BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR A GENERAL RATE INCREASE IN WATER BASE RATES AND TARIFF REVISIONS (FILED NOVEMBER 25, 2013)	)))))	PSC DOCKET No. 13-466

ORDER NO. 8611

AND NOW, this 19th day of August, 2014:

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner, which is attached hereto as **"Attachment A,"** issued in the above-captioned docket, which was submitted after a duly-noticed public evidentiary hearing held on July 31, 2014; and

WHEREAS, the Hearing Examiner recommends that the Commission approve the proposed Settlement Agreement, which is endorsed by all the parties, and which is attached hereto as **"Attachment B,"** and;

WHEREAS, the Commission finds that the proposed rates and tariff modifications contained in the proposed Settlement Agreement are just and reasonable, and that adoption of the proposed Settlement Agreement is in the public interest;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS:

1. That by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the August 10, 2014 Findings and Recommendations of the Hearing Examiner, attached hereto as **"Attachment A."**

2. That the Commission approves the proposed Settlement Agreement (attached hereto as **"Attachment B")** and the tariff modifications and proposed rates therein, which reflects an additional revenue requirement for Tidewater Utilities, Inc. ("Tidewater") of $800,000, or approximately a 2.89% increase over current base rates. This revenue requirement amount is based upon an overall cost of capital of 7.92% and an authorized rate of return on equity of 9.75%.

3. That the final rates contained in the proposed Settlement Agreement are approved for implementation effective for service provided on and after August 19, 2014. These rates shall remain in effect until further Order of the Commission.

4. That, because the final rates contained in the proposed Settlement Agreement are lower that the interim rates placed into effect in February 2014, as ordered by the Commission, Tidewater's ratepayers are entitled to a refund of $424,169.33, representing the difference between the amount collected through the interim rates and the amount that would have been collected over this same time period had the $800,000 revenue increase agreed upon in the proposed Settlement Agreement been in effect.

5. That the aforementioned refund shall be made via a one-time bill credit to Tidewater's customers, to be reflected on the first bill received by a customer after the effective date of this Order.

6. That the proposed tariff revisions discussed in the Settlement Agreement are hereby approved and deemed filed as of the date of this Order.

7. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

_____
Chair

_____
Commissioner

_____
Commissioner

_____
Commissioner

_____
Commissioner

ATTEST:

_____
Secretary

ATTACHMENT "A"

BEFORE THE PUBLIC SERVICE COMMISSION
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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

R. Campbell Hay, duly appointed Hearing Examiner in this docket pursuant to *26 Del. C. §502* and *Del. C. Ch. 101*, by Commission Order No. 8522, dated February 6, 2014, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant, Tidewater Utilities, Inc.:

MID-ATLANTIC ASSOCIATES
By: GLENN C. KENTON, ESQUIRE

RICHARDS, LAYTON & FINGER, P.A.
By: TODD A. COOMES, ESQUIRE

MIDDLESEX WATER COMPANY
By: JAY L. KOOPER, ESQUIRE

On behalf of the Delaware Public Service Commission:

ASHBY & GEDDES
By: JAMES McC. GEDDES, ESQUIRE

On behalf of the Division of the Public Advocate:

REGINA A. IORII, ESQUIRE, Deputy Attorney General
Delaware Department of Justice

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION	)	
OF TIDEWATER UTILITIES, INC. FOR	)	
A GENERAL RATE INCREASE IN WATER	)	PSC DOCKET No. 13-466
BASE RATES AND TARIFF REVISIONS	)	
(FILED NOVEMBER 25, 2013)	)	

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On behalf of the Division of the Public Advocate:

REGINA A. IORII, ESQUIRE, Deputy Attorney General
Delaware Department of Justice

II. BACKGROUND

1. On November 25, 2013, Tidewater Utilities, Inc. ("Tidewater" or "Company") filed an application with the Delaware Public Service Commission (the "Commission") to increase its rates for water service. In its application, Tidewater sought an overall increase in annual operating revenues of $3,903,338, or 14.42% over current water revenues.[1] (Application, Exh. 2, Briefing Sheet)

2. After reviewing the Application, the Commission initiated this docket pursuant to 26 *Del. C.* §306(a)(1) and by Order No. 8522 dated February 6, 2014, suspended the proposed rate increase pending a full and complete evidentiary hearing to establish whether the proposed rates are just and reasonable. The Commission designated me, R. Campbell Hay, as the Hearing Examiner to conduct the Evidentiary Hearing and to report to the Commission my findings and recommendations.

3. In Order No. 8522, pursuant to 26 *Del. C.* §306(c) and on Tidewater's Application, the Commission allowed Tidewater to place interim rates into effect. Effective February 6, 2014, Tidewater placed into effect, under bond, an interim rate increase of approximately $1,730,958, or a net increase of approximately 6.5% over existing rates.

4. On January 31, 2014, the Division of the Public Advocate ("Public Advocate" or "DPA") exercised its statutory right of intervention in this docket, pursuant to 29 *Del. C.* §8716(d)(1).

5. On March 18, 2014, all parties participated in a conference call with the Hearing Examiner to review and agree on a Procedural Schedule

[1] The Evidentiary Hearing Exhibits will be cited herein as "(Exh.__)." References to the pages of the Evidentiary Hearing transcript will be cited as "Tr.-__." Schedules from the Company's Application or pre-filed testimony will be referred to as "Sch.__."

outlining specific deadlines for this docket. The Procedural Schedule was amended on April 9, 2014 to include a deadline for written public comments of May 13, 2014.

6. Three Public Comment Sessions were held, one in each of Delaware's three counties, as follows:

- Tuesday, April 15, 2014 in the Hearing Room at the Office of the Delaware Public Service Commission in Dover;
- Thursday, April 17, 2014 in the Theater of Cape Henlopen High School in Lewes;
- Tuesday, April 22, 2014 at VFW Post 3792 in Townsend.

All of the comment sessions were held at 7 p.m. Two members of the public attended the Lewes public comment sessions.[2] No members of the public attended the Dover or Townsend public comment sessions.

7. With its application, Tidewater included pre-filed testimony of Gerard L. Esposito (President), Jeremy M. Kalmbacher (Director of Engineering), Bruce E. Patrick (Vice President and General Manager), A. Bruce O'Connor (Tidewater Treasurer and Middlesex CFO), Michele L. Tilley (Middlesex), and three consultants from AUS Consultants (Pauline M. Ahern, Dylan W. D'Ascendis, and Gary D. Shambaugh).

8. On February 24, 2014 Delaware Public Service Commission Staff ("Staff") entered into an agreement with Excel Consulting to provide certain services in the areas of Cost of Service and Rate Design and Snavely, King, Majoros & Associates, Inc. to provide certain services in the areas of Cost of Capital and Cost of Equity.

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[2] Public notices of the Public Comment Sessions were posted in the Delaware Wave on April 8, 2014; the Delaware State News on April 4, 2014; the Cape Gazette on April 4, 2014; and The News Journal on April 2, 2014.

9. On April 9, several Staff members (Kevin Neilson, Amy Woodward, Malika Davis, Connie McDowell, Jason Smith, Lisa Driggins, and Ron Teixeira), DPA Analyst (Andrea Maucher), PSC Rate Counsel (Jim Geddes) and I were guided on a tour of several Tidewater facilities by Tidewater's President (Jerry Esposito), Tidewater's General Manager (Bruce Patrick) and Tidewater's Director of Engineering (Jeremy Kalmbacher).

