

PSC No. 5 - WATER**STATEMENT TYPE: SIC****COMPANY: NEW YORK AMERICAN WATER COMPANY, INC.****STATEMENT NO.: 4****INITIAL EFFECTIVE DATE: SEPTEMBER 1, 2020**

Issued in compliance with Commission Order issued May 18, 2017 and March 25, 2020 in Case 16-W-0259

SYSTEM IMPROVEMENT CHARGE (SIC)

The SIC mechanism will apply to costs associated with the construction of specific, Commission-reviewed and approved projects. The mechanism will allow recovery of carrying costs (i.e., return and depreciation expense) on specific capital projects that have been reviewed by Commission Staff and approved by the Commission when those projects are placed in service in Rate Years Two, Three, Four and beyond. Under Case 16-W-0259, the use of the SIC mechanism is approved for the following projects and associated capital expenditures:

SIC Improvement Projects	2/6/2020 Rate Order
Plant #20 Portable Iron Removal Facility	\$1,500,000
Plant #22 Portable Iron Removal Facility	\$1,900,000
Plant #7 Tank Roof Replacement	\$1,600,000
Plant #1 Iron Removal Facility	\$9,000,000
Submarine Crossing	\$2,000,000
Transmission Main – Baldwin Plant 12-13	\$4,000,000
Demott Tank and Booster Station	\$3,000,000
Cambridge Main Replacements	\$1,500,000
Plant 5 Filter House Covers	\$2,800,000
Plant 5 Caustic	\$3,200,000
Plant 5 Generator and Electric Service	\$2,500,000
Plant 20 Building Enclosures	\$500,000
Meters – AMI Initiative	\$3,074,433
Meters – AMI Initiative	\$495,100
Newbridge Rd Filter Plant Expansion	\$3,300,000
Jefferson St. Well Redrill	\$1,700,000
Main Replacement for Municipal Paving	\$4,000,000
Fire Improvement Projects	\$4,800,000

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The SIC surcharge will be a percentage, carried to two decimal places, and will be applied to the customer service charge and the volumetric charges billed to each metered customer. The formula for the calculation of the SIC surcharge for projects approved under Case 16-W-0259 is as follows:

$$\text{SIC surcharge} = (((\text{NRB} \times \text{Pre-Tax ROR}) + \text{D}) / \text{GF}) / \text{AR}$$

Where:

NRB = Cost of the Specific Approved Facilities Listed Above, Net of
Associated (i) Retirements, Including COR and Any Related Tax
Benefits, (ii) ADIT, and (iii) Accumulated Depreciation Reserve

Pre-Tax ROR = 8.15%

D = Annual Depreciation Expense on the Net Additions

GF = Gross-up Factor Before Income Tax (99.348%)

AR = NYAW's Projected Annual Metered Revenues

SYSTEM IMPROVEMENT CHARGE (SIC) – (cont'd.)

When the Company has incurred actual expenditures for projects listed above and the new facilities have been placed in service, the amount of those expenditures (net of the associated (i) retirements, including cost of removal and any related tax benefits, (ii) accumulated deferred income taxes ("ADIT"), and (iii) accumulated depreciation reserve, i.e., the net rate base ["NRB"]) will constitute the incremental rate base investment subject to the SIC.

The SIC filing will be made within 30 days after the project has been placed into service. The Company will provide Commission Staff with detailed project information regarding the SIC (such as in-service dates, actual expenditures incurred, retirements, etc.). Staff will have 60 days to analyze and verify such data. The SIC surcharge rate may only be updated in conjunction with the annual reconciliation filing, submitted within 60 days of the end of the Rate Year, as described below.

Safeguards

A reconciliation between authorized collections and actual collections related to the SIC surcharge will be conducted annually and filed with the Secretary to the Commission within 60 days of the end of each Rate Year. Any under collections or over collections will accrue interest at the "other customer capital interest rate" established by the Commission each year. Adjustments of under collections and over collections, as

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well as updates related to accumulated depreciation reserve, will be reflected in the next SIC surcharge filing.

NYAW will be permitted to collect carrying costs via a SIC surcharge not to exceed 2.5% of operating revenues, capped for the approved capital projects.

The System Improvement Charge (SIC) surcharge for Rate Year 3, ending March 31, 2020, to be applied to total metered charges for the period September 1, 2020 through July 31, 2021, is as follows:

For New York American Water's Service Area 1, in relation to the above-referenced targets, a surcharge of 2.87%.

For New York American Water's Service Area 2 – Merrick District, in relation to the above-referenced targets, a surcharge of 0.78%.

For New York American Water's Service Area 2 – Sea Cliff District, in relation to the above-referenced targets, a surcharge of 0.78%.

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