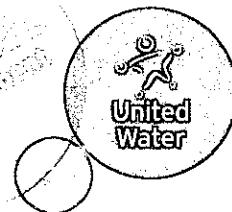


UNITED WATER
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July 29, 2009

Ms. Jaclyn A. Brilling
NYS Public Service Commission
Secretary to the Commission
3 Empire State Plaza
Albany, NY 12223

Dear Secretary Brilling:

It is our pleasure to submit the attached report in response to your department's request dated April 7th, 2009 for United Water New York to provide a self-assessment of its internal controls associated with the procurement and management of contractor services.

2009 AUG -3 PM 3:53

United Water takes the issue of internal management controls for all business related activities very seriously. As detailed in our report, United Water has a very strong program surrounding the review of internal controls and the adoption of best practice from business unit to business unit.

The Company's process of annual self-evaluation in conjunction with the various spend and procurement controls described in the attached report and audits by our internal and external auditors all provide reasonable assurance that the control environment established to protect the company from unethical and inappropriate behavior related to contractor payments is adequate and operating as designed.

Should you have any questions or points of clarification please contact myself, (dennis.ciemniecki@unitedwater.com) 201-767-2835 or Mike Pointing (michael.pointing@unitedwater.com) 845-620-3312.

Sincerely,


Dennis L. Ciemniecki
President Regulated Segment

Cc Thomas G. Dvorsky
James Evensen
Robert Iacullo
Michael Pointing
Michael J. Scott



Report on the Self Assessment of Internal Controls Associated with the Procurement and Management of Contractor Services



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Background Information

United Water New York Inc. "United Water New York" or the "Company" provides water service to approximately 290,000 people in Rockland County, New York and is subject to regulation by the New York Public Service Commission ("PSC"). The Company's accounting policies comply with the uniform system of accounts prescribed by the PSC and conform to generally accepted accounting principles as applied to rate regulated public utilities. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation". SFAS No. 71 provides for the recognition of regulatory assets and liabilities, as allowed by state regulators that are considered probable of recovery or refund.

The Company is part of the GDF Suez group, which was formed by the 2008 merger of Suez and GDF, approved by the PSC. Furthermore, Suez Environnement, a subsidiary of GDF Suez, is the sole shareholder of the Company. GDF Suez owns 35% of the shares of Suez Environnement. Suez Environnement shares are publicly traded on the Paris Stock Exchange

Prior to 2008, United Water was a wholly owned subsidiary of Suez, which was publicly traded on the New York Stock Exchange. As a result, in 2005 Suez implemented a companywide process called CODIS (Control and Disclosure) to improve its internal control environment by requiring all of its subsidiaries to be compliant with the Sarbanes-Oxley Act of 2002 ("SOX"). Although United Water's shareholder is no longer listed on a stock exchange in the United States, as a subsidiary of a publicly traded company listed on the EURONEXT, United Water has committed to remaining compliant with SOX. In addition, the Autorité des Marchés Financiers (AMF), the Securities regulatory body of France, also requires self-evaluation of financial and operational transactions and also require that the Company's senior officers attest to the accuracy of the financial statements and the adequacy of its internal controls.

United Water and several of its subsidiaries including United Water New York ("UWNY") are required to issue annual audited financial statements to its parent company, bond holders and the PSC.

Response approach

The team responding to your request included members from our Procurement, Finance, and Internal Audit departments and has been reviewed by both Operations and Senior Executive Management to ensure the accuracy and completeness of the information.

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While we will not attempt to list every transactional control in place, this document will provide a summary of the following:

- The Company's Capital expenditure budget and approval process
- The Company's Spend Control Policy
- The Company's Procurement Policy
- A segregation of duty analysis provided by our Internal Control Team to our External Auditors which will include discussion of Supply Chain Management, Accounts Payable, Vendor Management, our Audit Committee, and our annual self-assessment process.

Capital Expenditure Budget and Approval Process

The Capital Expenditure (CAPEX) presentation to the United Water Board of Directors usually occurs at each January Board of Directors meeting. At the meeting, the United Water Board will approve the total capital spending budget for the new year for all business units.