10. We visited several projects that are in various stages of completion, all of which are included in the capital improvements section of Tidewaters rate case (PSC Docket No. 13-466). Those projects were General's Greene, Camden Hydraulic Upgrades, Season's-Warrington Creek Interconnection, Angola Elevated Tank, and Meadows Upgrades. (Tr., pp. 7-10)

11. General's Greene - Although under construction, this plant was active. Improvements included a new building and piping, a new generator, new control system and chemical addition. (*Id.*)

12. Camden Hydraulic Upgrades - It was explained to us that this was a necessary upgrade to reroute the water main due to DelDOT construction. (*Id.*)

13. Season's-Warrington Creek Interconnection - Here we toured the plant at Season's, witnessed a fire hydrant test (for use and usability), and saw where the interconnection was laid underneath the golf course from Season's to Warrington Creek. The interconnection was made underground using drilling equipment so as not to disturb the existing neighborhoods or the golf course. (*Id.*)

14. Angola Elevated Tank - Tank construction was completed on the 400,000 gallon water tower in Angola. (*Id.*)

15. Meadows Upgrade - This was a water plant acquired by Tidewater. The site was under construction and improvements allowed for removal and discontinuation of use of a grain silo, which was turned on its side and used for water storage. The improvements included new piping, control system and chemical addition within the existing structure. (*Id.*)

III. PARTIES' PREFILED TESTIMONY

A. Tidewater

16. **Gerard L. Esposito**, President of Tidewater Utilities, Inc., testified that Tidewater serves 34,000 customers through fifty (50) water systems located in all three (3) Delaware counties, of which seventeen (17) are interconnected with at least two community water systems. The fifty (50) water systems are served by 83 treatment plants and 158 wells. Mr. Esposito also explained cost mitigation steps the Company had taken. These included a 12.4% workforce reduction and amendments to its retirement health plan qualification, resulting in greater retiree contributions to the plan. (Exh. 3, pp. 1-2)

17. **Jeremy M. Kalmbacher**, Director of Engineering for Tidewater, offered testimony regarding the Company's capital program. Mr. Kalmbacher listed 27 capital projects which fell within the Test Period. (Exh. 4, pp. 4-7)

18. Mr. Kalmbacher also testified that, with the exception of Bayside Distribution Phase 2 (#16 on the list), all of the projects discussed in his direct testimony were for the purpose of infrastructure upgrades, improvements, or to meet regulatory requirements. The Bayside improvements were for customer growth. Mr. Kalmbacher further testified that the total cost of all capital projects was approximately $8.5 million. (*Id.* at 2)

19. Next, Mr. Kalmbacher described Tidewater's capital budgeting process. He noted that the process was developed as part of a five year capital program. Each fall every project is reviewed individually, in detail, to determine operational and financial status. Those projects that are not completed by the end of the calendar year are continued into the next year. The following year's budget and related project timetable is based on currently available information as Tidewater analyzes system needs, customer needs, and growth. (*Id.* at 2-3)

20. Mr. Kalmbacher explained that the contracts for capital projects are awarded by inviting a group of pre-qualified contractors to submit bid proposals. The project is awarded to the lowest qualified bid. (*Id.* at 3)

21. **Bruce E. Patrick, P.E.**, Vice President and General Manager for Tidewater, testified in support of certain operating expenses. These included labor, power, chemicals, treatment and laboratory services, and tank painting. (Exh. 5, p.2)

22. Mr. Patrick also testified that pumpage had declined over the past several years despite a growing customer base because many individual homeowners are installing irrigation wells. He testified that records received from the Department of Natural Resources and Environmental Control (DNREC) via a Freedom of Information Act (FOIA) request supported his belief. According to Mr. Patrick, these records showed that DNREC issued approximately 2,600 irrigation well permits over the five (5) year period from 2007 to 2012. Further analysis by Mr. Patrick showed a significant decrease in pumpage since 2010 during the summer irrigation season. (*Id.* at 3)

23. **A. Bruce O'Connor**, Treasurer of Tidewater, testified that Tidewater has complied with Commission Order No. 8164 for a monthly meter reading and billing study submission to the Commission and the filing of a Lead-Lag study. Mr. O'Connor testified that these were submitted to the Commission on or about March 12, 2013. He also testified that the results of the Lead-Lag study were used to prepare the financial information used to determine its projected rate increase requested in the present case. (Exh. 6, p.1)

24. Mr. O'Connor testified that the Test Year for this case was the twelve (12) month period ending September 13, 2013 and the Test Period was the twelve (12) month period ending June 30, 2014. (*Id.* at 2) He stated that all known and measurable changes, annualized, and expected to occur on or before the end of the Test Period, were reflected in the Test Period. (*Id.*)

25. **Michele L. Tilley** of Middlesex Water Company testified regarding components of the rate base not covered by Mr. O'Connor's testimony. Ms. Tilley outlined details of the costs related to utility plant, accumulated depreciation, materials and supplies, cash working capital (CWC), deferred income taxes, customer advances for construction and Contributions In Aid of Construction (CIAC). Ms. Tilley noted that Tidewater changed its cash working capital model as a result of the Settlement Agreement in PSC Docket No. 11-397, Order No. 8164 to file the aforementioned Lead-Lag study. The Lead-Lag study helped Tidewater determine the appropriate Cash Working Capital needed in the future. (Exh. 7, pp. 1-3)

26. **Pauline M. Ahern, CRRA**, Principal at AUS Consultants, testified on behalf of Tidewater that the appropriate common equity cost rate that

Tidewater should be afforded the opportunity to earn on its rate base was 10.95%. This was based on comparisons to water utilities of similar, but not identical, risk.[3] (Exh. 8, pp. 2-3)

27. Ms. Ahern applied the Discounted Cash Flow (DCF) approach, the Risk Premium Model (RPM), and the Capital Asset Pricing Model (CAPM) to the market data of the comparison companies to reach her conclusions. In reaching her conclusions, she gave each of these approaches relatively equal weight, stating that "no single model is so inherently precise that it can solely be relied upon." Ms. Ahern noted that all of the models used were market based using nine (9) water utilities which met specific criteria in comparison to Tidewater. (*Id.* at 3-4)

28. **Dylan W. D'Ascendis, CRRA**, Principal at AUS Consultants, testified on behalf of Tidewater regarding the appropriate capital structure, including the long-term debt cost rate, used in calculating the overall rate of return. (Exh. 9, p.1)

29. Mr. D'Ascendis testified that, as of June 30, 2014, Tidewater's long-term debt ratio was 49.04% and the common equity ratio was 50.96%. He stated that Tidewater's ratios were similar to the ratios of the comparison companies Ms. Ahern used in her analysis. His conclusion was that Tidewater's ratios are appropriate for ratemaking purposes. (*Id.* at 2-4)

30. **Gary D. Shambaugh**, Principal and Director at AUS Consultants, testified on behalf of Tidewater concerning cost of service allocations and rate design. Mr. Shambaugh found that, in order for Tidewater to meet its

[3] Ms. Ahern noted that since Tidewater is a wholly-owned subsidiary of Middlesex Water Company, the stock is not publicly traded; therefore a market-based common equity cost could not be directly observed. She noted that this method of comparison is consistent with the principles of fair return established in the *Hope* and *Bluefield* cases, found at 320 U.S. 591 (1944) and 262 U.S. 679 (1922), respectively.

cost of service, general water service would require a 15.95% increase, public fire would require an 18.26% increase, and private fire would require a 22.59% decrease. (Exh. 10, pp. 13-15)

B. Division of the Public Advocate

31. **Glenn A. Watkins**, Vice President and Senior Economist of Technical Associates, Inc., was retained by the DPA and testified on the DPA's behalf that a fair overall rate of return for Tidewater was 7.79%, based on a cost of equity of 9.1%, a capital structure of 49% long-term debt and 51% equity, and a cost of long-term debt of 6.01%. While the overall rate of return recommended by Mr. Watkins differed from the recommendations of Tidewater and Staff, the underlying capital structure to which his recommended debt and equity costs would be applied was the same capital structure that Tidewater proposed. . (Exh. 11, pp. 2-3)

32. Mr. Watkins recommended a different distribution of revenue to the customer classes and service categories than Tidewater and recommended no change in fixed monthly/quarterly customer charges. (*Id.* at 8)

33. In his equity cost analysis, Mr. Watkins used the same nine (9) water utilities in his proxy group that Ms. Ahern used in her analysis. He used three different calculation methods to arrive at his conclusions: DCF, CAPM, and Comparable Earnings (CE). Mr. Watkins gave each method relatively equal weight and used the mid-point from each equity cost model to reach 9.1%. (*Id.*)

34. The primary drivers of the difference between Mr. Watkins' recommended cost of equity and Ms. Ahern's recommended cost of equity was (2) Ms. Ahern's reliance on forecasted future interest rates for Moody's AAA-rated corporate bonds and 30-year Treasury bonds in her RP and CAPM

studies (*id.* at 23-25); (2) her use of a "Predictive Risk Premium Model" (PRPM) risk premium study to which she gave a 50% weighting (Id. at 25-26); and (3) her upward adjustments to the results of her equity cost studies to account for flotation costs, Tidewater's allegedly greater credit risk, and Tidewater's smaller size. (*Id.* at 26-28)

35. **Howard J. Woods, Jr., P.E.**, an independent consultant retained by the DPA, testified that Tidewater had underestimated present rate revenues and overestimated certain of its Test Period operating expenses. He further opined that certain of Tidewater's capital construction projects would not be completed and in service by the end of the Test Period and should be excluded from rate base. (Exh. 12, pp. 3-4, 14-15)

36. Mr. Woods also testified that Tidewater's requested allowance for CWC incorrectly included depreciation and invested capital. He stated that these should not be included in the CWC calculation because they are non-cash items. (*Id.* at 15)

37. Mr. Woods adjusted present rate revenues to reflect what, in his analysis, were actual sales for the Test Period. (*Id.* at 5-7). He also made adjustments to Tidewater's proposed Test Period operating expense levels for vacant positions; purchased power, chemicals and treatment; tank painting; uncollectible accounts; outside services; insurance; employee pension and benefits expense (which included removing the costs associated with Tidewater's Supplemental Executive retirement Plan (SERP) and non-executive employee compensation plan); regulatory commission expense; and Enterprise Resource Planning (ERP) system expense. (*Id.* at 8-14).

