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June 10, 2008

Mr. James T.B. Tripp, Chair
New York City Water Board
59-17 Junction Blvd., 8th Floor
Flushing, New York 11373-5106

Dear Chairperson Tripp:

United Water New Rochelle Inc. (UWNR) and United Water Westchester Inc. (UWWC) would like to take this opportunity to comment on the proposed increase in the rate charged to upstate customers of the New York City Water Board (NYCWB) for the 2009 rate year. Although both UWNR and UWWC have experienced rate increases for several years, the increase proposed for this coming year of 12.7% following 15.4% and 12% increases the previous two years, is excessive and will be difficult to justify to our customers and to the New York State Public Service Commission. In the short time between the receipt of the cost study and the public hearing, UWNR has identified the following items that should be addressed before the Board formally adopts the rate increase. There may be other issues that would be discovered through a more detailed review.

1) Consumption:

UWNR and UWWC have concerns about the methodology used to project system wide usage. While consumption normally fluctuates due to external drivers such as weather, UWNR and UWWC agree that conservation methods and devices implemented through the 1990's have impacted base usage. However, this decline cannot continue forever and as evidenced by the most recent years; the rate of decline is slowing. The simple regression analysis used in the May, 2008 Report for setting this increase does not take this saturation level into consideration. While upstate usage declined 609 mg during 2007, overall system wide consumption increased by 3,076 mg.

2) Inconsistency in methodology used for projections:

Analysis provided in the Cost of Service Report for the 2009 Rate Year uses different methodologies for future projections. While some differences in methods are warranted, the inconsistencies in the historical period and methods used for the projections of consumption and miscellaneous revenues raises questions.

While UWNR and UWWC find the majority of assumptions used for the future projections are standard and reasonable, the methods chosen for consumption and miscellaneous revenues benefit the NYCWB by continuing a decline in consumption that is reaching or has reached a saturation level and decreasing the amount of Miscellaneous Revenues deducted from the calculation of the costs passed on to the upstate customers.

Cost of Service projections for the total annual consumption and the upstate consumption used a regression model based on a 10 year period for FY 2008 and an 11 year period for FY 2009 (1998

Mr. James T.B. Tripp, Chair
June 10, 2008
Page 2

forward). This method of trending is standard but the timeframe selected incorporates years showing a decline that is not seen in the more recent years. Water usage has declined due to conservation measures and the incorporating of low-flow appliances but it comes to a point where that decline levels off. The total annual consumption levels since 2001 as provided in the report show that level has been reached.

On the other hand, a 14 year average has been used to project the rents/permits portion of the miscellaneous revenues. While the report recognizes the increases in Hydro, the 14 year average does not adequately reflect the higher revenues in the most recent years nor does an average methodology capture the trend that a regression analysis does especially since, as stated on page 41, no potential tax refunds are included in the projections.

The use of a 10 year regression analysis for both the consumption and miscellaneous revenues results in a unit rate similar to the NYCWB result but the consumption graph shows a decline not substantiated by the previous years whereas the five year regression model remains level and consistent with the most recent historical pattern. Using the same method for the miscellaneous revenues also more fairly represents the substantially higher revenues seen since 2004. UWNR and UWWC believe that a five year regression analysis more accurately depicts future projections on which to base the unit rate charged to upstate customers.

UWNR and UWWC thank the Board for the opportunity to comment on its proposed increase prior to the Board's adoption of these rates and urges the Board to carefully consider the impact of the proposed rates on the upstate suppliers and their customers. If you or other members of the Board wish to discuss any items of this letter, please contact me at (845) 620-3312.

Very truly yours,



Michael J. Pointing
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United Water Westchester Inc.

cc: Bruce Alch, NYSPSC
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