



NEWS RELEASE

City of New Rochelle, New York

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MEDIA RELEASE
For Immediate Release
August 1, 2010

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Municipal Consortium Protests Proposed Rate Increase by United Water

New Rochelle, NY— The United Water Municipal Consortium, comprising nine municipalities representing over 80% of the United Water New Rochelle customer base, held a press conference in the New Rochelle City Hall Rotunda at 4:00 P.M. on Monday, August 2, 2010. The Consortium spoke out against the proposed rate increases that are included in the joint proposal by United Water New Rochelle and the staff of the Public Service Commission.

The joint proposal calls for rate increases of 127% over ten years and 71% over five years. Similar increases will be placed on municipal budgets which pay United Water New Rochelle rental fees for the use of fire hydrants in their service areas. As a result of the joint proposal, rate payers will be hit with a large increase in their water bills, and property taxpayers in the affected communities will be required to also bear the burden of large increases in hydrant rental fees.

“At a time when virtually every household is struggling to make ends meet and virtually every government is slashing programs and services, the scale and sheer greed of this unjustifiable proposal is an outrage,” said New Rochelle Mayor Noam Bramson. “I and fellow Consortium members call on the PSC to exercise its lawful authority to protect the ratepayers and taxpayers of Westchester.”

“The PSC must side with the rate payers/taxpayers over the shareholders of a multinational corporation. A fifty five percent (55%) increase is offensive and unwarranted,” stated Supervisor Anthony Colavita.

“The Public Service commission is given the charge of ensuring that all New Yorkers have access to reliable and Low cost utilities – to even consider this proposed tariff is indicative of yet another blatant disconnect between Albany and the hard working residents of Westchester County,” said County Legislator Shelia Marcotte. “If approved, I hope that all New Yorkers will join me in calling for the resignation of all of the Public Service Commissioners.”

The press conference will coincide with the public hearing scheduled by the Public Service Commission which will begin at 4 pm in Council Chamber of New Rochelle City Hall. Immediately following the press conference, representatives of the Consortium will speak at the public hearing.

The Consortium comprises the following communities: City of New Rochelle, Town of Eastchester, and Villages of Bronxville, Hastings, Dobbs Ferry, Pelham, Pelham Manor, Ardsley, and Tuckahoe.

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OVERVIEW

The **United Water New Rochelle (UWNR), Municipal Consortium**, comprising nine municipalities representing over 80% of the population within the UWNR service territory,¹ vigorously opposes the proposed rate increase on the grounds that it is excessive and unnecessary. The Joint Proposal created by United Water and Public Service Commission staff (“JP”) will result in UWNR’s rates increasing 127% over ten years and 71% over five years. If the four year phase-in of the rate increase is approved, 2014 rates will be a full 171% greater than 2004 rates. By comparison, the Consumer Price Index has increased less than 28% over the past ten years.

WHY A RATE INCREASE?

The rate proposed increase is primarily driven by two things: first, an outdated formula that disregards how companies like UWNR actually finance their capital improvements; and second, by UWNR’s huge cost overruns on the Delaware Interconnection Project (DIP) and other capital improvements.

The DIP, which gives UWNR access to Delaware Aqueduct water, was required under the Federal Safe Drinking Water Act because UWNR’s backup source of supply, the Croton Reservoir, was unsafe for drinking. Although in 2000 UWNR initially projected that the DIP would only cost \$25 million, the project is now purported to be \$70 million.

The Joint Proposal not only permits UWNR full recovery of this \$70 million, it also permits UWNR an annual return of about 11% on this \$70 million. In arriving at this 11% figure, the Joint Proposal disregards that UWNR’s international holding company parent (Suez Environment) finances projects like the DIP by borrowing about 80% of the money at low interest rates of between 4% and 6%. The small fraction that this holding company is actually investing in the DIP and other UWNR capital projects will, under the Joint Proposal, yield it virtually guaranteed profits of about 30%.

In enacting the Safe Drinking Water Act, Congress did not, however, intend for projects such as the DIP to become huge profit centers for privately owned water monopolies such as UWNR. Instead, Congress specifically provided for the creation of Safe Drinking Water State Revolving Funds (SDWSRF) to provide low cost (*e.g.* about 3% - 4%) financing for these projects, regardless of whether publicly or privately owned. To minimize “rate shock” water company regulators have found ways to maximum the use of low-cost SDWSRF moneys for projects like the DIP, while protecting the legitimate property rights of investors. In its 2005 rate order, the PSC specifically ordered UWNR to explore all low cost financing options for the DIP. Shockingly, however, UWNR concedes that it never even applied for SDWSRF funding!

WHO WILL PAY?

UWNR initially sought to increase PFP rates by 125%. Under the current Joint Proposal, PFP rates will still, however, increase by about 50% by 2014. Given the existing strains on municipal revenues, the proposed 50% rate increase is untenable. More importantly, as is being recognized throughout the nation, billing PFP to municipalities to be passed through to the public via the property tax is inequitable because it gives tax exempt entities such as universities, hospitals, and

¹ Participating members (in order of population) include: New Rochelle, Eastchester, Dobbs Ferry, Hastings, Broxville, Pelham, Tuckahoe, Pelham Manor, and Ardsley.

state and federal government a “free ride” on backs of home owners and small businesses that are not exempt from the property tax.

