

1 Q. Does this conclude your testimony?

2 A. At this time, yes.

3

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

United Water of New York Water Inc. and
United Water South County Inc.

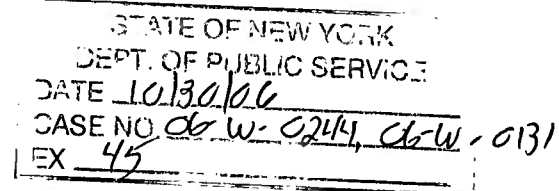
Cases 06-W-0131 and 06-W-0244

June 2006

Prepared Exhibits of:

Patrick Piscitelli
Principal Utility Financial
Analyst

State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350



PATRICK PISCITELLI

**PROFESSIONAL
EXPERIENCE**

New York State Department of Public Service, Albany, NY

Principal Financial Analyst

December 2003 – Present

Provide analysis and recommendations to Senior Management and other members of the Department of Public Service regarding financial and accounting issues for New York State utilities. Also, provides rate of return, financial, and accounting testimony in electric, telephone, and water company rate proceedings.

National Grid USA, Westborough, MA

Principal Financial Analyst

November 2002 – December 2003

Responsible for the development and implementation of the National Grid USA Risk Management Policy for the management of the Company's energy procurement market and credit risks. Also, responsible for establishing the procedures for evaluating, reporting, and monitoring the risk exposures and for the operating Companies adherence to the Corporate Policies and Procedures.

Niagara Mohawk Power Corporation, Syracuse, NY

Corporate Financial Risk Manager

October 1996 – November 2002

Responsible for the development and implementation of a Corporate Financial Risk Management Program to manage the financial risks of commodity and foreign currency transactions, and the corporate loan portfolio. Interact and make presentations to Senior Management regarding Financial Risk Management strategies and results. Developed and implemented Financial Risk Management Plans, Policies, and Procedures and developed Value-at-Risk and Credit-at-Risk Models to quantify the Capital-at-Risk resulting from the Energy and Gas Supply Portfolios.

Associate Director of Finance and Investments

May 1991 - October 1996

Analyzed and presented recommendations to Senior Management regarding the financing options available to the Company. Co-managed the Pension Fund and managed all investment aspects of the Nuclear Decommissioning Trust Fund, the Supplemental Executive Retirement Plan, and charitable foundation. Responsible for interacting with the Investment Community to carry out the plans and policies of Niagara Mohawk.

First Albany Corporation, Albany, NY

Assistant Vice President

October 1987 - May 1991

Responsibilities included investment banking, consulting, and conducting financial and economic analysis. As an Investment Banker and consultant, I was responsible for analyzing investment opportunities for institutional clients and authoring investment research reports. Served as the financial analyst to the United States Bankruptcy Court during the Public Service of New Hampshire Bankruptcy Proceeding.

New York State Department of Public Service, Albany, NY

Senior Utility Financial Analyst

July 1981 - May 1983

Associate Utility Financial Analyst

May 1983 - June 1985

Principal Financial Analyst

June 1985 - October 1987

In positions of increasing responsibility provided analysis and recommendations to Senior Management and other members of the Department of Public Service regarding financial and accounting issues for New York State utilities. Provided rate of return, financial, and accounting testimony in electric, telephone, and water company rate proceedings. Also negotiated and testified in various rate case settlements.

Russell Sage Graduate School, Albany, NY

Adjunct Professor, MBA Program

Fall 1996

**VOLUNTEER
ACTIVITIES**

Power Federal Credit Union, Member of the Board of Directors
September 1999 - present

