

# STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350

Internet Address: <http://www.dps.state.ny.us>

## PUBLIC SERVICE COMMISSION

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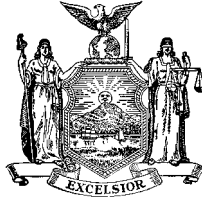
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*Acting General Counsel*

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*Secretary*

February 6, 2008

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

Re: Case 04-W-1221 - United Water New Rochelle – Delaware Interconnection  
Project Surcharge

Dear Mr. Doherty:

In Case 04-W-1221, the Commission approved a multi-year settlement agreement (Agreement) which provided that a surcharge may be initiated to recover the pre-tax return on construction costs (including AFUDC) related to the Delaware Interconnection Project (DIP). The DIP surcharge may be modified semi-annually to reflect the construction costs for the preceding six-month period.

On December 10, 2007, and later revised on February 6, 2008, the company provided documentation to support additional project expenditures of approximately \$16.583 million incurred between May 1, 2007 and October 31, 2007 and calculated that the resulting DIP surcharge should be increased from 9.62% to 13.48%.

Additionally, on October 16, 2007, the company submitted a reconciliation of the actual DIP surcharge collections versus the allowed collections over the previous rate year (Rate Year 2, twelve months ending August 31, 2007), as provided in the terms of the Agreement. The company provided documentation to support an undercollection of \$122,972 from Rate Year 2. The DIP surcharge should be adjusted to reflect the undercollection, which yields an updated DIP surcharge of 13.96%.

Staff reviewed the company's filing regarding the construction work in progress on the DIP including: project detail reports, vendor invoices, the method for calculating the surcharge amount, and the annual DIP surcharge reconciliation and found it to be in compliance with the specific DIP surcharge requirements except for AFUDC calculations. Staff of our

Office of Accounting, Finance and Economics will be in touch with you to discuss their concerns about AFUDC calculations. The company may electronically submit Surcharge Statement No. 4, as described in the Agreement, to increase the DIP surcharge to 13.96%, effective February 7, 2008 with any changes from further review of AFUDC to be reconciled in the annual statement.

The DIP surcharge is subject to an annual audit and reconciliation, which should be filed with the Commission within 60 days of the end of each rate year. The DIP surcharge is also subject to any modifications that may result from the ongoing proceeding (Case 06-W-1016) to examine the size, cost, and financing of the DIP.

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

Sincerely,

Arthur Gordon  
Chief, Water Rates Section  
Office of Electric, Gas and Water

cc: M. Gennari, United Water  
M. Pointing, United Water  
K. Manz, Utility Engineer 2, Water Rates Section