Additionally, the budget is subject to Suez Environnement's review and approval. After approval, the capital plan is distributed to United Water's Engineering and Regulatory Department for implementation and monitoring throughout the year.

Capital Expenditure Authorization (CEA) Approval

The Company's capitalization policy requires that expenditures having a useful life expectancy exceeding one year and a cost greater than \$750 are to be capitalized. Prior to purchase, the Requestor must complete a Capital Expenditure Authorization Form ("CEA"). The following table illustrates United Water's capital expenditure ("CAPEX") spend control policy and approval hierarchy.

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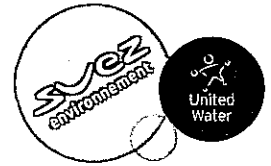


	Capital Expenditure Authorization Levels (CEA's)				CEA Change Order Authorizatio n Levels	
Level	CEA Net Estimated Cost		(+ or -) Variance from Plan	CO Variance from Approved CEA Amount		Change Order Exceeds
Company Engineering Manager	All	or	All	Over 10%	And	\$10,000
Company General Manager	Over \$50,000	or	Over \$25,000	Over 10%	And	\$25,000
Capital Investment Director	Over \$100,000	or	Over \$50,000	Over 10%	And	\$50,000
Segment President/	Over \$250,000	or	Over \$200,000	Over 10%	And	\$200,000
CEO/Preside nt UWI	Over \$500,000	or	Over \$500,000	Over 10%	And	\$500,000
Board of Directors	Annual CAPEX Plan	or	Over \$5,000,000	Over 10%	And	\$2,000,000

All individual CEA's and CEA Change Orders exceeding five million Euros must also be formally approved by Suez Environnement and GDF Suez.

Please note that the Company engineering manager, who generally runs each project and manages all contractors, can only approve a CEA up to \$50,000 (after it has been approved by the Director of Planning and the Board of Directors) and a change order up to \$10,000. Above these dollar limits, approvals and changes would have to flow upward to the General Manager, the Capital Investment Director, the Segment President, and so on as illustrated in the table above.

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In addition to the change order approval limits, United Water requires a segregation of duties and uses independent field contractors/consultants to conduct actual field measurements. These field measurements are randomly checked and validated by United Water staff. Where field investigations are required for routine operating expense projects, flexibility exists in job descriptions and allows the rotation of staff working in the field inspection roles.

Note about CEA Concurrence Signatories: All individuals with authority levels below the total amount of a given CEA must sign the CEA as an indication of concurrence. For example, the Company Engineering Manager, the Company General Manager, Capital Investment Director, and segment Presidents all must sign a \$400,000 CEA for it to be considered approved. The Company Engineering Manager has a responsibility to sign all CEA's regardless of magnitude.

Process Note: In addition to the manual CEA approval process, actual disbursements to CEA vendors are required to be processed through the Company's Enterprise Resource Planning (ERP) system (PeopleSoft) via individual purchase orders and the appurtenant PeopleSoft invoice approval requirements.

United Water Spend - Operating Expenditure Control Policy

The company has defined maximum dollar limits for approving operational expenditures ("OPEX") which must be complied with. These limits are designed to ensure a reasonable degree of approval authority at all levels of the organization. These OPEX limits are determined and documented by Finance and Procurement and have been formally embedded in the Company's ERP and other systems. Manual approval authority limits mirror automated system approval limits. Manual invoices must be supported by a documented authorized signatory list for the purpose of formally facilitating invoice and payment processing.

The OPEX Spend Control Policy is as follows, with all approval levels below the Executive Management Team (EMT) level required to be specifically authorized on an employee-by-employee basis by individual EMT members:

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Authority to Approve Operational Expenditures	
	\$
Board of Directors	Formal approval of annual OPEX plan
CEO/President (UWI Inc.)*	Over 500,000
EMT Members/CFO/Select Company Officers**	Up to 500,000
General Manager (or equivalent)	Up to 50,000
Directors	Up to 25,000
Select Managers and Supervisors	Up to 10,000
Others nominated by an EMT member/Officer	Up to 2,000

**The CEO may formally delegate increased authority during his absence.*

***Select Company Officers include the Vice President of Tax, and the Treasurer.*

NOTE: The above chart indicates the maximum OPEX authority for employees by title; however, employee authority limits will be limited by their true business needs as determined by their supervising EMT member.