EDUCATION

Union University, Schenectady, NY

Master of Business Administration

Concentration - Management Information Systems

State University College at Potsdam, New York

Bachelor of Arts

Major - Economics

UNITED WATER OF NEW YORK

Surrogate Group Statistics

	Ratings Moody's	S&P	% Utility Revenue	Dividend Payer	Equity Ratio	S&P Business Profile
Allele	Baa2	BBB+	74	Yes	60	5
Alliant Energy	Baa1	BBB+	74	Yes	49	6
Ameren Corp	A2	BBB+	82	Yes	53	6
American Electric Power	Baa2	BBB	87	Yes	43	6
CH Energy Group *	A2	A	70	Yes	57	3
Con Edison *	A2	A	89	Yes	48	2
Duquesne Light	Baa3	BBB	84	Yes	37	5
Exelon	Baa2	BBB+	73	Yes	43	6
FirstEnergy	Baa3	BBB	73	Yes	45	6
Hawai Electric		BBB	82	Yes	58	6
MDACORP	Baa2	BBB+	97	Yes	48	5
MGE Corp	Aa3	AA-	99	Yes	58	4
Nisource *	Baa3	BBB	89	Yes	41	4
NStar	A2	A	80	Yes	34	1
PG&E Corp *	Baa1	BBB	100	Yes	50	6
Pinnacle West	Baa2	BBB-	71	Yes	51	5
PNM Resources	Baa3	BBB	74	Yes	38	6
Progress Energy	Baa2	BBB	77	Yes	42	6
Scana Corp *	A3	A-	71	Yes	42	4
Southern Company	A3	A	97	Yes	41	4
Vectren *		A-	100	Yes	44	4
Wisconsin Energy *	A1	BBB+	99	Yes	41	5
Xcel Energy	Baa1	BBB	76	Yes	43	5
AVERAGE	Baa1	BBB+	83	Yes	46.3	4.8

Credit Ratings from Standard & Poor's & Moody's Credit Reports
 % Utility Revenue January 2006 AUS Utility Reports and 2004 10K
 Equity Ratios from January 2006 AUS Report
 S&P Business Profiles From Standard & Poor's Credit Reports

UNITED WATER OF NEW YORK

Exhibit (PT-3)

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Calculation of DCF Cost of Equity

Company	Beta	Price	EPS	DPS			BPS			# of Shares		DPS
			2009-11	2006	2007	2009-11	2005	2007	2009-11	2006	2009-11	Growth 2008-10
Allele	NMF	\$45.35	\$3.25	\$1.49	\$1.70	\$2.00	\$21.40	\$22.90	\$27.50	30.65	32.00	5.57%
Alliant Energy	0.85	\$30.05	2.30	1.18	1.31	1.49	20.85	22.95	25.70	118.1	122.1	4.39%
Ameren Corp	0.75	\$50.78	3.45	2.54	2.54	2.54	31.35	33.20	36.35	207.4	216.8	0.00%
American Electric Power	1.2	\$36.03	3.00	1.51	1.68	1.90	23.08	25.30	28.25	394.00	400.00	4.29%
CH Energy Group *	0.8	\$43.45	3.25	2.16	2.17	2.20	31.96	33.15	35.25	15.76	15.00	0.46%
Con Edison *	0.65	\$45.28	3.25	2.31	2.34	2.38	30.05	32.35	35.20	255.00	263.00	0.64%
Duquesne Light	0.85	\$17.56	1.50	1.00	1.00	1.00	8.08	9.20	10.50	86.50	87.50	0.00%
Exelon	0.8	\$54.23	4.00	1.70	1.82	2.00	13.67	16.10	20.40	670.00	700.00	3.19%
FirstEnergy	0.75	\$49.16	4.00	1.84	1.98	2.20	27.85	31.35	36.75	329.84	329.84	3.66%
Hawaii Electric	0.7	\$26.48	1.75	1.24	1.24	1.24	15.02	15.65	17.00	81.20	82.00	0.00%
IDACORP	0.95	\$30.99	2.00	1.20	1.20	1.20	24.04	25.90	28.25	43.90	46.10	0.00%
MGE Corp	0.7	\$33.55	2.45	1.38	1.40	1.44	16.82	17.55	19.05	20.50	20.50	0.88%
Nisource *	0.8	\$21.02	1.75	0.92	0.94	1.00	18.09	19.25	21.50	273.00	275.00	2.08%
NStar	0.75	\$28.50	2.25	1.22	1.31	1.45	14.50	16.05	18.75	106.81	106.81	3.51%
PG&E Corp *	1.15	\$37.83	3.00	1.36	1.48	1.66	19.60	22.15	26.45	360.00	368.00	3.90%
Pinnacle West	0.95	\$41.24	3.55	2.06	2.21	2.43	34.75	36.80	40.20	99.10	99.10	3.29%
PNM Resources	0.95	\$25.57	1.90	0.88	0.97	1.10	18.70	20.40	23.00	68.80	74.00	4.46%
Progress Energy	0.8	\$43.92	3.50	2.46	2.53	2.62	31.55	33.05	35.65	254.00	261.00	1.17%
Scana Corp *	0.8	\$39.94	3.50	1.71	1.88	2.10	23.50	26.30	30.75	116.75	120.50	3.85%
Southern Company	0.65	\$34.01	2.75	1.55	1.64	1.80	14.35	15.95	18.90	750.00	780.00	3.10%
Vectren *	0.8	\$26.97	2.05	1.24	1.30	1.39	15.10	16.40	18.35	76.20	76.40	2.26%
Wisconsin Energy *	0.75	\$37.85	3.00	0.93	1.00	1.10	22.90	25.45	29.50	117.00	117.00	3.40%
Xcel Energy	0.85	\$18.61	1.75	0.89	0.97	1.10	13.37	14.35	15.75	406.00	435.00	4.19%

