

Michaelson, Tim

From: Michaelson, Tim
Sent: Wednesday, October 24, 2012 3:09 PM
To: Basil.Bailey@dps.ny.gov
Subject: RE: [Potential Spam] Fw: United Water (AFUDC)
Attachments: UWNY - 2012 2011 and 2012 AFUDC Rate components for Basil Bailey.xls

Follow Up Flag: Follow up
Flag Status: Flagged

Basil,

I'm still trying to locate the capital structure that was in effect for the rates we used from September 2010 through November 2010. I have attached the other periods (note that there may be .01% rounding differences) and will send out the missing piece as soon as I can. If you have any questions, please let me know. Thanks.

Tim

-----Original Message-----

From: Basil.Bailey@dps.ny.gov [mailto:Basil.Bailey@dps.ny.gov]
Sent: Wednesday, October 24, 2012 2:34 PM
To: Michaelson, Tim
Subject: [Potential Spam] Fw: United Water (AFUDC)
Importance: Low

I did not get a reply for the request below. I just cant locate those rates.
Thanks

----- Forwarded by Basil Bailey/OAF/NYSDPS on 10/24/2012 02:30 PM -----

From: Basil Bailey/OAF/NYSDPS
To: "Michaelson, Tim" <Tim.Michaelson@UnitedWater.com>
Date: 10/19/2012 01:43 PM
Subject: RE: United Water (AFUDC)

According to your notes the company as of September 2010 started accounted for afudc in compliance with the Agreement. For the CO7M005 files explain the source of the debt, equity and gross rates from September 2010 to August ,2012 (provide workpapers/schedule showing how they were derived.)

From: "Michaelson, Tim" <Tim.Michaelson@UnitedWater.com>
To: "Basil.Bailey@dps.ny.gov" <Basil.Bailey@dps.ny.gov>
Cc: "Doherty, Kevin" <Kevin.Doherty@UnitedWater.com>
Date: 10/01/2012 03:53 PM
Subject: RE: United Water (AFUDC)

Basil,

Please find attached a summary of the costs that have been charged to the Haverstraw Water Supply Project as of August 31, 2012. I'm sorry it took so long for me to send this to you, but some of the costs are old and required substantial time to gather and analyze. There are still some missing pieces that we are putting together, but the bulk of the work is done. I'm expecting that during our next update we will have everything up to date.

Please don't hesitate to contact me with any questions you may have.
Thanks.

Tim

TIMOTHY J. MICHAELSON
Senior Director - Regulatory Business

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HARRINGTON PARK, NJ 07640
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-----Original Message-----

From: Michaelson, Tim
Sent: Wednesday, September 19, 2012 3:24 PM
To: 'Basil.Bailey@dps.ny.gov'
Cc: Doherty, Kevin
Subject: FW: United Water (AFUDC)

Hello Basil,

Below are our responses to your requests:

1. The Company is in compliance with the agreement.

2. Attached are schedules showing the monthly AFUDC calculation for the two HWSP Projects (C07M005 and C07M005A). Please note that after your request was received, we had our Capital Asset Management Group re-run the AFUDC calculation for both Projects using the agreed-upon methodology, back to the point when each Project commenced (May, 2007 for C07M005 and June, 2009 for C07M005A). The total AFUDC actually charged to CWIP as of August, 2012 is \$8,253,283 (\$5,072,701 from C07M005 and \$3,180,583 from C07M005A). The total AFUDC that would have been charged if we had been using the methodology all along is \$7,114,088 (\$4,073,266 for C07M005 and \$3,040,822 for C07M005A). Even though the Company began calculating AFUDC in September, 2010 in accordance with the agreement, because of the unique nature (and length) of the HWSP, we have decided internally to reclass the difference of \$1,139,196 out of CWIP and into 18623 - Deferred AFUDC Gross Up, knowing that the CWIP adjustment agreed to in the 2010 JP most likely didn't contemplate this particular project. All calculations can be found on the worksheets attached.

For part II of your request, please find attached the Balance Sheet for August, 2012 showing the offsetting Deferred Asset Accounts (18623 - Deferred AFUDC Gross Up and 18563 - Deferred AFUDC Equity Gross-Up Amort.) and Accumulated Deferred Income Tax Accounts (28313 - Def. FIT - AFUDC Equity GU, 28314 - Def. FIT - AFUDC Equity GU-TRF, 28364 - Def. SIT - AFUDC Equity GU and 28365 - Def. SIT - AFUDC Equity GU-TRF).

3. Attached are the written procedures for AFUDC computation. Our Accounting Policy Manual was updated in February, 2011, but our AFUDC computation as it applies to United Water New York, has followed the agreement in the 2010 JP since September, 2010.

4. We are still in the process of fully analyzing the Project amounts. We have identified some reclasses we need to make and are awaiting a reply from the Project Manager on a few open items. Rather than waiting for those open items, I thought I would send you 1. - 3. so you can at least get started on that. As soon as we have analyzed the Projects and identified any reclasses, I will forward the schedule to you.

