

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE**  
**90 CHURCH STREET, NEW YORK, NY 10007-2919**  
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August 3, 2009

Mr. Kevin H. Doherty  
Manager of Rates  
United Water  
200 Old Hook Road,  
Harrington Park, NJ 07640

RE: Case 07-W-0639 – United Water Owego-Nichols Inc. (UWON) – Tank  
Painting Surcharge (TPS)

Dear Mr. Doherty:

On June 9, 2009, UWON submitted the first filing related to the Tank Painting Surcharge pursuant to the terms of Section VII of the Joint Proposal (JP) approved by the Commission in Case 07-W-0639. The JP authorized UWON to implement the TPS designed to recover, over a 15-year period, the revenue requirement associated with the cost of Lockheed Martin storage tank painting and rehabilitation work.

The company's filing reflects a total cost of \$798,279 to be recovered through a 9.63% surcharge applied to all metered and fire protection customers for the period July 1, 2009 through June 1, 2010. Staff reviewed the filing including the surcharge calculation, journal entries, vendor invoices, documentation related to all the tank work bid proposals, and the contract with Utility Service Company, Inc. that performed the actual tank work.

Staff's review found that the company included UWON employees' salaries and overheads of \$39,813 and \$16,487, respectively, in the total tank project cost. In addition, Staff found that the company included for employees of United Water (UWON's Parent) \$6,589 of travel expenses. Since allowances for this type of expenses were built in base rates, Staff removed these costs, totaling \$62,889, from the actual \$798,279 project cost. As a result, the company will need to revise its surcharge calculation to reflect the above adjustments and file a revised statement reflecting a 8.87% surcharge, to become effective August 8, 2009.

Since the surcharge is based, in part, on the following two company tax assumptions: (1) the tank painting costs can not be taken as a current tax deduction but must be depreciated over a 25 year tax life; and, (2) the tank painting costs do not qualify for bonus tax depreciation, the company will need to provide the Secretary of the Commission with the actual tax return information within 30 days of filing its income tax returns covering the tank project costs. To the extent either assumption was incorrect, the company will true-up the actual surcharged amounts to correctly reflect the actual tax consequences in its subsequent filing.

If you have any questions, please contact me at 212-417-3141.

Sincerely,

James Evensen  
Chief, Water Rates Section  
Office of Electric, Gas and Water

cc: M. Gennari, United Water  
M. Scott, Deputy Director, Office of Electric, Gas and Water  
J. Lochner, Chief, Office of Accounting and Finance  
V. Oreifej, Utility Engineer II