

FISHERS ISLAND WATER WORKS
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July 28, 2014

New York State Public Service Commission
Attn: The Honorable Kathleen Burgess
Three Empire State Plaza
Albany, NY 12223-1350

Dear Honorable Ms. Burgess:

Attached you will find our application for a rate increase. This application is somewhat unique for three reasons:

1. The application reflects a correction in the over statement of water sold in the 2006 rate case resulting in revenue short fall for the company.
2. The percentage increase requested.
3. The two classes of service, with one bearing a greater proportion of the increase.

Accordingly, we believe a bit of background is appropriate.

INTRODUCTION:

This rate application is being submitted to the New York State Public Service Commission by the FISHERS ISLAND WATER WORKS CORPORATION (hereinafter, "FIWWC"). The FIWWC is a privately owned public utility and is the sole entity providing water service on Fishers Island, New York, a small island community that is part of the Town of Southold, NY, Suffolk County, NY. See "Market Description" below.

CORPORATE STRUCTURE:

The FISHERS ISLAND WATER WORKS CORPORATION (hereinafter, "FIWWC") is a New York corporation incorporated on April 18, 1942. FIWWC is owned 40% by the FISHERS ISLAND UTILITY COMPANY (hereinafter, "FIUC"), an independent New York corporation owned by private individual shareholders, and 60% by the FISHERS ISLAND DEVELOPMENT COMPANY, INC. (hereinafter, "FIDCO"), an independent New York corporation owned by private individual shareholders). There is very little overlap in shareholders.

By agreement with FIDCO, FIUC, as the minority shareholder in FIWWC, has three (3) seats on the five (5) members FIWWC Board of Directors, and FIDCO has two (2) seats on the five (5) members FIEC Board of Directors. FIDCO does not participate in the overall direction, long term planning or overall or day to day management of FIWWC.

FIUC is a management company that owns significant interests in and manages three NYS PSC regulated operating companies (Fishers Island Electric

Corporation, Fishers Island Telephone Corporation and Fishers Island Water Works Corporation (hereinafter referred to as "FIEC," "FITC" and "FIWWC"). FIUC has representation on the Boards of Directors of the three regulated operating companies that forms an operating majority of representatives on the Boards of Directors of each of the three regulated operating companies.

FIDCO is an independent, unrelated corporation (to FIUC) that also has significant ownership interests in the same three NYS PSC regulated operating companies and minority representation on the Boards of Directors of each of the same three NYS PSC regulated operating companies.

FIDCO is not a subsidiary of FIUC and FIDCO owns no shares of FIUC. FIUC owns no shares of FIDCO and is otherwise not related to FIDCO. Among the individual shareholders of each of FIUC and FIDCO there is only very minor cross-over. The actual ownership and Board representation of the three NYS PSC regulated operating companies is as follows:

FISHERS ISLAND ELECTRIC CORPORATION:

Stock Ownership:

FIUC - 50.99%

FIDCO - 49.01%

Board of Directors:

FIUC - three (3) Directors

FIDCO - two (2) Directors

FISHERS ISLAND TELEPHONE CORPORATION:

Stock Ownership:

FIUC - 51.05%

FIDCO - 48.95%

Board of Directors:

FIUC - three (3) Directors

FIDCO - two (2) Directors

FISHERS ISLAND WATER WORKS CORPORATION:

Stock Ownership:

FIDCO - 60.00%

FIUC - 40.00%

Board of Directors:

FIUC - three (3) Directors

FIDCO - two (2) Directors

FIDCO is shareholder but has no say in the day to day operations or long term planning of FIWWC.

It should be pointed out that FIDCO has an arm's length, negotiated services agreement with Fishers Island Utility Company, as detailed in (Appendix A).

It should be further noted that Fishers Island Utility Company is actively seeking new business on Fishers Island to insure its ability to sustain its year round work force.

The Directors of the regulated operating companies (FIWWC, FITC, and FIEC) and the holding company (FIUC) have never received compensation.

