

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
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July 18, 2014



Dear Community Leader/Elected Official:

The New York State Public Service Commission (Commission) will hold public statement hearings to seek comment on the pending request of United Water New Rochelle and United Water Westchester to merge their two companies and increase delivery rates for water service in Westchester County. After review of the request and negotiations, a Joint Proposal which modified some of the companies' requests was signed by the companies, Staff of the Department of Public Service and other parties to the case.

The enclosed factsheet contains a summary of the Joint Proposal. A copy of the full proposal and other case documents can be found at the Department's www.dps.ny.gov web site. On the homepage, click on "Search," and enter any one of the following case numbers: 13-W-0539, 13-W-0564 or 14-W-0006 in the "Search by Case Number" field.

The date, time and location of the public statement hearings, as well as information on how to submit comments on the proceeding, are provided in the fact sheet. I would appreciate your assistance informing your constituents about the hearings and encouraging them to provide comments on the Joint Proposal regarding the merger and rate request.

Thank you.

Sincerely,

Douglas Elfner

Director

Office of Consumer Policy

Enclosure



New York State Public Service Commission



United Water New Rochelle/ United Water Westchester Proposed Merger & Rate Increase

In November, 2013, United Water New Rochelle (UWNR) and United Water Westchester (UWW) filed a request with the New York State Public Service Commission (Commission) to increase their delivery rates for water service in Westchester County. The two affiliated companies then filed a joint petition in January 2014 seeking Commission approval to merge UWW into UWNR, with UWW customers subsequently billed at the proposed UWNR rates. The companies' updated one-year rate change proposal would increase the revenues by \$14.5 Million (23%).

Staff of the Department of Public Service (DPS Staff) and other parties in the case examined the Companies' merger and rate request and put forth counter proposals. On July 3, 2014, following negotiations, a Joint Proposal was filed with the Commission in resolution of the issues in the pending cases. The Joint Proposal is signed on behalf of UWNR, UWW, DPS Staff, the Villages of Port Chester and Rye Brook and the City of Rye. A summary of several Joint Proposal provisions can be found on the reverse side of this sheet.

Public Statement Hearings

The Commission will hold two public statement hearings to seek public comment on the Joint Proposal. Interested members of the public are invited to attend and provide their comments regarding the proposed rate increase and merger.

It is not necessary to be present at the start of the hearings, or make an appointment in advance, or present written material in order to speak at the hearings. All comments given at the hearing will be transcribed and become part of the Commission's formal record. The hearings will adjourn no earlier than 7:00 p.m. and will remain open until everyone wishing to speak has been heard or other reasonable arrangements have been made. Please join us at the following locations:

Public Statement Hearings

Date: August 5th, 2014

Time: 6:00 PM

Location:

**New Rochelle City Hall
515 North Avenue
New Rochelle, N.Y 10801**

Date: August 6th, 2014

Time: 6:00 PM

Location:

**Rye City Hall
1051 Boston Post Rd
Rye, N.Y 10580**

Disabled persons requiring special accommodations may place a collect call to the DPS's Human Resources Management Office at 518-474-2520. TDD users may request a sign language interpreter by placing a call through the New York Relay Service at 711 to reach the Department of Public Service's Human Resource Office at the previously mentioned number. If you have difficulty understanding English, please call the Department at 1-800-342-3377 for free language assistance services.

Summary of Joint Proposal

Rate Increase:

Under the Joint Proposal (JP), a set of terms and conditions were developed for a three year rate plan for the Company's water service. The parties agreed that the proposed rates are just and reasonable, and the proposed merger is the best public interest.

The three year plan runs from November 1, 2014 through October 31, 2017. The proposed rate increases are listed in the chart below. In addition, the JP explores the option of levelizing the rate increase across the three years to reduce the increase that otherwise would have been required for Rate Year One. The levelized option is also included in the chart:

Rate Year	Proposed Rates		Levelized Option	
	Percentage Increase	Base Rate Increase	Percentage Increase	Base Rate Increase
One (Nov. 1, 2014 - Oct. 31, 2015)	10.9 %	\$6.81 million	6.8 %	\$4.25 million
Two (Nov. 1, 2015 - Oct. 31, 2016)	2.00 %	\$1.38 million	6.4 %	\$4.25 million
Three (Nov. 1, 2016 – Oct. 31, 2017)	2.81%	\$1.99 million	6.0%	\$4.25 million

Merger:

The proposed merger will result in one surviving entity operating as United Water Westchester. The parties to the JP state that customers will benefit from the merger by increased operational efficiencies and service improvements. The JP includes a provision to establish a collaborative for developing ways to incentivize customers to conserve water such as rebate programs, sprinkler head replacement programs, and partnering with other utilities to provide information and education to consumers.

