

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350

Internet Address: <http://www.dps.state.ny.us>

RECEIVED
PUBLIC SERVICE
COMMISSION
OSEC FILES - ALBANY

2002 FEB 26 PM 4:36

PUBLIC SERVICE COMMISSION

MAUREEN O. HELMER

Chairman

THOMAS J. DUNLEAVY

JAMES D. BENNETT

LEONARD A. WEISS

NEAL N. GALVIN



LAWRENCE G. MALONE
General Counsel

JANET HAND DEIXLER
Secretary

February 26, 2002

Janet Hand Deixler
Secretary
NYS Public Service Commission
3 Empire State Plaza
Albany, New York 12223-1350

orig-Files
C 01-W-0817

Copies:

Full Distributor

Re: Case 01-W-0817 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York Water Service Corporation for Water Service.

Dear Secretary Deixler:

Enclosed for filing please find 25 copies of the Department of Public Service Staff Statement in Support of the Joint Proposal in the above referenced proceeding.

Sincerely yours,

David R. Van Ort
Assistant Counsel

cc: Vincent Bohn
Tom Scheinman
Hon. Judge Jaclyn Brillling

Central Files

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

RECEIVED
PUBLIC SERVICE
COMMISSION
SEC-FILES-ALBANY
2002 FEB 26 PM 4:36

CASE 01-W-0817 - Proceeding on Motion of the Commission as to
the Rates, Charges, Rules and Regulations of
New York Water Service Corporation for Water
Service.

STATEMENT OF THE DEPARTMENT OF PUBLIC SERVICE STAFF
IN SUPPORT OF THE JOINT PROPOSAL

David R. Van Ort
Assistant Counsel
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350
(518) 474-7072

Dated: February 26, 2002
Albany, New York

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 01-W-0817 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York Water Service Corporation for Water Service.

STATEMENT OF THE DEPARTMENT OF PUBLIC SERVICE STAFF
IN SUPPORT OF THE JOINT PROPOSAL

INTRODUCTION

On June 19, 2001, the New York Water Service Corporation ("NYWS" or "the company") filed testimony and exhibits in support of its request for an additional \$2,782,390 or 14.38% in additional revenues.¹ The company did not propose to increase base rates to obtain the additional revenues; rather, it proposed to recover the amounts by adjusting the target revenue requirement in the existing Revenue Adjustment Clause (RAC).² As a result, NYWS would receive for its use, a total of \$22,127,451 in revenues for the rate year May 1, 2002 through April 30, 2003.³ A Notice of Proposed Ruling Making was published in the State Register on August 15, 2001.

The company claims that additional revenues are needed because of increased expenses for: employee wages; salaries and benefits; plant investment depreciation; property and income taxes; and, to provide investors with a reasonable return on investment

¹ The cover letter submitted with its filing erroneously stated the company's revenue request to be \$2,672,372 or 13.8%.

² The RAC reconciles chemical costs, property taxes, revenues and power purchases for production.

³ Under tariff rates, annual billings have averaged about \$21,457,543 over the past five years (Tr. 17).

By successive orders of the Commission, the proposed revenue increase was suspended through May 9, 2002.⁴ A Public Statement Hearing was held in Hempstead, New York in the afternoon and evening of July 16, 2001. One individual spoke regarding the company's proposal, noting that the existing NYWS rates are higher than that of other local municipal water service providers, specifically, the Town of Hempstead. Another customer complained, in addition to the rate levels, about the brown or rusty water received. Following exploratory discussions with the Department of Public Service Staff (Staff), the company on October 31, 2001, filed a Notice of Impending Negotiations.⁵ Negotiations commenced on November 15, 2001 and continued on several occasions thereafter.

Staff pre-filed the testimony of its witnesses D'Andrea, Teller, Alch, and Grillo and supporting exhibits on October 12, 2001. In contrast to the company's request to retain \$22,127,451 in annual revenues, Staff made numerous adjustments to the NYWS cost of service filing resulting in a proposed overall revenue requirement of \$20,264,090. Staff's filing, inter alia, excluded the cost of the company's proposed \$3.3 million filter plants and generator facilities due to the uncertainty that the projects would be completed and placed in service in the rate year. The company responded with rebuttal testimony, filed October 31, 2001, in which it challenged most of Staff's adjustments. By letter dated November 20, 2001, Staff thereafter notified Your Honor and the company, the only other party to this proceeding, of those

⁴ Case 01-W-0817, New York Water Service Corporation - Revenue Request, Order Suspending Revenue Increase Filing (issued July 3, 2001) and Untitled Order (issued November 5, 2001).

⁵ 16 NYCRR §3.9(a)(1).

individuals who will be serving as trial staff in this case.⁶

An evidentiary hearing was held on November 27, 2001 in Hempstead New York. At the hearing the pre-filed testimony and exhibits of the company and Staff were admitted into the record without objection. Both parties waived cross-examination of opposing witnesses. At the conclusion of the hearing, the parties agreed to, and Your Honor set, a briefing schedule, and alternatively, a schedule for submitting a Settlement Agreement (Joint Proposal) and Statements in Support of the Joint Proposal if the case were settled.⁷ By letter dated January 14, 2002, Your Honor was advised that an agreement in principle was reached resolving the outstanding issues. Subsequent discussions between the parties refined and finalized specific language of the various Joint Proposal provisions. The Joint Proposal, dated February 11, 2002, was executed by NYWS and Staff (see attached Appendix I). The Joint Proposal, which covers the three rate years May 2002 through April 30, 2005, includes: a detailed comparison between the company's initial position and the ultimately negotiated first rate year, as well as projections for the two out years.

JOINT PROPOSAL OBJECTIVES AND OVERVIEW

Staff's principal objective in negotiating the Joint Proposal is to obtain a comprehensive long-term agreement that ensures sufficient revenues for the company to maintain safe and

⁶ Pursuant to 16 NYCRR §4.3(d).

⁷ The schedule provided for trial briefs to be filed and mailed on January 14, 2002. Staff and NYWS agreed that only one round of briefs would be permitted. If a Joint Proposal was developed, the January 14, 2002 filing date would be eliminated and the Joint Proposal and Statements in Support would be filed by February 25, 2002.

adequate service, yet provides a strong incentive to the company to manage its business efficiently. The existing rates have been in effect since 1991.⁸ NYWS has since that time achieved savings, controlled various expenses, and, avoided filing for a rate increase. Its ability to postpone a request for a rate increase was, in part, assisted by tax refunds released to the company in 1999, 2000 and 2001.⁹ Staff recognizes that the company is currently faced with significant capital expenditures, principally, the need to construct iron removal facilities¹⁰ at its Seaman's Neck and Newbridge Road Pumping Stations and install back-up generators. Finally, Staff believes that it is critical to implement a cap on the allocated expenses for the company's New York City office which are shared between NYWS and unregulated affiliates.

The Joint Proposal entered into by the parties fulfills Staff's objectives and offers substantial and lasting ratepayer benefits. As detailed further below, the Joint Proposal offers a three year rate plan that allows the company additional needed revenues without changing base rates. The additional allowances of \$1,450,318 or 7.48% for Year One, \$206,697 or 0.99% for Year Two, and \$211,864 or 1.01% for Year Three, will be funded in part, by excess revenues accumulated in the revenue adjustment clause (RAC) account, (Joint Proposal, ¶2). Further, the Joint Proposal sets the allowed return on equity (ROE) at 9.9% (9.7% plus a 20 basis point

⁸ Cases 90-W-0556 and 91-W-0492, New York Water Service Corporation - Rates, Opinion No. 91-11 (issued June 14, 1991).

⁹ Cases 97-W-1273 and 98-W-0844, New York Water Service Corporation - Tax Refunds, Order Concerning Disposition of Property Tax Refunds and Modifying Revenue Reconciliation Program (issued October 29, 1998).