The three operating utility companies on the Island (FIWWC, FITC, and FIEC) have made it a policy to structure rates that put a disproportionate larger share of rates on the seasonal residents, favoring the full-time, year-around residents with lower rates. Our seasonal customers in the community understand the situation here, and are supportive of this allocation structure. In addition, the Fishers Island Ferry District, a New York State chartered tax district, has a rate structure that does the same.

ALLOCATION OF OPERATING COSTS:

FIUC allocates its operating costs among its three regulated operating companies, FIEC, FITC and FIWWC, and the services provided under contract to FIDCO, on the basis of carefully calculated formulas which take into account usage of office and real estate space, estimated/actual time spent by company personnel, payroll records, plant in service, operating revenues and direct expenses. These expenses have been grouped into three categories, Management Salaries, Office Salaries and Rent/Administrative Expenses. In order to fairly allocate the costs amongst the three regulated operating companies and FIDCO, the same methodology must be used. Therefore, even though FIDCO has no affiliation with FIUC, its statistics must be combined with the regulated companies in order to achieve the most accurate (and fairest) allocation of operating expenses.

The method of allocation of these costs was revised in 2011 and was not previously updated since 2009. However, going forward, the amounts being allocated and to which of the operating companies (or FIDCO) the amounts are allocated shall be updated annually effective December 31, 2012. A Company Organization chart has been provided. (Appendix B). A Cost Allocation Manual has been provided (Appendix C) detailing the allocation percentage relationship between the companies.

MARKET DESCRIPTION:

Fishers Island is legally a part of New York State, located in Long Island Sound. It is nine miles long, 1.5 miles wide, and 3 miles from the Connecticut shore, opposite New London, Mystic and Stonington. It has no local government, but is part of the Town of Southold in Suffolk County, New York. There is a year round population of 265, and a peak summer population of approximately 3,000. The infrastructure used on a daily basis by 265 must also support a "peak load" for two months of 3,000. The year round population supports the school, the volunteer fire department, the ambulance (including an ambulance boat) and EMT's, health services and many other critical functions for the Island, not to mention most of the services to the seasonal community.

Like most isolated, seasonal communities, and especially island communities, the year round population has been declining steadily. Island living is inconvenient and expensive. Fishers Island is fortunate in that it has a wealthy seasonal population that, over the years, has been willing, and proactive, in supporting many community undertakings with private, charitable donations. Over the past ten years, the issue of the declining resident population has been a focus of the efforts and has led, among other things, to two significant initiatives for affordable housing for residents.

SYSTEM DESCRIPTION:

FIWWC provides water service to approximately 650 metered residential customers, of whom 168 are year-round customers served under Service Classification No. 1 (SC 1) and 482 are seasonal customers (June through September) served under Service Classification No. 2 (SC 2). The company also provides public fire protection service under Service Classification No. 3 (SC 3) to the local fire district through 148 hydrants.

The water system is located on Fishers Island, in Long Island Sound, in the Town of Southold, Suffolk County, New York. Two wells and three ponds comprise the company's source of supply. The primary sources are the two wells, one constructed in 1989 and the other in 1995, which are located in the Middle Farms area of the Island. The well supply is augmented by surface water from Barlow Pond and supplemented during the summer and dry weather periods from Middle Farms and Treasure Ponds. The water is treated with soda ash for Ph control and liquid hypochlorite solution for disinfection prior to pumping into the distribution system. FIWWC has an emergency power generator for backup in case of a power failure.

RATE INCREASE REQUEST:

In 2012 the Fishers Island Water Works board in an effort to identify revenue short falls root cause and help with a rate case application brought in new management. During a rate audit performed in late 2013 and into early 2014 by the accounting firm of Ed Lorah and Associates LLC in conjunction with new management a miscalculation believed to be the revenue short fall root cause was unearthed.

