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John B. Rhodes, Chair

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**PSC Orders Legal Action Against Long Island Water Company
— NY American Water Faces Lawsuit for Withholding Information in Rate Case —**

ALBANY — The New York State Public Service Commission (Commission) today directed that a special proceeding, or action in the New York State Supreme Court, be commenced as soon as possible to stop and prevent future violations by New York American Water, Inc. of Commission regulations and orders after a Commission-initiated investigation revealed that company employees intentionally withheld information from the Commission that caused customer water rates to be set artificially high.

“Regulated utilities in New York are expected to conduct themselves with honesty and integrity,” **said Commission Chair John B. Rhodes.** “However, our staff’s investigation into New York American Water’s property tax errors revealed that this most basic standard was not met. Staff’s review found that employees had intentionally withheld material facts from the Commission during last year’s rate proceeding that would have resulted in substantially lower water rates for customers in the Sea Cliff area, which is clearly unacceptable.”

New York American has already reduced its rates to account for the error and staff has recommend a further reduction to make customers whole. The company has also implemented changes designed to address its shortcomings and prevent future mistakes. Now, with the investigation into the cause of errors complete, the Commission is identifying further enforcement actions, including whether an independent monitor will be hired and whether costs associated with the company’s failures should be paid for by shareholders rather than ratepayers.

In December 2017, the Department announced it was investigating New York American Water after the company came forward and admitted it failed to disclose that it had made errors in its property tax filings, resulting in inflated property tax expenses in its Sea Cliff service area. The company acknowledged that the incorrect tax filings were its own fault, and committed to hold customers harmless. American Water has about 124,000 customers systemwide, including about 120,000 on Long Island

The investigation uncovered serious failings and a lack of effective communication in three of the company’s departments: utility plant accounting; the tax department; and the rates and regulatory team. According to the investigation report, the original error by the utility plant accounting department could have potentially been avoided with better written procedures, and controls to verify that the data is transferred properly. The information related to these acquired assets are critically important to the utilities’ records and government filings, and should be afforded proper care.

After an earlier investigation of New York American Water's property tax calculations affecting Sea Cliff customers, Department of Public Service staff found that the company's erroneous tax calculations have caused an overpayment over the past four years of \$2.3 million, of which approximately \$281,000 was over-collected from customers and will be refunded.

Staff recommended the overpayment be given to customers as a credit on future bills, which, after accounting for rate changes already implemented to protect customers, equals \$65.50 per average customer. This recommendation was issued for public comment on May 4, and is expected to be acted on by the Commission on August 9.

Based on the corrected property tax levels and targets, customers will see a \$2.4 million reduction in future forecasted rates related to property taxes, in addition to the \$2.3 million retrospective correction. Staff notes that the actual property taxes in future rate years will vary from the revised targets, and ultimately be trued-up through the rate process.

Under Public Service Law, the Commission has the authority to set just and reasonable water rates. Further, the Commission may direct counsel to the Commission to commence enforcement proceedings in New York State Supreme Court.

Today's decision may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Number 16-W-0259 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission documents may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.