¹⁰ The high iron content in the wells supplying these stations is a primary contributor to the "rusty" water problem.

premium for the three year plan) and includes a sharing mechanism whereby NYWS will share equally with its customers (50/50) annual earnings over 10.4% ROE and share with customers 75% (75/25 - customer/company) of earnings in excess of 10.9% (Joint Proposal, ¶3). For determining the ROE, the depreciation rate is fixed at 2.431%¹¹ during the three rate years and the New York City office expense is fixed at \$604,584 for Year One (with a maximum appreciation of 2.5% for Years Two and Three) (Joint Proposal ¶4) set during the three rate years. Paragraph 5 of the Joint Proposal reflects a continuation of the current real property tax reconciliation mechanism that allows NYWS to recover 85% of increases in property taxes above the target and requires it to increase the RAC by 85% of the amount that property taxes fall below the target. Continuing past practice, annual revenues, chemical costs and power purchased for production will continue to be fully reconciled (Joint Proposal ¶6). Paragraph 7 of the Joint Proposal contains the parties assent for NYWS to receive sufficient revenues to cover the recommended \$200,000 allowance to paint the interior and exterior of its Jefferson Street water tank. Consistent with its request, the Joint Proposal (¶8) also incorporates the requested allowance for the \$3.3 million costs associated with the company's construction of iron removal facilities at the Seaman's Neck and Newbridge Road Pumping Stations and the back-up generator facilities. Lastly, ¶9 of the Joint Proposal is a catch-all of other miscellaneous provisions. It

¹¹ Fixing the overall depreciation rate at 2.431% will preclude the company from increasing its depreciation expense during the rate years and thereby reducing its ROE.

reports the parties agreement on: a 1% productivity adjustment on employee expenses; the elimination of a \$24,000 management compensation award; a \$73,000 global concession by NYWS; the application of 2.1% inflation (Year One) to unspecified expenses; recognition that the Year Two and Year Three revenue increases were determined by inflating the company's operation and maintenance (O&M) expenses, minus chemicals and purchased production power, by 2.5%; and, a provision that if the actual Year One employee expenses are less than projected, the Commission's decision would incorporate the reduced level.¹²

STANDARD OF REVIEW

In order for the Joint Proposal to satisfy the Commission's standards of review and be adopted, it must be just and reasonable and in the public interest. Determining whether the public interest is satisfied requires a consideration of the following factors: whether the Joint Proposal strikes a fair balance among the interests of the ratepayers and investors; whether the Joint Proposal compares favorably with the reasonable range of results that a fully litigated case might yield; the Joint Proposal's consistency with the law and regulatory, economic, social and environmental policies of the Commission and the State; and, whether there exists a rational basis for the Joint Proposal.

Additional weight is given Joint Proposals entered into by normally adversarial parties. Lastly, a substantive review includes

¹² The employee expense level provision was added because the company is finalizing a new labor agreement with associated expenses, including medical insurance.

an assessment of the completeness of the record.¹³

The Joint Proposal entered into in this proceeding clearly satisfies the Commission's Guidelines. The company and Staff, the only parties to the proceeding, have agreed to each of the Joint Proposal provisions. NYWS and its ratepayers avoid the costs and uncertainties associated with fully litigating a rate case. Further, base rates will not be affected as a result of the revenue increase. Ratepayers will receive the benefit of the continued stability and certainty of rates until at least April 30, 2005. Consistent with performance-based regulation and recent Commission decisions, the Joint Proposal also allows NYWS to earn a reasonable rate of return, although significantly less than that allowed under the prior order,¹⁴ and provides performance based incentives for the company to control its manageable costs. In addition, NYWS receives needed funding and commits to construct the iron removal facilities that will result in improved service quality. Finally, the Joint Proposal continues the current reconciliation mechanism (RAC) - albeit with updated and modified revenue targets - that has produced the accumulated customer credits that will fund, in part, the company's projected revenue needs and might yield future refunds to customers through the RAC.

DISCUSSION OF JOINT PROPOSAL TERMS

Rate Years and Revenue Increases

The first paragraph of the Joint Proposal identifies the

¹³ Case 90-M-0225 et al. Settlement Procedures and Guidelines, Opinion No. 92-2 (issued March 24, 1992), (Commission Guidelines).

¹⁴ Under the order sharing with customers would take place once earnings exceeded 11% ROE, (Case 97-W-1273, supra, p. 9).

three rate years as: Year One, covering the period May 1, 2002 through April 30, 2003; Year Two covering May 1, 2003 through April 30, 2004; and, Year Three, covering May 1, 2004 through April 30, 2005. Recommended revenue increases for each rate year total \$1,450,318 for Year One, \$206,697 for Year Two and \$211,864 for Year Three (Joint Proposal, ¶2). The first year revenue increase represents a 7.48% change over the stipulated \$19,377,061 in currently allowed revenues. Year Two and Year Three increases respectively equate to only a 0.99% and 1.01% charge over the prior year's level.

In sharp contrast to the \$2,782,390 that NYWS requested, Staff's pre-filed testimony limited the total revenue increase to \$887,029 (Department Exhibit 2, SMT-1, Schedule 2). Virtually the entire difference between the Joint Proposal's \$1,450,318 Year One increase and Staff's pre-filed recommendation can be attributed to the fact that Staff's proposed increase did not include a revenue requirement allowance (\$585,000) for the iron removal and back up generator facilities¹⁵ that NYWS proposes to construct at its Newbridge and Seaman's Neck Road plants. Staff did not believe at the time it submitted testimony that the facilities would be constructed and placed into service by May 1, 2002, the beginning of the first rate year (Tr. 90).¹⁶ As discussed below (see Iron Removal and Backup Generator Facilities), the Joint Proposal

¹⁵ The company's proposal also included plans to install back-up generators.

¹⁶ No issue existed over the need for the iron removal facilities. Staff witness Grillo testified that currently the Newbridge and Seaman's Road wells have iron levels substantially above the New York State (NYS) standards (Tr. 88).

provides assurances that the facilities will be constructed as NYWS proposed and implements protective measures, if they are not.

The Joint Proposal's \$1,450,318 Year One revenue increase highlights substantial financial concessions by NYWS. The overall increase parallels Staff's pre-filed case plus an allowance for construction of the iron removal facilities and backup generators. Staff notes that the company has not received revenue relief since 1991¹⁷ other than the three annual \$450,000 revenue installments NYWS received in 1999, from tax refund proceeds.¹⁸ It apparently has been able to avoid filing for rate relief because it also achieved savings and other operational efficiencies such as purchased power reductions. Significant savings resulted from the 20% LIPA rate reduction.

The \$206,697 (0.99%) increase in Year Two was arrived at by inflating the Year One operation and maintenance (O&M) expenses, minus chemicals and production power,¹⁹ by 2.5%. The Year Three \$211,864 (1.01%) increase was obtained by applying the same 2.5% inflator applied to Year Two O&M expenses minus chemicals and production power. In comparison to the company's request for a 14.38% Year One revenue increase - the Joint Proposal offers a scant 9.48%²⁰ total increase over the three rate years, or, an average 0.79% compounded increase in revenues over the 12 years since rates were last changed. Moreover, ratepayers will not experience a base rate increase during the three rate years of this

¹⁷ Cases 97-W-1273 and 98-W-0844, supra.

¹⁸ Cases 90-W-0556 and 91-W-0492, supra. The current average annual residential bill under current rates is about \$350.00

¹⁹ These expenses are reconciled through the RAC.

²⁰ 9.64% compounded.

proposal and because of RAC credits, the annual impact on customers will be 3.17%, 2.65% and 2.47%, or only about \$11.00 per year.

Revenue Adjustment Clause (RAC) Continuation

Paragraph 6 of the Joint Proposal memorializes the parties' agreement to continue the pre-established RAC mechanism, with minor modifications to address the possibility that the tank painting and iron removal and generator facilities might not be completed on time (see Tank Painting, Iron Removal and Generator Facilities). Simply stated, the RAC requires the company to reconcile actual revenues received with those allowed in the rate case for each of the rate years. The revenue variance will be adjusted for the costs of chemicals and production power, and accrued interest on the amount recoverable or refundable, as the case may be, in each rate year. One third of the accumulated balance in the RAC will be recovered or refunded annually from metered customers during the following twelve months. The RAC serves to minimize any errors in forecasting rate year revenues, so that neither the company, nor its customers, will be placed at risk from the company's under or over-recovery of revenues during wet or dry years. It protects both the company from substantial under-earnings, which otherwise would force NYWS to seek additional rate relief and incur associated costs, and the customers from over-earnings. Staff therefore believes that continuation of the RAC, as modified to address the tank painting and iron removal timing issues, is in the company's and ratepayers interest.