United Water's Key Procurement Policy Elements

United Water management relies upon the Supply Chain Management Team (SCM) to procure the majority of its goods and services at the best value for internal clients in a manner that achieves the greatest possible business efficiencies and maintains the highest standards of ethics and professionalism.

United Water's policy is to competitively procure the goods and services it needs for its operations and capital investments. United Water's policy requires competitive bidding for all purchases that are equal to or greater than \$25,000. This applies to both one-time, specific purchases and purchases spread out over the entire year.

Competitive procurement requires a minimum of two (2) quotes or bids, preferably three (3) or more; and also implies the selection of the "best value" bid.

Competitive bidding may be performed by SCM or by the individual business units and/or any of the M&S support departments; however, for all purchases exceeding \$25,000 the following rules must be adhered to:

- For any purchase between \$25,000 and \$50,000, early consultation with SCM is recommended.
- For any purchase between \$50,000 and \$500,000, early consultation with SCM is required.
- For any purchase greater than \$500,000, early engagement of SCM is required.

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SCM consultation means that the Business Unit may process the bid locally, but must share with SCM the particulars of the project and bid process (i.e. scope of goods or services, contract template, bid list, price sheet and bid format, bid results and evaluation, etc.) prior to entering into a contract or issuing a P.O.

A Supply Chain Management initiative in conjunction with the NY companies of United Water has adopted a policy to contract and bid grouped spending for blanket purpose. Grouping annual spends and bidding on a blanket basis enables the use of approved contractors and insures that SCM is involved at all stages. This removes the need for local bidding and provides good segregation of duties around the difficult to control processes like salvage.

All employees who purchase goods or services are obligated to procure items at the lowest available price in the marketplace while reasonably fulfilling the delivery, quality and response time requirements for United Water's business operations. The absence of a rigorous procurement discipline at every employee level is not acceptable.

United Water acknowledges situations where competitive procurement is not feasible, relevant or practical such as: sole or single source vendor situations; when the spend amount is nominal (i.e. under \$25,000); emergency purchases made to avoid work stoppage, downtime, injury or unusual costs. In those situations where competitive procurement is not feasible or relevant, the employee involved in the vendor selection process must obtain written (e-mail) endorsement from either their supervisor and/or SCM prior to placing a purchase order or issuing a contract.

New vendors and updates to existing vendor information can be added only by SCM into the Company's ERP System. All requests for new vendors must be accompanied by a duly executed and approved New Vendor Application Form.

Purchasing ethics align directly with Suez Environment's and GDF Suez purchasing ethics (available on United Water's internal website). These govern United Water procurement in terms of rules of conduct, rules of fair competition and commitments to sustainable development and social responsibility and address the "conflict of interest" situations. United Water employees in a position to approve vendor selection are required to disclose any "conflict of interest" situation. In particular, where the employee has any kind of affiliation (a personal or financial interest) to a current or potential vendor of United Water, that employee is required to disclose that interest at minimum on an annual basis. In those situations where there is a "conflict of interest", the employee cannot be involved in the vendor selection process. Only a Director/General Manager/VP level can confirm, in writing (e-mail), the selection of such a vendor. This area is administered by Internal Audit, Human Resources and Legal.

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The proper delegation of authority to execute contracts on behalf of United Water is required to minimize financial, legal and related risks and to ensure that appropriate fiscal and management controls are in place. Individuals do not have the authority to approve or sign contracts with external parties on behalf of the Company unless (1) the signatory is an officially designated officer of the Company (EMT members, Corporate Officers, Business Unit VP's, GM's and/or Project Manager's; (2) the purchase is made in accordance with United Water's Procurement Policies and Procedures; (3) the contract used is an approved United Water standard contract template or written proof of legal and procurement review (in the form of a Procurement Review Form (PRF)) has been obtained prior to execution and; (4) the contract amount is not greater than the dollar limits set forth in the section below.

With the exception of capital projects and personal service contracts, officers of the Company may enter into agreements that do not exceed an annual spend amount of \$250,000. OPEX contracts exceeding this amount must be signed by the appropriate Segment President, the CFO, or the CEO.

