

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on October 19, 2017

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Gregg C. Sayre
Diane X. Burman
James S. Alesi

CASE 17-W-0300 - Petition of New York American Water Company,
Inc. for Approval to Offset the RAC/PTR
Surcharge, P.S.C. No. 5.

ORDER GRANTING APPROVAL TO OFFSET
RAC/PTR SURCHARGE AND DEFERRAL

(Issued and Effective October 23, 2017)

BY THE COMMISSION:

INTRODUCTION

On May 31, 2017, New York American Water Company, Inc., f/k/a Aqua New York of Sea Cliff, Inc. (NYAW or the Company), provided its annual Revenue, Production Cost and Property Tax Reconciliation Mechanism (RAC/PTR Surcharge) for the rate year ending March 31, 2017, which showed an under collection of \$2,064,738 in its Sea Cliff district. However, the Company requested authority to offset that amount with Pension/Other Post-Employee Benefits (OPEB) customer credits of \$185,385 and to delay recovery of \$487,095 of its property tax reconciliation balance to maintain the surcharge at its current annual amount of \$323.40 per customer in its Sea Cliff district. Therefore, in its filing the Company only proposed to collect \$1,392,258 from customers beginning November 1, 2017, and continuing for twelve months, by charging \$26.95 per residential

customer each month, which is the same amount currently being surcharged for the period November 1, 2016 through October 31, 2017.

On September 14, 2017, the Company filed an update to its May filing to reflect two corrections which decreased its property tax under collection by \$130,143 and increased the Pension/OPEB offset by \$54,515. Because of the corrections, the Company decreased the amount for which it seeks to delay recovery to \$302,437 from \$487,095. The updated reconciliation filing, as proposed, maintains the annual surcharge at its current and original as-filed amount of \$323.40 per customer in its Sea Cliff district.

In this Order, the Commission finds that offsetting the RAC/PTR surcharge under collection and delaying recovery of a portion of the property tax reconciliation balance to maintain the current surcharge amount is appropriate.

BACKGROUND

The RAC/PTR Surcharge allows the Company to recover the annual difference between projected revenues, production costs and property taxes¹ and the actual amounts incurred in each rate year. In its May 31, 2017 filing, NYAW proposed to recover \$1,392,258 from its Sea Cliff customers. This amount consists of \$48,081 of deferred revenues and production costs, \$2,019,280 of deferred property taxes and a reduction of \$2,623 for past period RAC/PTR reconciliations, totaling \$2,064,738. Further, the filing includes \$185,385 in Pension/OPEB over recovery and a proposal to delay recovery of \$487,095 of the deferred property

¹ Case 11-W-0472, Aqua Utilities, Inc. and American Water Works Company, Inc. -Stock Purchase, Order Approving Stock Acquisition (issued April 20, 2012), Attachment I, at 9. The Company may only recover 85% of property tax in excess of the amounts set in that Order.

tax expense, resulting in an amount of \$1,392,258 to be collected from Sea Cliff customers for the twelve months ending March 31, 2017. The Company states that delaying the recovery of \$487,095 will maintain the surcharge at its current rate and requests that any adjustments by Staff be made such that the surcharge stays at its current annual amount of \$323.40 per customer.

On September 14, 2017, the Company filed an update to its May proposed RAC/PTR Surcharge filing to correct its property tax reconciliation request and Pension/OPEB customer credits. In addition, the Company updated the amount for which it is requesting delayed recovery to reflect those changes and maintain the originally proposed customer surcharge. The updated filing results in a corrected property tax reconciliation balance of \$1,889,137, corrected Pension/OPEB credits of \$239,900, and an updated deferral offset of \$302,437. The annual customer surcharge amount of \$323.40 remained unchanged in the Company's update to the filing.

NOTICE OF PROPOSED RULE MAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on July 12, 2017 [SAPA No. {17-W-0300SP1}]. The time for submission of comments pursuant to the Notice expired on August 28, 2017. No comments were received.

STATUTORY AUTHORITY

Under Public Service Law (PSL) §89-b, water utilities are required to provide safe and adequate service at just and reasonable rates. PSL §89-c provides the Commission with the authority to regulate water utilities' rates and services.

DISCUSSION AND CONCLUSION

As updated by the Company, the total under collection of revenues, production costs, and property taxes for the twelve months ending March 31, 2017 is \$1,934,595. If the proposed offsets and delay of property tax recoveries were not used to offset the reconciliation, the under collection would result in an annual surcharge of \$449.99 per Sea Cliff customer. Using the offsets and delaying the property tax recovery, as proposed by the Company, reduces the total under collection to be surcharged to \$1,392,258. This net under-collection yields an annual surcharge of \$323.40 per Sea Cliff customer, equal to the current surcharge for those customers that became effective November 1, 2016.

