

STATE OF NEW YORK

Public Service Commission

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PSC Approves Three-Year Rate Plan for Long Island Water -Revenue Increases Mitigated by Revenue and Property Tax Adjustments -

Albany, NY—02/13/08—The New York State Public Service Commission (Commission) today established a rate plan to produce three annual revenue increases of 5.7 percent for metered services of Long Island Water Corporation (Long Island Water) effective April 1, 2008, 2009, and 2010. These increases reflect the use of \$4.3 million in revenue and property tax credits to mitigate rates.

“Long Island Water has experienced relative rate stability over the last decade, while also maintaining a low customer complaint rate,” said Commission Chairman Garry Brown. “Customer satisfaction levels reflect that, at the same time, the company has been making substantial investments in plant improvements to maintain service quality. Under the terms of the rate plan the Commission approved today, we would anticipate the company carrying forward its pattern of reasonable rates, investment in plant, and a high level of customer satisfaction.”

The company in its May 1, 2007 filing requested a one-year, \$9.6 million (22.7 percent) increase in revenues due to capital costs and depreciation related to plant investment; increased costs of service provided to Long Island Water by its parent American Water Service Company; lower sales revenue; and increases in payroll and related expenses. Additionally, Long Island Water sought to increase its Distribution System Improvement Charge (DSIC) for renewal or replacement of small distribution mains, and establish a System Improvement Charge (SIC) for large capital projects.

An evidentiary hearing for interested parties was held on October 30, 2007, and two public statement hearings were held on November 14, 2007. Long Island Water, the Association of Fire Districts of Nassau County and Department of Public Service Staff filed a Joint Proposal for a three-year rate plan on December 21, 2007, with minor revisions filed January 7, 2008, for consideration by the Commission.

The Commission today determined that the terms of the Joint Proposal satisfy the Public Service Law's requirement of safe and adequate service at just and reasonable rates. Instead of the one-year rate increase requested by Long Island Water, the plan approved by the Commission provides for a three-year rate plan with an overall annual revenue increase of 5.7 percent for metered service in each of the three rate years. The overall annual revenue increases include projected DISC and SIC surcharges, and have been mitigated by the amortization of \$4.3 million in revenue and property tax credits.

Public and private fire protection services would be exempt from the DSIC and SIC surcharges for the duration of the rate plan, but their rates would not be mitigated by revenue and property tax credits. As a result, they would experience the three annual base rate increases of 11.0 percent, 2.1 percent and 2.2 percent rather than the annual 5.7 percent increase projected for metered services.

The base rates reflect an allowed equity return of 9.5 percent, as compared with the 11 percent sought in the company's initial filing. Over the three years of the rate plan considered in the aggregate, all earnings attributable to an earned return on equity at or below 10.5 percent would be retained by shareholders. Earnings in the range exceeding 10.5 percent but not exceeding 11.0 percent would be shared equally between customers and shareholders. Earnings exceeding 11.0 percent would be shared 75 percent by customers and 25 percent by shareholders.

It is anticipated that most customers' billing schedules would change to monthly instead of quarterly, and the revenue calculation for purposes of the RPT reconciliation would include adjustments for the timing effects of this transition. Long Island Water is expected to undertake an outreach and education program, subject to review by Department of Public Service Staff, regarding monthly billing.

Long Island Water serves approximately 74,000 customers in the Town of Hempstead, Nassau County.

The Commission will issue a written order reflecting adopting the three-year rate plan. That order, when available, may be obtained from the Commission's Web site at www.dps.state.ny.us by accessing the Commission File Room section of the homepage and referencing Cases 07-W-0508 and 05-W-0339. Many libraries offer free Internet access. Commission orders may also be obtained from its Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).