Capital Project contracts may be signed by officers of the Company if all of the following conditions are met:

- The contract amount is less than \$500,000
- A Capital Expenditure Authorization form (CEA) has been duly processed and authorized at the appropriate approval level.
- The purchase is made in accordance with the company's Policies and Procedures.
- The contract used is a United Water standard contract form and has been reviewed and approved by both the Procurement and Legal departments. (Note that all contracts greater than \$500,000 must be reviewed by both departments prior to execution.)

Any contract that does not meet all of the above requirements must be signed by the appropriate Segment President, the CFO, or the CEO.

Personal Service contracts (Personal Service contracts are consulting contracts issued to a sole proprietor as opposed to a corporation) may be signed by authorized officers of the Company if they do not exceed an annual spend amount of \$250,000. Note that all personal service contracts must be reviewed by the Legal Department prior to execution. Personal service contracts that are greater than \$250,000 must be signed by the appropriate Segment President, the CFO, or the CEO.

The chart below summarizes the general requirements of the SCM and Legal Teams regarding purchases.

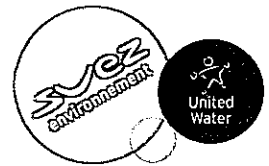
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Spend \$ Value	Documents Required	SCM Action	Legal Review
\$500,000 or greater	-PRF - Contract	SCM manages the procurement and contracting. PRF ¹ is required; Approval from the Capital Project Committee	Required
\$50,000 to \$500,000	- PRF - Contract/ P.O. (at SCM or Legal discretion)	SCM consultation is required at beginning of project. If this is an equipment purchase and a contract is not applicable, only the PRF needs to be forwarded to SCM	Only required when proposed changes are made to UW standard templates
\$25,000 to \$50,000	- PRF - Contract/ P.O. (at SCM or Legal discretion)	SCM consultation is recommended at beginning of project. If this is an equipment purchase and a contract is not applicable, only the PRF needs to be forwarded to SCM	Only required when proposed changes are made to UW standard templates
Under \$25,000	- Contract/ P.O. (at Legal discretion)	Where a contractor is performing work, a risk assessment can be performed by the Project Manager to determine whether a contract is required. If this is an equipment purchase and a contract is not required, only the PRF needs to be forwarded to SCM	Only required when proposed changes are made to UW standard templates
All other contracts (non-procurement)		Not required	Required
All consulting contracts (any amount)	-PRF -Contract	Contract shall be forwarded to SCM who will review and forward to Legal	Required

¹ The Procurement Review Form (PRF) aims at ensuring that all procurement contracts United Water enters into have received SCM and Legal review.

Report on the Self Assessment of Internal Controls Associated with the Procurement and Management of Contractor Services



Segregation of Duties (SOD) Analysis

Review of Supply Chain Management

For automated initiation of a PO, the PeopleSoft system is designed so that all requisitions are entered/initiated by one individual and approved by a separate individual. Only approved requisitions result in a purchase order. If a requisition is not approved, it will not result in a purchase order. There are distinct system approval access rights that segregate a requisitioner's role from an approver's role in the PeopleSoft system. As such, a requestor cannot approve his/her own requisition. There are several buyers at the corporate/regulated level and several buyers within the contract services segment. Once an approved requisition becomes a purchase order, the buyers are responsible for continuously processing purchase orders by ordering inventory etc. Buyers also have the ability to enter requisitions; however they cannot approve requisitions or process payments nor do they have the right to create or post journal entries.

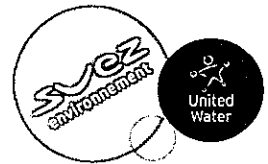
As designed by United Water Management, the primary mitigating control for the segregation of duties in PeopleSoft is the initial authorization of each user's access rights by the Controller's group (Corporate Controller, Regulated and/or Contract Services Controller) coupled with the annual security audit and approval of system user rights performed by the Controllers group. No employee can gain access to PeopleSoft without express written approval from this group.

Review of Vendor Management

Only authorized personnel can add, change or de-activate vendors on the Vendor Master File in PeopleSoft. Other procurement personnel have view only capabilities. This is supported by defined user access capabilities and restrictions within PeopleSoft. Individuals that have access to the Vendor Master File do not perform conflicting Accounts Payable duties, such as vouchering of invoices or selecting vendors to be paid.

