

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
New York on June 2, 2004

COMMISSIONERS PRESENT:

William M. Flynn, Chairman  
Thomas J. Dunleavy  
Leonard A. Weiss  
Neal N. Galvin

CASE 03-W-1810 - New Electronic Tariff Schedule P.S.C.  
No. 2 - Water filed by Fishers Island Water  
Works Corporation, superseding tariff  
schedule P.S.C. No. 1 - Water, which sets  
forth rules and regulations under which the  
company will operate, including new rates  
designed to increase its annual revenues by  
\$161,260, or by 41.7%.

ORDER SETTING RATES

(Issued and Effective June 29, 2004)

BY THE COMMISSION:

INTRODUCTION

On December 30, 2003, Fishers Island Water Works  
Corporation (Fishers Island or the company) filed an electronic  
tariff schedule, P.S.C. No. 2 - Water, requesting an increase in  
rates to produce additional annual revenues of \$161,260 or  
41.7%.<sup>1</sup> The company's last revenue increase of \$45,701 or  
17.9% was effective July 14, 1990.<sup>2</sup> Details of the filing and

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<sup>1</sup> The Commission postponed the April 1, 2004 effective date to  
July 1, 2004.

<sup>2</sup> Case 90-W-0318, Fishers Island Water Works Corporation, Untitled  
Order (issued June 18, 1990) (1990 Order).

other tariff provision changes are described below and contained in Appendix A.

Pursuant to State Administrative Procedure Act (SAPA) §202(1), notice of the petition (notice) was published in the State Register on January 28, 2004. No comments were received in response to the notice.

#### BACKGROUND

The company's water system is located on Fishers Island (Island) in the Long Island Sound. The Island is primarily a summer resort community, with a year-round population of 265 and a summer peak population of about 3,000. Fishers Island provides water service to 626 metered residential customers, of which 121 are served under SC 1 (year-round) and 505 under SC 2 (seasonal). The company also provides public fire protection service under SC 3 to the local fire district through 146 hydrants. The water system was inspected on August 21, 2003 and found to be good condition.

The company states that, since the last rate case in 1990, its plant in service increased by \$863,438 (from \$1,216,574 to \$2,080,012) as the result of several plant additions. The additions include \$72,030 for improvements to the filtration tank at the water treatment plant in 1990, \$125,589 for a new well with pumping facilities, as well as improvements to an existing well, and \$371,025 for cleaning and cement lining of 15,000 feet of 10 inch diameter cast iron water mains in 1999. The balance of the plant-in-service increase of \$294,579 relates to several small projects.

The Filing

The electronic tariff schedule filed by the company is the standard tariff approved by the Commission for other small water companies.<sup>3</sup> The company proposes a number of tariff provisions, including changing the billing cycle for residential customers from quarterly to monthly. The company currently bills all residential customers a usage rate of \$6.65 per thousand gallons (TG), with a minimum charge based on meter size and a quarterly water allowance.

In support of its filing, Fishers Island submitted balance sheets, income statements and historical expenses for the years ended December 31, 2000, 2001 and 2002. The company also submitted projected income statements and expenses for the calendar years 2003 and 2004. The base year is 2002 and the rate year is 2004. The company's filing reflects an increase of \$193,159, or 54%, above the revenue requirement set in 1990. Of this amount, \$169,519 (88%) is related to an increase in operation and maintenance (O&M) expenses and \$23,640 (12%) is related to the net increase in other expenses. The Fishers Island filing reflects a rate base of \$1,370,856.

As described in more detail below, the company's proposed revenue increase of \$161,260, or 41.7%, is actually \$123,306, or 29%.

A bill analysis (reflecting average annual consumption during 2000-2002) indicated that Fishers Island understated base year revenues at current rates by \$37,954. This reduces the requested revenue increase by \$37,954, from \$161,260 to

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<sup>3</sup> Subsequent to the original filing, the company filed first Revised Leaf No. 13 to include the charge of \$95, for removal, storage and reinstallation of a seasonal customer's meter, which was inadvertently omitted from the original filing.

\$123,306, or from 41.7% to 29%. The company projected rate year revenue at current rates is \$386,702 (or \$43,709 less revenue than the \$430,411 booked in 2002).