Copies of the JP and other case documents can be found by locating the case via the home page of the Commission's website, www.dps.ny.gov, clicking on "Search," and entering any one of the following case numbers: 13-W-0539, 13-W-0564 or 14-W-0006 in the "Search by Case Number" field.

Commission Action

The JP and public comment on the case will be presented to the Commission for consideration. The Commission may accept, reject or modify, in whole or part, the proposal.

Methods for Commenting on the Case

All comments can be submitted at the public statement hearing listed above or through the methods below:

- **Via the Internet or In Writing:** Submit comments electronically to Kathleen H. Burgess, Secretary, at secretary@dps.ny.gov or by mail or delivery to Secretary Burgess at the Department of Public Service, Three Empire State Plaza, Albany, New York-12223-1350. Comments may also be entered directly on the Commission's www.dps.ny.gov website by opening the page for Case 14-W-0006 and clicking on the "Post Comments" link located at the top of the page.
- **Toll-Free Opinion Line:** Individuals may choose to submit comments by calling the Commission's toll-free Opinion Line at 1-800-335-2120. This line is set up to receive in-state calls 24-hours a day. Callers should press "1" to leave comments about "Case 14-W-0006 United Water Westchester/United Water New Rochelle Merger"

Comments submitted via these alternatives are requested by August 1, 2014.

**CASE 13-W-0539 - UNITED WATER NEW ROCHELLE INC. RATE CASE
CASE 13-W-0564 – UNITED WATER WESTCHESTER INC. RATE CASE
CASE 14-W-0006 – UNITED WATER NEW ROCHELLE INC./UNITED WATER
WESTCHESTER INC. MERGER PROCEEDING**

SUMMARY OF JOINT PROPOSAL

Term

The Joint Proposal (“JP”) covers the three years beginning November 1, 2014 and ending October 31, 2017 (the “Rate Plan”).

Merger

The JP recommends that the New York State Public Service Commission (“Commission”) approve the proposed merger of United Water New Rochelle Inc. (“UWNR”) and United Water Westchester Inc. (“UWW”) as in the public interest, because the merger provides the following customer benefits: economies of scale; increased operational efficiencies; and service improvements.¹ In addition, merger savings of \$182,783 have been imputed to the Company’s Rate Year One revenue requirement.

Following the proposed merger, the Company will have two Rate Districts: 1) Rate District 1, which encompasses customers in the former UWNR service territory; and 2) Rate District 2, which encompasses customers in the former UWW service territory.

Base Rate Increases (Appendix 1, Page 65)

The JP provides for the following base rate increases to earn a 9.2% annual equity return:

Rate Year One - \$6,811,235 (10.89%)
Rate Year Two - \$1,384,606 (2.00%)
Rate Year Three - \$1,987,016 (2.81%)

Under the levelization method the ratepayer will see rate increases as follows:

Rate Year One - \$4,249,812 (6.8%)
Rate Year Two - \$4,249,812 (6.4%)
Rate Year Three - \$4,249,812 (6.0%)

The parties have proposed the levelization method due to the considerable size of the Rate Year One increase. The difference in the Rate Year Two and Rate Year Three revenue requirement between the normal rate increase and the levelized rate increase will be charged in a levelization

¹ Following the merger, UWNR will be the sole surviving entity and will be renamed United Water Westchester Inc. (referred to herein as the “Company”).

surcharge by each Rate District.² The Rate Year Two surcharge will collect \$303,782 and the Rate Year Three surcharge will collect \$2,566,578. The Company will record the difference as a Regulatory Asset to be recovered as a surcharge beginning with Rate Year Two. Interest will accrue on the deferred balance at the pre-tax rate of return. The levelization surcharge will expire at the end of Rate Year Three.

