

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE**  
**90 CHURCH STREET, NEW YORK, NY 10007-2919**  
Internet Address: <http://www.dps.state.ny.us>

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March 12, 2009

Mr. Kevin H. Doherty  
Manager of Rates  
United Water  
200 Old Hook Road  
Harrington Park, NJ 07640

Re: Case 06-W-0131 - United Water New York Inc. (UWNY)  
New Water Supply Source (NWSS) Surcharge – Third Submission

Dear Mr. Doherty:

In Case 06-W-0131, the Commission authorized a multi-year settlement agreement, which provided that a surcharge mechanism be initiated to recover UWNY's prudently-incurred investment (pre-tax return and depreciation) in new short and medium-term water supply projects placed in service on and after January 1, 2007 as they occur. The NWSS surcharge is to be modified no more than twice per year to reflect construction costs including any related allowance for funds used during construction (AFUDC).

In the company's surcharge update submission, dated January 27, 2009, the company provided documentation to support additional project expenditures of \$2.776 million and calculated that the resultant NWSS surcharge would be updated from the current 1.39% to 2.02%.


Staff reviewed the company's filing including construction work in progress project detail reports, vendor invoices, and the method for calculating the surcharge amount. Staff from the Department's Office of Accounting & Finance found that the company overstated AFUDC related to certain NWSS projects, which affected the level of accumulated deferred income tax (ADIT) in the company's surcharge calculation. As a result, the company agreed to use a placeholder of an estimated additional \$87,808 in ADIT to reflect the equity gross up on the AFUDC in its NWSS surcharge computation. The proposed placeholder of \$87,808 is subject to further review by Staff and the actual amount will be reconciled in the company's future NWSS surcharge update. Also, during its review, Staff found a duplicate entry of an invoice for \$13,857.

Consequently, on March 6, 2009, the company revised its NWSS surcharge calculation to reflect the above adjustments, which yielded a NWSS surcharge of 2.00%. As a result of Staff's review, the company may increase its NWSS surcharge from 1.39% to 2.00%, effective on March 14, 2009.

According to the Commission's Order in Case 06-W-0131, the NWSS surcharge is subject to an annual audit and reconciliation, which should be filed with the Commission within 60 days after the end of each rate year. Any over-collections or under-collections will accrue interest at the other customer capital interest rate established by the Commission each year. Adjustments for any over-collections and under-collections will be reflected in the following NWSS surcharge filing. The NWSS surcharge will remain in place until the Commission issues a decision in UWNYS next general rate case, at which time all costs previously collected through the NWSS will be accounted for and included in base rates.

If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "James E.", followed by a long horizontal flourish.

James E. Evensen  
Chief, Water Rates Section  
Office of Electric, Gas and Water

cc: M. Gennari, United Water  
M. Pointing, United Water