

STATE OF NEW YORK

# Public Service Commission

Garry A. Brown, Chairman

Three Empire State Plaza, Albany, NY 12223  
Further Details: James Denn  
james\_denn@dps.state.ny.us | 518.474.7080  
<http://www.dps.state.ny.us>

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## **NEW RATES ADOPTED FOR NEW YORK WATER — 3-Year Rate Plan for Nassau County Water Company —**

Albany, NY—01/19/10—The New York State Public Service Commission (Commission) today adopted a three-year rate plan for New York Water Service Corporation that will result in three annual revenue increases of \$1.9 million, up 8.47 percent; \$.4 million, up 1.6 percent; and \$.5 million, up 1.95 percent, effective February 6, 2010, 2011, and 2012, respectively.

“Ensuring the company’s rates reflect no more than the reasonable costs of providing water service are among the most critically important aspects of our review,” said Commission Chairman Garry Brown. “While we are always reluctant to adopt a rate increase, especially during times of economic difficulties, ignoring the fact that rates must go up to adequately meet service costs is not a reasonable option because that will ultimately reduce service quality and reliability.”

Net revenue increases, set forth as part of an agreed-upon joint proposal, are needed in the first year to cover \$1 million increase in property taxes. Other costs driving the increase are capital costs associated with new infrastructure needed to provide safe, adequate and otherwise reliable water service, production costs, and pension costs. All together, these four costs are projected to go up \$2.9 million. Because all other costs are going down by \$1 million, the revenue increase needed is only \$1.9 million.

In connection with the new infrastructure needed the company will also receive the carrying costs (e.g. pre-tax return and depreciation) in base rates for a new well in 2011 and a new tank in 2012 . These improvements will help to increase water pressure on 80 percent of the company’s

delivery system. However, the rate plan includes a “Customer Protection” such that if the in-service date for either the new well or new tank (January 1, 2011 and January 1, 2012, respectively) slips the related carrying costs’ revenue requirement would be deferred for the future benefit of customers. In terms of the rate increases, it should be noted that approximately 41 cents of every dollar of costs annually incurred by the company will not be incurred by nearby municipal water systems, or, in the case of capital costs, will not be incurred by municipal systems to the same extent.

As a result of the Commission’s decision, rates were set to afford the company a reasonable opportunity to recover its debt and equity costs of 5.53 percent and 10.3 percent, respectively, as well as a stay-out premium of 0.2 percent on the cost of equity (for a total of 10.5 percent) should the company not file for any revenue increase beyond those proposed to be effective during the proposed three-year rate plan.

The average New York Water customer’s annual water bill will increase 9.14 percent in the first year, 1.57 percent in the second year, and 1.95 percent in the third year. The average bill will be \$643 in the first year.

As an incentive for the company to operate efficiently and profit from it during the three rate years, it will be allowed to keep all equity earnings up to and including an average of 11.5 percent for the entire three-year period, but would share with ratepayers on an equal basis all equity earnings above 11.5 percent up to and including 12 percent on average for the three rate years and would share with ratepayers on a 75 percent (ratepayer)/25 percent (shareholder) basis all equity earnings greater than 12 percent on average over the entire three years.

In direct response to consumer concerns about water quality and service, New York Water will become the first water utility in New York to be subject to a customer service incentive mechanism under which up to \$96,000 of its annual revenues, would be at risk should its “escalated” customer complaint numbers, as that term is defined, exceed the proposed targets.

The decision to increase the rates was made after a thorough review of the public comments that were submitted in the proceeding. As part of the effort to elicit public comments on the company's tariff filing and its service quality, afternoon and evening public statement hearings were held in Merrick and North Merrick, respectively, the afternoon and evening of September 1, 2009.

Four public statement hearings were held and nearly 3,000 public comments were filed in the proceeding. A number of comments suggested the Commission should require or mandate New York Water become municipally owned; an action beyond the Commission's purview or authority.

New York Water provides water service to almost 45,000 customers in southeast Nassau County, in portions of the Towns of Hempstead and Oyster Bay. Its 21 square-mile service territory includes all of the communities of Merrick, Bellmore, Wantagh, Seaford and East Massapequa and portions of North Merrick, North Bellmore, Levittown, and Massapequa Park.

The Commission's decision today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at [www.dps.state.ny.us](http://www.dps.state.ny.us) and entering Case Number 09-W-0237 in the input box labeled "Search for Case/Matter Number." Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).