Rate of Return and Earnings Sharing

The company advocated a 10.3% return on equity (ROE) (Tr. 23), and requested that it be allowed to retain the first 100 basis points of earnings above 10.3%, sharing equally with customers (50/50) any earnings over 11.3% ROE. Utilizing the Generic Finance Case method,²¹ Staff calculated the appropriate ROE to be about 9.7% (Tr. 51). Staff's ROE is based on a combined proxy group of 10 electric/combination companies rather than the abbreviated four water company proxy group available.

The Joint Proposal adopts Staff's recommended ROE and adds a 20 basis point premium (total 9.9% ROE) for the company's agreement to stay out for the additional two years (Joint Proposal, ¶3). Further, the Joint Proposal implements a 50/50 sharing between customers and the company for earnings above 10.4% ROE, and, sets a 75/25 customer/company upper sharing threshold for any earnings over 10.9% ROE.

The recommended three year 9.9% ROE is below the company's pre-filed request and is fairly close to the 9.7% one year ROE level that Staff advocated in its testimony. The 50 basis point dead band (above 9.9% ROE) before sharing with customers occurs provides NYWS with the incentive to manage its business efficiently to earn above the allowed ROE, and affords customers the potential to benefit if NYWS is successful. The recommended ROE also approximates the ROE that the Commission set in its most

²¹ Case 91-M-0509 - Proceeding on Motion of the Commission to Consider Financial Regulatory Policies for New York State Utilities, Recommended Decision (issued July 19, 1994). The water company proxy group produced a 9.4% ROE under the GFC method (Tr. 47).

recent water company major rate case,²² however, slightly higher in recognition of this company's greater operational efficiencies.

Staff believes that the proposed ROE and earnings sharing thresholds are just and reasonable and should be adopted by the Commission.

Real Estate Taxes and Sharing of Expenses on Savings

The company contends that it has experienced an overall increase in property taxes primarily due to an increase in tax rates, as opposed to an increase in the assessed valuation (Tr. 104).²³ It argues that since the tax rates are beyond its control NYWS should be allowed to recover 100% of the increases in real estate taxes (Tr. 105). In opposition, Staff recommended that the company be allowed to recover 85% of property taxes above the projected target expense (\$5,804,735), but that the entire amount of any decreases below the target be returned to ratepayers (Tr. 69-70).²⁴

Paragraph five of the Joint Proposal represents a just and reasonable resolution of the property tax issue, providing for a continuation of the RAC mechanism and the established 85/15 sharing, between the customer and company, of increases and decreases in property taxes above or below the target expense.²⁵

²² Case 99-W-0948 et al., United Water New Rochelle Inc. - Rates and Related Issues, Opinion No. 00-10 (issued August 21, 2000). The Commission adopted the parties recommended 9.7% ROE.

²³ NYWS reports that it has pending property tax refund proceedings and that 35% of its revenues is used to pay property taxes (Tr. 104).

²⁴ Staff noted that the actual expense for School, Town and County taxes was less than the amount NYWS booked for the historic year (Tr. 68).

²⁵ Case 97-W-1273 supra.

Thus, NYWS will be permitted to recover from the RAC 85% of increases in property taxes above the \$5,360,997 base amount and refund to customers 85% of the amount that taxes fall below the base amount. The property tax reconciliation mechanism does not differentiate between tax rate and assessment changes. Instead, it offers a straight forward, simple and symmetric mechanism to compensate the company and customers for property tax changes. Moreover, with the company bearing 15% of the burden of property tax increases and having the ability to retain 15% of decreases or savings, it receives a strong incentive to continue monitoring and challenging property tax inequities. Staff, therefore, recommends adoption of the real estate tax reconciliation mechanism and base amount target because it is just and reasonable and in the public interest.

Tank Painting

The cost and rate base allowance for NYWS to paint its 750,000 gallon Jefferson Street water tank was a hotly contested issue in this case. NYWS claimed that the cost to paint the interior and exterior of the tank would be approximately \$250,000 to \$300,000, the lower cost dependent on whether a new cheaper method could be used to paint the tank's interior (Tr. 99). Staff witness Grillo, based on the cost to paint a similar sized tank at United Water New Rochelle, estimated the cost to paint the tank's interior and exterior to be about \$115,000 (Tr. 86).

Paragraph seven of the Joint Proposal memorializes the parties resolution of the tank painting issue. It allows NYWS \$200,000 toward the cost of painting the interior and exterior of

the Jefferson Street water tank. The work, however, must be completed by the end of the first rate year, April 30, 2003, or else NYWS is required to pay into the RAC an amount equal to the ROE and monthly amortization of the \$200,000.

The tank painting allowance affords the company a reasonable level of funding to paint its Jefferson Street tank while applying adequate incentive for the company to minimize the overall costs. And, with the risk of losing the ROE and amortization on the \$200,000 allowance, NYWS has an incentive to complete the work in a timely manner.

Iron Removal and Generator Facilities

There was no issue in this case regarding the company's projected \$3.3 million cost or need to install iron removal facilities at its Seaman's Neck and Newbridge Road pumping stations, as well as a back up generator at the Seaman's Neck station. The high iron content of wells supplying these pumping stations is a primary cause of frequent customer complaints about brown or rusty water (Tr. 88).²⁶ The only question related to this issue is whether NYWS would complete the installation of facilities by the beginning of Year One.

The Joint Proposal resolves this issue by incorporating the company's commitment to complete installation of the iron removal and generator facilities by May 2002. In return, NYWS is allowed the revenues necessary to fund the cost. Once the iron

²⁶ Staff witness Grillo noted that the well serving the Newbridge Road plant and the two wells serving the Seaman's Neck Road plant have iron concentrations of 2.10 milligrams per liter (mg/l), 0.94 mg/l and 1.17 mg/l. The current New York State standard limits the allowed concentration to 0.30 mg/l.

removal facilities are placed in service those customers most impacted by the rusty water, due to high iron levels in the affected wells, should see a marked improvement in the quality of water service. Further, the company has ample incentive to construct the iron facilities as soon as possible because, if they are not placed in service by May 1, 2002, the Joint Proposal requires a \$26,820 revenue requirement deduction for each month that the facilities are not completed and available for service. The Joint Proposal's iron removal and backup generator facilities provision is just and reasonable and should be adopted as being in the public interest.

Miscellaneous Concessions and Adjustments

Consistent with the Commission's policy, employee expenses are adjusted by a 1% productivity factor.²⁷ Also, during the proceedings in this case, NYWS continued negotiations toward a new union labor agreement with its employees and medical insurance provider. Recognizing the uncertainties of the outcome, the parties recommend, and ¶9 recites, that if the actual employee expenses are determined to be less than the projected first rate year level before the Commission issues its order in this case, that the actual expense level should be adopted in the Commission's decision. Lastly, to finalize an agreement on the outstanding issues, NYWS withdrew its request to receive \$24,000 in management compensation awards (Tr. 101-102). It claimed the Commission

²⁷ Joint Proposal, ¶9.

allowed the expense in the last rate case. In addition, NYWS, agreed to a \$73,000 global adjustment to mitigate the overall Year One revenue increase.

Other Provisions

The remaining paragraphs of the Joint Proposal incorporate standard provisions: the company's commitment to perform all maintenance and capital additions necessary to maintain safe and adequate water service (Joint Proposal, ¶10); the process to be used to resolve disagreements between the company and Staff over the interpretation of the Joint Proposal provisions (Joint Proposal, ¶11): the reservation of each party's rights not to be bound by the Joint Proposal if the Commission does not adopt it in its entirety by the April 2002 Session (Joint Proposal, ¶12); and, the non-precedential effect of the Joint Proposal (Joint Proposal, ¶13).

