CASE 09-W-0237
New York Water Service Corporation

SUMMARY OF JOINT PROPOSAL AS AMENDED

October 20, 2009

The Joint Proposal (JP) filed by New York Water Service (NYWS) and Department of Public Service Staff (Staff) covers a three year period and seeks to balance the Company's need to maintain safe and adequate service with the economic reality the state is facing. The JP also proposes a process to address complaints of ratepayers that are filed with the Commission and certain complaints that were raised in the course of this proceeding.

The JP provides for two alternate plans for implementing warranted rate increases. Option One is derived through revenue requirement computations that are traditional in PSC cases, while Option Two would partially levelize the annual increases to smooth the effects on customers' bills. A common feature of both options is that money currently recovered from customers through the Revenue Adjustment Clause and Property Tax Reconciliation (RAC/PTR), System Improvement Charge (SIC) and Distribution System Improvement Charge (DSIC) surcharges would be rolled into base rates, which accounts in major part for the size of the first year's base rate increase. The roll-ins and the related prospective elimination of the SIC and DSIC would address ratepayers' concerns that the charges on the Company's bills need to be simplified.

Under Rate Option One, the average annual bill impacts for each of the three years would be increases of approximately 8.47%, 1.57% and 1.95%, respectively. The Joint Proposal calls for a first year **base rate** increase of 17.68%. However, because this increase includes the roll-in of amounts currently being collected and that otherwise would continue to be collected through surcharge mechanisms if nothing else changed, the overall first year average bill impact would be 8.47%.[1] The average metered customer first year increase would be 8.28%; the average first year increase for fire service customers would be 10.72%. The impact on fire protection customers would be greater than that for metered customers because fire protection customers have not been paying the RAC/PTC surcharges like other customers and they would now begin to bear their share of the underlying costs.

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1 With the February 6, 2010 effective date of new rates, the existing DSIC and SIC surcharge mechanisms would terminate.

Rate Option Two offers the Commission a way to reduce the Option One first year bill impacts. Under this option, the average annual bill impacts for each of the three years would be increases of 5.83%, 4.16%, and 4.00%, respectively. The average metered customer first year increase would be 5.63%; the average first year increase for fire service customers would be 8.16%.[2] The three year net present value of the two options is equal and the rate increases under both options would take effect on February 6 of 2010, 2011, and 2012, respectively.

The first year $3.997 million (17.68%) **base rate** increase under Option One is mainly driven by increases in the following four costs: property taxes ($2.1 million), infrastructure improvements ($1.4 million), production costs ($0.8 million), and pensions/OPEBs ($0.7 million). As noted above, some costs in these categories are already being recovered from customers through surcharges. The combined effect of all other changes in costs and revenues is an approximate $1.0 million reduction to the needed **base rate** relief. Exclusive of the roll-in of amounts already being paid by customers through surcharges, the first year **incremental revenue increase** of $1.915 million (8.47%) is driven by the following cost increases: property taxes ($1.0 million), infrastructure improvements ($0.6 million), production costs ($0.6 million), and pension costs ($0.7 million) offset by the combined effect of all other changes in costs and revenues (–$1.0 million).

Reconciliation of revenues, production costs (fuel, power and chemicals) and property taxes would continue under the existing Revenue Adjustment Clause (“RAC”) and Property Tax Reconciliation mechanism. The RAC would be modified in one respect. If actual production costs are greater than the amounts proposed to be reflected prospectively in base rates for each of the three years, 90% of the difference would be deferred and recovered from customers in the future through the RAC. Under the existing RAC, 100% of the difference would be deferred and recovered from customers in the future.

Under the proposed rate plan, capital additions that will help the Company maintain adequate water pressure and were originally planned for 2009 and 2010 (the DeMott well and a

[2] The three year revenue impacts of both options as amended are summarized in a table at the end of this summary.

new storage tank) would be delayed until the beginning of 2011 and 2012, respectively, with customers being protected in the event of additional delays. Other capital expenditure allowances for the second and third years of the rate plan are intended to provide the Company with an incentive to hold down all other capital spending to the maximum extent possible.

Under the JP, the Company is committed not to file for a base rate increase that would become effective before February 6, 2013. The JP, if adopted, would provide for a 20 basis-point premium that would be added to the Company's allowed return on equity of 10.3% to reflect the risk associated with a commitment not to increase base rates before February 6, 2013. Should the Company file for a base rate increase that would become effective before February 6, 2013, the 20 basis-point premium for the entire period February 6, 2010 until the date new rates go into effect would be reserved for the future benefit of customers in the form of a deferred credit.

The Joint Proposal also includes an "austerity" adjustment which reduces the allowance for controllable, non-fuel related operation and maintenance expenditures to encourage the Company to find areas of its operation where costs can be cut further. In addition, a productivity adjustment has been applied to projected increases in wages and salaries in order to capture unquantifiable and unidentified efficiencies and cost savings. Finally, no rate increase would be provided for management bonuses, as originally requested by the Company.

A Customer Service Incentive Mechanism ("CSIM") is proposed to become effective should the JP be adopted. Under the CSIM, customer complaints that establish violations of the Commission's regulations, the Company's tariff or industry standards, would be tracked and, if they exceed prescribed levels, would be used to reduce future rates. The CSIM would take effect on January 1, 2011 at which time relevant data would begin to be tracked. In addition, the Company would be required to take steps to address customer concerns relating to the water service line protection program.

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Comparison of Options One and Two
Incremental Revenue Increases Exclusive of the Roll-Ins

Option 1

	Year 1 Impact		Year 2 Impact		Year 3 Impact	
	$	%	$	%	$	%
Metered	1,732,017	8.27%	388,294	1.57%	489,020	1.95%
Fire	173,192	10.72%	29,005	1.57%	36,529	1.95%
Other[1]	9,827	17.74%	1,026	1.57%	1,291	1.95%
	1,915,036	8.47%	418,325	1.57%	526,840	1.95%

In Year 1 - metered bill impacts will vary from a -4.8% decrease for minimum use customers to an increase of 11.0% for large use customers.
Average residential bills (120 t-gals/year) will increase by 8.2%

Option 2

	Year 1 Impact		Year 2 Impact		Year 3 Impact	
	$	%	$	%	$	%
Metered	1,178,118	5.63%	1,004,346	4.16%	1,004,346	4.00%
Fire	131,766	8.16%	71,494	4.16%	75,026	4.00%
Other[1]	8,336	15.04%	2,652	4.16%	2,652	3.99%
	1,318,220	5.83%	1,082,024	4.16%	1,082,024	4.00%

In Year 1 - metered bill impacts will vary from a -6.8% decrease for minimum use customers to an increase of 8.4% for large use customers.
Average residential bills (120 t-gals/year) will increase by 5.8%

[1] The major components comprising the Other category are late payment charges, reconnect fees and bad check charges.