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December 12, 2011

Honorable Rafael Epstein  
Administrative Law Judge  
Public Service Commission  
3 Empire State Plaza  
Albany, New York 12223

Re: Case 11-W-0020 – Long Island American Water Corporation – Rates.

Dear Judge Epstein:

The Utility Intervention Unit (UIU) of the New York State Department of State's Division of Consumer Protection supports the Joint Proposal (JP) filed on November 28, 2011 in the above-captioned matter. The JP appropriately balances the interests of Long Island American Water (LIAW) Corporation's ratepayers, shareholders and company management. It does this by providing: (1) for ratepayers a moderate increase in rates, along with rate stability, over a three-year period; (2) for shareholders, an opportunity to earn a reasonable return on their investment, which was derived pursuant to the Commission's traditional return on equity methodology; and, (3), for company management, a known funding stream for capital expenditures needed to ensure system integrity and improvement.

Additionally, the JP acknowledges estimated savings from anticipated corporate synergies resulting from the Company's proposed acquisition of the New York assets of Aqua Utilities, Inc. in two ways. First, the JP reflects estimated savings of \$901,331 over the term of the Rate Plan. Importantly, this amount may increase following Department of Public Service Staff's investigation of the acquisition in Case 11-W-0472. Second, the JP's earnings sharing mechanism contains a smaller than customary dead band (55 basis points) to ensure that any future synergy savings benefit ratepayers. Finally, the JP sets out a framework to enable LIAW to improve its customer education and outreach activities.

On April 29, 2011, LIAW filed a petition seeking approval of an increase in base rates of 19.49%, which would have resulted in overall bill impacts of 15.83% after existing surcharges were rolled into base rates. Under the JP, the annual bill for a typical residential customer with a 5/8" meter and using 72,000 gallons per year would increase from \$382.37 to \$391.73 (2.45% increase) in the first rate year, to \$402.05 (2.63%) in the second rate year, and to \$410.78 (2.17%) in the third rate year. The rate increases closely track the presentation made by DPS Staff in its testimony.

The UIU is particularly supportive of the JP's treatment of synergy savings resulting from the proposed acquisition mentioned earlier. Given the proximity of the service territories

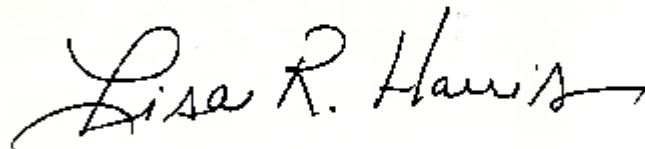
of the two companies, it is reasonable to expect that, if the Commission approves the acquisition, the two companies will experience operational efficiencies from which the ratepayers should benefit. Because the parties were unable to determine whether, and to what extent, the savings would be realized over the duration of the JP's three-year Rate Plan, the JP's treatment of the matter is necessarily limited. The parties agreed to a reduction of \$901,331 during the Rate Plan as a best estimate of savings. However, this figure is subject to future modification as the parties' understanding of the impact of the transaction develops. It is also commendable that the earnings sharing section of the JP contains a 55-point dead band, rather than the customary 100 points, which will act to recoup ratepayers' share of any additional synergy savings that emerge before LIAW's next rate case.

The UIU is pleased that the JP requires the Company to continue to develop and implement customer outreach and education programs and materials to increase awareness and understanding of water issues, policies and initiatives such as water quality, cost, system improvements, conservation techniques, customer rights and customer service matters. The framework set forth in the JP directs the Company to file, within 30 days after the Commission issues an order adopting the terms of the JP, a plan with the Director of the Department of Public Service's Office of Consumer Policy. The plan must describe the outreach and education program's goals and objectives, target audiences, source of funding, core messages and implementation strategies, methods and schedule for the coming year. The JP also requires the Company to review the plan each year of the rate term and send a letter to the Director within 30 days after the end of the Rate Year stating whether any change to the plan is warranted, and, if a change is warranted, describing the change.

For these reasons, the UIU asserts that the terms of the JP are in the public interest and urges approval by the Commission.

Respectfully submitted,

Cesar Perales  
Secretary of State

A handwritten signature in black ink that reads "Lisa R. Harris". The signature is written in a cursive style with a long horizontal stroke at the end.

By:  
Lisa R. Harris, Esq.  
Director, Division of Consumer Protection

Saul A. Rigberg  
Intervenor Attorney

C: Active Parties