

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on October 13, 2016

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair  
Patricia L. Acampora  
Gregg C. Sayre  
Diane X. Burman

CASE 16-W-0410 - Petition of New York American Water Company,  
Inc. for Approval to Offset the RAC/PTR  
Surcharge, P.S.C. No. 3.

ORDER GRANTING APPROVAL TO OFFSET  
RAC/PTR SURCHARGE AND DEFERRAL

(Issued and Effective October 17, 2016)

BY THE COMMISSION:

INTRODUCTION

On June 1, 2016, New York American Water Company, Inc., f/k/a Aquarion Water Company of Sea Cliff, Inc. (NYAW Sea Cliff or the Company) provided its annual Revenue, Production Cost and Property Tax Reconciliation Mechanism (RAC/PTR Surcharge) for the rate year ending March 31, 2016 which sought to recover \$1,713,248 from its Sea Cliff customers. The Company requested authority to use the Earning Sharing Refund of the Sea Cliff District and Pension/Other Post-Employee Benefits (OPEB) internal reserve interest as credits to partially offset the proposed RAC/PTR Surcharge, resulting in an annual surcharge of \$349.01 per Sea Cliff customer (or \$87.25 per quarter).

On July 25, 2016 the Company filed an update to its June RAC/PTR Surcharge filing that updated interest information through July for all items of the reconciliation and,

additionally, sought authorization to defer \$300,000 of Property Tax balance from the June filing to further reduce the surcharge. This deferral would offset the proposed annual surcharge by an additional \$70.08 per customer, which, including the updated interest, would result in an annual surcharge of \$279.96 per Sea Cliff customer (or \$69.99 per quarter).

In this Order, the Commission finds that using the Earning Sharing Refund, corrected for minor errors, to offset the surcharge and deferring a portion of the Property Tax balance is appropriate. However, the Pension/OPEB internal reserve interest should not be used as an offset at this time, in order to allow Department of Public Service staff (Staff) time to fully analyze the interest calculation, verify the booked amounts, and review its compliance with the Commission's Pension and OPEB Policy Statement and Order.<sup>1</sup> Once the deferral balance can be verified, the disposition of the credit related to the internal reserve interest can be determined by the Commission in a future rate proceeding or RAC/PTR filing.

#### BACKGROUND

The RAC/PTR Surcharge is designed to allow the Company to recover or refund the annual difference between projected revenues, production costs, and property taxes<sup>2</sup> to the actual

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<sup>1</sup> Case 91-M-0890, Development of a Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and OPEBs, Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions (issued September 7, 1993) (Pension and OPEB Policy Statement).

<sup>2</sup> Case 11-W-0472, Joint Petition of Aqua Utilities, Inc. and American Water Works Company, Inc. - Approval of Stock Purchase Agreement, 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.

amounts paid by the Company. In its June 1, 2016 filing, the Company proposed to recover from its Sea Cliff customers \$1,713,248 (comprised of \$41,609 in Revenue and Production costs; \$1,609,154 in Property Taxes; and \$62,485 in Reconciliation Items) in the RAC/PTR Surcharge. The Company proposes using excess earnings of \$33,576 to offset the surcharge. Under the Earning Sharing Mechanism (ESM) provisions established by the Commission, Sea Cliff is required to share 50%/50% with customers any earning above the authorized 10.2 percent Return on Equity (ROE).<sup>3</sup> The Company also proposes using the Internal Reserve Interest of Pension/OPEB accounts to offset the surcharge, which would yield an additional offset of \$185,566.

On July 25, 2016 the Company filed an update to its June proposed RAC/PTR Surcharge in which it provided updated interest information for all items of the reconciliation through July. Additionally, the Company requested authorization to defer \$300,000 of Property Tax balance from the June filing, in order to further reduce the surcharge. The request to defer a portion of the Property Tax balance is consistent with the Commission's authorization of a \$262,630 deferral in Case 15-W-0436<sup>4</sup> and would offset the proposed annual surcharge by an additional \$70.08 per customer.

Due to the magnitude of the surcharge, the Company requests authority to collect the surcharge over a 12-month period and requests a waiver of the \$4.00 per month surcharge

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<sup>3</sup> Case 11-W-0472, supra, Attachment I, at 10.

<sup>4</sup> Case 15-W-0436, Petition of New York American Water Company, Inc. for Approval to offset the RAC/PTR Surcharge, Order Authorizing Deferral and Use of Funds (issued October 21, 2015). The Company requested authority to defer \$430,484 of Property taxes, and the Commission authorized deferring \$262,630.

limit. This would allow for full recovery while mitigating bill impacts.

#### 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 August 10, 2016 [SAPA No. 16-W-0410SP1]. The time for submission of comments pursuant to the Notice expired on September 26, 2016. No comments were received.

#### DISCUSSION AND CONCLUSION

As stated in the Company's updated filing, the total under-collection is now \$1,717,769. If the proposed offsets and deferral are not used, the under-collection would require an annual surcharge of \$401.25 per Sea Cliff customer. Using all of the offsets and property tax deferrals, as proposed by the Company, reduces the total under collection to \$1,198,509. This net under-collection would yield an annual surcharge of \$279.96 per Sea Cliff customer.

In this Order, the Commission authorizes the proposed deferral of \$300,000 of Property Tax balance in order to mitigate customer bill impacts. While this amount is slightly higher than what was approved last year, property taxes have continued to increase and the Commission must balance between deferring less, which impacts customer bills in the near term, and deferring more, which places upward pressure on rates in future reconciliation filings. As stated above, the Pension/OPEB internal reserve interest must be audited, therefore, it is not presently available to be used as an offset to the surcharge. This will give Staff time to audit the Company's pension/OPEB accounting, verify compliance with the Pension and OPEB Policy Statement, analyze the internal reserve

interest calculation, and verify the book entries dating back to when Sea Cliff was purchased in 2007. The Commission approves, however, the use of a modified Earning Sharing offset, corrected to properly reflect interest. The resulting annual surcharge is \$323.40 per Sea Cliff customer (or \$80.85 per quarter).

The Revenue and Production Cost Reconciliation Adjustment Clause and Property Tax Clause provides that if a \$4.00 per customer per month charge (\$48 per customer annually) is insufficient to recover deferred costs prior to the end of the following rate year, the limit may be waived. Because the resulting surcharge is greater than \$4.00 per customer per month, the limit is hereby waived. The Company shall recover the RAC/PTR Surcharge over a twelve-month period.

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, 2016, 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 defer \$300,000 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 collect \$80.85 per Sea Cliff customer per quarter over a twelve-month period, to collect deferred costs associated with its Revenue, Production Costs and Property Tax Reconciliation.

3. New York American Water Company, Inc. is directed to file on not less than one day's notice, to become effective on November 1, 2016, *Revenue and Production Cost Reconciliation*

*Adjustment Clause and Property Tax Clause - Statement No. 4* in accordance with the discussion in the body of this Order.

4. The requirements of newspaper publication pursuant to Public Service Law §89-c(10) and 16 NYCRR §720-8.1 for the tariff directed in Clause No. 3 are waived, provided that New York American Water Company, Inc. files with the Secretary to the Commission, not later than October 30, 2016, a copy of the customer notification of the Commission's determination in this case.

5. 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.

6. This proceeding is closed pending compliance with Ordering Clauses 3 and 4.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS  
Secretary