

**STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE  
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January 23, 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)  
Underground Infrastructure Renewal Program  
(UIRP) Surcharge – Second Submission

Dear Mr. Doherty:

In Case 06-W-0131, the Commission allowed UWNY to spend an average of \$5.5 million per year, not to exceed \$6.0 million in any one year, on UIRP projects over the three-year rate period of the Rate Term (1/1/2007 – 12/31/2009). In addition, the company was allowed to spend an additional \$500,000 in each rate year to be used exclusively for replacing hydrants. The rate plan allows the company to recover depreciation and return related to its UIRP and hydrant replacement capital expenditures through a surcharge, subject to Staff verification.

In the company's surcharge update submission, dated November 21, 2008, the company provided documentation to support additional UIRP and hydrant replacement project expenditures of \$6.5 million and calculated that the resultant surcharge related to these capital expenditures would result in the current 1.58% surcharge being increased to 3.22%.

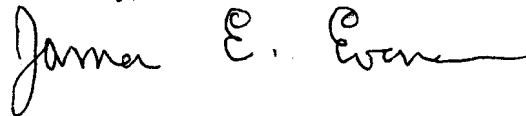
Staff reviewed the company's filing including construction work in progress project detail reports, vendor invoices, and the method for calculating the surcharge amount. Staff found that the company's filing and surcharge calculation understated the accumulated depreciation related to the UIRP projects. Also, Staff from the department's Office of Accounting & Finance found that the company overstated accumulated funds used during construction (AFUDC) related to certain UIRP projects, which affected the level of accumulated deferred income tax (ADIT) levels in the company's surcharge calculation. As a result, the company agreed to use a placeholder proposed by Staff of an additional \$95,617 in ADIT to reflect the equity gross up on the AFUDC in its UIRP surcharge computation. Staff's proposed placeholder of \$95,617 is subject to further review by Staff and the actual amount will be

reconciled in the company's future UIRP surcharge update. Consequently, on January 7, 2009 the company revised its UIRP surcharge calculation to reflect the above adjustments, which resulted in a reduction of the UIRP surcharge from 3.22% to 3.16%. As a result of Staff's review, the company may increase its UIRP surcharge from 1.58% to 3.16%, effective on January 24, 2009.<sup>1</sup>

As noted in the preceding paragraph, the UIRP surcharge is subject to an annual review and reconciliation, which should be filed with the Commission within 60 days after the end of each rate year. In its next annual filing, the Company should provide a quantification of the over-accrued AFUDC and any required surcharge adjustments for past overcharges, along with supporting workpapers and explanations. 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 UIRP surcharge filing.

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

Sincerely,



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

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

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<sup>1</sup>As part of its annual audit under this tariff statement Staff reserves the right to modify the UIRP surcharge should it later be discovered that the UIRP capital expenditures qualified for bonus depreciation. The 3.16% does not reflect any bonus depreciation.