Municipalities are particularly hard hit by these increases because they are billed not only for the water actually consumed by municipal buildings and facilities, but also for millions of dollars of system costs that UWNR arbitrarily allocates to Public Fire Protection (“PFP.”) The municipalities must then pass these PFP costs on to the public through the property tax even though many of the primary beneficiaries of public fire protection (such as universities, hospitals, etc.) are exempt from the property tax.

ALTERNATIVE PROPOSAL

The Consortium has requested that the Commission **reject the joint proposal** and **follow the national trend** and direct UWNR to treat PFP costs as general system costs to be directly billed across the board **to all UWNR ratepayers**, including tax exempt entities such as universities, hospitals, and the state and local government.

FACTS AND FIGURES

UWNR RATE 5-YEAR AND 10-YEAR RATE INCREASES VERSUS COST OF LIVING

AGGRAGATE UWNR INCREASES

(AS OF 2011 DISREGARDING PROPOSED PHASE-IN)

10-YEAR	127%
5-YEAR	71%

AGGREGATE UWNR INCREASES

(AS OF 2014 WITH PROPOSED PHASE-IN)

10-YEAR	171%
5-YEAR	48%

TOTAL UWNR INCREASE NET OF PURCHASED WATER AND STATE & LOCAL TAX COSTS (AS OF 2011, DISREGARDING PROPOSED PHASE-IN)

10-YEAR	145%
5-YEAR	82%

TOTAL CONSUMER PRICE INDEX INCREASES

(SOURCE: U.S. DEPARTMENT OF LABOR)

10-YEAR	27.8%
5-YEAR	13.6%

TOTAL UWNR REVENUES (MILLIONS OF DOLLARS):

2001	\$20.3
2006	\$26.9
2011	\$40.4 (WITHOUT PROPOSED PHASE IN \$46)
2014	\$55.2

TOTAL UWNR PURCHASED WATER COSTS (MILLIONS OF DOLLARS)

2001	\$3.0
2006	\$5.1
2011	\$9.7
2014	\$9.8

UWNR STATE AND LOCAL (I.E. PROPERTY) TAXES (MILLIONS OF DOLLARS)

2001	\$5.2
2006	\$5.5
2011	\$6.2
2014	\$6.6

CAPITAL COST OF DIP (MILLIONS OF DOLLARS)

2000	\$25
2004	\$43
2006	\$47 (w/o construction period interest)
2011	\$70

COST OF DIP UNDER VARIOUS FINANCING SCENARIOS

3.2% COST OF SDWSRF MONEYS:

4.125% INTEREST RATE ON 10-YEAR SUEZ-E 500 EURO BOND ISSUE

10.86% "BEFORE TAX RETURN" PERMITTED UNDER JP

ASSUMPTIONS FOR "RATE OF RETURN" UNDER JOINT PROPOSAL

10.86%	BEFORE TAX AVERAGE RATE OF RETURN ON CAPITAL UNDER JP
55%	JP'S ASSUMED PERCENTAGE OF INVESTMENT USING BORROWED MONEY
45%	JP'S ASSUMED PERCENTAGE OF INVESTMENT USING SHAREHOLDER PROVIDED MONEY
6.15%	ASSUMED INTEREST RATE ON BORROWED MONEY
16.8%	ASSUMED BEFORE TAX PROFIT
80%	ACTUAL PERCENTAGE OF UWNR INVESTMENT USING BORROWED MONEYS*
20%	ACTUAL PERCENTAGE OF INVESTMENT USING MONEY INVESTED BY SHAREHOLDERS*
4.1% - 6.0%	ACTUAL INTEREST PAID ON BORROWED MONEYS
28.4%	ACTUAL BEFORE TAX PROFIT (ASSUMING 5.5% AVERAGE INTEREST RATE ON BORROWINGS)*

COMPARISON WITH CON EDISON ELECTRIC RATE CASE (CITED AS AUTHORITY BY STAFF FOR ALLOWED RETURN ON UWNR)

4%	CON EDISON ANNUAL RATE INCREASE
11.8%	UWNR ANNUAL RATE INCREASE
50%-50%	CON EDISON INC. RATIO DEBT TO EQUITY
80%-20%	SUEZ ENVIRONMENT RATIO DEBT TO EQUITY
1.23%	PERCENT "GOOD WILL" ON CON EDISON INC. BALANCE SHEET**
13.6%	PERCENT "GOOD WILL" ON SUEZ ENVIRONMENT BALANCE SHEET**

*Disregarding "good will."

** "Good will" represents the premium above "net book value" that companies are willing to pay to acquire the assets or stock of companies such as UWNR. Regulators generally will not permit any "return" on good will.

ANNUAL PER HYDRANT COST FOR UWNR UNDER JP:

2010: \$540 (\$660 INCLUDING SURCHARGES)

2011: \$740

2012: \$867

2013: \$992

2014: \$995

PERCENT OF TOTAL PFP SYSTEM COSTS UNDER 2009 COST OF SERVICE STUDY:

6%

PERCENT TOTAL SYSTEM INVESTMENT IN HYDRANTS:

4.2%

INCREASE IN PFP COSTS BASED ON UNFOUNDED ASSUMPTIONS RE “MAXIMUM DAY” AND DIP:

25% (or \$215 per hydrant)

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