

STATE OF NEW YORK

# Public Service Commission

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## **NEW RATES SET FOR UNITED WATER NEW ROCHELLE -- High Water Costs Drive Rates Up; Report on Fire Hydrants Required --**

Albany, NY – 10/14/10 – The New York State Public Service Commission (Commission) today authorized increases in United Water New Rochelle’s rates for water service to meet federal and state water quality requirements and cover increased costs of water supply. The rate plan covers the period November 1, 2010 through October 31, 2014.

The Commission today adopted the terms of a Joint Proposal containing a four-year rate plan that spreads through 2014, the recovery of costs for ensuring a reliable supply of clean water, instead of recovery of these costs in just a single year. The impact of this action provides for a 10.15 percent annual total revenue increase each year of approximately \$3.6 million in rate year one; \$4.1 million in rate year two; \$4.6 million in rate year three; and \$5.1 million in rate year four.

In its November 2009 initial filing, United Water New Rochelle proposed a one-year rate case seeking an increase in its annual revenues for water service of approximately \$20.9 million or 55 percent for the rate year ending October 31, 2011. Existing customer surcharges for infrastructure replacement and new plant, and increased costs for water supply would be rolled into base rates adding \$9.2 million to the company’s proposed base rate increase, bringing the total to \$30.1 million or 115 percent.

The estimated bill impact of these increases on the current \$756 annual bill of an average residential customer would be as follows: In rate year one, the customer would see a 3 percent

increase to \$778; in rate year two, a 10 percent increase to \$857; in rate year three, a 9 percent increase to \$933; and in rate year four, a 9 percent increase to \$1,017.

There are two major drivers of the rate increase. Prior to 2009, United Water New Rochelle obtained all its water from the New York City water system through three aqueducts; 90 percent from the Catskill Aqueduct and 10 percent from the Delaware and Croton Aqueducts. When the New York State Department of Health determined that under the U.S. Environmental Protection Agency's Surface Water Treatment Rule the Croton Reservoir system required filtration, United Water New Rochelle began construction of the Delaware Interconnection Project (DIP) to access an alternative source.

The DIP provides a larger interconnection at Yonkers to the Delaware Aqueduct so that United Water New Rochelle now has redundancy in water source supplies and meets federal and state water quality requirements. This substantial addition of plant and its inclusion in rate base contributed significantly to the company's need for additional revenue. In addition, an increase of approximately 25 percent in the cost of water purchased from New York City—United Water New Rochelle's sole source of water supply—drive up rates.

The Joint Proposal moderated the increase in rates by supporting water conservation through the elimination of declining block rates. This rate design change results in steeper bill increases for larger-than-average users, while reducing bill impacts on average users. United Water New Rochelle has approximately 31,000 customers.

The return on equity for the company was set at 10 percent with an earnings sharing mechanism under which United Water New Rochelle would be able to retain all earnings up to 11 percent. Earnings between 11 percent and 11.5 percent would be shared equally between the company and ratepayers. For earnings over 11.5 percent, ratepayers would receive 75 percent, and shareholders would receive 25 percent.

Municipal officials and the public raised concerns related to the recovery and allocation of public fire protection costs by United Water New Rochelle and proposed to require tax-exempt

institutions pay for public fire protection costs commensurate with the fire protection benefits they receive. The Commission noted that water rates of all the large water systems under its jurisdiction are allocated the same way as United Water New Rochelle's, and that a water rate proceeding may not be the appropriate venue to change the State's broader policy to protect religious, educational or charitable institutions from incursions into their tax-exempt status.

In its decision today, the Commission retained the current method for recovery and allocation of public fire protection costs by water companies under its jurisdiction. In response to municipal concerns that the company's fire protection service may be inadequate, the Commission is requiring United Water New Rochelle to prepare a status report of hydrant maintenance efforts by March 31, 2011.

A copy of the Commission's written decision, when issued, may be obtained by going to the Documents Search section of the Commission's Web site at [www.dps.state.ny.us](http://www.dps.state.ny.us) and entering Case 09-W-0824 in the input box labeled "Search for Case/Matter Number." Many libraries offer free Internet access. A copy of the Commission's decision can also be obtained from the Files Office, 14<sup>th</sup> floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).