Bill Impacts (Appendix 4)

Under the JP the bill impact for the annual rate increases are as follows:

Rate District 1 (UWNR)

Rate Year One - \$6.6 million (14.06%)

Rate Year Two - \$0.8 million (1.61%)

Rate Year Three - \$1.5 million (2.69%)

Rate District 2 (UWW)

Rate Year One - \$0.2 million (1.43%)

Rate Year Two - \$0.5 million (3.42%)

Rate Year Three - \$0.5 million (3.33%)

Under the levelization method the bill impacts are as follows:

Rate District 1 (UWNR)

Rate Year One - \$3.88 million (8.23%)

Rate Year Two - \$3.88 million (7.66%)

Rate Year Three - \$3.88 million (7.10%)

Rate District 2 (UWW)

Rate Year One - \$0.37 million (2.44%)

Rate Year Two - \$0.37 million (2.37%)

Rate Year Three - \$0.37 million (2.34%)

The levelization method eliminates the large spike in Rate Year One for Rate District 1 (UWNR) customers. Instead the customers' bills will increase by a constant amount over the three-year rate plan.

Operations and Maintenance ("O&M") Expense

The JP uses the following inflation factors: 1.64 % for Rate Year One, 2.0% for Rate Year Two and 2.1% for Rate Year Three.

² Pursuant to the JP, "Rate District 1" means the Water Delivery Service Rates and Purchased Water Charge applicable to customers in the former United Water New Rochelle Inc. ("UWNR") service territory. "Rate District 2" means the Water Delivery Service Rates and Purchased Water Charge applicable to customers in the former United Water Westchester ("UWW") UWW service territory. UWNR and UWW collectively are referred to as the "Company."

For purposes of calculating the Company's rates, the JP: 1) uses a complement level of 67 employees; 2) does not allow for management incentive pay; and 3) includes 75% of the Company's R&I Alliance expense.

The amount of Pension and OPEB expenses included in base rates is in accordance with the Pension Policy Statement.

A 1.0% productivity adjustment was applied to payroll, payroll taxes, pensions and OPEBs, employee health (medical, dental and vision) insurance, 401k, workers compensation and other employee benefits.

Property Taxes

During the Rate Plan, property taxes on all utility assets will be partially reconciled through the Adjustment Clause (described below). The JP allows customers to pay only 80% of actual property taxes that exceed the specified target levels for each year of the Rate Plan. Likewise, customers receive 80% of any decreases in property taxes below the target levels, with the proviso that the Company will be permitted to retain the remaining 20% only if it can successfully demonstrate that the reduction was attributable to the Company's intervention and action.

On an annual basis, the Company will analyze and identify the Company's property that is over-assessed for tax purposes and, at a minimum, will file tax certiorari proceedings for all such property that would result in material savings if the Company was successful in prosecuting the tax certiorari claim.

The JP requires the Company to: 1) file an annual report showing what actions it has taken to control property tax costs; and 2) make economic and functional obsolescence filings annually when necessary with the New York State Office of Real Property Tax Services.

Income Taxes

The projected revenue requirements set forth in Appendix 1 to the JP reflect: 1) the use of a 34.2% Federal Income Tax rate; 2) the new Metropolitan Transportation Authority tax rate beginning in 2015; and 3) the new State Income Tax rate (prorated for partial year) beginning in 2016.

In the event the Company is deemed to be a "qualified New York manufacturer" by the New York State Department of Taxation and Finance, the Company will defer the entire revenue requirement impact of this change for ratepayer benefit. The Company agrees to timely file for "qualified New York manufacturer" status and in the event there are incremental costs to achieve the "qualified New York manufacturer" status, such incremental costs will be netted against the amount to be provided to customers.

The Company will record as a Regulatory Liability any excess Accumulated Deferred State Income Taxes (ADSIT) as a result of the change in the State Income Tax rate as it applies to

assets and liabilities included in the Company's rate base. The rate impact of this accounting change will be considered in the Company's next rate case filing.

Capital Expenditures

The Company agrees to perform a cost/benefit analysis on major projects and demonstrate a clear prioritization plan based on a risk based model, including an analysis of how "other work" associated with such major projects is justified to be included in the Long-Term Main Renewal Project ("LTMRP") or the Underground Infrastructure Renewal Project ("UIRP") by demonstrating how such work will be done more efficiently.

To increase the replacement rate for mains and services (Accounts 343 and 345), the Company will increase the spending levels for UWNR's LTMRP (\$350,000, \$750,000 and \$1,200,000 in Rate Years One, Two and Three respectively) and for UWW's UIRP (\$175,000, \$375,000 and \$600,000 in Rate Years One, Two and Three respectively). A portion of the spending will go to "other work," including but not limited to the installation and relocation of meter pits, hydrants, and meter vaults. The Company will reconcile the plant additions for increased LTMRP and UIRP under accounts 343 and 345 via a submission to the Secretary to the Commission within 60 days after the end of each Rate Year, with a final reconciliation at the end of the Rate Plan.

