

STATE OF NEW YORK

Public Service Commission

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Commission Votes to Approve Four-Year Plan for United Water New Rochelle

-New Rates to Cover System and Water Supply Improvements-

Albany, NY – 8/24/05 – The New York State Public Service Commission today voted to adopt a four-year rate plan that establishes new base rates for customers of United Water New Rochelle Inc. (UWNR). The plan also contains provisions that will enable UWNR to replace aging distribution mains, to improve water service by increasing pressure and reducing leaks, and to provide a new source of water supply.

"Customers of United Water New Rochelle will benefit from several provisions included in the new rate plan approved today," Commission Chairman William M. Flynn said. "The plan allows for the continuation of extensive improvements to system infrastructure, while ensuring a safe and adequate supply of water to meet customer needs."

In its initial September 2004 filing, UWNR proposed a \$12.7 million, three-year plan that would have increased base rates by \$8.4 million (41 percent) in the first year, \$1.9 million (6.5 percent) in year two, and \$2.4 million (7.8 percent) in the final year of the rate plan. Including surcharges, UWNR's proposal would have increased rates by approximately \$9.9 million (47.6 percent), \$4.0 million (13.1 percent), and \$4.5 million (13 percent) in the respective rate years.

On June 10, 2005, following a period of negotiations, the City of New Rochelle, the Town of Eastchester, Department of Public Service Staff, and UWNR filed a Joint Proposal with a revised rate plan for the Commission's consideration. Under the terms of the rate plan approved today, base rates will increase by approximately \$3.1 million (14.45 percent), \$742,000 (3 percent), \$540,000 (2 percent), and \$780,000 (3 percent) respectively over a four-year period. Overall, the plan will increase base rate revenues by approximately \$5.3 million over the next four years, and it includes additional surcharges to cover higher operating expenses, water

purchase costs, property taxes and the cost of the company's plan to continue extensive improvements to the water system infrastructure.

The first surcharge, largely offset in year one of the rate plan by property tax credits, allows for recovery of approximately \$40 million in costs associated with the Delaware Interconnection Project (DIP). The DIP will allow UWNR to secure a new source of water supply for customers that complies with the Safe Drinking Water Act and the United States Environmental Protection Agency's surface water treatment rule. The rate plan allows for a separate Commission proceeding to review the project, once the company receives Department of Health approval of design plans. After construction commences, the Commission may modify the surcharge semi-annually in order to reflect associated costs.

Under the new rate plan, a surcharge associated with the company's Long Term Main Renewal Program (LTMRP) - - a 27-year program for systematically reinforcing and replacing aged distribution mains, cleaning and relining of other mains, and the replacement of valves, hydrants and service lines - - will continue. The LTMRP will benefit customers by improving service generally, increasing water pressure and eventually reducing leak repair and maintenance costs.

A Purchased Water Adjustment Surcharge will allow UWNR to recover the increased cost of water purchased from the New York City Water Board. The plan also contains a fourth surcharge to recover increases in purchased water costs from prior years. All surcharges, in addition to the base rate increases, will result in aggregate bill impacts of approximately 16.2 percent in the first year, 10 percent in the second year, 16.4 percent in the third year, and 11 percent in the final year of the rate plan.

The plan approved today also contains an earnings sharing mechanism for customers. Under the mechanism, UWNR would retain all earnings attributable to a return up to and including 10.8 percent. Earnings where the return was above 10.8 percent and up to and including 11.3 percent would be shared equally between customers and shareholders. Earnings attributable to a return above 11.3 percent will be shared 75 percent to customers and 25 percent to shareholders.

With respect to property tax forecasts, UWNR will reconcile property taxes in a manner which encourages the company to minimize such taxes. Ensuring that customers pay no more or less than the actual cost, a property tax target level is set annually based on an estimate of 6.9 percent in expected annual increases. The company will only be allowed to recover from customers 85 percent of property taxes above that target level, with shareholders bearing the remaining 15 percent. If property taxes in any year of the rate plan are less than the target level, the company will return to customers the full amount of the decreased level, unless the company proves that it was responsible for any portion of the decrease. In that event, the company will be allowed to retain 15 percent of the decrease, subject to Commission approval.

The Commission will issue a written order reflecting today's vote. That order, when available, may be obtained from the Commission's Web site at <http://www.dps.state.ny.us> by accessing the Commission Documents section of the homepage and referencing Case Number 04-W-1221. Many libraries offer free Internet access. Commission orders may also be obtained from its Central Files Office, 14th floor, 3 Empire State Plaza, Albany, NY 12223 (518-474-2500).