CONCLUSION

The Joint Proposal executed by Staff and NYWS, clearly satisfies the Commission's Policy Guidelines. It offers a long-term rate plan with no adverse impact on the customer's base rates. Furthermore, it provides the company with the additional revenues needed to make capital improvements and repairs and maintain safe and adequate service. And, the Joint Proposal continues the prior reconciliation and sharing mechanisms that were designed, implemented and function to protect both the customers and NYWS.

For all the above reasons, Staff respectfully requests that Your Honor recommend that the Commission adopt the provisions of the Joint Proposal in their entirety.

Respectfully Submitted,

David R Van Ort

David R. Van Ort
Assistant Counsel
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350
(518) 474-7072

Dated: February 26, 2002
Albany, New York

Appendix I

State of New York
Public Service Commission

Case No. 01-W-0817

Proceeding on Motion of the Commission
as to the Rates, Charges, Rules and Regulations
of New York Water Service Corporation for
Water Service

JOINT PROPOSAL

WHEREAS, by letter dated June 6, 2001 New York Water Service Corporation (the "Company") filed with the Public Service Commission (the "PSC") a request for additional revenues of \$2,672,372 to be allowed from the Company's existing Revenue Adjustment Clause ("RAC"); and

WHEREAS, the Company and the Staff of the PSC (the "Staff") each prefiled testimony, the Staff conducted extensive investigation and review of the Company's books and records and conducted extensive discovery and the Company having furnished all of the information so requested; and

WHEREAS, the Company's present rates have been in effect since June 1991 (Case No. 90-W-0556) and the Company has not requested in the present case that its rates be increased but rather that it be allowed to charge against its RAC reserve additional revenues to offset increases in costs and expenses that the Company is currently experiencing; and

WHEREAS, the Company and the Staff conducted preliminary discussions to determine whether the possibility of an amicable settlement could be arrived at. and the Company thereafter having on October 30, 2001 forwarded for filing the requisite Notice of Impending Negotiations, and the Company and Staff having met on two occasions before and subsequent to the November 27, 2001 Hearing and the parties having conducted numerous conference phone calls and discussions, all in an attempt to negotiate the various issues related to the Company's request for additional allowed revenue; and

WHEREAS, the Company and the Staff have finally arrived at a mutually agreeable resolution as to the fair and reasonable disposition of each of the issues raised in these proceedings and to the amount of increased revenues the Company should be allowed and the same should be adopted upon the following terms and conditions:

1. TERM. The Term of this Joint Proposal shall be for three (3) years or three rate years defined as follows:

Rate Year One: May 1, 2002 – April 30, 2003

Year Two: May 1, 2003 – April 30, 2004

Year Three: May 1, 2004 – April 30, 2005

The Company shall not file an application for an increase in its rates or its revenues prior to June 1, 2004. However, should a circumstance arise which threatens the Company's economic viability or ability to maintain or provide safe and adequate service, the Company may petition the PSC for rate or for revenue relief. The parties acknowledge the PSC's authority under the Public Service Law to act upon the Company's rates and revenues for water service, should the PSC determine that intervening or unforeseen circumstances caused a substantial impact on the Company's earnings as to render the Company's rates or revenues for water service to be unjust or unreasonable for the provision of safe and adequate service.

2. REVENUE INCREASE. Commencing in the First Year starting May 1, 2002, the Company shall be allowed Additional Revenues of \$1,450,318; commencing in the Second Year starting May 1, 2003 the Company shall be allowed further Additional Revenues of \$206,697; and commencing in the Third Year starting May 1, 2004, the Company shall be allowed further Additional Revenues of \$211,864. The Additional Revenues for the First Year represent a 7.48% increase over present revenues established eleven years

ago. The increase for Year Two and Year Three represent increases over the immediate prior year of .99% and 1.01% respectively.

During the Term of this Joint Proposal the Company shall continue its existing rates to customers and shall continue the RAC (see Paragraph 6) in its present form and procedures. The Company shall be allowed revenues of \$20,827,379 in Year One, \$21,034,076 in Year Two and \$21,245,940 in Year Three.

Appendix A annexed hereto (consisting of 17 pages) includes twelve Schedules which set forth additional revenue requirement, operating income, rate base and rate of return; RAC Computation; operations and maintenance expenses; taxes; FIT interest deduction; rate base; cash working capital allowance; capital structure; summary of inflation adjustments; and an explanation of adjustments; all with respect to Year One and additional revenue requirement for each of the Three Years; and revenue requirements for Years Two and Three. These Schedules detail the elements of the Joint Proposal negotiated by the parties.

3. RATE OF RETURN. The Revenues provided in Article 2 above include a Return on Equity ("ROE") of 9.7% plus a 20 basis point premium for the Company's agreement not to seek an increase in rates or revenues for an additional two years. Should the Company's average annual ROE over the three year Term commencing May 1, 2002 and ending April 30, 2005 exceed 10.4%, the Company shall credit customers with 50% of such excess up to an average annual ROE of 10.9%; should the Company's average annual ROE

over such three year Term exceed 10.9%, the Company shall credit customers with 75% of such excess over 10.9%. Any refund due to customers hereunder shall be added to the RAC and distributed to customers in accordance with the provisions thereof.

The Company shall provide Staff within 90 days after the completion of each fiscal year of the Term the calculation of the ROE for such fiscal year and on a cumulative basis including each prior year of the Term. Staff shall review such calculations and may review any other action taken by the Company pursuant to this Joint Proposal; Staff may request such information in connection therewith, as it may deem appropriate.

4. ROE CALCULATIONS. In connection with the annual calculation of ROE A) the Company shall not take into account any expense for its New York City office in excess of \$604,584 for the first year of the Term, or more than a cumulative 2-½% increase in such expense for each of the two subsequent years and B) Depreciation of Rate Base shall be calculated at an annual set rate of 2.431%.

5. REAL ESTATE TAXES. The First Rate Year real estate tax allowance is \$5,360,997 (the "Base Amount"). The Company will make an annual comparison of its current property tax amount to the Base Amount. This comparison will be provided to Staff at the same time as the Company reports its ROE as provided in Article 3. above. The Company shall also report to Staff when new real estate tax bills are received. Pursuant to the existing RAC procedures, the Company will be entitled to reimburse itself from the

RAC reserve 85% of the amount that property tax expense is greater than the Base Amount and shall increase the RAC 85% of the amount that property tax expense is less than the Base Amount. For administrative purposes, the comparison and the adjustment of the RAC can be performed on a monthly basis by comparing the proportional amount of the annual Base Amount to the accumulated year to date property tax expense.

6. RAC CONTINUATION. Except as modified in this Joint Proposal, the RAC shall continue in full force and effect and the Company shall continue to adjust receipts for Revenues, Chemical costs and Purchased Power costs consistent with prior practice. Appendix B annexed hereto describes the operation of the RAC.
7. TANK PAINTING. The Company agrees to complete the entire painting of its elevated 750,000 gallon Jefferson Street water tank (inside and outside) prior to April 30, 2003. The parties hereto have agreed to allow \$200,000 as the cost of such project. Within two months after completion of this project, the Company shall furnish Staff the name and address of the contractor who performed the work, when it was completed and with a copy of the completed work order. In the event the tank is not painted as aforesaid by the end of April 2003, the Company shall contribute to the RAC a sum equal to the Company's return on equity and amortization of the \$200,000 from May 1, 2003 until such time as the tank painting is completed and the tank placed in service.

8. IRON REMOVAL FACILITY AND GENERATOR INSTALLATION. The Company has recently commenced construction of iron removal facilities at its Seaman's Neck and Newbridge Road pumping stations and expects to complete the same in or about May 2002. The Company will also install a new generator at the Seaman's Neck Road pumping station. The present projected costs for these facilities are about \$3,300,000 and that amount has been included in the Company's rate base for the purposes of this Joint Proposal. The Company on December 19, 2002 concluded funding the cost of these facilities. Should the iron removal facilities not go into service on or before May 1, 2002 the sum of \$26, 820 shall be deducted from allowed revenues for each month after May 1, 2002 (or a pro rata portion thereof for any partial month) the same are not available for service and the Company has not expended at least \$3,300,000 for these facilities. Until these facilities go into service the Company shall report monthly to Staff on the status of required governmental and regulatory approvals, projected completion and in service dates and the costs of construction and installation by plant account.