The Account 397 annual spending levels will be \$750,000 for UWNR and \$220,000 for UWW.

The Company agrees to communicate with municipalities to coordinate larger scale main replacement efforts with local municipal construction work to maximize efficiencies and limit mobilization costs.

By January 15th of each calendar year, the Company will file with the Director of Electric, Gas and Water a report on its capital expenditures during the prior Rate Year. The report will include: a) the capital costs incurred for each of the projects and programs identified in Appendix 5 to the JP with a summary of any major project/cost variances; b) a description of the Company's efforts to coordinate municipal construction activities with the rest of its capital programs during the prior calendar year; and c) the Company's current forecasted five year capital plan.

Equity Ratio, Return on Equity ("ROE") and Earnings Sharing Mechanism

The Company and Staff agreed to an equity capitalization ratio of 47% and an equity return of 9.2%.

The Company will retain all earnings attributable to an ROE up to and including 9.85%. Earnings between 9.85% and 10.85% will be shared equally between the Company and ratepayers. Ratepayers will receive 90% of earnings over 10.85%.

Revenue, Production Cost and Property Tax Cost Reconciliation Adjustment Clause (“Adjustment Clause”)

Under the Adjustment Clause, if production costs (power, purchased water and chemicals) exceed their respective targets, recovery of purchased water costs will be at 100% of the excess amount, whereas purchased power and purchased chemical costs will be recovered at 95% of their excess amounts, with the 5% difference being absorbed by the Company. The current 18% allowance for LAUF water will remain.

Non-Revenue Water Losses

The Company will provide a report to the Commission any time that total non-revenue water (“NRW”) is greater than 18% over a given calendar year, within 60 days of the end of each calendar year. This report will include any significant events that impact NRW as well as specific measures being taken to reduce NRW to acceptable levels, with a goal of reducing total NRW to 18% by the end of the Rate Plan. A copy of the Company’s annual water audit will also be included in this report.

The Company will continue to provide a “total-in, total-out” calculation of NRW on its annual report. However, the Company can supplement this report with a calculation of NRW that does not include municipal use, hydrant flushing or water used in the treatment process, provided that it demonstrates which volumes were removed from the calculation and how these were estimated.

Water Conservation Pilot

Within 90 days after the Commission adopts the JP, the Company will convene a collaborative meeting to discuss alternative ways for the Company to incentivize its customers to conserve water. No later than 30 days following the end of the collaborative, the Company will file a report summarizing common recommendations and other initiatives that the Company believes it should pursue on a trial basis and the estimated associated costs.

Customer Service Performance Incentive (“CSPI”) Mechanism

A CSPI mechanism composed of a PSC Complaint Rate mechanism will be established in Rate Year Two and shall continue until modified by the Commission. Escalated complaint rates and associated negative revenue adjustment amounts will be as follows:

PSC Annual Complaint Rate	Rate Year 2 Amount at Risk	Rate Year 3 Amount at Risk
≥5.7	\$82,000 (eq. 5 BP)	\$164,000 (eq. 10 BP)
≥6.5	\$164,000 (eq. 10 BP)	\$328,000 (eq. 20 BP)
≥7.7	\$246,000 (eq. 15 BP)	\$492,000 (eq. 30 BP)

Within one month after the conclusion of the first CSPI program year (Rate Year Two), the Company will file an annual performance report which will include the Company’s complaint

rate, any revenue adjustments, any exclusions it believes are applicable, and reasons supporting any such exclusion.

The potential revenue adjustments for each Rate Year will be assessed during the immediately following Rate Year after the Company has filed its annual performance report. The potential revenue adjustments for Rate Year Three shall continue on an annual basis until modified by the Commission.

For purposes of the CSPI, escalated complaints that will be counted in the PSC Annual Complaint Rate are those that Staff determines involve situations where the Company has not provided a reasonable level of customer service or its actions are deemed to be not in compliance with the Commission's regulations, or the Company's tariff.

Revenue Allocation and Rate Design

The revenue allocation for Rate District 1 and Rate District 2 were based on each Rate District's stand-alone revenue requirement. Rate District 1's Service Classification ("S.C.") No. 3 was eliminated and those customers were added to S.C. No. 1. Rate District 2 will transition its rate structure to a single volumetric rate by initially moving from four volumetric blocks to two.

