



October 31, 2017

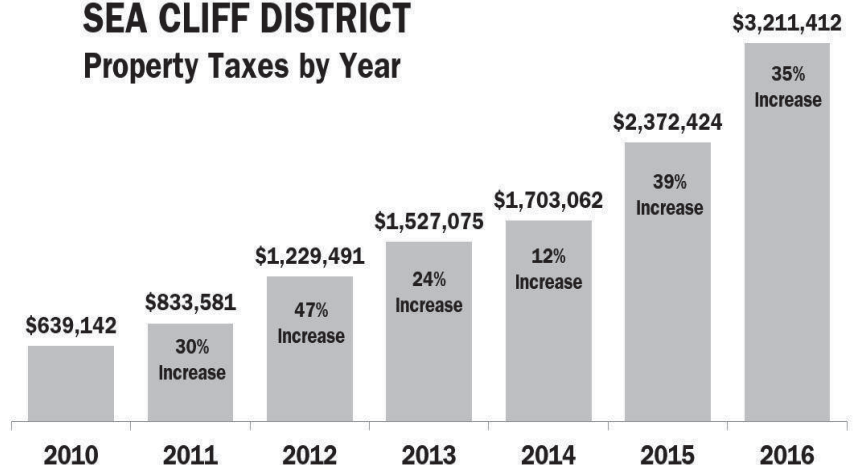
Dear Customer,

In the coming months, you will notice a temporary surcharge on your water bill, and we wanted to provide you with some background information about the surcharge. On an annual basis, as authorized by the New York State Public Service Commission (NYPSC), water utilities are permitted to reconcile approved metered revenues, production costs and property taxes against actual revenues received and costs paid.

New York American Water submitted this annual reconciliation for its Sea Cliff District in May of this year. Upon review, the NYPSC approved a \$323.40 surcharge per customer, because actual costs exceeded what the company recovered during the year. Instead of applying this surcharge to customers' bills in one lump sum the surcharge will be broken up into twelve equal payments of \$26.95, and will appear on twelve consecutive monthly bills between Nov. 1, 2017 and Oct. 31, 2018, as a line item called "RAC/PTR Surcharge". As a result, there will be no change to the RAC/PTR charge based on this year's filing. If needed, we are happy to work with you to set up a deferred payment arrangement.

New York American Water makes every effort to minimize the costs recovered through this surcharge. As such, only about 3 percent of the surcharge is due to changes in revenues and production costs, which include the costs of fuel, power and chemicals needed to provide safe, reliable service to customers. The balance and vast majority of the surcharge is due to increases in property taxes New York American Water paid from April 2016 through March 2017. In fact, as shown on this chart, property taxes – which are essentially pass-through fees that are paid to villages, towns and school districts – have more than quadrupled, increasing from \$0.64 million to over \$3.2 million in six years.

### SEA CLIFF DISTRICT Property Taxes by Year



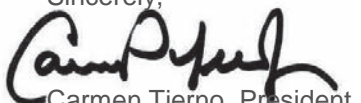
The total surcharge would have been \$449.99 per customer per year, however New York American Water requested the application of several adjustments, which were approved by the NYPSC. The adjustments which were approved by the NYPSC resulted in a 28 percent reduction of the potential surcharge, to \$323.40 per customer per year, matching the previous surcharge level. Here's a breakdown of the surcharge's components:

Reason for the Surcharge	Cost per customer
Increases in Village, Town and School Taxes	\$438.82
Changes in Revenues (\$14.49), Production Costs (-\$3.32)	11.17
<b>Subtotal</b>	<b>\$449.99</b>
Over-recovery of Prior Year Surcharge	-0.61
Refunds to Customers and Deferred Property Taxes	-125.98
<b>Total annual surcharge per metered customer</b>	<b>\$323.40</b>

While we cannot control the imposition of property taxes, we do review and are currently challenging property tax assessments in the Nassau County Supreme Court to help minimize these pass-through fees when possible. We also continually look for ways to manage our costs.

Learn more at [www.newyorkamwater.com](http://www.newyorkamwater.com). Under the Customer Service drop-down menu, select **Rates Information**. If you have questions or would like to discuss setting up a payment agreement, please call our customer service center at 1.877.426.6999, M-F, 7 a.m. to 7 p.m.

Sincerely,

  
Carmen Tierno, President  
New York American Water