9. EXPENSE HIGHLIGHTS. Employee expenses reflect a specific one percent productivity adjustment. In addition \$24,000 of management compensation awards have not been allowed. The Company made other specific expense allowance concessions including a final global concession of \$73,000 in order to contain the customer impact. Expenses not specifically addressed in the

initial rate year reflect a 2.1% inflation rate, consistent with the GDP deflator commonly employed by the Commission.

If before the Commission renders its decision on this Joint Proposal, actual employee expenses, as a package, are known to be less than projected in the initial rate year, that reduction will be reflected in the decision. This package of employee expenses consists of wages and salaries, medical, dental and life insurance and pensions and other post employment benefits.

The revenue increases allowed in the second and third year of the Joint Proposal were computed by inflating a pool of operation and maintenance expenses by 2.5%. The pool consists of operation maintenance expenses sans chemicals and production power, which will be reconciled through the Revenue Adjustment Clause.

10. OPERATIONS. The Company shall continue to operate its water utility business and maintain its water utility facilities in accordance with all applicable laws and rules and regulations of the PSC and of each governmental agency having jurisdiction. The Company shall perform all appropriate maintenance and capital additions as are necessary to ensure that its customers receive safe and adequate water service.

11. DISPUTE RESOLUTION. Should the Company and the Staff be unable to agree on the calculation of the ROE for any period or be unable to resolve a dispute with respect to any other provision of this Joint Proposal, either party may request that an ALJ be assigned to resolve the dispute on an expedited

basis; either party may within 20 days petition the PSC for relief from the ALJ's determination.

12. PSC APPROVAL. The Parties to this Joint Proposal recognize that it requires the approval of the PSC. The Parties believe that the terms hereof and the record in these proceedings fully justify the Commission's adoption of the terms of this Joint Proposal as being in the public interest. The Parties agree that this Joint Proposal shall be binding upon them for all purposes set forth herein. Further, by the Parties execution of this Joint Proposal, Staff and the Company intend and recommend that the terms of this Joint Proposal be adopted by the PSC in their entirety.

After intensive ongoing negotiations regarding each provision hereof, the parties have accepted this Joint Proposal in each and every respect with each provision in consideration for and dependent upon the others. The Proposal is contingent upon the Commission adopting it terms in their entirety, without modification by no later than its session to be held in April, 2002. In the event the Commission does not so act, either party may provide written notice to the other party that it invokes the Contingency Provision and the Joint Proposal shall be of no further force or effect and the proceedings with respect to the Request for Additional Revenue filed by the Company shall thereafter move forward without prejudice to either party.

13. BINDING EFFECT. This Joint Proposal represents a negotiated resolution of this proceeding and, except as otherwise expressly provided herein, is to be binding only in this proceeding and only as to the matters specifically

addressed herein. Neither the Company, the PSC nor its Staff shall be deemed to have approved, agreed or consented to any principle or methodology underlying or alleged to underlie any agreement provided for herein.

Agreed to this 11th day of February 2002

NEW YORK WATER SERVICE CORPORATION

By: *John McQuinn*
Pres.

STAFF OF THE
DEPARTMENT OF PUBLIC SERVICE

By: *David R Van Ort*
Assistant Counsel

New York Water Service
Joint Proposal
Additional Revenue Requirement
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 1

	Rate Year Revenue Requirement <u>Increase</u>
Rate Base	\$34,268,787
Rate of Return	<u>8.87%</u>
Required Revenue	3,039,641
Income Available for Return	<u>2,182,555</u>
Deficiency	857,086
Gross Up Factor	<u>59.0964%</u>
Additional Revenue Requirement	<u>\$1,450,318</u>

<u>Proof</u>		
	100.0000%	\$1,450,318
Less:		
Revenue Taxes	1.8500%	26,831
MTA Surcharge Tax		
GRT Surcharge Tax		
Uncollectible	<u>98.1500%</u>	<u>1,423,487</u>
New York State Income Taxes @ 7.5%	7.3600%	106,762
MTA Tax @ 7%	<u>1.2500%</u>	<u>18,149</u>
	69.5400%	1,298,578
F.I.T. @ 34.10%	<u>30.4436%</u>	<u>441,516</u>
Retention Factor	<u>59.0964%</u>	<u>\$857,060</u>

New York Water Service
Joint ProposalOperating Income, Rate Base & Rate of Return
For the Twelve Months Ending April 30, 2003

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Operating Revenues	\$19,345,061	1	\$32,000	\$19,377,061	\$1,450,318	\$20,827,379
Other Revenues						
Total Revenues	<u>19,345,061</u>		<u>32,000</u>	<u>19,377,061</u>	<u>1,450,318</u>	<u>20,827,379</u>
Operations & Maintenance Exp.	9,934,714	Sch.3	(745,449)	9,189,265		9,189,265
Depreciation	1,395,475	3	(4,808)	1,390,667		1,390,667
Taxes Other Than F.I.T.	6,462,396	Sch.4	(443,738)	6,018,658	26,831	6,045,489
Total Deductions	<u>17,792,585</u>		<u>(1,193,995)</u>	<u>16,598,590</u>	<u>26,831</u>	<u>16,625,421</u>
Operating Income Before F.I.T.	<u>1,552,476</u>		<u>1,225,995</u>	<u>2,778,471</u>	<u>1,423,487</u>	<u>4,201,958</u>
New York State Income Taxes	27,808	Sch.5A	102,838	130,744	124,811	255,655
Federal Income Tax:	73,760	Sch.5B	391,411	465,171	441,516	906,687
Total Income Taxes	<u>101,566</u>		<u>494,350</u>	<u>595,916</u>	<u>566,427</u>	<u>1,162,342</u>
Utility Operating Income	<u>\$1,450,910</u>		<u>\$731,845</u>	<u>\$2,182,555</u>	<u>\$857,086</u>	<u>\$3,039,641</u>
Rate Base	<u>\$34,043,095</u>	Sch.6	<u>\$225,682</u>	<u>\$34,268,787</u>		<u>\$34,268,787</u>
Rate of Return	<u>4.26%</u>			<u>6.37%</u>		<u>8.87%</u>

New York Water Service
Joint Proposal

Appendix A
Schedule 2A

Revenue Adjustment Clause Computation
For the Twelve Months Ending April 30, 2003

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Operating Revenues	\$19,345,061	1	\$32,000	\$19,377,061	\$1,450,318	\$20,827,379
Electric Power	\$883,931	2a	(\$83,000)	\$800,931		\$800,931
Diesel Fuel	18,140			18,140		\$18,140
Chemicals	466,281	2b	(138,000)	328,281		328,281
Revenue Taxes	357,884			357,884	26,831	384,715
	<u>1,726,236</u>		<u>(221,000)</u>	<u>1,505,236</u>	<u>26,831</u>	<u>1,532,067</u>
	<u>\$17,618,825</u>		<u>\$253,000</u>	<u>\$17,871,825</u>	<u>\$1,423,487</u>	<u>\$19,295,312</u>

New York Water Service
Joint Proposal
Operations & Maintenance Expenses
For the Twelve Months Ending April 30, 2003