A new vendor may only be added to the Vendor Master File after the completion of a "New Supplier Application" (the completed application and W-9 Form) form by both the vendor and the Manager or Supervisor of the requestor, as well as approvals from the appropriate procurement individual(s). In order for a change to be made to an existing vendor, the party requesting the change must submit an email/fax supporting the change requested (i.e. an invoice with the new vendor address) to the authorized SCM personnel. SCM maintains a file that includes all vendor changes (email and supporting documentation).

Report on the Self Assessment of Internal Controls Associated with the Procurement and Management of Contractor Services



A further Segregation of Duties SOD analysis of Supply Chain Employees' roles, in order to determine if there are employees with various conflicting roles, revealed no major exceptions. United Water has adequate controls in place to mitigate the various risks associated with this process. Additionally, between December 2008 and March 2009, the Company's external auditors independently reviewed our analysis and noted no major deficiencies in our internal controls over this process.

Review of Accounts Payable: Invoice Payment Processing

Invoices are vouchered centrally by the Accounts Payable ("AP") department. Approved vendor invoices are vouchered through the accounts payable system by authorized accounts payable analysts. All other accounts payable personnel have view-only capabilities. Invoice approval is generated via the requisition process as previously discussed. In other words, requisitions are approved electronically in PeopleSoft in line with the approved EMT authorization limits (evidence of approval resides electronically in PeopleSoft). The approval of a requisition is confirmation that the item(s) being purchased have been adequately reviewed and approved for payment by management. Invoices cannot be vouchered without this approval. Alternately, express vouchers (requests for payments of purchases not generated by a requisition/P.O. e.g., payroll, union dues and some recurring tax payments) are primarily supported by an approved "Request for Check" form or recurring contract that is completed and approved as support for the amount being recorded in the system. Check requests are supported by a "Request for Check" form that is approved by authorized personnel following the same strict line of approvals as outlined by the EMT. Prior to booking check requests in PeopleSoft, AP analysts review every check request approval against the EMT approval limits in order to ensure the approver is authorized to approve payment for the pending amount. Approval limits are consistent with those defined in the company's Financial Organization Management Book (FOMB) by the EMT.

Also Template Vouchers used primarily for utility invoices, are set-up for a vendor account with a hi-low dollar range. As long as the invoice amount is within the established range approved by the General Manager or other authorized representative for that vendor, the invoice can be entered into the system in order to process payment. If the invoice exceeds the hi-range, the AP analyst is required to obtain additional approval from the respective supervisor/manager prior to entering the invoice for payment processing. Accounts Payable (AP) retains approved template spreadsheets by business unit. Template spreadsheets are signed off by approver (in line with the approval matrix) on an annual basis.

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Based on authorization of vendors' invoices as described above, on a daily basis a representative from the AP department submits to the Treasury Department a file listing Automated Clearing House ("ACH") payments to be processed by the bank. The file dictates to the Treasury Staff the amount required to fund the subsequent day's payments. The file details the names of the vendors and the amounts to be paid. In addition to the requisite approvals obtained either automatically via the PeopleSoft requisition system or manually by authorized approvers, all wire transfers and payments, are adequately approved by the Treasurer or authorized Treasury representative prior to the disbursement of funds to the various vendors. In other words, prior to the disbursement of funds from United Water's bank accounts, the Treasurer and authorized staff review the total amounts being processed and adequately approve (two signatures) the disbursement of the funds as evidenced on the Daily Cash Activity sheet and corresponding backup.

Review of the Audit Committee

United Water's Audit Committee of the Board meets at least three times a year or whenever required. United Water's Audit Committee of the board includes two independent members, one of whom chairs the Committee. Internal and external audit reports are communicated to all members of the Audit Committee on a real time basis. Reports are generally discussed during Audit Committee meetings. Also United Water's external auditors' participate in Audit Committee meetings.