38. Mr. Woods supported Tidewater's proposed tariff changes regarding cross-connection control and fire hydrants. (*Id.* at 4-5)

39. After applying Mr. Watkins' recommended overall rate of return to his proposed rate base, Mr. Woods concluded that Tidewater's rates should actually be reduced annually by $1,387,713. (*Id.* at 4, 16)

C. PSC Staff

40. **Connie S. McDowell**, Senior Regulatory Policy Administrator with the PSC, testified regarding certain rate base items and revenue requirement items. (Exh. 13, p. 2)

41. Ms. McDowell's analysis found a revenue requirement deficiency of $1,055,788 ($2,847,550 less than that in Tidewater's analysis); a Test Period rate base of $93,992,059; Test Period operating income of $6,518,526; and an appropriate return on equity of 9.15% based on an overall cost of capital of 7.61%. (*Id.* at 3)

42. Ms. McDowell adjusted CWC by removing a lag day from a specific, unpaid account from Tidewater's Lead-Lag Study calculations and removing non-cash items, such as accumulated depreciation, from the calculation. (*Id.* at 5)

43. **Malika Davis**, Public Utility Analyst II for the PSC, testified regarding purchased water expense, regulatory commission expense, and ERP. (Exh. 14, p. 3)

44. Ms. Davis recommended no change to purchased water expense. (*Id.*)

45. Ms. Davis noted that Tidewater estimated regulatory commission expenses for the present case to be 56.76% higher than the last rate case. Her conclusion was that this amount was excessive and should be reduced by

$50,000 due to known consultant expense restrictions by PSC Staff.[4] (*Id.* at 5)

46. Ms. Davis recommended a $65,059 reduction in ERP costs based on Staff's lower recommended rate of return and cost of equity. (*Id.* at 6)

47. **Lisa B. Driggins**, Public Utility Analyst for Staff, testified regarding chemicals, treatment and lab, tank painting, and outside services expenses. (Exh. 15, p. 2)

48. Ms. Driggins concluded that since amortization for tank painting expenses would be completed by the time final rates are placed into effect, the expense should not be included in the current rate case. (*Id.* at 3)

49. **Brian Kalcic**, Principal at Excel Consulting, was retained by Staff to review Tidewater's cost-of-service study and proposed rate design. Generally, Mr. Kalcic recommended adopting Tidewater's cost-of-service study; reflecting Tidewater's proposed class revenue allocation; adopting Staff's recommended revenue allocation; and implementing Staff's recommended rate design. (Exh. 16, p. 1)

50. Mr. Kalcic disagreed with Tidewater's rate decrease proposed for Private Fire Service as, in his estimation, it would require remaining customer classes to bear a combined increase in excess of Tidewater's overall revenue adjustment. Mr. Kalcic proposed no change to the Private Fire class. (*Id.* at 4)

51. Mr. Kalcic did not support a change in Public Fire Protection rates since that class was contributing revenues in excess of its cost of service. (*Id.*)

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[4] According to Ms. Davis, Staff's consultant expense was capped at $25,523.(Exh. 14, p. 6)

52. In addition, Mr. Kalcic recommended that, because Tidewater's GWS customer-related costs were $2.727 million less than current GWS facility charge revenues, any increase to Tidewater's present GWS facilities charges should be limited to one-half of the overall GWS class increase in this case. (*Id.*)

53. Mr. Kalcic recommended an increase to the GWS class rates of 4.51% in order to implement Staff's recommended revenue requirement; therefore, the GWS facilities charge, according to Mr. Kalcic, should be 2.26%. (*Id.* at 5)

54. **Charles W. King**, President Emeritus of Snavely, King, Majoros, & Associates, Inc., was retained by Staff to recommend the rate of return that should be allowed on Tidewater's rate base. (Exh. 17, p. 2)

55. Mr. King found that the appropriate after-tax rate of return was 7.61%, inclusive of a 9.15% return on equity. (*Id.*)

56. Mr. King used eight (8) water utilities in his analysis proxy group. This proxy group included all companies used by Ms. Ahern and Mr. Watkins, except Artesian Resources Corp. (*Id.* at Sch. 1, p. 2)

57. In estimating return on equity, Mr. King referred to the *Hope Natural Gas* case (also cited by Ms. Ahern)[5] in finding that there were three standards for determining an appropriate return on equity. First, earnings must be "commensurate with the return on investments in other enterprises having corresponding risk." Second, earnings must be sufficient to "assure confidence in the financial integrity of the enterprise." Third, the earnings must allow the utility to attract capital. (*Id.* at 4)

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[5] See footnote 3

58. Mr. King used the DCF procedure as his primary basis for determining return on equity. This procedure, he stated is used by a number of regulatory commissions, including the FCC and FERC. (*Id.* at 6-7)

59. Mr. King opined that the CAPM analysis is useful in checking results, but is not as reliable as DCF because of the assumptions and judgments needed for CAPM inputs. (*Id.* at 15-16)

60. Mr. King testified that one of the reasons Ms. Ahern arrived at, what in his belief was such a high return at 10.95% was the 11.59% return derived from application of the PRPM. Mr. King argued that PRPM is unreliable as applied by Ms. Ahern because the assumption that realized earnings equate to required return is unfounded. He stated that if that were the case, years in which an investment earned a negative return would result in a negative required return. (*Id.* at 23-24)

61. **Kevin S. Neilson**, Regulatory Policy Administrator for Staff, testified with respect to Plant in Service and proposed tariff changes with respect to testing and maintenance of certain fire hydrants. (Exh. 18, p. 1)

62. Mr. Neilson corrected a portion of Tidewater's formula for projected additions. This correction reduced the Plant in Service figure for the Test Period by $8,511, which also resulted in a corresponding reduction in accumulated depreciation and depreciation expense. (*Id.* at 6)

63. Mr. Neilson testified that Tidewater identified three (3) projects that would not be completed and placed in service by the end of the Test Period. Removing these projects resulted in a decrease in the projected Plant in Service at the end of the Test Period of $796,630,

resulting in a corresponding reduction in accumulated depreciation and depreciation expense. (*Id.*)

64. Mr. Neilson also removed non-blanket projects that were not 100% complete as of April 30, 2014. Six (6) were completed by this date. (*Id.* at 7)

65. Mr. Neilson recommended disallowing Tidewater's requested addition to projects for which no funds had been closed to plant. This amounted to an additional reduction of $149,198. (*Id.* at 9)

66. **Jason R. Smith**, Public Utility Analyst for Staff, provided recommendations regarding revenue projections and projects. He proposed a net adjustment of $155,611 to Test Period revenues, based on calculations in which the budgeted monthly test period revenues provided in the original application and subsequent data responses were updated to include actual figures. (Exh. 19, pp. 2-3)

67. Mr. Smith recommended that rental income from communications companies in the amount of $48,942 for a communications antenna on top of an elevated storage tank be included in Test Period revenue. He reached this conclusion because the income was generated by a regulated asset of Tidewater that is being supported by ratepayers. Mr. Smith argued that ratepayers should benefit from the additional income. (*Id.* at 4)

