

# STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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July 27, 2007

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

SUBJECT: United Water New Rochelle (UWNR) – Delaware Interconnection Project  
(DIP) Surcharge – Case No. 04-W-1221

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 related to the DIP. The DIP surcharge is to be modified semi-annually to reflect the construction costs and AFUDC for the preceding six-month period.

On June 15, 2007, and later revised on July 20, 2007, the company provided documentation to support additional project expenditures of approximately \$12.685 million incurred between November 1, 2006 and April 30, 2007 and calculated that the resulting DIP surcharge should be increased from 6.86% to 9.62%.

Staff reviewed the company's filing regarding the construction work in progress on the DIP including: project detail reports, vendor invoices, and the method for calculating the surcharge amount, and found it to be in compliance with the specific DIP surcharge requirements. As a result, the company may increase the DIP surcharge to 9.62% starting with the August 1, 2007 billing cycle, as requested.

Finally, it should also be noted that 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,

Bruce E. Alch  
Principal Engineer  
Water Rates Section  
Office of Gas and Water

cc: M. Gennari, UWM&S  
W. Hill, UWM&S  
A. Gordon, Chief, Water Rates Section