

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350

Internet Address: <http://www.dps.state.ny.us>

PUBLIC SERVICE COMMISSION

PATRICIA L. ACAMPORA

Chairwoman

MAUREEN F. HARRIS

ROBERT E. CURRY JR.

CHERYL A. BULEY



PETER McGOWAN

Acting General Counsel

JACLYN A. BRILLING

Secretary

January 24, 2007

Caryl D. Jersey
Rate Analyst
United Water
200 Old Hook Road
Harrington Park, NJ 07640

SUBJECT: United Water New Rochelle (UWNR) – Revenue and Property Tax Reconciliation for the rate year ended August 31, 2006, Case 04-W-1221.

Dear Ms. Jersey:

In the Rate Order establishing a multi-year settlement agreement, issued in Case 04-W-1221, the Commission allowed UWNR to reconcile differences between targeted levels and the actual metered revenues, property taxes, and costs associated with the purchase of water, power, and chemicals. According to the Rate Order, the revenue reconciliation adjustment clause calculation, used as a mechanism to either recover or refund differences in the areas mentioned above, should be submitted annually to the Commission by the company, and is subject to Staff verification.

On November 27, 2006, the company submitted the results of its annual revenue and property tax reconciliation for the first rate year ended August 31, 2006, showing a revenue under-collection of \$572,148 and a \$259,709 property tax over-collection. Based on the company's filing, one third of the revenue under-collection is \$190,716, offset by a \$259,709 property tax over-collection would result in a total over-collection of \$68,993, plus the accumulated interest that should be refunded to all metered customers.

Staff has reviewed the actual monthly consumption and associated revenues, the production and associated expenses including copies of the water bills from the New York City

Water Board and Westchester Joint Water Works, and the method used to calculate the production cost. During our review Staff found that the company inadvertently omitted the accrued sales for unbilled revenues in the calculation of its cost of production. Taking this into account reduces the revenue under-collection of \$572,148 filed by the company to \$508,198. Adding the accrued interest of \$48,596, to the \$508,198, Staff calculated the total revenue under-collection of \$556,794, to be recovered from the customers over a three-year period.

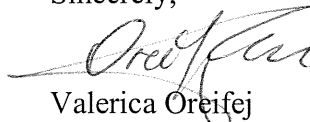
Regarding the property tax reconciliation, Staff's allocation of property tax expense to the rate year included the months of July and August 2006 instead of July and August 2005, as used by the company (July and August 2005 are not within the reconciliation period established in the Rate Order). Because of this change, the actual property tax over-collection was reduced to \$215,324 from \$259,709, as filed by the company.

In summary, one third of the revenue under-collection of \$556,794 equal to \$185,598, added to the property tax over-collection of \$215,324 plus the accrued interest of \$8,387, for a net of \$38,113 over-collection, should be refunded to all metered customers starting with the February 1, 2007, billing cycle and continue through August 31, 2007. The net credit should be refunded to all metered customers as a percentage of all their bills based on the company's total metered sales revenues, and should be applied in a compressed basis to fall within above noted time frame, at a monthly rate of 0.26%.

Finally, the company should file a revised revenue, production cost and property tax reconciliation and adjustment clause statement containing the correct pricing amount of \$734.68 per MG as established in the Rate Order as a place-holder for purchases from the New York City Water Board, instead of \$708.10 per MG as filed by the company, and the associated surcredit to be refunded to all metered customers.

If you have any questions, you could call me at (518) 486-2641.

Sincerely,



Valerica Oreifej
Utility Engineer II
Water Rates Section
Office of Gas and Water

cc: Arthur Gordon, Chief, Water Rates Section
Basil Bailey