68. **Ron Teixeira**, Public Utilities Analyst for Staff, testified on aspects of accumulated depreciation and depreciation expenses. (Exh. 20, p. 2)

69. According to Mr. Teixeira, based on reductions in Utility Plant In Service (UPIS), as suggested by Mr. Neilson, accumulated depreciation should be reduced $228,582. (*Id.* at 3)

70. Mr. Teixeira recommended a reduction of $304,774 in depreciation expense by applying depreciation rates developed in PSC Docket No. 99-466 which was adopted by the Commission in Order No. 5592. He also recommended that Tidewater include a new depreciation rate study in its next rate case, as the last such study was conducted in December, 1999. (*Id.* at 6-7)

71. **Amy Woodward**, Public Utility Analyst II for Staff, addressed issues regarding labor, employee pensions and benefits, and executive compensation. (Exh. 21, p. 2)

72. Ms. Woodward testified that Tidewater should not include SERP expenses in the Test Period. She based her conclusion on the fact that the Commission recently decided in an electric rate case that these are extraordinary expenses, not necessary for the operation of basic utility services. This resulted in an expense reduction of $234,079. (*Id.* at 3)

73. Ms. Woodward also noted that Non-Executive Incentive Compensation expenses should not be included because such expenses were disallowed in the last several utility cases. This resulted in an expense reduction of $101,005. (*Id.*)

74. Ms. Woodward recommended that $58,191 in expenses for Executive Compensation be excluded from the revenue requirements, as well. (*Id.*)

D. TIDEWATER REBUTTAL TESTIMONY

75. **Pauline M. Ahern, CRRA**, in her rebuttal testimony discounted the weight Staff's Mr. King gave the DCF analysis in determining his recommended cost of equity rate of 9.15%. Instead, she testified that a more prudent analysis would give more equal weight to CAPM and other analyses, resulting in a higher cost of equity. She cited many financial treatises to support her position. (Exh. 22, pp. 2-3)

76. Ms. Ahern criticized Public Advocate Witness Watkins' use of prospective growth rates in his DCF analysis, stating that security analysts' forecasts are more reliable because they incorporate historical and prospective growth rates in their calculations. Rather, she stated, Mr. Watkins should have used a more consistent approach to his analysis by using an average of the Value Line EPS growth rate and FirstCall EPS growth rate to adjust dividend yields. (*Id.* at 17-18)

77. **Jeremy M. Kalmbacher**, in his rebuttal testimony, took issue with the timetable Mr. Neilson used to analyze Tidewater's recent capital program. Mr. Kalmbacher noted that from 2002-2008 the housing market was rapidly expanding, putting upward pressure on Tidewater's capital planning. Because many new housing developments were planned, Tidewater based its capital planning during that period on the projected growth and housing development schedules. (Exh. 23, p. 3)

78. Mr. Kalmbacher suggested that a more accurate timetable would be a four-year average from 2010-2013, which more accurately reflects current capital needs. (*Id.*)

79. **A. Bruce O'Connor** provided testimony to rebut DPA and Staff testimony regarding certain expenses, revenues, and to provide an update to changes to the Minimum Filing Requirements (MFR) schedules for adjustments and for actual financial results through May 31, 2014. (Exh. 24, p. 2)

80. Mr. O'Connor noted that winter 2014 did not accurately compare to recent winters because of the severe sub-freezing temperatures that created extraordinary and unusual consumption. Higher consumption was due to undiscovered broken pipes and measures taken to mitigate pipe damage, such as leaving faucets dripping to avoid freezing. As a result, Mr. O'Connor

noted that revenues from water consumption were not as reliable during winter 2014 as compared to other years. (*Id.* at 2-3)

81. Mr. O'Connor disagreed with the inclusion in revenue of rental income from the communications antenna. He suggested that such rental income serves to mitigate the cost of the asset being used for the antenna and serves to reduce rates for the customer. Mr. O'Connor also noted that the lease in question ended so it is no longer an issue. (*Id.* at 5)

82. Mr. O'Connor also disagreed with the reduction in tank painting costs recommended by Staff Witness Driggins. He testified that since the amortization recovery period for the tank painting continued beyond the Test Period, Tidewater would not have fully recovered the cost expended. (*Id.* at 6)

83. Mr. O'Connor testified regarding Mr. Woods' recommendations as to labor costs. Mr. O'Connor stated that open positions are meant to be filled. He opined that Mr. Woods erred in using historical data to show the cycle of open positions for which Tidewater has not had to pay. Mr. O'Connor testified that the history of open positions does not account for the fact that there would not be vacant positions but for the fact that attracting and retaining qualified human resources is a continuous management challenge. He added that Tidewater must be prepared to fill vacant positions as qualified talent becomes available. (*Id.* at 6-9)

84. For similar reasons as stated above, Mr. O'Connor opined that pension benefits and incentive compensation should be included expenses. He stated that a company's total employment package must be competitive in order to attract and retain qualified personnel. (*Id.* at 8-10)

85. **Gary D. Shambaugh** testified to rebut the testimony of Messrs. Kalcic and Watkins regarding cost of service and customer tariff rate design. (Exh. 25, p.1)

86. Mr. Shambaugh testified that limiting Private Fire Protection rates, as suggested by Messrs. Kalcic and Watkins, would arbitrarily limit the impact of the current and future rate increases to the general water service class customers. Since Private Fire Protection customers have been augmenting the revenues required to provide service to other customer classes, the proposals of Messrs. Kalcic and Watkins would ensure that the Private Fire Protection rates would not meet its costs of service indication well into the future. (*Id.* at 2)

87. Making a similar argument, Mr. Shambaugh also stated that any changes to the Public Fire Protection rates would significantly impact the general water service rates. (*Id.* at 2-3)

88. Mr. Shambaugh countered testimony of Messrs. Kalcic and Watkins regarding facilities charges. He referred to a trend in the water industry and with state regulatory agencies not to limit facilities charges to just direct customer charges. (*Id.* at 3-5)

89. Mr. Shambaugh supported his position that conservation block water use rates proposed by Tidewater should be implemented by stating that the rates reduce discretionary water use. He stated that a significant price signal could provide a significant benefit to all customers by avoiding future capital and operational costs. (*Id.* at 5)

90. Mr. Shambaugh disagreed with Mr. Watkins that residential and non-residential customers should have separate general metered service cost assignments. Mr. Shambaugh testified that he did not see any benefit in

such a separation and noted that, in his opinion, the level of service to an individual customer is more important that the class in which that customer resides. (*Id.* at 6)

91. **Michele L. Tilley** testified that she did not agree with DPA and Staff testimony recommending exclusion of depreciation and invested capital from Tidewater's CWC requirement. (Exh. 26, p. 2)

92. Citing *Accounting for Public Utilities*, Ms. Tilley stated, that depreciation should be included in CWC because the assumption that there was no cash outlay associated with depreciation is flawed. She stated that there was a cash outlay when the properties at issue were built. (*Id.* at 3)

93. Similar to depreciation expense, Ms. Tilley testified that invested capital should be included in CWC. She reasoned that including invested capital compensates investors for the recovery lag between cash returns on their investment and revenues collected from customers. (*Id.* at 4-5)

94. In rebuttal of Mr. Teixeira's testimony regarding depreciation in prior Commission Order No. 5592, Ms. Tilley stated that there were three (3) accounts in that Order in which the Commission accepted Tidewater's position on depreciation.[6] (*Id.* at 5-6)

95. Ms. Tilley testified that Ms. Woodward's adjustment to employee benefit costs should be ($221,646) rather than ($234,079), stating that the capitalized adjustment should only be applied to the direct portion of the adjustment, consistent with how Tidewater filed its employee benefits cost. (*Id.* at 6-7)

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[6] Ms. Tilley referred to accounts 316, 343, and 390, in which the Hearing Examiner recommended Tidewater's position and was ultimately accepted by the Commission in Order No. 5592.