The Internal Audit Department has a four member staff consisting of a Director and three Senior Auditors. The Internal Audit Department performs independent reviews and audits in order to provide assurance that controls within the organization are functioning properly to ensure that risks are minimized and corporate goals are achieved, effectively and efficiently. The Director of Internal Audit has an administrative reporting line to the CEO and a functional reporting line to the Audit Committee and is responsible for developing and executing a three-year risk-based audit plan, which is updated annually if new risks evolve or change. The risk based audit plan covers all major processes and business units within United Water. Internal Audit reports of audits, reviews and investigations are issued to senior management, the Audit Committee and the management of the areas that are directly impacted by the audit/review.

United Water's Ethics Process

United Water's Ethics Committee maintains responsibility to oversee United Water's Ethics program and to investigate ethics related matters, including fraud. United Water maintains an Ethics Committee consisting of the following employees:

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Director of Internal Audit
Senior Vice President - Human Resources
Senior Vice President and General Counsel

An Ethics Hot Line is available for employees or vendors to confidentially contact one of the Ethics Committee members with a question or complaint. An Ethics Log is maintained by the Ethics Committee, which records all calls or allegations/complaints to the Ethics Committee. The Ethics log contains all of the detail concerning the complaint, as well as the resolution to the complaint or allegation. Employees also have the ability to call or visit one of the Ethics Committee members directly in order to ask a question or voice a concern.

The Legal department is consulted as appropriate to assist in any ethics related investigation. Ethics investigations and the results of the investigations are formally reported to the Audit Committee

United Water's Self Assessment Practice

United Water as part of the commitment to SOX and AMF compliance performs an annual self-assessment of its internal control environment.

The self-assessment is performed by all stakeholders within the company in order to ensure continued SOX & AMF compliance and improve the efficiencies of our internal control processes. The various business process owners ("BPO") or control owners ("CO") designees perform a self-assessment (walk-through) of the controls that are under his/her purview. Ultimately, the BPO/CO is responsible for the analysis of the internal control design and operating effectiveness in order to indicate whether the controls have been appropriately designed, operating and documented. Additionally evidence must be retained to substantiate the self-assessment. United Water's last self-assessment was completed on June 30, 2009.

BPO/CO review their controls by performing a walkthrough of the various processes in order to ensure that the daily executed steps are articulated in writing exactly as they are performed. In other words, the control activity ("CA") description should be designed to meet the need of the control objective. If it appears that the two do not agree, then there is discussion to ensure that they are adequately corrected. Additionally if a control activity as described is irrelevant, does not pose a business risk and/or does not add value, it is removed accordingly.

Report on the Self Assessment of Internal Controls Associated with the Procurement and Management of Contractor Services



The self-assessment is a tool used by management and monitored by United Water's Internal Control Coordinator and tested by Internal Audit to ensure compliance.

BPO/CO perform the following steps:

- Observe that the control activity is consistently performed as documented i.e. all tasks described are performed in the same sequence, by the person mentioned
- Ensure the nature and type of control is accurate e.g., manual vs. automated, preventive vs. detective
- Ensure that adequate evidence exists, is properly formalized (reviewed/approved) and retained
- If all the criteria above are met, the conclusion is that the control activity is designed and operating. If not, the control activity is "not operating" and an action plan must be defined to remediate the deficiency
- Report assessment results via a checklist asserting to the effectiveness of the control to the ICC.

There is also a high level entity level review, which is conducted by senior and executive management. United Water's annual Committee of Sponsoring Organizations ("COSO") questionnaire supports management's self assessment on the general control environment that is in place. The Committee of Sponsoring Organizations (COSO) is a voluntary private-sector organization dedicated to guiding executive management and governance entities toward the establishment of more effective, efficient, and ethical business operations on a global basis. The COSOS questionnaire i.e., Self-Assessment Questionnaire (entity level controls) is reviewed annually and formally reviewed and approved by the CEO, CFO and CIO. The document is submitted to the shareholder by the fourth quarter of every year and last completed on October 15, 2008.

Conclusion:

The company finds that there are no material deficiencies in its internal controls related to procurement and contractor management.

The Company's process of annual self-evaluation in conjunction with the various spend and procurement controls described herein and audits by our internal and external auditors all provide reasonable assurance that the control environment established to protect the company from unethical and inappropriate behavior related to contractor payments is adequate and operating as designed.