

PSC NO: 3 – WATER**COMPANY: NEW YORK AMERICAN WATER COMPANY, INC.****INITIAL EFFECTIVE DATE: October 14, 2012**

Issued in compliance with order in Case 12-W-0217 dated 08/17/2012

STATEMENT TYPE: CIS**STATEMENT NO: 1**Capital Improvement Surcharge (CIS)

The CIS surcharge will apply to costs associated with the replacement of the Sea Cliff standpipe with a new 600,000 gallon elevated storage facility. The company will be allowed to recover the annual revenue requirement associated with the capital costs of the new facility and the annual depreciation accrual.

The annual revenue requirement will be computed as follows. The pre-tax rate of return (pre-tax ROR) will be applied to the net capital expenditures (actual capital expenditures less customer deferred property tax and interest rate reconciliation credit) incurred to complete the project, net of the associated retirements, accelerated deferred income taxes ("ADIT"), bonus depreciation, customer deferred credit and accumulated depreciation reserve, i.e., the net rate base (NRB). An allowance for an annual depreciation accrual will be computed by applying the annual depreciation rate of 1.824% to the net capital expenditures incurred. These two amounts will be added and the total divided by the average number of metered customers (ANC) during the most recent calendar year as indicated in the below formula. The result will be divided by four to determine the quarterly surcharge for each metered customer.

$$\text{CIS quarterly surcharge} = \frac{((\text{NRB} \times \text{Pre-tax ROR}) + D)}{(4 \times \text{ANC})}$$

$$(4 \times \text{ANC})$$

Where:

NRB = the cost of the applicable storage facility net of associated retirements, ADIT, bonus depreciation, customer deferred credit and accumulated depreciation reserve

Pre-tax ROR = 9.23%

D = the annual depreciation accrual on the net additions

ANC = average number of metered customers during the most recent calendar year

Effective with this statement, the quarterly CIS surcharge beginning January 1, 2010 is \$9.23 per metered customer and the monthly CIS surcharge is \$3.08. The CIS surcharge will remain in effect until the company's next rate proceeding, at which time the NRB and the annual depreciation accrual associated with the new storage facility will be included in base rates and the CIS surcharge will cease.

Issued by: William M. Varley, President, 733 Sunrise Hwy., Lynbrook, NY 11563
(Name of Officer, Title, Address)