IV. PROPOSED SETTLEMENT AGREEMENT

96. On July 31, immediately prior to the Evidentiary Hearing, I was presented with a signed and executed Proposed Settlement Agreement (Agreement). The Agreement notes that the parties did differ as to the proper resolution of many of the underlying issues in this case and they agreed that, except as set forth in the Agreement, those issues may be raised in future proceedings. (Exh. 27, pp. 2-3)

97. Under the Agreement the total additional revenue awarded to Tidewater is $800,000, or an overall increase of 2.8% over current base rates. This is based on an overall cost of capital of 7.92% and an authorized rate of return on common equity of 9.75%. (*Id.* at 3)

98. Rates will increase only on Facilities Charges, Water Consumption Charges, and Service Connection Charges. There will be no change to Private Fire Service or Public Fire Hydrant Charges. (*Id.*)

99. Because the rates agreed to in the Agreement are lower that the interim rates granted by the Commission, Tidewater customers are entitled to a refund totaling $424,169.33. A one-time credit will be reflected on the first bill received by the customer after the effective date of the Order approving the Agreement. (*Id.* at 3-4)

100. Upon approval of this Agreement by the Commission, Tidewater will file its amended tariff with the Commission reflecting the agreed upon changes. (. at 4)

V. EVIDENTIARY HEARING

101. On July 31, 2014, I conducted a duly-noticed evidentiary hearing (Hearing) in Dover, at which time the parties stipulated to the admission of

27 exhibits into the record and I heard evidence on the proposed settlement.[7] (Tr. pp. 4-5)

102. At the Hearing, Tidewater called two witnesses: Mr. Bruce Patrick, Vice President of Tidewater, and Mr. Bruce O'Connor, Treasurer of Tidewater. (*Id.* at 5)

103. Mr. Patrick testified that all but three of the capital projects listed on Schedule 2A of Tidewater's application were complete and had been placed into service. He noted that those three unfinished projects were not included in the utility plant in service calculation used during settlement discussions. (*Id.* at 9-10)

104. Mr. O'Connor testified that Tidewater updated MFR schedules to contain eleven (11) months of actual data and one (1) month of projected data. Mr. O'Connor stated that this update resulted in a reduction of the revenue requirement increase from $3.9 million to $2.5 million. (*Id.* at 11-12)

105. Mr. O'Connor stated that the primary reason for the reduction in revenue requirement contained in Tidewater's rebuttal testimony was centered on the cost of Tidewater's employee benefit plans. (*Id.* at 12)

106. Mr. O'Connor also noted that while Tidewater did not agree with each of the proposed adjustments by Staff or the DPA, in order to avoid lengthy litigation Tidewater agreed to modify certain projections and positions. He testified that Tidewater also agreed to a final revenue requirement of $800,000. (*Id.* at 12-13)

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[7] Notice of the Evidentiary Hearing was published in *The News Journal* and the *Delaware State News* on July 11, 2014. (Exh. 1)

107. Mr. O'Connor said that because the agreed-upon revenue requirement is less than that collected under the interim rates, Tidewater would issue a one-time credit to customers. (*Id.* at 14)

108. Finally, Mr. O'Connor testified that he believed the proposed settlement agreement is "within the bounds of the statutory requirements of just and reasonable rates and is in the public interest." (*Id.*)

109. On cross examination by Mr. Geddes, Mr. O'Connor stated that Tidewater would not be opposed to meeting with Staff and the DPA with regard to deal with concerns regarding CWC. (*Id.* at 16-17)

110. The DPA proffered Mr. Watkins as its witness. He adopted his pre-filed testimony (Exh. 11) and Mr. Woods' pre-filed testimony (Exh. 12) as his own for purposes of the Hearing. (*Id.* at 18-19)

111. Mr. Watkins testified that the settlement was the product of negotiation among the parties and that in his opinion it resulted in just and reasonable rates and was in the public interest. (*Id.* at _68-69_) While the agreed-upon return on equity of 9.75% was higher than he had recommended, he stated that it was within the "range of reasonableness." (*Id.* at 68-69) He further testified that the Company had agreed with the majority of the DPA's revenue requirements and that those higher billing units that created the additional revenues were reflected in the settlement rate design. (*Id.* at 68) He concluded that the settlement's proposed revenue increase would provide Tidewater with an opportunity to recover its operating expenses and earn a fair rate of return. (*Id.* at 69) Staff called Ms. Lisa Driggins, who testified that Staff submitted nine (9) direct testimonies (Exhs. 13-21) which she adopted as her own for the Hearing. (*Id.* at 25-26)

112. Ms. Driggins testified that she believes that the proposed settlement agreement is in the public interest and results in just and reasonable rates. (*Id.* at 28)

113. At the close of the Hearing, *I* officially entered all 27 exhibits into the record and declared the record closed. (*Id.* at 30-31)

VI. FINDINGS AND RECOMMENDATIONS

114. The Commission has jurisdiction over this case. 26 *Del. C.* §201(a). This statute provides, in pertinent *part*, that "[t]he Commission shall have exclusive original supervision and regulation of all public utilities and also their rates, property rights, equipment, facilities ... so far as may be necessary for the purpose of carrying out the provisions of this title. Such regulation shall include the regulation of rates...."

115. 26 *Del. C.* §512 directs the Commission to "encourage the resolution of matters brought before it through the use of stipulations and settlements," and provides that the Commission may, upon hearing, approve the resolution of matters through stipulations and settlements "where the Commission finds such resolutions to be in the public interest." (See 26 *Del. C.* §§512(a), (c).)

116. I incorporate the prior sections of this Report as my Findings of Fact. Based upon those Findings of Fact and my analysis in this Section, I find that Tidewater has met its Burden of Proof in this case.

117. Tidewater has the Burden of Proof in this case pursuant to 26 *Del. C.* §307(a), which provides as follows:

> **§307. Burden of Proof**
> In any proceeding upon the motion of the Commission, or upon complaint, or upon application of a public utility, involving any proposed or existing rate of any public utility, or any proposed change in rates,

> the burden of proof to show that the rate involved is just and reasonable is upon the public utility.

(Emphasis added)

118. I find that the Parties have demonstrated that the Proposed Settlement Agreement results in just and reasonable rates and should be approved by the Commission. For the reasons discussed below, I recommend to the Commission its approval and adoption.

119. The Settlement Agreement is the product of extensive negotiation among the parties, and reflects a mutual balancing of various issues and positions.[8] As described, the Parties have concluded that settlement on the agreed-upon terms and conditions will serve the interest of the public and Tidewater, while meeting the statutory requirements that rates must be just and reasonable.

120. Based on my review of the entire record, I find that the approval of the Proposed Settlement Agreement is in the public interest because it balances the interests of ratepayers and the Company. It is clear from the record that the Settlement was a product of extensive negotiations between the parties, conducted after the completion of thorough investigations by Staff and the DPA, including an evidentiary hearing addressing why the proposed settlement is in the public interest.

121. The Proposed Settlement Agreement reflects a mutual balancing of various issues and positions. In addition, it is significant that the

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[8] According to Paragraph 7 of the Settlement Agreement, "The parties have engaged in substantial written discovery. ... The Parties acknowledge that they differ as to the proper resolution of many of the underlying issues in this rate proceeding and that, except as specifically addressed in this Settlement, they preserve their rights to raise those issues in future proceedings; but for purposes of this proceeding, they believe that settlement on the terms and conditions contained herein will serve the interests of the public and the Company, and meet the statutory requirement that the resulting rates will be both just and reasonable."

Parties, all of whom maintain that the proposed settlement is in the public interest, represent a wide variety of interests. Finally, I note that settlements are encouraged under 26 *Del. C.* §512, particularly when supported by all parties.

122. In summary, and for the reasons stated above, I find that the Proposed Settlement Agreement is just and reasonable, and is overall a fair resolution of the issues raised in this case. A proposed Order implementing the foregoing recommendations is attached hereto as Exhibit "B" for the Commission's consideration.

123. Accordingly, I recommend that the Commission adopt this Report and approve the Proposed Settlement Agreement, confirming that the settlement rates and tariff revisions can be placed into effect as of August 19, 2014.

124. The approved rates and tariff revisions shall remain effective until further changed by Commission Order.

Respectfully submitted,

R. Campbell Hay
Hearing Examiner

Dated: August 14, 2014

ATTACHMENT "B"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR A GENERAL RATE INCREASE (FILED NOVEMBER 25, 2013)	))))	PSC DOCKET NO. 13-466

PROPOSED SETTLEMENT AGREEMENT

This proposed Settlement Agreement (the "Settlement") is entered into by and among Tidewater Utilities, Inc. ("Tidewater" or "the Company"), the Staff of the Public Service Commission ("Staff"), and the Division of Public Advocate ("Public Advocate") (individually each a "Party" and collectively "the Parties").