The Company will remove allowance volumes and the minimum charge and will establish a Fixed Service Charge. Both Rate District 1 and Rate District 2 will transition to have the same Fixed Service Charge for each meter size by the end of the Rate Plan. The Company will establish a Purchased Water Charge ("PWC") for each Rate District, which consists of the cost of water purchased from other purveyors and includes that cost plus the cost of power, chemicals and a return on supply and treatment facilities.

The JP does not change Private Fire rates in the Rate District 1.

Purchased Water Adjustment

UWNR

Rate District 1 purchases its water from the New York City Water Board ("NYCWB") and the entitlement rate of \$1,573.61 per MG and excess per capita rate of \$3,372.91 per MG were built into the Rate Year One revenue requirement and will be charged in the Rate District 1 PWC. If the NYCWB increases the cost of water above the July 1, 2014 rates, the Company is authorized to automatically increase the PWC and production target with the rates that go into effect on July 1 of each year, or on the same date that the NYCWB increases its rates, to recover the incremental costs above the amounts included in base rates. The Company will make a compliance filing as early as possible after notification from the NYCWB of a rate increase.

UWW

Rate District 2 purchases approximately 40% of its water from Westchester Joint Water Works ("WJWW") and the entitlement rate of \$2,024.27 per MG, excess per capita rate of \$3,372.91; and fixed charges of \$72,337 were built into the Rate Year One revenue requirement and will be charged in the Rate District 2 PWC. When WJWW increases the cost of water above rates

effective July 1, 2014, the Company will be authorized to increase the PWC for Rate District 2. This increase will automatically go into effect on July 1 of each year or on the same date that WJWW increases its rates to recover the incremental costs above the amounts included in base rates.

The Company may face in the future the potential to bear a proportionate share of the cost of an alternate source of water supply to WJWW's Rye Lake. Previously, WJWW had joined forces with Westchester County as part of the County's plan to provide water in a manner that was consistent with the Consent Order and its related compliance requirements. In the event that either a capital contribution or some other form of payment is required of the Company (through UWW's contractual obligations to WJWW), the parties to the JP agree to work together to determine a method of recovery of any such capital contribution or payment such that the Company is not financially burdened prior to the end of the term of the JP.

Rate District 2 purchases 60% of its water from Aquarion Water Company ("AWC") and the Rate Year One revenue requirement includes purchased water costs for AWC of \$3,665,531. When AWC increases the cost of water above the rates included in the purchased water charge the Company will be authorized to utilize the PWC, which will automatically go into effect on the date of said increase, to recover the increased cost of purchased water. The Company will continue to engage AWC and review documents and facilities which are included in either the current methodology or a new pricing methodology. The Company will, in quarterly reports to the Commission, include a log of the contacts, e-mails, and meetings with AWC that have transpired between reports regarding the negotiation process on the pricing methodology used by AWC for determining the rate charged to the Company.

M&S Fees

If the Commission orders an audit of Management and Service ("M&S") fees in Case 13-W-0295, the Company will coordinate with UWNYS to conduct the audit. The Company will adopt any M&S related requirements ordered by the Commission after the time for an appeal has run and no such appeal has been filed.

Monthly Billing

Under the JP, the Company will implement Monthly Billing for all of its customers.

Tariff Filings

The Company will have one consolidated tariff with separate Rate Districts. The PWC will be included on the Purchased Water Charge statement which will be updated as purchased water rates change, and will be reconciled annually as part of the Revenue and Production Cost and Property Tax Reconciliation mechanism per Rate District. The Rules and Regulations of the consolidated tariff will be those currently contained in the currently effective UWNYS tariff with certain modifications as originally proposed in the Company's testimony. As part of its compliance filing, the Company will file the revisions to PSC No. 1 – Water contained in Appendix 9 to the JP.

Stay-Out Provision

The Company will refrain from filing a rate case in which rates would go into effect before November 1, 2017 with the caveat that the Company is allowed to file for temporary rates to preserve its financial integrity.

Cost of Service (“COS”) Study

The Company will conduct for its next general rate case, an updated COS study for its New Rochelle and Westchester service areas that will break down the COS by meter size as well as by service classification. The study will indicate the appropriate cost of administrative, meter reading, and fixed general costs to be covered by a future minimum charge.

Reporting Requirements

The Company is required to file reports addressing the following items:

- Earnings Sharing;
- Rate Base Construction Projects;
- Revenue, Production Cost and Property Tax Reconciliation;
- Non-Revenue Water;
- Property Taxes;
- Aquarion Water Company;
- Management and Service Fees; and
- Customer Service Performance Incentive Mechanism.