

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE**  
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January 30, 2009

Mr. William M. Varley  
Vice President and Manager  
Long Island American Water  
733 Sunrise Highway  
Lynbrook, NY 11563

RE: Case 07-W-0508 - Long Island Water Corporation (LIWC) – Distribution System  
Improvement Charge (DSIC) Surcharge

Case 04-W-0577 - LIWC – DSIC Reconciliation

Dear Mr. Varley:

Pursuant to the terms of the Joint Proposal (JP) approved by the Commission in Case 07-W-0508, LIWC submitted a five-year plan (the Plan) that identified specific mains (transmission and distribution) that should be renewed, replaced, or constructed within the calendar years 2008 through 2012. For each year, the DSIC surcharge should be designed to recover the revenue requirement associated with the capital costs, in excess of the annual \$2,979,800 allowed in base rates, of implementing the Plan plus an annual depreciation accrual on those excess capital cost additions to water plant during that year. For each year, additions to water plant in service in excess of \$2,979,800 to be included in the DSIC surcharge calculation are capped at \$3,000,000. The first DSIC surcharge is to be designed to recover revenue requirement associated with cost of implementing the Plan for the period from April 1, 2008 through September 30, 2008.

On December 22, 2008 LIWC submitted the first DSIC filing in accordance with the terms of the JP. On January 27, 2009 LIWC submitted a revised DSIC filing to reflect bonus depreciation when calculating deferred income taxes. The revised filing included back-up material supporting \$6,204,933 in total capital additions to water plant in service during 2008, which is \$3,225,133 in excess of \$2,979,800. Accordingly, recovery is limited to the revenue requirement associated with \$3,000,000 in additions to water plant in service adjusted to reflect

\$27,462 in retirements, \$601,097 in deferred income taxes, and \$35,045 in accrued depreciation; or an increase in net rate base of \$2,336,395. Therefore, applying the approved pre-tax rate of return of 10.48% to the increase in net rate base, the revenue requirement for 2008 associated with implementation of the Plan amounts to \$244,854, plus an annual depreciation accrual of \$35,045, for a total of \$279,899.

In addition, the DSIC filing also included a reconciliation of authorized and actual collections of DSIC filings made in accordance with the terms of the JP approved by the Commission in Case 04-W-0577. For the period from January 2007 through March 2008, LIWC computes a net under-collection of \$87,468, including interest, between authorized and actual collections. Accordingly, LIWC requests recovery of this amount through the DSIC surcharge. Therefore, the total amount to be recovered through the DSIC surcharge for the period from April 1, 2008 through September 30, 2008 amounts to \$367,367.

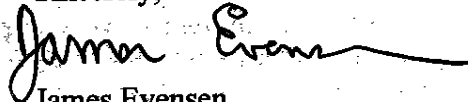
To calculate the DSIC surcharge LIWC applied the total amount to be recovered to the projected 2009 revenues of \$43,479,528, or a 0.84% surcharge on all bills.

Staff reviewed the Plan, the back-up material describing detailed project information for 2008, the calculations of the DSIC surcharge and the reconciliation of previous DSIC collections and concurs that the requested amount of recovery is consistent with the terms of the JPs approved by the Commission. As a result, the company may implement the DSIC surcharge of 0.84% on February 2, 2009.

The company should file Distribution System Improvement Charge Statement No. 1, as described in the JP, to become effective on one day's notice.

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

Sincerely,



James Evensen

Chief, Water Rates Section

Office of Electric, Gas and Water

cc: S. Van Cook, Utility Engineer 3  
Office of Electric, Gas & Water