I. BACKGROUND

1. On November 25, 2013, Tidewater filed an application with the Public Service Commission of the State of Delaware ("the Commission") pursuant to 26 *Del. C.* §§201, 209, 304, and 306, requesting approval of an increase in water service rates designed to produce an additional $3,903,338 in annual revenues applied to a rate base of $99,594,854 (a 14.42% increase over existing rates) and approval of proposed changes to its tariff language (the "Application").

2. On February 6, 2014, by Order No. 8522 and pursuant to 26 *Del. C.* §306(a)(1), the Commission suspended Tidewater's proposed rate increase pending the conduct of evidentiary hearings to determine whether the proposed rate increase results in just and reasonable rates; assigned the matter to Hearing Examiner R. Campbell Hay (the "Hearing Examiner") to conduct such evidentiary hearings; permitted Tidewater to place into effect pursuant to 26 *Del. C.* §306(c) interim rates intended to produce an annual increase in operating

revenue of $1,730,958, effective February 6, 2014 (approximately 6.5% over existing rates); and approved the form of rate refunding bond attached to the interim rate application to secure the interim rates.

3. In April 2014, public comment sessions were held in Dover, Lewes and Townsend, Delaware. At each public comment session, representatives of the Company or the Hearing Examiner sumarized the Application and members of the public were afforded an opportunity to comment on the Application. One member of the public commented on the Application at the Lewes session. No members of the public attended the Dover or Townsend sessions.

4. On May 20, 2014, Staff filed testimony recommending a $1,055,788 increase in the revenue requirement rather than the $3,903,338 in additional revenues the Company requested in its Application.

5. Pursuant to 29 *Del. C.* §8716, the Public Advocate intervened in this proceeding. On May 20, 2014, the Public Advocate filed testimony recommending a decrease of $1,387,713 in Tidewater's annual revenue requirement. .

6. On June 26, 2014, and July 3, 2014, the Company updated its Test Period information and testimony with actual data, including actual operating results for 11 months of the Test Period. The revised Test Period updates reduced Tidewater's overall revenue request by $1,393,115 to $2,510,223 on a rate base of $98,872,402.

7. The Parties have engaged in substantial written discovery. In a desire to avoid the additional cost of evidentiary hearings, they have conferred in an effort to resolve the issues in this proceeding. The Parties acknowledge that they differ as to the proper resolution of many of the underlying issues in this rate proceeding and that, except as specifically addressed in this

Settlement, they preserve their rights to raise those issues in future proceedings; but for purposes of this proceeding, they believe that settlement on the terms and conditions contained herein will serve the interests of the public and the Company, and meet the statutory requirement that the resulting rates will be both just and reasonable.

NOW THEREFORE, IT IS HEREBY STIPULATED AND AGREED by Tidewater, Staff, and the Public Advocate that the Parties will submit to the Commission for its approval the following terms and conditions for resolution of the pending proceeding:

II. SETTLEMENT PROVISIONS

8. The total additional revenue requirement awarded to the Company will be $800,000, or approximately an overall increase of 2.89% over current base rates. The Parties agree to this revenue requirement award as a compromise of their positions and believe that it is within the bounds of the statutory requirement of a fair rate of return for the utility. Tidewater shall file the appropriate modifications to its tariff so as to incorporate the stipulated revenue requirement increase.

9. The Settlement revenue requirement amount of $800,000 is stipulated to by the Parties based on an overall cost of capital of 7.92%, and an authorized rate of return on common equity of 9.75%.

10. The Parties have resolved the rate design issues raised in this proceeding by implementing increases only to the Facilities Charges, Water Consumption Charges and Service Connection Charges tariff rates. There are no changes in Private Fire Service or Public Fire Hydrant Charges tariff rates. (See Schedule A attached hereto).

11. The rates agreed to under this Settlement are lower than the interim rates placed into effect in February 2014. Accordingly, Tidewater's ratepayers are entitled to a refund of the

difference between the amount collected on an interim basis and the amount agreed to in this Settlement, plus interest on the overcollected amount. Rather than having ratepayers incurring the costs necessary to provide the refund, the Company has proposed, and the Parties have agreed to, a one-time bill credit to its customers totaling $424,169.33. The credit will be reflected on the first bill received by a customer after the effective date of the Order approving this Settlement.

12. The Company's proposed method of returning these funds to its ratepayers will reduce the overall costs associated with the implementation of this Settlement. Under Commission rules, ratepayers are entitled to interest on any overcollection. Staff has reviewed the Company's estimate of the interest due to ratepayers on the over-collection. Although Staff disagrees with the Company's calculation of the actual interest that is owed to ratepayers, it believes the savings associated with the bill credit, as compared to the normal refund process, exceeds any potential difference on the amount of interest owed to Tidewater ratepayers on the overcollection.

13. The Parties have agreed to the following modifications to Tidewater's tariff, as proposed in the Application:

a. Section 3.6 - Cross Connection Control; and

b. Section 6.2 - Public Fire Service, Maintenance of Fire Hydrants.

Upon approval of this Settlement by the Commission, Tidewater shall file its amended tariff with the Commission reflecting these modifications.

III. ADDITIONAL PROVISIONS

14. This Settlement is the product of extensive negotiation and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that the Commission approve it in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Settlement shall become null and void.

15. This Settlement shall not set a precedent and no Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. The purpose of this Settlement is to provide just and reasonable rates for the customers of Tidewater, and the Parties believe that this Settlement accomplishes this goal. In addition, the Parties believe that the Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

16. The terms of this Settlement will remain in effect until changed by an order of the Commission. The Commission retains jurisdiction over this Settlement and all statutory procedures and remedies otherwise available to the Parties to ensure that rates are just and reasonable, while providing a fair rate of return.

17. This Settlement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Party is delivered to the Commission's offices before its consideration of this Settlement. Copies of this Settlement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Party.

DELAWARE PUBLIC SERVICE COMMISSION STAFF

Date: 7/31/14

By: Connie S. McDowell

TIDEWATER UTILITIES, INC.

Date: July 31, 2014

By: A. Bruce O'Connor

THE DELAWARE DIVISION OF THE PUBLIC ADVOCATE

Date: 7/31/14

By: David L Bonar by ABM

Delaware Public Service Commission
Company: Tidewater Utilities, Inc.
Docket No. 13-466

TIDEWATER UTILITIES, INC.
OPERATING REVENUES
For 2012 ACTUAL, TEST YEAR and TEST PERIOD at PRESENT and PROPOSED RATES

RATE DESIGN - Zero% for Private & Public Fire & Other Revenues; Across the Board For All Other Catergories

Line No.	Description	Ref	Actual 2012 (1)	Test Year (2)	Test Period (3)	Proposed Final Rates (5)	Test Year Percent Increase (6)
1	General Metered Service	Page 2	$ 22,439,370	$ 20,917,040	$ 21,338,376	$ 22,038,660	3.28%
2	Public Fire Protection	Page 3	(A)	1,810,559	1,885,465	1,885,465	0.00%
3	DAFB - Public Fire Hydrant	Page 3	-	-	-	-	
4	Private Fire Protection	Page 3	$ 1,086,533	968,697	1,004,229	1,004,229	0.00%
5	Contract Sales	Page 2	$ 1,316,840	1,222,386	1,241,953	1,282,659	3.28%
6	Connection Fees	Page 3	$ 1,267,729	1,319,624	1,800,297	1,859,308	3.28%
7	Other Operating Revenues		$ 347,744	391,822	410,002	410,002	0.00%
8	Rounding		-	-	-	(1)	0.00%
9	Total Revenues		$ 26,458,216	$26,630,127	$ 27,680,323	$ 28,480,323	2.89%
						$ 800,000	

(A) Public Fire Protection included with General Metered Service

	Other Revenues	Actual 2012	Test Year	Test Period	Proposed Final Rates
10	Other Operating Revenues				
11	Turn on/Turn off	$ 259,353	$ 312,122	$ 334,454	$ 334,454
12	Penalty	81,987	76,779	68,467	68,467
13	Return Check	6,060	2,650	6,157	6,157
14	Frozen Broken Meter	-	-	155	155
15	Service Fees	163	150	529	529
	Meter Testing	180	120	240	240
16	Total	$ 347,744	$ 391,822	$ 410,002	$ 410,002

Delaware Public Service Commission
Company :Tidewater Utilities, Inc.
Docket No. 13-466