Rate Design

Under the company's proposed rates, the average annual residential bill for a year-round customer would increase from \$403 to \$457 (13.4%) and a seasonal customer's bill would increase from \$646 to \$857 (32.7%). Fishers Island proposes to establish two different rates for year-round (SC 1) and seasonal (SC 2) customers. The usage rate for year-round customers would increase from \$6.65 to \$7.11 per TG, a 6.9% increase. The seasonal customers' usage rate would increase from \$6.65 to \$8.58 per TG, a 29% increase. The minimum charge for each meter size would change to reflect a monthly water allowance equal to one third of the existing quarterly allowance. The company also proposes to increase the annual rate for public fire hydrant service (SC 3) by 14.8%, from \$210 per hydrant to \$241 per hydrant. Other tariff revisions include: (1) increasing the charge to remove, store, and re-install water meters for seasonal customers from \$75 to \$95; (2) increasing the restoration of service charges; and (3) changing the notice regarding the discontinuance of service rules to conform to the provisions of 16 NYCRR §533.3.

There are currently two residential service classes, SC 1 year-round and SC 2 seasonal (June through September). However, both are currently charged the same quarterly rates. In its filing, the company proposed that SC 1 customers, those who are year-round residents of the Island and make the Island their legal domicile, be charged lower rates than those charged under SC 2 for seasonal residents who do not meet the requirements of SC 1.

On May 14, 2004 the company submitted a revised proposal for assigning customers to either SC 1 or SC 2, based on customer usage. Each customer's usage for the past 12 months would be reviewed in June of each year, with each customer's winter usage (October-May) compared to their summer usage (June-September). If winter usage is more than summer usage, the customer would be charged SC 1 rates in the coming year. If winter usage is less than summer usage, the customer will be charged SC 2 rates. For the first year under new rates, the company would perform the test prior to the rates going into effect on July 1, 2004.

Other Tariff Provisions

Fishers Island proposes to increase its restoration of service charge from \$25 at all times to \$95 during normal business hours; \$150 during the weekday, but outside of normal business hours; and \$200.00 on weekends or public holidays.

The company also proposes a late payment charge, computed at the rate of 1-1/2% compounded monthly, applied to all balances left unpaid 25 days following mailing of the customer's bill. The proposal also includes a provision allowing the company to impose a returned check charge plus a handling fee of \$5.00 (not to exceed the maximum allowed by Section 5-328 of General Obligations Law).

New York State Revenue and Income Taxes

Currently, New York State revenue based taxes are recovered through the company's base rates. The Commission addressed the implementation of the 2000 New York State tax law

changes on utilities in Case 00-M-1556.<sup>4</sup> The 2001 Tax Order requires small utilities to track the difference between the New York State revenue based utility taxes under the superseded tax law versus the revenue based taxes under the new law and the new state income tax on utilities. Any significant over-collections were to be addressed in each utility's next rate case. A reconciliation of those taxes indicates a net over-collection of \$24,562.

Customer Notification

On January 20, 2004, the company mailed a notice to all customers regarding the rate filing. The notice contained details of the changes, including a comparison of the company's existing and proposed rates. Fishers Island reports that earlier in 2003, company representatives met and discussed the need for a rate increase with local civic association members. No complaints from customers were received regarding the rate filing or the company's service.

DISCUSSION AND CONCLUSION

Fishers Island is granted a 20.8% rate increase to produce additional annual revenues of \$88,172. The increase will result in an annual revenue requirement of \$512,828 (\$424,656 + \$88,172)(see Appendix C). The Commission also finds that the company's proposal for year-round residents (SC1) to be

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<sup>4</sup> Case 00-M-1556, In the Matter of Proposed Accounting and Ratemaking for the Tax Law Changes in the 2000-2001 New York State Budget, Order Implementing Tax Law Changes on a Permanent Basis (issued June 28, 2001) (2001 Tax Order).

charged lower rates than seasonal residents (SC 2) is reasonable and is approved. The company's return is set at 11% for the reasons discussed below. Fishers Island's other requested tariff changes for a monthly billing cycle, an increase in restoration of service charges, and an increase in the charge to remove, store and re-install seasonal customer's meters are also granted.