Please feel free to contact me with any questions you may have. Thanks.

Tim

TIMOTHY J. MICHAELSON
Senior Director - Regulatory Business

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-----Original Message-----

From: Basil.Bailey@dps.ny.gov [mailto:Basil.Bailey@dps.ny.gov]
Sent: Friday, August 24, 2012 3:08 PM

To: Doherty, Kevin
Subject: Re: United Water (AFUDC)

XVII. Amortizations and Other Issues

The Parties agree that the Company's current accounting method for AFUDC, by "grossing-up" the equity component for state and federal income taxes and recording that amount to plant in service and providing a deferred tax offset for the gross-up, has resulted in the potential for inflation of the Company's rate base. To address this issue going forward, the Company will establish a regulatory asset for the purposes of recording the amount of income taxes to be recovered from customers, given the fact that the equity portion of AFUDC is taxable. This amount, as well as the related deferred tax liability, will be amortized over a thirtyfive (35) year period. The regulatory asset will be included in the Company's rate base along with the related and offsetting ADIT amount.

Informal request

The above statement was taken from the Agreement in case 09-W-0731.

1. Please let me know if the Company is in compliance with the agreement concerning the above statement.
2. If the company is in compliance, please provide schedule showing the calculation of the AFUDC on a monthly basis from the time of the agreement, the regulatory asset establish to date along with the related deferred tax liability.
3. Provide Company's written procedures for AFUDC computation. Indicate it if there are any changes since the last rate proceedings and identify the changes.
4. Provide the schedule showing vendors and cost breakdown (including AFUDC) related to the desal plant(Haverstraw Water Treatment Plant) since inception.

From: "Doherty, Kevin" <Kevin.Doherty@UnitedWater.com>
To: "Basil.Bailey@dps.ny.gov" <Basil.Bailey@dps.ny.gov>
Date: 08/22/2012 01:03 PM
Subject: United Water

Basil-how's it going?

Caryl tells me that you are interested in the AFUDC on the desal plant (Haverstraw Water Treatment Plant).

If you want to send me a question(s) on what you want to know I can get it started for you.

Kevin

[attachment "HWSP Summary as of 8-31-12 for Basil.xls" deleted by Basil Bailey/OAF/NYSDPS]

United Water New Jersey
Consolidated Capital Structure
31-Dec-11

		%	Cost	Weighted Cost	Pre-Tax	Gross-Up
Long Term Debt	\$ 386,489,076	41.94%	5.12%	2.15%	2.15%	
Short Term Notes	\$ 55,000,000	5.97%	1.44%	0.09%	0.09%	
Preferred Stock		0.00%			0.00%	
Common Equity	\$ 480,106,455	52.10%	10.20%	5.31%	8.95%	3.63%
	<u>\$ 921,595,531</u>	<u>100.00%</u>		<u>7.55%</u>	<u>11.18%</u>	

Debt	2.23%
Equity	5.31%
Gross-Up	3.63%
Total	11.18%

Used for Feb 2012 - Current

State Rate	8.63%
Federal Rate	35.00%
	40.609500%
	8.63%
	31.979500%

United Water New Jersey
Consolidated Capital Structure
31-Dec-10

		%	Cost	Weighted Cost	Pre-Tax	Gross-Up
Long Term Debt	\$ 386,557,486	44.65%	5.29%	2.36%	2.36%	
Short Term Notes	68,500,000	7.91%	1.20%	0.10%	0.10%	
Preferred Stock	-	0.00%	0.00%	0.00%	0.00%	
Common Equity	410,756,804	47.44%	10.20%	4.84%	8.15%	3.31%
	<u>\$ 865,814,290</u>	<u>100.00%</u>		<u>7.29%</u>	<u>10.60%</u>	

Debt	2.45%
Equity	4.84%
Gross-Up	3.31%
Total	10.60%

Used for Feb 2011 - Jan 2012

State Rate	8.63%
Federal Rate	35.00%
	40.609500%
	8.63%
	31.979500%

United Water New Jersey
Consolidated Capital Structure
31-Dec-09

		%	Cost	Weighted Cost	Pre-Tax	Gross-Up
Long Term Debt	\$ 351,621,631	43.08%	5.57%	2.40%	2.40%	
Short Term Notes	50,000,000	6.13%	1.08%	0.07%	0.07%	
Preferred Stock	9,000,000	1.10%	4.70%	0.05%	0.09%	
Common Equity	405,578,100	49.69%	10.20%	5.07%	8.53%	3.47%
	<u>\$ 816,199,732</u>	<u>100.00%</u>		<u>7.59%</u>	<u>11.09%</u>	

Debt	2.52%
Equity	5.07%
Gross-Up	3.47%
Total	11.05%

Used for Dec 2010 - Jan 2011

State Rate	8.63%
Federal Rate	35.00%
	40.609500%
	8.63%
	31.979500%