

LAW OFFICES  
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July 13, 2012

BY: Electronic Filing

Honorable Jaclyn A. Brilling  
Secretary  
NYS Public Service Commission  
3 Empire State Plaza  
Albany, New York 12223-1350

RE: Dutchess Estates Water Co., Inc.  
12-W-\_\_\_\_\_ – Application for Rates to Implement Facility Plan and  
11-W-0120 – Compliance Filing

Dear Secretary Brilling:

By this letter, Dutchess Estates Water Co., Inc. (“DEWC” or the “Company”) is filing for rate increases to implement capital improvements and expenditures required by the Dutchess County Department of Health (“DCDOH”) and other statutes and regulations. This letter with the attachment is also the compliance filing required in Case 11-W-0120.

In that case, the Commission ordered the Company to submit “a report to the Commission on its plans with a detailed schedule for completion and cost estimate about the repairs and improvements required by DCDOH”. (Case 11-W-0120, Order Clause 3, p. 10). Attached is Dutchess Estates Water Co., Inc., Engineering Analysis & Facility Plan (“Facility Plan”) prepared by Delaware Engineering, P.C. The Company had the plan prepared to help assure that the improvements implemented are cost effective and the minimum improvements needed to bring the Company into compliance.

On page 17, the Facility Plan lists the expenditures required and a schedule for implementation. Since the Company does not have the funds to implement the Facility Plan, the schedule is dependent upon PSC approval of the Facility Plan and rates required to support the capital expended.

The Facility Plan sets forth the rationale for each of the proposed expenditures and sets three priorities for the work. All of the work listed must be completed in order to place the Company into compliance with the rules and regulations. While the Facility Plan establishes three levels of priority, the time required to complete the work can be broken down into four phases. The first phase would be completed approximately four weeks after PSC approval of the Facility Plan (PSC Approval) and the rates needed to support the plan. Phase 2 would be completed approximately three months after approval. Phase 3 would be completed approximately six months after approval, and Phase 4, eight months after PSC Approval.

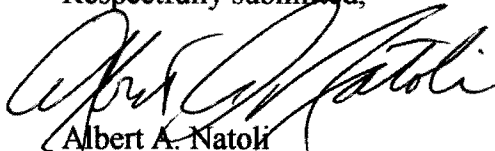
The Company proposes to fund the expenditures using equity supplied to the corporation by its shareholders. Separately, attached is a schedule of implementation of expenditures and rate relief showing the four phases of construction and the rates needed to support the expenditures. Since the last rate increase was on April 20, 2012, a review of the Company's revenue requirement is unnecessary to determine the level of increases needed to support the expenditures. The Company has used the rate of return approved in Case 11-W-1020 and the PSC's depreciation rates for a small water company to determine the rate increases needed. No increase expense is currently requested as part of this filing. However, if a full review of the Company's income statement is required, increases in operating costs should be included in the rates granted.

The proposed rate increases are intended to become effective upon review by the DPS Staff of the amount expended as the plant goes into service. The Company would, at the end of each phase, supply the Staff with documentation of the actual expenditures and compute the rates required to support the expenditure. The rates would go into effect one month after filing unless an objection by Staff is filed with the Commission. If the actual expenditure is less than the estimate in the petition, then the Company would compute the rates based on the actual cost. If the expenditures are greater than projected, the additional rate increase, over the percent increase in the filing, needed to support the expenditures would be deferred with carrying charges until the last phase of the Facility Plan is complete. The Company would then file a petition explaining the additional costs, and the Commission could consider whether the additional expenditures were imprudent or allow the additional increase to go into effect.

As shown on the tables, the Phase 1 increase would be 5.4% and according to this plan, implemented two months after PSC Approval. The Phase 2 increase would be 13.2% and would be implemented four months after PSC Approval. The Phase 3 increase would be 8.7% and implemented seven months after approval. Finally, the Phase 4 increase would be 16.7% and implemented nine months after PSC Approval. As an alternative, the increases could be implemented with the Company's regular quarterly billing rather than one month after support for the increase is filed. In that case, the rates would be computed to include the carrying charges from the completion of the construction to the first billing of the increase. At the conclusion of the construction, based on the current estimates, the average rate after all increases would be \$758 per quarter. Phasing the increases should be easier and less burdensome on the customers.

The Company looks forward to working with the Staff and the Commission to implement the Facility Plan and obtain the rate relief needed.

Respectfully submitted,



Albert A. Natoli

On Behalf of Dutchess Estates Water Co., Inc.

AAN:khn  
Enclosures

CC: Mr. Colonel Dickens, DPS  
Mr. L. Hooker Heaton