The rate increase will mean that the average annual residential bill for year-round customers (SC 1) will increase by \$21 or 5.2%, to \$424, and the average annual residential bill for seasonal customers (SC 2) will increase by \$150 or 23.2%, to \$796. A higher rate for seasonal customers is justified because it costs more to provide water service under maximum demand conditions than under average demand conditions. The seasonal customers' annual usage is 45% higher than that of year-round customers (e.g. 74 TG vs. 51 TG), and the seasonal customers usage occurs during the summer - June through September - the maximum demand period. The extra demand during the summer accounts for approximately 17% higher operating costs. Fishers Island's revised proposal for assigning customers to either the SC 1 or SC 2 service class is more equitable than its original proposal. Consequently, an additional increase of \$1.20/TG, or 17%, over the company's proposed \$7.00 per TG SC 1 year-round rate, is added to the SC 2 seasonal customer's usage rate (\$8.20 per TG). The company is directed to file tariff leaves containing the rates shown in Appendix B, with an effective date of July 1, 2004. Appendix B shows the average annual bill and a comparison of Fishers Island's current and proposed rates and the Commission's rates.

Fisher Island's increase in its fire hydrant rate from \$210 to \$241 will result in about 7% of the company's revenue coming from the hydrant rate. Based on a comparison with other

water companies and their cost of service studies, about 8% of annual revenue is derived from public fire service. Fishers Island's proposed hydrant rate is reasonable and is, therefore, approved.

The 11% return on rate base (return) was determined based on the Office of Accounting and Finance's range of reasonable returns for small water companies. Fishers Island provides exceptionally good service, the Commission has received no customer complaints regarding the company or its service, and the company has been very responsive in making necessary repairs to its system - even during the winter. Thus, a return at the upper end of the range of reasonable returns is warranted. This return is based on a pre-tax rate which reflects both federal and state income taxes.

The Commission's analysis revealed that O&M expenses have increased by 63% and real estate taxes by 64% since 1990. Certain O&M expenses fluctuated since 1990 and were adjusted to reflect an average level. Adjustments were made to rate base to reflect plant additions, retirements and an updating of accumulated depreciation since the 1990 Order.

Fishers Island used lower depreciation rates for all of its plant accounts to calculate its accumulated depreciation balance instead of the higher depreciation rates allowed in the 1990 Order. As a result, the appropriate rate base as of December 31, 2004 is \$977,048, or \$393,808 less than the company's level. The company is directed to compute, and accrue, annual depreciation using the same depreciation rates allowed in the 1990 Order and to adjust its books to reflect accumulated depreciation based on those rates.

Changing the current quarterly billing cycle to monthly is approved because it will improve cash flow and allow the operators to locate malfunctioning meters more quickly. The

charge to remove, store, and re-install a water meter for seasonal customers will be increased from \$75 to \$95. Regarding the restoration of service charge, Fishers Island is directed to set the restoration of service charge, respectively, as follows: (1) \$60 during normal business hours; (2) \$120 outside of normal business hours; and (3) \$150 on weekends or public holidays.

The net overcollection of \$24,562 in revenue-based taxes shall be returned to customers over five years, or \$4,912 per year, through a customer bill credit of 0.95% (e.g. \$4,912/\$512,828 annual revenue) until the full amount is refunded.

Since the company individually notified its customers of the proposed rate increase, it is granted a waiver of the requirement of newspaper publication pursuant to Public Service Law §89-c(10) and 16 NYCRR §720-8.1.

The Commission orders:

1. Fishers Island Water Works Corporation is directed to file its electronic tariff schedule, P.S.C. No. 2 - Water, in the form contained in the attached Appendix A, on or before July 1, 2004.

2. Fishers Island Water Works Corporation is directed to file, on not less than one day's notice, to become effective July 1, 2004, First Revised Leaves Nos. 10, 12, 15 and 16, and Second Revised Leaf No. 13, containing the rates shown in Appendix B and the standards for assigning customers to a service class based on the usage test as described in the body of this order.

3. Fishers Island Water Works Corporation shall compute and accrue annual depreciation using the same depreciation rates used in setting its rates in the 1990 Order

and to adjust its books to reflect accumulated depreciation based on those rates.

4. Fishers Island Water Works Corporation shall return to customers \$24,562 in tax overcollections over five years (\$4,912 per year), through a bill credit of 0.95% until the full amount is refunded.

5. Fishers Island Water Works Corporation is directed to individually notify its customers in writing, no later than July 15, 2004, of the Commission's decision and file a copy of the notification with the Secretary to the Commission by July 30, 2004.

6. Fishers Island Water Works Corporation is granted a waiver of the requirement of newspaper publication pursuant to Public Service Law §89-c(10) and 16 NYCRR §720-8.1.

7. This case shall be closed without further Commission action upon Fishers Island Water Works Corporation's compliance with ordering clauses 1, 2 and 5.