TIDEWATER UTILITIES, INC.
REVENUES
GENERAL METERED SERVICE AND CONTRACT SALES
TEST YEAR AND TEST PERIOD

RATE DESIGN - Zero% for Private & Public Fire & Other Revenues; Across the Board For All Other Catergories

Facility Charge

Line No.	Meter Size	Number of Customers: Test Year	Number of Customers: Test Period	Number of Bills: Test Year	Number of Bills: Test Period	Tariff Rate	Present Rates: Test Year	Present Rates: Test Period	Proposed Final Rates: Tariff Rate	Proposed Final Rates: Test Period
1	5/8	31,443	32,305	125,772	129,220	$ 52.86	$ 6,648,308	$ 6,830,569	$ 54.60	7,055,412
2	3/4	90	85	360	340	52.86	19,030	17,972	54.60	18,564
3	1	2,664	2,879	10,656	11,516	88.11	938,900	1,014,675	90.99	1,047,841
4	1 1/2	93	96	372	384	158.64	59,014	60,918	163.83	62,911
5	2	309	315	1,236	1,260	246.75	304,983	310,905	254.85	321,111
6	3	32	37	128	148	475.89	60,914	70,432	491.49	72,741
7	4	4	5	16	20	740.28	11,844	14,806	764.55	15,291
8	6	4	4	16	16	1,445.28	23,124	23,124	1,492.65	23,882
9	8	2	2	8	8	2,256.06	18,048	18,048	2,330.01	18,640
10	10	-	-	-	-	3,000.00	-	-	3,098.31	-
11		34,641	35,726		Total Facility Charges		$ 8,084,166	$ 8,361,449		$ 8,636,393

Consumption Charges (1,000 gallons)

	Test Year							
12	Apartments & Commercial	164,917	gallons	$ 8.1519	$ 1,344,384			
13	GMS 0-5,000	524,009	gallons	$ 7.9469	4,164,245			
14	GMS 5,001-20,000	637,689	gallons	$ 8.0493	5,132,952			
15	GMS Over 20,000	268,814	gallons	$ 8.1517	2,191,292			
	Test Period							
16	Apartments & Commercial	170,819	gallons	$ 8.1519		$ 1,392,497	$ 8.4191	$ 1,438,139
17	GMS 0-5,000	528,385	gallons	$ 7.9469		4,199,021	8.2074	4,336,665
18	GMS 5,001-20,000	643,015	gallons	$ 8.0493		5,175,817	8.3131	5,345,444
19	GMS Over 20,000	271,059	gallons	$ 8.1517		2,209,592	8.4189	2,282,019
				Total General Metered Service	$ 20,917,040	$ 21,338,376		$ 22,038,660
20	Test Year	86,331	gallons	$ 11.8718	1,024,904			
21	Test Period	84,513	gallons	$ 11.8718		1,003,321	$ 12.2609	1,036,205
				Contract Sales -DAFB	$ 1,024,904	$ 1,003,321		$ 1,036,205
22	Test Year	17,818	gallons	$ 5.4335	96,814			
23	Test Period	24,159	gallons	$ 5.4335	-	131,268	$ 5.6116	135,571
				Contract Sales- Southern Shores	$ 96,814	$ 131,268		$ 135,571
24	Test Year	21,649	gallons	$ 4.6500	100,668			
25	Test Period	23,089	gallons	$ 4.6500	-	107,364	$ 4.8024	110,883
				Contract Sales- Oceanview	$ 100,668	$ 107,364		$ 110,883
26				Total Contract Sales	$ 1,222,386	$ 1,241,953		$ 1,282,659

Delaware Public Service Commission
Company :Tidewater Utilities, Inc.
Docket No. 13-466

TIDEWATER UTILITIES, INC.
REVENUES
PUBLIC AND PRIVATE FIRE PROTECTION AND CONNECTION FEES
TEST YEAR AND TEST PERIOD

RATE DESIGN - Zero% for Private & Public Fire & Other Revenues; Across the Board For All Other Catergories

Public Fire Service

Line No.	Number of Customers		Number of Bills		Tariff Rate	Present Rates		Proposed Final Rates	
	Test Year	Test Period	Test Year	Test Period		Test Year	Test Period	Tariff Rate	Test Period
1	29,996	31,237	119,984	124,948	$ 15.09	$ 1,810,559	$ 1,885,465	$ 15.09	$ 1,885,465

DAFB Contract - Public Fire Hydrant Charge

Line No.	Number of Customers		Number of Bills		Tariff Rate	Present Rates		Proposed Final Rates	
	Test Year	Test Period	Test Year	Test Period		Test Year	Test Period	Tariff Rate	Test Period
2	-	-	-	-	$ 30.00	$ -	$ -	$ 30.00	$ -

Private Fire Protection - Facility Charge

	Meter Size	Number of Customers		Number of Bills		Tariff Rate	Present Rates		Proposed Final Rates	
		Test Year	Test Period	Test Year	Test Period		Test Year	Test Period	Tariff Rate	Test Period
3	1"	1	1	4	4	$ 28.67	$ 115	$ 115	$ 28.67	$ 115
4	2"	54	54	216	216	100.35	21,676	21,676	100.35	21,676
5	4"	132	135	528	540	425.28	224,548	229,651	425.28	229,651
6	6"	149	157	596	628	950.90	566,736	597,165	950.90	597,165
7	8"	23	23	92	92	1,691.55	155,623	155,623	1,691.55	155,623
8	Total	359	370	1,436	1,480		$ 968,697	$ 1,004,229		$ 1,004,229

Connection Fees

	Meter Size	New Connections		Rate per Connection	Present Rates		Proposed Final Rates	
		Test Year	Test Period		Test Year	Test Period	Tariff Rate	Test Period
9	5/8 & 3/4	981	1,257	$ 956.45	$ 938,277	$ 1,202,258	$ 987.80	$ 1,241,665
10	1"	251	339	1,350.98	339,096	457,982	1,395.27	472,997
11	1-1/2"	-	2	2,379.19	-	4,758	2,457.18	4,914
12	2"	1	12	2,690.03	2,690	32,280	2,778.18	33,338
13	3"	-	-	8,608.10	-	-	8,890.23	-
14	4"	1	-	10,126.47	10,126	-	10,458.36	-
15	6"	2	7	14,716.93	29,434	103,019	15,199.26	106,395
16	8"	-	-	22,335.03	-	-	23,067.03	-
17	Total	1,236	1,617		$ 1,319,624	$ 1,800,297		$ 1,859,308

3.5 PROPERTY SUPPLIED BY SINGLE SERVICE LINE:

A customer service line from the meter to a property shall not supply more than one property, except under special circumstances approved in writing by the Company. Any such property upon written request of the owner may be supplied by two or more meters, each of which shall be considered for billing purposes as being one customer account, and provided that each supply to each such meter has an individual control at or near the curb. Installation or continuance of any such multiple meter applications shall be in the discretion of the Company, and the Company shall have the right to reduce, modify or discontinue any service as it sees fit.

3.6 CROSS CONNECTION CONTROL

a) A cross connection is any pipe, valve or other physical connection or other arrangement or device connecting the pipelines of the Company, or facilities directly or indirectly connected therewith, to and with pipes or fixtures by which any contamination might be admitted or drawn from lines other than the Company's into the distribution system of the Company, or into lines connected therewith.

b) No direct connection of pumping equipment for any purpose or cross-connection with any other piping system will be allowed unless approved in writing by the Company.

c) The Company reserves the right to require any customer, owner or tenant to install, at their expense, and as part of a service connection such equipment or material which it deems necessary and as may be acceptable or required from time to time by any regulatory agency or good engineering practices, to prevent backflow into the water supply and minimize or eliminate contamination of its water supply system.

d) Backflow preventors shall be required in all domestic, commercial, industrial, public and municipal services where water is used in any process which, in the opinion of the Company, could constitute a cross-connection and/or health hazard. Customer shall install backflow preventers on their service lines when they connect any irrigation system or equipment on their property. All back flow prevention equipment must be approved by the Company prior to installation.

