

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

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February 26, 2009

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

Re: Case 04-W-1221 - United Water New Rochelle – Delaware Interconnection Project  
Surcharge

Dear Mr. Doherty:

In Case 04-W-1221, the Commission authorized a multi-year settlement agreement, which provided that a surcharge may be initiated to recover the pre-tax return on construction costs related to the Delaware Interconnection Project (DIP). The DIP surcharge is to be modified semi-annually to reflect the construction costs and allowance for funds used during construction (AFUDC) for the preceding six-month period.

The company provided documentation, in a letter dated January 14, 2009, to support additional project expenditures of approximately \$7.349 million incurred between May 1 and November 30, 2008 and calculated that the resulting DIP surcharge should be increased from 13.96% to 15.52%.

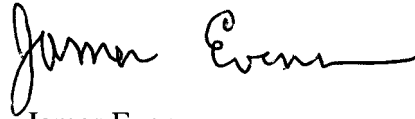
Staff reviewed the company's submission including CWIP project detail reports, vendor invoices, the method for calculating the surcharge amount and the annual DIP surcharge reconciliation for the third rate year. Staff found that the company's updated surcharge of 15.52% is appropriate. The company should file a DIP surcharge statement to reflect the surcharge of 15.52% to become effective March 1, 2009.

Staff from the Department's Office of Accounting & Finance is currently reviewing the accruals for AFUDC related to this project. In the previous surcharge, a placeholder of \$2 million was used to reduce AFUDC. The company agreed to factor the \$2 million estimate of overstated AFUDC in its DIP surcharge computation, and has continued to use the \$2 million placeholder in the current submission.

The DIP surcharge is subject to an annual audit and reconciliation, which should be filed with the Commission within 60 days of the end of each rate year. The DIP surcharge is also subject to any modifications that may result from the ongoing proceeding (Case 06-W-1016) to examine the size, cost, and financing of the DIP.

If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "James Evensen". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "Evensen".

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

cc: M. Gennari, United Water  
M. Pointing, United Water