknowledge that this adjustment has been accepted by the Commission in three major base rate cases in the past 18 months. See, PPL 2004, supra; Aqua PA, supra; PAWC 2004, supra; see also, PAWC 2002, supra; Pa. P.U.C. v. Philadelphia Suburban Water Co., 219 PUR 4th 272 (2002). Moreover, the market-to-book adjustment was upheld by the Commonwealth Court in Popowsky v Pa. P.U.C., 868 A.2d 606 (Pa. Commw. 2004). Therefore, I accept a .65% market-to-book adjustment to my recommended DCF result, for a cost of equity of 10.75%, modified by a 18% tax savings adjustment, for a cost of equity of 8.82% ( $10.75\% \times .82$  tax savings = 8.815% rounded to 8.82%. (ALJ’s recommended decision, City of Lancaster – Sewer Fund, docket R-00049862, 6/23/05)

Mr. Walker does not know if the Rhode Island Commission has ever adopted this adjustment.

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**5-19**  
**(Walker)**

**5-19** Please provide any electronic spreadsheet models or files prepared by Witness Walker in connection with his direct testimony and schedules.

**Response:** Please see Attachment 5-19.