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Union Payroll	\$2,369,393	2a	(\$26,041)	\$2,343,352		\$2,343,352
Supervisory Payroll	659,774		(89,860)	569,914		569,914
Supervisory Leave Benefits	64,776		(8,135)	56,641		56,641
NYC Office Salaries & expenses	697,180		(92,606)	604,584		604,584
Union Leave Benefits	576,428	2b	(5,758)	570,671		570,671
Contractors & Vendors	41,970			41,970		41,970
Miscellaneous	246,614			246,614		246,614
Electric Power	883,931	2m	(83,000)	800,931		800,931
Diesel Fuel	18,140			18,140		18,140
Chemicals	466,281	2n	(138,000)	328,281		328,281
Laboratory Expenses	33,093			33,093		33,093
Vendors	10,843			10,843		10,843
Materials and Supplies	43,745			43,745		43,745
Equipment	13,309			13,309		13,309
Contractors- Mains	183,614			183,614		183,614
Contractors- Services, Meters & Hydrant	89,979			89,979		89,979
Amortization of Tank Paintings	36,500	2l	(11,500)	25,000		25,000
Postage	131,128			131,128		131,128
Uncollectible	62,500			62,500		62,500
Computer Services & Vendors	149,734			149,734		149,734
Transportation	288,858			288,858		288,858
Customer Outreach/Education	42,558			42,558		42,558
Printing	38,453			38,453		38,453
Electricity-Office	34,998			34,998		34,998
Telephone	40,921			40,921		40,921
General Insurance	111,609	2o	5,000	116,609		116,609
Injuries and Damages	108,657			108,657		108,657
Medical, Life & disability insurance	1,078,008	2f	(156,837)	921,171		921,171
Pensions	676,897	2g	38,658	715,555		715,555
Other Post Employee Benefits (OPEBs)	385,238	2h	(19,517)	365,721		365,721
Tax & Audit Services	27,655			27,655		27,655
Other Outside Services	142,460			142,460		142,460
PSC Assessment	51,563			51,563		51,563
Rate Case Expense	50,000	2i	(50,000)			
Conventions	11,627			11,627		11,627
Donations						
Dues & Subscriptions	41,184	2j	(4,480)	36,714		36,714
Lease Payments	25,075			25,075		25,075
Settlement Concessions		2p	(73,000)	(73,000)		(73,000)
General Inflation		2k	(30,373)	(30,373)		(30,373)
	<u>\$9,934,714</u>		<u>(\$745,449)</u>	<u>\$9,189,265</u>		<u>\$9,189,265</u>

New York Water Service
Joint Proposal
~~Taxes Other than F.I.T.~~
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 4

	Per Company Profile	Adj. No	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Revenue Taxes	\$236,345			\$236,345	\$26,831	\$263,176
MTA Surcharge Tax	121,539			121,539		121,539
GRT Surcharge Tax						
Excess Dividends Tax						
Environmental Taxes	3,855			3,855		3,855
Property Taxes	5,804,735	4	(443,738)	5,360,997		5,360,997
Payroll Taxes	295,922			295,922		295,922
	<u>\$6,462,386</u>		<u>(\$443,738)</u>	<u>\$6,018,658</u>	<u>\$26,831</u>	<u>\$6,045,489</u>

New York Water Service
Joint Proposal
— Federal Income Tax —
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 5A

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Operating Income Before F.I.T.	<u>\$1,540,405</u>		<u>\$1,238,066</u>	<u>\$2,778,471</u>	<u>\$1,423,487</u>	<u>\$4,201,958</u>
Adjustments that Increase (Decrease) Taxable Income						
Amiz. Rate Base Expense						
Amiz. Tank Painting						
Interest on Total Debt	(1,305,692)	6c	(3,913)	(1,309,605)		(1,309,605)
Capitalized Interest Flowed Through	61,743	6d	(40,645)	21,098		21,098
Capital Interest to be Deferred		6d	22,502	22,502		22,502
25% write off Bad Debt Reserve						
Non Deductible Expense						
Unallowable Pension and OPEB	280,000	6b	(280,000)			
Deferral - Excess Tax Deprc.	(361,800)	6a	78,800	(283,000)		(283,000)
New York State Income Taxes	(27,806)	6e	(94,008)	(121,814)	(124,911)	(246,725)
Total Adjustments	<u>(1,343,555)</u>		<u>(327,264)</u>	<u>(1,670,819)</u>	<u>(124,911)</u>	<u>(1,795,730)</u>
Taxable Income	<u>196,850</u>		<u>910,802</u>	<u>1,107,652</u>	<u>1,298,576</u>	<u>2,406,228</u>
Current PIT rate @ 34%	<u>66,929</u>		<u>309,673</u>	<u>376,602</u>	<u>441,516</u>	<u>818,117</u>
Deferrals that Increase (Decrease) Income Tax Expense						
MACRS, ACBIS and ADR Depreciation	24,412	6f	71,808	96,220		96,220
ALT. MACRS						
Amiz. Rate Base Expense						
Unfunded Pension						
Amiz. Tank Painting						
Interest on WIP		6g	(7,651)	(7,651)		(7,651)
Other						
Total F.I.T. Deferred	<u>24,412</u>		<u>64,157</u>	<u>88,569</u>		<u>88,569</u>
Total F.I.T. Expense	<u>\$91,341</u>		<u>\$373,830</u>	<u>\$465,171</u>	<u>\$441,516</u>	<u>\$906,687</u>

New York Water Service
Joint Proposal
New York State Income Tax
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 5B

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal	Revenue Increase	Per Joint Proposal After Increase
Operating Income Before Income Taxes	<u>\$1,561,277</u>		<u>\$1,238,066</u>	<u>\$2,778,471</u>	<u>\$1,423,487</u>	<u>\$4,201,958</u>
<u>Adjustments to Taxable Income</u>						
Amortization of Rate Case Expense						
Amortization of Tank Painting						
Total Interest	(1,305,692)	7c	(3,913)	(1,309,605)		(1,309,605)
Capitalized Interest Flowed Through	61,743	7d	(40,645)	21,098		21,098
Capitalized Interest Deferred		7d	22,502	22,502		22,502
Unallowable Pensions and OPEBS	178,300	7b	(178,300)			
Deferred Excess Tax Depreciation		7a	(124,269)	(124,269)		(124,269)
Other						
Total Adjustments	<u>(1,065,649)</u>		<u>(324,625)</u>	<u>(1,390,274)</u>		<u>(1,390,274)</u>
New York State Taxable Income	<u>495,628</u>		<u>913,441</u>	<u>1,388,197</u>	<u>1,423,487</u>	<u>2,811,684</u>
New York State Income Tax at 7.5%			104,115	104,115	106,762	210,876
MTA Tax 7% if NYSIT			17,700	17,700	18,149	35,849
Total NYSIT Payable	<u>43,443</u>		<u>78,371</u>	<u>121,814</u>	<u>124,911</u>	<u>246,725</u>
<u>Deferred Taxes That Increase (Decrease) NYS Income Taxes</u>						
Other	(15,637)	7e	15,637			
Excess Tax Depreciation		7f	10,905	10,905		10,905
Amortization of Rate Case Expense						
Amortization of Tank Painting						
Interest on CWIP		7g	(1,975)	(1,975)		(1,975)
Total Deferred	<u>(15,637)</u>		<u>24,567</u>	<u>8,930</u>		<u>8,930</u>
Total NYS Income Taxes	<u>\$27,806</u>		<u>\$102,938</u>	<u>\$130,744</u>	<u>\$124,911</u>	<u>\$255,655</u>

New York Water Service
Joint Proposal
—FIT Interest Expense Deduction—
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 5C

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal
ate Base	\$34,043,095		\$225,692	\$34,268,787
Interest Bearing CWIP	<u>561,128</u>			<u>561,128</u>
Earnings Base	34,604,223		225,692	34,829,915
Embedded Cost of Debt				<u>3.76%</u>
Interest Deduction	<u>1,305,692</u>	6c	<u>\$3,913</u>	<u>1,309,605</u>
Interest Bearing CWIP	\$561,128			\$561,128
Avoided Cost of Debt				<u>7.77%</u>
Capitalized Interest for FIT	<u>\$61,743</u>	6d	<u>(\$18,143)</u>	<u>43,600</u>
Interest Bearing CWIP	\$561,128			561,128
Embedded Cost of Debt				<u>3.76%</u>
Debt Component of AFUDC			<u>\$21,098</u>	<u>21,098</u>
Capitalized Interest Requiring Deferral		6d	<u>\$22,502</u>	<u>\$22,502</u>
Capitalized Interest Flowed Through	<u>\$61,743</u>		<u>(\$40,645)</u>	<u>\$21,098</u>