Exhibit__ (PP-3)

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Calcultaion of DCF Cost of Equity

	Retention Rate	Return on Equity	B x R	Increase in Share	PBR	S Factor	V Factor	S x V	Sustainable Growth	Long-Form ROE
Company	2009	2009			2004					
Allele	38.46%	12.18%	4.68%	1.08%	2.12	0.02	0.53	1.21%	5.90%	9.61%
Alliant Energy	35.22%	9.12%	3.21%	0.84%	1.44	0.01	0.31	0.37%	3.58%	8.03%
Ameren Corp	26.38%	9.63%	2.54%	1.11%	1.62	0.02	0.38	0.69%	3.23%	7.81%
American Electric Power	36.67%	10.81%	3.97%	0.38%	1.56	0.01	0.36	0.21%	4.18%	8.84%
CH Energy Group *	32.31%	9.31%	3.01%	-1.23%	1.36	-0.02	0.26	-0.44%	2.57%	7.29%
Con Edison *	26.77%	9.36%	2.51%	0.78%	1.51	0.01	0.34	0.39%	2.90%	7.75%
Duquesne Light	33.33%	14.60%	4.87%	0.29%	2.17	0.01	0.54	0.34%	5.20%	10.16%
Exelon	50.00%	20.38%	10.19%	1.10%	3.97	0.04	0.75	3.27%	13.46%	15.99%
FirstEnergy	45.00%	11.17%	5.03%	0.00%	1.77	0.00	0.43	0.00%	5.03%	8.90%
Hawaii Electric	29.14%	10.44%	3.04%	0.25%	1.76	0.00	0.43	0.19%	3.23%	7.52%
IDACORP	40.00%	7.18%	2.87%	1.23%	1.29	0.02	0.22	0.36%	3.23%	6.77%
MGE Corp	41.22%	13.04%	5.37%	0.00%	1.99	0.00	0.50	0.00%	5.37%	9.07%
Nisource *	42.86%	8.29%	3.55%	0.18%	1.16	0.00	0.14	0.03%	3.58%	7.88%
NStar	35.56%	12.31%	4.38%	0.00%	1.97	0.00	0.49	0.00%	4.38%	8.86%
PG&E Corp *	44.67%	11.68%	5.22%	0.55%	1.93	0.01	0.48	0.51%	5.73%	9.45%
Pinnacle West	31.55%	8.96%	2.83%	0.00%	1.19	0.00	0.16	0.00%	2.83%	8.24%
PNM Resources	42.11%	8.43%	3.55%	1.84%	1.37	0.03	0.27	0.68%	4.22%	8.02%
Progress Energy	25.14%	9.94%	2.50%	0.68%	1.39	0.01	0.28	0.27%	2.77%	8.29%
Scana Corp *	40.00%	11.68%	4.67%	0.79%	1.70	0.01	0.41	0.56%	5.23%	9.75%
Southern Company	34.55%	14.96%	5.17%	0.99%	2.37	0.02	0.58	1.35%	6.52%	10.93%
Vectren *	32.20%	11.38%	3.66%	0.07%	1.79	0.00	0.44	0.05%	3.72%	8.35%
Wisconsin Energy *	63.33%	10.42%	6.60%	0.00%	1.65	0.00	0.40	0.00%	6.60%	8.98%
Xcel Energy	37.14%	11.28%	4.19%	1.74%	1.39	0.02	0.28	0.68%	4.87%	10.01%
10.81%									Median	8.8%