The root cause is believed to stem from the overestimation of revenue expected to be generated from overage charges or charges above the minimum usage change detailed in Fishers Island Water Works Tariff Leaf 15 and 16. In order to detail the imbalance of the current rate structure Ed Lorah and Associates LLC constructed a matrix of accrual rate payer usage data. This data clearly shows the overage numbers billed are and always will be inadequate. The imbalance between minimum charges and the overage charges must be weighed more heavily toward minimums if FIWW is to ever reach its revenue requirements. The majority of our rate payer currently have a minimum charge of 3000 gallons a month or 36,000 gallons a year. The current system is too dependent on a longstanding miscalculation made during the 2006 rate application (Case 06-w-0446) by our then accounting firm of Doherty, Beals & Banks, PC. This miscalculation continues to cause a hardship to the company in the form of a reduction in rates and a 7 year review shortfall. We assert that the company must increase minimums across the board to 5,000 or 60,000 gallon annually in order to meet review requirements. In our opinion the minimum increase is essential to put the system back in balance. The minimum increase proposed has been proven using the customer usage data matrix. It shows that FIWW can be successful in attaining our revenue projections from an increased reliance on the revenue collected from minimums and less on the amount collected from overage charges. It is also essential in spreading an equal share of the cost needed to run the company to seasonal residents while avoiding putting undue burden on the limited year round population. It has been calculated in order to reach the revenue estimates made in 2006 (Case 06-w-0446) Fishers Island Water Works Corporation would have needed to sell at least the 58 million gallons as projected by the former accountants. However, the 58 million gallon number has proved to be unattainable as

reflected in the revenue from the last 7 years. Fishers Island Water Works Corporation correct average annual billed gallons is approximately 52.6 million and the average gallons used is only in the 38 - 39 million gallon range. Six additional spreadsheets have been prepared for additional backup and are outlined below.

2013 REVEUNE

The spreadsheet is a re-creation of the 2013 billing summary. It shows the actual gallons used as well as the minimum and overage gallons billed. The spreadsheet is sorted by meter type so the year round residence are on the top half of the spreadsheet and the seasonal customers are down below. The spreadsheet is then separated into three columns showing the current rates and revenues produced, the proposed rates without a minimum charge change, and the final column is with both a rate change and an increase in the minimum usage charge by 2,000 gallons across the board. The proposed rates are what the rates should have been in 2006 to produce the revenue requirement requested at that time.

2012 REVENUE

The spreadsheet is a recreation of the 2012 billing summary. It shows the actual gallons used as well as the minimum and overage gallons billed. The spreadsheet is sorted by meter type so the year round residence are on the top half of the spreadsheet and the seasonal customers are down below. The spreadsheet is then separated into three columns showing the current rates and revenues produced, the proposed rates without a minimum charge change, and the final column is with both a rate change and an increase in the minimum usage charge by 2,000 gallons across the board. The proposed rates are what the rates should have been in order to meet the revenue requirements of the last rate case. We used 2012 numbers as they were closest to the 6 year average revenue.

2013 PLANT IN SERVICE

The plant in service and cash working capital allowance are the components which are used to determine the rate base for Fishers Island Water Works. Even though we are using 2013 as our base year, we have shown average and comparative numbers for review.

2013 REVENUE REQUIREMENT

The return on the rate base plus the operating income/deficiency are used to determine the revenue requirement. The operating income/deficiency is determined by adjusting the base year, 2013, for any known changes in expenses necessary to operate the Water Company. We have also accounted for federal and state income taxes.

6 YEAR SUMMARY, BASE YEAR &

The base year is 2013 and any adjustments for know expenses are added or subtracted from that year to produce the operating income/deficiency used in the revenue requirement. A six year average of the operating numbers is for comparative purposes. However, it does show that we have not collected the revenue which was projected in the last rate case based on sales of 58 million gallons of water.

CURRENT & PROPOSED RATES

The current and proposed rates are what was approved from the last rate case and the amounts we propose for the current revenue requirement. We have proposed an increase in both the rate and the monthly minimum charge, an additional 2000 gallons per classification. We have proposed this structure so the majority of our revenue, 71.79 %, will be from the minimums rather than relying on the overage charges to meet the required revenue in order to correct FIWW review shortfall we purpose a change to both the minimum usage charge and the rate structure as described below.