New York Water Service
Joint Proposal
Rate Base
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 6

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal
PLANT IN SERVICE:				
Average Plant in Service	\$57,291,594	5a1	(\$80,283)	\$57,211,311
Avg. Accumul. Depreciation	<u>(21,505,101)</u>	5a2	<u>(503,302)</u>	<u>(22,008,403)</u>
Net Plant in Service	<u>35,786,493</u>		<u>(583,585)</u>	<u>35,202,908</u>
ADD:				
Plant Held for Future Use				
Non-Interest Bearing CWIP	68,869			68,869
UNAMORTIZED BALANCES				
Deferral - Rate Case Expense				
Deferral - Traffic Painting	243,347	5b	(19,586)	223,761
Deferral - Reserve for ITC				
Deferral - Pension Costs				
Unamortized Debt Expense		5c	792,521	792,521
Deferral - Consulting Fees				
Deferral - Electric financing				
Deferral - Legal Services				
Deferral - Office Painting				
Materials & Supplies	393,416			393,416
Prepayment - Current Pension Costs				
Prepayment	628,744	5d	95,940	724,684
Cash Working Capital	979,728	5e	1,273	981,001
Total	<u>2,314,104</u>		<u>870,148</u>	<u>3,184,252</u>
DEDUCT:				
Cust. Advance for Constr.	252,539			252,539
Deferred FIT & IT (Depr & OPEB/Pen)	3,804,863	5f	60,871	3,865,834
	<u>4,057,502</u>		<u>60,871</u>	<u>4,118,373</u>
Total Rate Base	<u>\$34,043,095</u>		<u>\$225,692</u>	<u>\$34,268,787</u>

* Interest Bearing CWIP -

New York Water Service
Joint Proposal
Cash Working Capital Allowance
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 7

	Per Company Profile	Adj. No.	Adjustments	Per Joint Proposal
Operations & Maintenance Exp.	\$9,834,714		(\$745,449)	\$9,189,265
Less: Non-Cash Expenses:				
Uncollectibles	62,500			62,500
Depreciation charged O&M				
Amtz. Rate Case Expense	50,000		(50,000)	
Amtz. OPE&S Expense			18,424	18,424
Amtz. Tan. Painting	36,500		(11,500)	25,000
Total	<u>149,000</u>		<u>(43,076)</u>	<u>105,924</u>
Net Oper. & Maint. Expense	9,785,714		(702,373)	9,083,341
Rate	10.80%		-	10.80%
Cash Working Capital	<u>\$1,056,857</u>		<u>(\$75,856)</u>	<u>\$981,001</u>

New York Water Service
Joint Proposal
Capital Structure
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 8

	Amount (\$000's)	Ratio	Cost Rate %	Weighted Average Ratio	Pre Tax Ratio <u>0.602052</u>
Long Term Debt	\$16,830,000	48.32%	7.77%	3.754%	3.75%
Customer Deposits	29,494	0.08%	4.70%	0.004%	0.00%
Common Equity	<u>17,870,421</u>	<u>51.59%</u>	<u>9.90%</u>	<u>5.107%</u>	<u>8.48%</u>
Total	<u>\$34,829,915</u>	<u>99.99%</u>		<u>8.865%</u>	<u>12.24%</u>
* L.T.D + Customer Deposits				<u>3.76%</u>	

C.01-W

New York Water Service
Capital Structure per Company Profile
For the Twelve Months Ending April 30, 2003

	Amount (\$000's)	Ratio	Cost Rate %	Weighted Average Ratio	Pre Tax Ratio <u>0.602052</u>
Total Debt	\$16,830,000	49.72%	7.76%	3.86%	3.86%
Customer Deposits	29,494	0.09%	7.75%	0.01%	0.01%
Preferred Stock					
Common Equity	<u>16,989,424</u>	<u>50.19%</u>	<u>10.30%</u>	<u>5.17%</u>	<u>8.59%</u>
Total	<u>\$33,848,918</u>	<u>100.00%</u>		<u>9.04%</u>	<u>12.46%</u>
* L.T.D + Customer Deposits				<u>3.87%</u>	

New York Water Service
Joint Proposal
Summary of Inflation Adjustments
For the Twelve Months Ending April 30, 2003

Appendix A
Schedule 9

Rate Yr. Items Specifically Projected	Specific Adjustments	Rate Yr. Items Subject to Gen'l Escalation	Escalation Adjustment @ -104.2870%	Rate Year
			vs. 106.3500% per Company	

nion Payroll	\$2,369,393	2a	(\$26,041)		\$2,343,352
Supervisory Payroll	659,774		(89,860)		569,914
Supervisory Leave Benefits	64,776		(8,135)		56,641
NYC Office Salaries & expenses	697,190		(92,606)		604,584
nion Leave Benefits	576,429	2b	(5,758)		570,671
Contractors & Vendors	41,970			41,970 (810)	41,160
Miscellaneous	246,614			246,614 (4,761)	241,853
Electric Power	883,931	2m	(83,000)		800,931
Diesel Fuel	18,140			18,140 (350)	17,790
Chemicals	466,281	2n	(138,000)		328,281
Laboratory Expenses	33,093			33,093 (639)	32,454
Vendors	10,843			10,843 (209)	10,634
Materials and Supplies	43,746			43,746 (844)	42,901
Equipment	13,309			13,309 (257)	13,052
Contractors- Mains	183,614			183,614 (3,545)	180,069
Contractors-Services, Meters & Hydrant	89,979			89,979 (1,737)	88,242
Amortization of Tank Paintings	36,500	2l	(11,500)		25,000
Postage	131,128				131,128
Uncollectibles	62,500				62,500
Computer Services & Vendors	149,734			149,734 (2,890)	146,844
Transportation	288,858			288,858 (5,576)	283,282
Customer Outreach/Education	42,558			42,558 (822)	41,736
Printing	38,453			38,453 (742)	37,711
Electricity-Office	34,998				34,998
Telephone	40,921			40,921 (790)	40,131
General Insurance	111,609	2o	5,000		116,609
Injuries and Damages	108,657			108,657 (2,098)	106,559
Medical, Life, & disability Insurance	1,078,008	2f	(156,837)		921,171
Pensions	676,897	2g	38,658		715,555
Other Post Employee Benefits (OPEBs)	385,238	2h	(19,517)		365,721
Tax & Audit Services	27,655			27,655 (534)	27,121
Other Outside Services	142,460			142,460 (2,750)	139,710
PSC Assessment	51,583				51,583
Rate Case Expense	50,000	2i	(50,000)		
Conventions	11,627			11,627 (224)	11,403
Donations					
Dues & Subscriptions	41,194	2j	(4,480)		35,919
Lease Payments	25,075				25,075
Settlement Commissions		2p	(73,000)		(73,000)

Total

\$9,934,714(\$715,076)\$1,573,424(\$30,373)\$9,189,265

New York Water Service
Joint Proposal
Explanation of Adjustments.
For the Twelve Months Ending April 30, 2003

	Amount
<u>Operating Revenues</u>	<u>\$32,000</u>
1 To reflect additional customer growth	
 <u>Operating And Maintenance</u>	
2a. Union Payroll	
To adjust union payroll for rate year productivity of 1%	(\$26,041)
2b. Union Leave Benefits	
To adjust union payroll for applied of 1% annual productivity	
Benefit Salary (Sick leave, Vacations and Holidays)	(4,611)
Benefit Salary (Jury duty, death in family)	<u>(1,147)</u>
	(5,758)
2c. Supervisory Payroll	
To adjust for Company's incorrect postings of its adjustment	(8,000)
Salary adjustment to reflect rate year application of 1% productivity	<u>(81,860)</u>
	(89,860)
2d. Supervisory Leave benefits	
Salary adjustment to reflect application of 1% productivity offsets	(8,135)
2e. New York Office Salaries and Office Expenses	
To adjust Management salaries and expenses from Case 97-W-1273	
level, by application of Supervisory 4% rate less 1% productivity taken in the Rate Year.	(92,608)
2f. Employee Insurance Benefits	
To adjust rate of increase for Medical Coverage	(149,081)
To adjust rate of increase for Dental Coverage	(6,498)
To adjust "all other" cost increases to the GDP escalation rate	(4,308)
To adjust capitalization of medical expenses (company's applied to	
state's adjustments	12,355
To apply 1% productivity	<u>(9,305)</u>
	(156,837)

