

P.S.C. NO. 1 - WATER
COMPANY: **STERLING HOMES, LLC**
INITIAL EFFECTIVE DATE: 4/01/06

STATEMENT TYPE: ROR
STATEMENT NO.: 1

Issued in compliance with Order dated March 30, 2006 in Case 05-W-0053.

RATE OF RETURN INCENTIVE STATEMENT

The water company will demonstrate annually that it is properly managing and operating its system by submitting documentation by January 30 of each year that the company has not experienced any of the following criteria:

1. Being under a "boil water" notice for 30 or more consecutive days.
2. Failure to meet state disinfection requirements for 5 or more days in any one month or have a waiver from the disinfection requirements.
3. Failure to provide water service to all of its customers for 2 or more consecutive days, except for power failures.
4. Being listed by the New York State Department of Health as a "Significant Non-Complier".
5. Failure to adhere to the provisions in the company's tariff schedule pertaining to escrow accounts.
6. Failure to have a licensed operator for 10 or more days per year.
7. Failure to adhere to the provisions in the company's tariff schedule pertaining to adequate levels of pressure.
8. Failure to maintain separate and distinct water company records that can be readily audited.
9. Failure to pay electric utility charges resulting in arrears and threatened termination of service by the electric company.
10. Any violation that requires the Public Service Commission or any local or state Department of Health or Boards of Health to initiate a proceeding or issue a formal order relating to either service or operational problems.

Staff will complete its review within 30 days of the company's submission. If Staff believes that the company has experienced one or more of the above criteria, it may recommend to the Commission that the company be found to be not in compliance with properly managing and operating its system. If the Commission determines that the company is not in compliance, the company will be required to deposit in the Repairs and Plant Replacement Escrow Account one-half of its return for a year following the year of non-compliance. Deposits will be made quarterly. This formal review process will be discontinued after the year ended December 31, 2008, providing the company has shown that it has properly managed and operated its system by not experiencing any of the above criteria.

Issued By: Solomon Rokowsky, Member, 235 N. Main Street, Suite 17, Spring Valley, NY 10509
(Name of Officer, Title, and Address)