As shown below, the new rates are structured to increase year round and seasonal residents:

	Current rates	Proposed rates	Percentage increase	Number of Customers
Class 1 (year round)	\$ 7.70	\$ 9.62	25%	168
Class 2 (seasonal)	\$ 9.89	\$ 12.37	25%	482
Hydrants	\$ 253.05	\$ 303.66	20%	148
ConnectIDisconnect	\$ 104.50	\$ 125.40	20%	261

FISHERS ISLAND WATER WORKS CORPORATION						
Comparison of company's current and proposed rates and Commission's authorized rates by service class						
average annual bill at company's current and proposed rates and Commission's authorized rates						
Rates applied to water consumed above minimum allowance						
RATE 1						
			COMPANY		COMMISSION	
			CURRENT	PROPOSED	AUTHORIZED	
			RATES			
SC 1 rates/1000 gallons			7.7	9.62		
SC 2 rates/1000 gallons			9.89	12.37		
COMPARISON OF THE AVERAGE ANNUAL BILL						
			CURRENT	PROPOSED	AUTHORIZED	
			RATES			
SC 1 - average annual bill			396.31	659.60		
SC 2 - average annual bill			883.95	1264.79		
MINIMUM CHARGE PER MONTH PER METER						
SERVICE CLASSIFICATION NO. 1 (YEAR-ROUND CUSTOMERS)						
CODE	METER SIZE	# OF METERS	WATER		PROPOSED	AUTHORIZED
			ALLOWANCE	CURRENT		
			GALLONS	RATES	RATES	RATES
11	5/8"	158	5,000	23.10	48.1	
12	3/4"	21	6,000	30.80	57.72	
13	1"	10	9,000	53.90	86.58	
14	1 1/4"	0	12,000	77.00	115.44	
15	1 1/2"	4	15,000	100.10	144.3	
16	2"	1	23,000	161.70	221.26	
	3"		42,000	308.00	404.04	
	4"		68,000	508.20	654.16	
	6"		132,000	1,001.00	1269.84	
MINIMUM CHARGE PER MONTH PER METER						
SERVICE CLASSIFICATION NO. 1 (SEASONAL CUSTOMERS)						
RATE 2						
CODE	METER SIZE	# OF METERS	WATER		PROPOSED	AUTHORIZED
			ALLOWANCE	CURRENT		
			GALLONS	RATES	RATES	RATES
21	5/8"	359	5,000	29.52	61.85	
22	3/4"	59	6,000	39.36	74.22	
23	1"	81	9,000	69.24	111.33	
24	1 1/4"	2	12,000	98.91	148.44	
25	1 1/2"	4	15,000	128.58	185.55	
26	2"	6	23,000	207.71	284.51	
	3"		42,000	395.63	519.54	
	4"		68,000	652.80	841.16	
	6"		132,000	1,285.81	1632.84	
SC 3 - HYDRANT		148		253.10	303.66	
RENTAL FEE						
			COMPANY		COMMISSION	
			CURRENT	PROPOSED	AUTHORIZED	
			RATES			
CONNECT/DISCONNECT FEE PER YEAR		261		104.50	125.4	

Although both year round and seasonal residents will experience rate increases, the current rate structure would stay in place weighting more heavily toward the seasonal residents. This is justifiable due to the cost of providing water service under maximum demand conditions than under average demand conditions.

We are requesting a 25% rate increase to produce additional annual revenues of \$264,166. The increase will result in an annual revenue requirement of \$853,177. This increase provides an average annual bill of \$659.60 for year round residents and an average annual bill of \$1264.79 for seasonal customers. The company's last increase of \$85,970 or 16.5 was effective JANUARY 1, 2007 (Case 06-W-0446).

As noted above, Fishers Island is an unusual place. However, the two classes of rates are designed to protect and promote the long term interests of the community, and are supported by our rate payers. Our goal is to increase the year round population, while making it more affordable to live on Island. Enclosed please find all of the information you have requested from our company, including revenue requirements, details of operating expenses, tax returns and financial statements.