

STATE OF NEW YORK

Public Service Commission

Audrey Zibelman, Chair

Three Empire State Plaza, Albany, NY 12223

Further Details: James Denn

James.Denn@dps.ny.gov | 518.474.7080

<http://www.dps.ny.gov>

<http://twitter.com/NYSDPS>

14042/13-W-0295

PSC DENIES MORE THAN ONE HALF OF UNITED WATER'S REQUESTED RATE INCREASE

— 3rd Party to Independently Review Management and Operation Practices —

Albany, NY – 06/26/14 – The New York State Public Service Commission (Commission) today rejected United Water New York Inc.'s request to increase revenues by \$21.3 million, or 28.9 percent. The Commission found instead that the company was only entitled to increase revenues to cover increases in local property taxes and required investments in the water system plus small increases in labor and other operating expenses. As a result of the Commission's determination, the company will only be allowed to increase rates by \$ 9.8 million or 13.3 percent, the minimal amount required by State law.

“Our decision today reflects the Commission's grave concerns over the trend of significant rate increases,” said Chair Audrey Zibelman. “The availability of a clean, reliable and affordable water supply is of critical importance to the individuals and businesses of Rockland and Orange counties. We recognize that in the provision of water services, the company is encountering legitimate increases in capital expenses and property taxes that are not in its absolute control. However, it is our expectation that on the behalf of its customers, the company will adopt aggressive measures to mitigate otherwise controllable expenses as well as look for technologies and other conservation practices that will allow it more effective control over its capital requirements.”

The Commission has the dual statutory responsibility of protecting water utility consumers from unwarranted increases in water rates while at the same time allowing water utilities like United

Water the opportunity to recover and earn a reasonable return on its legitimate and prudent expenditures. The major rate increase drivers cited by the company included approximately \$80 million in additional capital improvements over the last three years; increases in real estate and franchise taxes of approximately \$4.6 million; and employee labor and benefits increases of \$1.1 million.

The Commission's decision allows the company to recover \$7.7 million to reflect increases in taxes and capital improvements. At the same time, the Commission reduced or rejected proposed increases in several operational areas including management charges from United Water's affiliate and management incentive payments. The Commission's order further reflects an allowance of 9.0 percent return on capital as compared to the company's proposed 10.58 percent return.

Along with disallowing much of the proposed rate increases, the Commission also directed United Water to engage in a number of efforts designed to improve its operations to avoid or reduce the level of future rate increases while improving relations with local communities. To help fund these activities, the Commission required the company to suspend longer-term research and development investments and instead use these expenditures to address and implement needed improvements in the company's operations. The Commission also directed the company to hire a third party to assist in these efforts and subject the management review and improvement efforts to the continued oversight of Commission Staff.

In an effort to further moderate the rate increases and provide the company ample opportunity to improve its operating efficiencies and capital investment programs, the Commission also proposed an alternative ratemaking agreement where the company would accept a two-year agreement that levelizes revenue increases to \$7.4 million in each year for an approximate 9.6 percent and 7.4 percent increase to an average residential customer's annual bill.

By offering this option, the Commission is providing the company with the opportunity to focus on improving its operations rather than engage in a new prolonged rate proceeding.

“The Commission cannot order the company to accept the two-year rate agreement,” Chair Zibelman observed. “However, we think it is critical that the company turn all of its focus on improved operations and hope that it agrees that its willingness to forgo a further request for a new rate increase is in the best interests of its customers, employees and shareholders.”

Under the one-year option, the annual cost of water service for the average residential customer will increase from \$714 to \$806, a 12.9 percent increase. The percentage increase for residential customers is lower than the overall increase due to rate design changes that benefit residential customers. Under the two-year option, the annual cost for an average residential customer will go to \$783 in the first year and \$840 in the second year. However, at the end of the second year, rates will automatically drop 3 percent.

The new rates will take effect on July 1, 2014. The company has until June 30, 2014 to decide which option it will take. United Water provides water service to approximately 74,000 customers in Rockland and Orange counties. The most recent rate plan established by the Commission for the company covered the period September 1, 2010 through August 31, 2013.

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.ny.gov and entering Case Numbers 13-W-0295 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). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.