UNITED WATER OF NEW YORK

Calculation of CAPM Cost of Equity

Treasury Rates

(FRB Statistical Release)

<http://federalreserve.gov/releases/h15/>10 year 20 year

Nov-05	4.54%	4.83%
Dec-05	4.47%	4.73%
Jan-06	4.42%	4.65%
Feb-06	4.54%	4.73%
Mar-06	4.72%	4.91%
Apr-06	4.99%	5.22%

Average 4.61% 4.85%

Risk Free Rate (11/05 - 4/06) 4.73%

Merril Lynch Cost of Market 11.50% (December 2005)

Electric Proxy Group Beta 0.83

Traditional CAPM Electric ROE 10.35%

Zero Beta CAPM Electric ROE 10.63%

Generic CAPM Electric ROE 10.49%

Merrill Lynch Universe Sector/Industry Factor Evaluation (cont'd)

Valuation Analysis												Expectation Analysis							
	# of Comp	% ML Univ	Impl. Return	Reqd Return	DDM Alpha	Eqty. Duration	ML Adj Beta	P/E Ratio	Price/Book	Yield	Earnings (Decile)					PR 5yr Growth	EPS Growth		
											Surprise	Risk	Torp	Disp	Est. Rev.		2006E	2007E	
Duration																			
9.00 To 23.68	166	25.1	13.1	11.0	2.1	20.4	0.93	13.1	2.5	2.6	6	5	5	5	5	10.8	7	5	
23.69 To 27.58	167	16.3	11.4	10.8	0.6	25.8	0.89	14.1	2.6	2.4	5	5	5	4	5	9.8	8	6	
27.58 To 30.69	167	19.4	11.0	10.9	0.1	29.0	0.91	16.9	3.0	1.7	4	4	5	3	5	12.4	15	13	
30.72 To 35.26	167	14.9	10.3	11.7	-1.4	32.5	1.04	18.3	3.3	1.0	6	4	5	4	5	12.9	19	13	
35.37 To 74.29	167	14.0	9.7	13.4	-3.7	41.4	1.28	21.0	3.3	0.6	5	6	6	5	5	16.1	34	19	
Uncoded	298	10.3		12.9			1.21	18.5	3.0	1.3	5	4	5	5	5	13.7	46	15	
Growth Sectors																			
Growth	496	39.4	11.5	12.1	-0.6	28.8	1.10	19.3	3.2	1.5	5	5	5	4	5	14.0	14	14	
Growth Cyclical	298	27.0	11.1	12.2	-1.0	29.5	1.10	15.0	2.7	1.8	5	5	6	4	5	12.8	18	13	
Growth Defensive	120	12.2	12.0	9.2	2.8	28.8	0.65	17.4	2.9	1.6	5	3	5	3	6	12.9	12	13	
Cyclical	138	10.3	10.2	12.4	-2.2	31.3	1.14	13.6	2.5	1.7	5	6	6	6	4	10.0	21	8	
Defensive	80	11.1	11.5	10.2	1.4	22.8	0.80	11.6	2.5	2.9	5	7	4	6	4	6.3	12	-5	
EPS Surprise																			
Most Optimistic	174	17.9	11.6	11.5	0.1	28.5	1.00	16.1	3.1	2.0	1	5	5	4	5	11.6	26	12	
Optimistic	174	22.1	11.5	11.2	0.3	28.7	0.96	14.7	2.8	1.8	4	5	5	4	4	10.9	19	7	
Neutral	174	19.7	11.2	11.5	-0.3	30.1	1.00	16.4	2.8	1.7	6	5	5	4	5	13.1	14	13	
Less Optimistic	174	16.3	11.1	11.3	-0.2	27.3	0.96	16.0	2.6	1.8	7	5	5	4	5	13.1	13	12	
Not Optimistic	174	15.8	11.3	12.6	-1.3	28.0	1.16	17.1	3.1	1.5	10	6	5	5	5	12.3	3	7	