By the Commission,

(SIGNED)

JACLYN A. BRILLING  
Secretary

Filing By: Fishers Island Water works Corporation

New Tariff Schedule P.S.C. No. 2 - Water

Original Leaves Nos.1 through 16; First Revised Leaf No.13

Issued: December 30, 2003 Effective: April 1, 2004\*

\*Postponed to July 1, 2004.

SAPA: 03-W-1810SA1 STATE REGISTER: January 28, 2004

NEWSPAPER PUBLICATION: Waived.

NUMBER OF CUSTOMERS: 626 residential metered (121 year-round & 505 seasonal); 1 public fire protection.

TERRITORY SERVED: Fishers Island, in the Town of Southold, Suffolk County.

New Tariff Schedule Provisions:

1. Written Notice of Discontinuance of Service:  
The new tariff states that a written notice of discontinuance of service must contain information required by 16 NYCRR Section 533.3.
2. Restoration of Service: The new tariff contains a charge of \$95 during normal business hours (Monday through Friday); \$150 outside of business hours; and \$200 on weekends and holidays.
3. Definition of Late Payment of Bill: The new tariff changes the definition of when a bill is considered late from 30 days to 25 days following the date of mailing, after which there will be a late payment charge of 1-1/2% compounded monthly.
4. Returned Check Charge: The new tariff establishes a returned check charge equal to the bank charge plus a handling fee of \$5.00 (not to exceed the maximum allowed by section 5-328 of General Obligation Law).

Average Annual Bill and  
Comparison of Current and Proposed and Recommended Rates

SC1 Year-Round and SC2 Seasonal		current	proposed	increase		Comm. Rates	increase	
				amount	percent		amount	percent
Av.annual bill	SC1	\$403.00	\$457.00	\$54.00	13.4%	\$424.00	\$21.00	5.2%
	SC2	\$646.00	\$857.00	\$211.00	32.7%	\$796.00	\$150.00	23.2%
Rate/1,000 gallon	SC1	\$6.65	\$7.11			\$7.00		
	SC2	\$6.65	\$8.58			\$8.20		

Minimum charge:

Meter Size	Current		Proposed		Commission Rates			
	Quarterly charge	Monthly Allowance	Monthly charge	Monthly Allowance	Monthly charge	Monthly charge	Monthly charge	
	SC1&SC2	SC1&SC2	SC1&SC2	SC1	SC2	SC1&SC2	SC1	SC2
5/8	9,000	\$59.85	3,000	\$21.33	\$25.74	3,000	\$21.00	\$24.60
3/4	12,000	\$79.80	4,000	\$28.44	\$34.32	4,000	\$28.00	\$32.80
1	21,000	\$139.65	7,000	\$49.77	\$60.06	7,000	\$49.00	\$57.40
1-1/4	30,000	\$199.50	10,000	\$71.10	\$85.80	10,000	\$70.00	\$82.00
1-1/2	39,000	\$259.35	13,000	\$92.43	\$111.54	13,000	\$91.00	\$106.60
2	63,000	\$418.95	21,000	\$149.31	\$180.18	21,000	\$147.00	\$172.20
3	120,000	\$798.00	40,000	\$284.40	\$343.20	40,000	\$280.00	\$328.00
4	198,000	\$1,316.70	66,000	\$469.26	\$566.28	66,000	\$462.00	\$541.20
6	390,000	\$2,593.50	130,000	\$924.30	\$1,115.40	130,000	\$910.00	\$1,066.00

**SC3 Fire Hydrant Service**

	Current	Proposed	Commission
Rate Per Hydrant	\$210.00	\$241.00	\$241.00

**Restoration of Service Charge**

	Current	Proposed	Commission
Bus Hours	\$25.00	\$95.00	\$60.00
Outs. Bus Hours	\$25.00	\$150.00	\$120.00
Weekends & Holidays	\$25.00	\$200.00	\$150.00