New York Water Service
Joint Proposal
Explanation of Adjustments—
For the Twelve Months Ending April 30, 2003

dj. o.	Amount
g. Pension:	
Adjust pension expense to reflect latest allocation to utility operations	\$45,886
To apply productivity of 1%	<u>(7,228)</u> 38,658
h. Other Post Employee Benefits	
To adjust company rate year growth to GDP Inflation	(15,823)
To apply productivity of 1%	<u>(3,694)</u> (19,517)
i. Rate Case Expense	
Staff adjustment to exclude company level of Rate Case expense pending actual expense	(50,000)
j. Dues & Subscriptions	
To exclude Lobbying Costs	(4,480)
k. General Inflation	
To adjust all other cost elements escalated by inflation from CPI per Company to the GDP deflator per staff	(30,373)
l. To adjust the cost and amortization of Tank Painting Expenses	(11,500)
m. To adjust the forecasted cost of Electricity	(83,000)
n. To adjust the forecasted cost of Chemicals	(138,000)
o. General Insurance adjustment for known changes in policy rates	5,000
p. To reflect unspecified settlement concessions	<u>(73,000)</u>
 Total Adjustments to Operation and Maintenance Expense	 <u><u>(\$745,449)</u></u>

New York Water Service
Joint Proposal
Explanation of Adjustments.
For the Twelve Months Ending April 30, 2003

	Amount
<u>Depreciation Expense</u>	
3 To reflect additional depreciation @ composite rate of 2.431%	<u>(\$4,808)</u>
<u>Property Taxes</u>	
4 To adjust the company's projection of real estate taxes to reflect known levels plus general inflation only.	<u>(\$443,738)</u>
<u>Rate Base</u>	
5a1 To update projections of plant in service	(\$80,283)
5a2 To update projections of accumulated depreciation	(503,302)
5b To adjust the unamortized tank painting expense related to Adjustment.21	(19,586)
5c To reflect the unamortized balance of debt expense	782,521
5d To adjust prepayments to 13 month historic average plus GDP inflation.	95,940
5e To reflect the staff computation of Cash Working Capital	1,273
5f To update projections of the deferred tax reserve	<u>(60,871)</u>
Total Adjustments to Rate Base	<u>\$225,692</u>
<u>Federal Income Tax</u>	
To reflect adjustments to schedule M items:	
6a To reverse tax/book depreciation	78,800
6b To reflect the funding of OPEBS in the rate year	(290,000)
6c To reflect the staff computation of the FIT interest deduction	(3,913)
6d To reflect the Capitalization of interest during construction	(40,645)
6d To reflect the deferral portion of capitalized interest	22,502
6e To reflect the deduction for NY State Income taxes	<u>(94,008)</u>
	<u>(\$327,264)</u>
6f To reflect the normalization of:	
Tax Book Depreciation	71,808
Interest on CWIP	<u>(7,651)</u>
	<u>\$64,157</u>
<u>New York State Income Tax</u>	
7a To reflect post 1999 Excess Tax/over Book Depreciation	(124,269)
7b To reflect the funding of OPEBS in the rate year	(178,300)
7c To reflect the staff computation of the FIT interest deduction	(3,913)
7c To reflect the Capitalization of interest during construction	(40,645)
7d To reflect the deferral portion of capitalized interest	<u>22,502</u>
	<u>(\$324,625)</u>
7e To reverse the company's normalization adjustment	15,637
7f To normalize the Excess Tax/Book Depreciation	10,905
7g Interest on CWIP	<u>(1,975)</u>
	<u>\$24,567</u>

New York Water Service
Joint Proposal
Additional Revenue Requirement
For the Rate Years Ending April 30, 2003, 2004, 2005

Revenue Requirement Changes	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Cumulative</u>
Year Ending March 2000	\$1,450,318	\$1,450,318	\$1,450,318	
Year Ending March 2001		206,697	206,697	
Year Ending March 2002			<u>211,864</u>	
Change Over Current Rates	\$1,450,318	\$1,657,015	\$1,868,879	<u>\$4,976,212</u>
Revenue Before Rate Change	<u>\$19,377,061</u>	<u>\$20,827,379</u>	<u>\$21,034,076</u>	
Annual Percent Change in Rates	<u>7.48%</u>	<u>0.99%</u>	<u>1.01%</u>	

New York Water Service
Joint Proposal
Revenue Requirement Change for the Years Ending
April 30 2004 and 2005

Appendix A
Schedule 12

	Year Ending March 2000 After Increase	Growth Factor	Change	Revenue Requirement Year 2001	Rate Year Level Year 2001 Before Rate Change	Revenue Increase	Rate Year Level Year 2001 After Rate Increase	Growth Factor	Change	Revenue Requirement Year 2001	Rate Year Level Year 2001 Before Rate Change	Revenue Increase	Rate Year Level Year 2002 After Rate Increase
Operating Revenues	\$20,827,379				\$20,827,379	\$206,697	\$21,034,076			\$21,034,076	\$211,864	\$21,245,940	
Purchased Power for Production	800,931				800,931		800,931			800,931		800,931	
Chemicals	328,281				328,281		328,281			328,281		328,281	
Diesel Fuel	18,140				18,140		18,140			18,140		18,140	
Revenue Taxes	384,715				384,715	3,824	388,539			388,539	3,919	392,458	
	1,532,067				1,532,067	3,824	1,535,891			1,535,891	3,819	1,539,710	
RAC Revenues	19,295,312				19,295,312	202,872	19,498,185			19,498,185	207,945	19,706,130	
Payroll	4,146,162	2.50%	103,629	103,629	4,248,791		4,248,791	2.50%	106,220	106,220	4,355,011		4,355,011
Employee Insurance Plan	921,171	2.50%	23,029	23,029	944,200		944,200	2.50%	23,605	23,605	967,805		967,805
Pensions	716,555	2.50%	17,889	17,889	733,444		733,444	2.50%	18,338	18,338	751,780		751,780
Post Retirement Benefits	365,721	2.50%	9,143	9,143	374,864		374,864	2.50%	9,372	9,372	384,236		384,236
Unspecified Settlement Contributions	(73,000)				(73,000)		(73,000)			(73,000)		(73,000)	
Other Operation and Maintenance	1,987,304	2.50%	49,183	49,183	2,036,487		2,036,487	2.50%	50,412	50,412	2,086,899		2,086,899
Depreciation Expense	1,380,667				1,415,667		1,415,667			1,440,667		1,440,667	
Property Taxes	5,360,997				5,360,997		5,360,997			5,360,997		5,360,997	
Other Taxes other than FIT	299,777				299,777		299,777			299,777		299,777	
Income before FIT	\$4,201,969		(1202,873)		\$3,979,095		\$4,176,958		(1207,945)	\$3,969,013		\$4,151,958	
Rate Base	\$34,288,787		\$1,000,000		\$35,288,787		\$36,288,787		\$1,000,000	\$37,288,787		\$38,288,787	
Revenue Tax Gross Ups				3,824						3,819			
Total				\$206,697						\$211,864			

APPENDIX B

RAC OPERATION: The Company shall reconcile annual base revenues with those allowed in this case for each of the rate years. The accumulated balance of the variance between the actual and allowed revenues will be reconciled on an annual basis and filed with the Staff of the Office of Accounting and Finance and Office of Gas and Water-Water Rates Section within 30 days of the end of the rate year. The reconciliation filing will include, among other things: a schedule showing monthly metered consumption and production for the rate year, and the yearly authorized reconciled amount, the amount collected/refunded during the rate year, and the current balance recoverable/refundable through rates. The revenue variance will be adjusted for the costs of chemicals and production power. The accumulated balance will accrue interest at the Commission – established other customer deposit rate. One third of the accumulated balance for the year will be recovered or refunded annually from metered customers during the following twelve month period.