Uncoded	262	8.3	11.0	11.7	-0.7	26.4	1.04	16.4	2.9	1.7		5	5	5	5	14.1	17	12	
Quality Rank																			
A+	61	16.92	11.8	10.7	1.2	28.5	0.87	14.9	3.1	2.2	5	2	5	2	6	11.1	15	11	
A	78	11.23	11.8	10.7	1.0	29.1	0.88	15.1	2.9	2.2	4	4	4	3	5	10.0	5	11	
A-	89	13.15	12.2	10.4	1.8	24.9	0.82	13.5	2.7	2.6	5	6	5	4	4	10.1	8	3	
B+	175	20.86	11.3	11.1	0.2	27.3	0.94	14.9	3.1	1.8	6	6	5	4	5	10.6	9	5	
B	195	17.20	10.9	12.6	-1.7	29.9	1.17	16.2	2.7	1.5	5	8	6	5	5	12.6	18	11	
B-	153	7.12	10.0	13.9	-3.9	33.7	1.37	18.9	2.3	0.8	6	9	7	7	5	15.6	63	21	
C&D	71	1.95	12.0	17.4	-5.4	29.0	1.90	82.4	2.9	0.0	6	9	8	9	4	24.9	181	140	
Not Rated	310	11.57	10.6	12.1	-1.6	29.4	1.09	21.4	2.9	0.9	6	6	6	5	5	17.7	28	19	
B+ or Better	403	62.16	11.7	10.8	1.0	30.4	1.22	14.6	3.0	2.1	5	4	5	4	5	15.3	10	7	
B- or Worse	729	37.84	10.7	13.0	-2.3	27.5	0.89	18.9	2.7	1.1	5	7	6	6	5	10.5	30	16	
ML Universe																			
	1132	100.0	11.4	11.6	-0.2	28.5	1.01	16.0	2.9	1.8						12.3	15	10	
S&P 500	500	84.86	11.5	11.4	0.1	28.2	1.00	15.3	2.8	1.8						11.5	13	9	

Refer to important disclosures on page 51.

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Instrument	Class	Maturity Date	Rating	Rating Date
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US\$10 mil 7% water fac rev bnds ser C due 10/01/2017		Oct 01, 2017	A-/Watch Pos	Apr 12, 2001
US\$10 mil 7% water fac rev bnds ser D due 10/01/2017		Oct 01, 2017	A-/Watch Pos	Apr 12, 2001

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Industry Report Card: U.S. Utilities See Strong Start In 2006, But Steam May Run Out
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UNITED WATER OF NEW YORK

Risk Differential Calculation

	April	March	February	January	December	November	(1) Average Yield	(2) Debt Spread From BBB+	(3) Equity Adjustment From BBB+	(4) ROE
A	6.29%	5.98%	5.82%	5.75%	5.79%	5.88%	5.92%	-0.20%	-0.31%	8.93%
A-	6.37%	6.07%	5.92%	5.85%	5.91%	5.98%	6.02%	-0.10%	-0.15%	9.24%
BBB+	6.46%	6.17%	6.01%	5.96%	6.02%	6.09%	6.12%	0.00%	0.00%	9.39%
BBB	6.54%	6.26%	6.11%	6.06%	6.14%	6.19%	6.22%	0.10%	0.15%	9.39%

(1) Average of November 2005 April 2006 through long-term bond yields

(2) BBB+ rated average debt yield minus- column (1)

(3) column (2) x (BBB+ rated ROE / BBB+ rated cost of debt)

(4) column (3) plus BBB+ rated ROE