3.6 CROSS CONNECTION CONTROL – Continued

e) Upon issuance of a non-potable water well permit and installation of such non-potable well on customer's property, and in accordance with Title 7 Chapter 60 §6075 (d), the Company may inspect the well at any reasonable time to insure that there are not interconnections with any portion of any building's plumbing and/or the Company's water service connection. Additionally, the Company may conduct an inspection for interconnections with a non-potable well upon valid reasons including suspicious water usage

4. DISCONTINUANCE OF SERVICE

4.1 AT THE REQUEST OF THE CUSTOMER:

All agreements regarding water service shall continue in full force and effect until and unless reasonable oral or written notice is given of a desire to terminate the contract by reason of a customer moving off the Company's system in the event of a change in ownership or occupancy. Water may be turned off from the premises temporarily upon the oral or written request of the customer and upon payment to the Company of the approved Turn-off Charge without in any way affecting the existing agreement for service or the customer's duty to pay the approved Facilities Charges. In the event a Seasonal Turn Off is requested, the customer shall pay the approved seasonal Turn-off Charge at the time of the turn off. In each case service will be restored upon payment of any required Turn-on Charge and other amounts due before service is restored.

6. PUBLIC FIRE SERVICE

6.1 ALLOWABLE USE:

No person except an authorized agent of the Company or other person authorized by the Company shall take water from any public fire hydrant or hose plug, except for fire purposes or the use of the fire department in case of fire, and no public fire hydrant shall be used for sprinkling streets, flushing sewers or gutters, or for any other purposes except with the approval and consent of the Company.

6.2 MAINTENANCE:

All Company-owned fire hydrants shall be maintained by the Company. The Company assumes no maintenance, repair or ownership responsibility for any fire hydrant installed by a developer, builder or customer unless and until such fire hydrant has been accepted by the Company as part of its public fire service system.

6.3 CHANGE OF LOCATION:

Upon written request for a change in the location of any fire hydrant, the Company, if an approved location can be found, will make such change at the expense of the person making the request. Charges shall be based on time and material to make such changes.

6.4 INSPECTION:

Upon request of the Fire Marshall or duly authorized officials of any municipality or governing body, the Company will make inspections at convenient times and at reasonable intervals to determine the condition of the fire hydrants, such inspections to be made by a representative of the Company and a duly authorized representative of the Fire Marshall or municipality.

TARIFF SCHEDULE OF RATES

1. GENERAL WATER SERVICE CHARGES:

General Water Service customers are charged a Facilities Charge plus a Water Consumption Charge and a Public Fire Hydrant Charge, where applicable:

(a) FACILITIES CHARGES:

A Facilities Charge payable in advance is based on the customer's meter size, as follows:

Meter Size	Monthly Facilities Charge	Quarterly Facilities Charge
5/8" - 3/4"	$ 18.20	$ 54.60
1"	$ 30.33	$ 90.99
1-1/2"	$ 54.61	$ 168.83
2"	$ 84.95	$ 254.85
3"	$ 163.83	$ 491.49
4"	$ 254.85	$ 764.55
6"	$ 497.55	$ 1,492.65
8"	$ 776.67	$ 2,330.01
10"	$ 1,032.77	$ 3,098.31

(b) WATER CONSUMPTION CHARGES:

Quarterly Residential Customers	Rate per Thousand Gallons
0 – 5,000 gallons	$8.2074
5,001 – 20,000 gallons	$8.3131
Over 20,000 gallons	$8.4189

All other general water service customers are charged for consumption at $8.4191 per thousand gallons registered on the meter.

(c) PUBLIC FIRE HYDRANT CHARGES:

Where fire hydrants are installed, such districts will be termed Fire Hydrant Districts. A service charge of $15.09 per quarter, or $5.03 per month, will be added to the regular Facilities Charge on all services in these districts. Apartment houses, hotels, motels and other multiple unit buildings will be charged one such hydrant service charge of $15.09 per quarter, or $5.03 per month, for every four units.

3. TURN-OFF AND TURN-ON CHARGES:

When temporary shut-off is made at the request of a customer, or for the failure of the customer to pay past-due bills or for another reason set forth in this tariff, a service charge of $38.63 will be made. An additional charge of $38.63 will be made for turning the service back on.

There shall be no discount on these charges. These charges will apply during regular working hours, and should it be necessary to perform such work after normal hours, the charge will be $57.94.

4. SEASONAL TURN-OFF CHARGES:

Customers may request a Seasonal Turn Off by giving notice to the Company and paying the Seasonal Turn Off Charge. During the period of the Seasonal Turn Off, the customer will not be required to make payment of the Facilities Charge. The amount of the Seasonal Turn-off Charge will depend upon meter size as follows:

5/8" – ¾"	$ 175.58
1"	263.37
1-1/2"	526.73
2"	877.91
3"	1,580.24
4"	2,633.73
6"	5,267.43
8"	8,427.89

5. SERVICE CONNECTION CHARGES:

a) Service Connection Charges will be as follows:

5/8" - 3/4" service	$ 987.80
1" service	$ 1,395.27
1-1/2" service	$ 2,457.18
2" service	$ 2,778.18
3" service	$ 8,890.23
4" service	$10,458.36
6" service	$15,199.26
8" service	$23,067.03

b) The charge for installing ¾" metered service to existing customers having formerly paid a Service Connection Charge shall be the difference between the Service Connection Charge in effect at the time metering commences and the Service Connection Charge previously paid. No charge will be assessed to customers having paid a tapping fee which included metered service.

c) In addition to the Service Connection Charge above, customers within the franchise territory yet outside a particular service area will be charged an extension fee of $987.80 per service.

d) In addition to the Service Connection Charge above, customers within the Development of Indian River Acres will be charged a subdivision specific tariff of $2,807.71 for each service.

6. OTHER MISCELLANEOUS CHARGES:

Service call to read a meter due to change of ownership or occupancy of a dwelling unit:
Transfer charge will be $43.90.

Service call for frozen service lines or leaks that are the customer's responsibility:
The service charge will be $38.63.
After hours charge will be $57.94.

Unauthorized entry of meter pit:
The charge will be $87.79 plus cost of repair or damage for each occurrence.

Unauthorized water withdrawal from fire hydrants:
The charge will be $263.36 for each occurrence.

The Company shall charge each customer $20.00 for any returned check it receives as payment for any service, charge or deposit.

7. DISTRIBUTION SYSTEM IMPROVEMENT CHARGE:

In addition to the net charges provided for in items 1. and 2. of this Tariff Schedule of Rates, a charge of 0.0% will apply to all charges for bills rendered on or after January 25, 2014.

The above charge will be recomputed semi-annually, using the elements prescribed by Section 314 of Title 26 of the Delaware Code.

8. BULK WATER CONTRACT SALES

a) Ocean View – Under contract, the Town of Ocean View is charged $4.8024 per thousand gallons of consumption registered through the meter(s) at the interconnection with the Town of Ocean View water distribution system.

b) Dover Air Force Base – Off Base Housing – Under contract, Dover Air Force Base Housing – Eagle Meadows/Heights is charged $12.2609 per thousand gallons of consumption registered through the meter(s) at the interconnection with the Eagles Heights and Eagle Meadows Housing subdivision water distribution systems.

c) Southern Shores – Under contract, Southern Shores Water Company is charged $5.6116 per thousand gallons of consumption registered through the meter(s) at the interconnection with Southern Shores water distribution systems.

9. PSC REGULATION DOCKET 15 – CATEGORY 2 COSTS

Pursuant to PSC Order No. 6873, Category 2 Costs refer to transmission, supply, treatment and/or other utility plant costs that are not directly assignable to a specific project or where the Category 1 (1A and 1B) costs have not included sufficient direct costs for transmission, supply, treatment, and/or other utility plant costs to supply water to the project. These costs will be contributed by the contractor, builder, developer, municipality, homeowner, or other project sponsor, as CIAC with no refunds. This tariff section applies to new customer service connections associated with water service agreements entered into after April 11, 2006.

Category 2 Charges will be as follows:

Service Size	
5/8" – ¾"	$1,500.00
1"	$1,560.00
1-1/2"	$1,620.00
2"	$1,785.00
3"	$3,000.00
4"	$3,450.00
6"	$4,500.00
8"	$5,700.00

10. DOVER AIR FORCE BASE (FEDERAL ENCLAVE)

PUBLIC FIRE HYDRANT CHARGES:

Each fire hydrant within the perimeter of the Dover Air Force Base (Federal Enclave) is subject to a service charge of $30.00 per quarter, or $10.00 per month.