In this Order, the Commission authorizes the proposed delayed recovery of \$302,437 of property tax expense to mitigate customer bill impacts. The Company has delayed recovery of portions of its property tax balances in its previous two reconciliations.² Including the amount proposed in the Company's September update, a total of approximately \$865,000 in property taxes will be delayed for future recovery. Although this amount will increase the continued deferral balance on the Company's books, the Commission must balance between delaying a lesser amount, which impacts customer bills in the near term, and delaying a larger amount, which places upward pressure on rates in future reconciliation filings. With the establishment of new rates³, a new property tax expense target was set based on the

² See, Case 15-W-0436, New York American Water Company, Inc. - Surcharge, Order Authorizing Deferral and Use of Funds (issued October 21, 2015); and Case 16-W-0410, New York American Water Company, Inc. - Surcharge, Order Granting Approval to Offset RAC/PTR Surcharge and Deferral (issued October 17, 2016).

³ Case 16-W-0259, New York American Water - Rates, Order Establishing Rates for Water Service (issued May 18, 2017).

most current property tax expense data. As such, future actual property tax bills should more closely align with the approved target, which should produce smaller property tax reconciliations in the future.

NYAW no longer offers either Pension or OPEB benefits to its employees in its Sea Cliff district, and the responsibility for the pension and OPEB liability remained with Aqua New York as part of the Stock Purchase Agreement.⁴ However, there is an existing customer credit related to Pension and OPEBs on the Company's books that represent an amount Sea Cliff ratepayers paid to the Company for an expense that no longer exists. Therefore, this balance should be returned to Sea Cliff ratepayers. Using this balance as an offset to maintain the proposed surcharge at the same level as the current surcharge would eliminate any further bill impact to Sea Cliff customers. Therefore, using the existing credit to offset the RAC/PTR under collection will benefit ratepayers.

The RAC/PTR Surcharge for Sea Cliff customers is capped at \$4 per month, provided that any under collection can be recovered fully within twelve months at a monthly surcharge amount of \$4 or less. Otherwise, if a \$4 per customer per month surcharge is insufficient to recover deferred costs prior to the end of the following rate year, this limit may be waived. Because the resulting surcharge of \$26.95 per customer per month (\$323.40 per customer annually) is required to recover the under collection, the limit is hereby waived. Therefore, the Company shall recover the RAC/PTR Surcharge under collected balance of \$1,392,528 over a twelve-month period via a \$26.95 monthly surcharge, effective November 1, 2017.

⁴ Case 11-W-0472, Aqua Utilities, Inc., Aqua New York, Inc. and American Water Works Company, Inc. - Stock Purchase Agreement.

Finally, the requirements of newspaper publication pursuant to Public Service Law §89-c(10) and 16 NYCRR §720-8.1 are waived, provided that the Company files with the Secretary, not later than October 30, 2017, a copy of the notification of the Commission's determination in this case provided to customers.

The Commission orders:

1. New York American Water Company, Inc. is authorized to delay recovery of \$302,437 of excess property taxes from its current Sea Cliff Revenue, Production Costs and Property Tax Reconciliation filing, as discussed in the body of this Order.

2. New York American Water Company, Inc. is authorized to use \$242,523 in customer credits to offset its current Revenue, Production Costs and Property Tax Reconciliation filing, as discussed in the body of this Order.

3. New York American Water Company, Inc. is authorized to collect \$26.95 per Sea Cliff customer per month over a twelve-month period, to collect deferred costs associated with its Revenue, Production Costs and Property Tax Reconciliation.

4. New York American Water Company, Inc. is directed to file on not less than one day's notice, to become effective on November 1, 2017, *Revenue and Production Cost Reconciliation Adjustment Clause and Property Tax Clause - Statement No. 3* in accordance with the discussion in the body of this Order.

5. The requirements of newspaper publication pursuant to Public Service Law §89-c(10) and 16 NYCRR §720-8.1 for newspaper publication of the tariff directed in Clause No. 4 are waived, provided that New York American Water Company, Inc. files with the Secretary to the Commission, not later than October 30, 2017, a copy of the customer notification of the Commission's determination in this case.

6. In the Secretary's sole discretion, the deadlines set forth in this order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one day prior to the affected deadline.

7. This proceeding is closed pending compliance with Ordering Clause 4 and 5.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS
Secretary