Fishers Island Water Works Corporation  
Pro-Forma Income Statement

	Last Case 90-W-0318	Company Pro-Forma	Comm Adjustments	Adj. No.	Comm Pro-Forma
Operating Revenue	\$ 354,803	\$ 547,962	\$ (35,134)	(1)	\$ 512,828
Opr. Rev. Deductions					
Oper. & Maint. (O&M)					
Officer Salary*	\$ 22,731	\$ 23,013	\$ (1,375)	(2)	\$ 21,638
Supervisor Salary*	43,541	67,657	(5,303)	(3)	62,354
Operator Salary*	28,385	59,323	(9,639)	(4)	49,684
Materials	13,340	16,716	82	(5)	16,798
Office Exp.	10,374	37,691	(3,073)	(6)	34,618
Rent	5,864	10,100	(406)	(7)	9,694
Power Purch.	19,953	47,753	(686)	(8)	47,067
Purif: chm & tests	1,730	15,834	(1,484)	(9)	14,350
Transportation	5,059	8,236	(1,719)	(10)	6,517
Billing & Meter Rdgn.	2,431	8,499	(854)	(11)	7,645
Insurance	27,301	36,620	(16,620)	(12)	20,000
Repairs	4,786	19,525	(6,380)	(13)	13,145
Prof. Fees (accounting)	6,200	12,929	292	(14)	13,221
PSC exp.	2,981	300	1,239	(15)	1,539
Total O&M	\$ 194,676	\$ 364,196	\$ (45,926)		\$ 318,270
*with benefits					
Amortiz'ns	\$ -	\$ -	\$ 2,000	(16)	\$ 2,000
Depreciation	\$ 31,044	\$ 33,351	\$ 14,304	(17)	\$ 47,655
Operating Taxes:					
Property Taxes	\$ 18,188	\$ 30,486	\$ (615)	(18)	\$ 29,871
Revenue Taxes	13,305	2,564	(2,564)	(19)	-
Payroll Taxes	5,581	8,064	(507)	(20)	7,557
Total Operating Taxes	\$ 37,074	\$ 41,114	\$ (3,686)		\$ 37,428
Fed Income Taxes	\$ 8,964	\$ (7,633)	\$ 7,633	(21)	\$ -
Total Oper. Rev. Deduct.	\$ 262,794	\$ 438,661	\$ (33,308)		\$ 405,353
Utility Operating Income	\$ 79,817	\$ 116,934	\$ (9,459)	(22)	\$ 107,475
Rate Base	\$ 715,196	\$ 1,370,856	\$ (393,808)		\$ 977,048 **
Indicated Rate of Return	11.16%	8.53%			11.00%
**Rate Base at 12/31/04:					
Plant in Service			\$ 2,080,012		
Accumulated depr.			\$ (1,118,456)		
net plant			\$ 961,556		
Avg. un-amortized bal.			\$ 9,000		
Prepayments			\$ 12,000		
Deferred taxes			\$ (60,672)		
working capital:					
M&S			\$ 21,264		
Cash			\$ 33,900		
Rate Base			\$ 977,048		

Fishers Island Water Works Corporation.		Appendix C
Case 03-W-1810		Page 2 of 2
	Commission Adjustments	
	Reflecting:	
(1)	Projected level of revenues under Commission Rates.	\$ (35,134)
(2), (3) and (4)	Base year '02 salaries plus 3.08% inflation from '02 to '04.	\$ (16,317)
(5)	Three year avg.for materials exp. plus inflation from '02 to '04.	\$ 82
(6)	Three year avg.for office exp.and '02 salaries plus inflation from '02 to '04.	\$ (3,073)
(7)	Three year avg. for rent & adm. charges plus inflation from '02 to '04.	\$ (406)
(8)	Three year avg. electric cons. priced at latest rates, exclusive of sales taxes.	\$ (686)
(9)	Three year avg. for chemicals & water tests exp. plus inflation from '02-'04.	\$ (1,484)
(10)	Three year avg. transportation exp.plus inflation from '02 to '04.	\$ (1,719)
(11)	Three year avg. for mtr. Reading & billing plus inflation from '02 to '04.	\$ (854)
(12)	Settlement amount for insurance exp.	\$ (16,620)
(13)	Three year avg. for maintenance exp. plus inflation from '02 to '04.	\$ (6,380)
(14)	Three year avg. for accounting exp. plus inflation from '02 to '04.	\$ 292
(15)	Allowance for PSC exp.	\$ 1,239
(16)	Amortization for rate case exp. allowance of \$10,000 over 5 years.	\$ 2,000
(17)	Depreciation exp.based on Comm. plant in service balances and rates.	\$ 14,304
(18)	Latest property taxes.	\$ (615)
(19)	Elimination of revenue taxes reflected in revenue tax reconciliation.	\$ (2,564)
(20)	Social security taxes on salaries, increased by inflation from '02 to '04.	\$ (507)
(21)	Reversal of federal income taxes reflected in return on rate base.	\$ 7,633
(22)	Return on Commission's rate base.	\$ (9,459)