

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF ARTESIAN WATER COMPANY, INC.) PSC DOCKET NO. 06-158
FOR AN INCREASE IN WATER RATES)
(FILED May 9, 2006))

ORDER NO. 7102

AND NOW, this 19th day of December, 2006:

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner ("Report") issued in the above-captioned docket, which was submitted after a duly noticed public evidentiary hearing;

AND WHEREAS, the Hearing Examiner recommends that the Proposed Settlement Agreement, dated November 21, 2006, which is endorsed by all the parties, and which is attached hereto as "Attachment B", be approved;

AND WHEREAS, the Commission finds that the proposed rates and tariff changes are just and reasonable and that adoption of the Proposed Settlement Agreement is in the public interest; now, therefore,

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the December 14, 2006 Findings and Recommendations of the Hearing Examiner, appended hereto as "Attachment A".

2. That the Commission approves the Proposed Settlement Agreement and the proposed rates therein, which reflect a total test period operating revenue requirement of \$6,000,000. The agreed upon revenue requirement figure of \$6,000,000 will result in an approximate 14% increase in the rates for water service approved in PSC Docket No. 04-42.

3. That the final rates will become effective in a two-phased increase. The first phase increase shall become effective with usage on and after January 1, 2007. The second phase of the increase will become effective only upon Staff's review and approval of Artesian Water Company, Inc.'s submission of a compliance filing validating the additional issuance of equity, and Staff subsequently submitting to the Commission a Staff Memorandum and accompanying form of Order approving the second phase of the increase.

4. 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:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

PSC Docket No. 06-158, Order No. 7102 Cont'd.

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

A T T A C H M E N T "A"

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF ARTESIAN WATER COMPANY, INC.) PSC Docket No. 06-158
FOR AN INCREASE IN WATER RATES)
(Filed May 9, 2006))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Ruth A. Price, duly appointed Hearing Examiner in this docket pursuant to 26 Del. C. § 502 and 29 Del. C. Ch. 101, by Commission Order No. 6921, dated May 23, 2006, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant, Artesian Water
Company, Inc.:

MORRIS, NICHOLS, ARSHT AND TUNNELL LLP

BY: MICHAEL HOUGHTON, ESQUIRE, and

GEOFFREY A. SAWYER, III, ESQUIRE

On behalf of the Delaware Public Service
Commission:

ASHBY & GEDDES

BY: JAMES MCC. GEDDES, ESQUIRE, Rate Counsel, and

REGINA A. IORII, ESQUIRE, Rate Counsel

On behalf of the Intervenor, The Division of the
Public Advocate:

BY: G. ARTHUR PADMORE, The Public Advocate

On behalf of the Intervenors, General Motors Corporation and Christiana Care Health Services, Inc.:

RICHARDS, LAYTON & FINGER

BY: KELLY FARNAN, ESQUIRE

II. BACKGROUND

1. On May 9, 2006, the Artesian Water Company, Inc. ("Artesian" or the "Company") filed an application and supporting direct testimony with the Delaware Public Service Commission ("Commission") seeking a revision to its currently effective water rates and certain changes to its tariffed Rules and Regulations. In its application, Artesian requested approval of rates which would allow the Company an additional revenue requirement of \$9,883,432 applied to a rate base of \$173,995,273.

2. After reviewing the application, the Commission initiated this docket pursuant to 26 Del. C. § 306(a)(1), and by Order No. 6921, dated May 23, 2006, suspended the proposed rate increases pending full and complete evidentiary hearings into the justness and reasonableness of the proposed rates and tariffs, designated me as Hearing Examiner to conduct such hearings and, thereafter, to report to the Commission my proposed findings and recommendations concerning this matter.

3. On June 20, 2006 the Commission entered Order No. 6948 which, pursuant to 26 Del. C. § 306(c), allowed Artesian to place into

effect on or before July 10, 2006 approximately \$2,500,000 of the proposed increase under bond.

4. A procedural schedule was developed for the conduct of this docket, pursuant to which duly publicized¹ public comment sessions were held at the Middletown Fire House, 27 West Green Street, Middletown Delaware 19709 on July 17, 2006; at the offices of the Commission, 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware 19904 on July 18, 2006; at the Bethany Beach Town Hall, 214 Garfield Parkway, Bethany beach, Delaware 19930 on July 19, 2006; and at the University of Delaware Goodstay Center Ballroom, 2600 Pennsylvania Avenue, Wilmington, Delaware on July 20, 2006. No members of the public appeared at the public comment sessions in Middletown and Bethany Beach. One member of the public attended the public comment session in Wilmington, but he did not wish to speak. One person filed a written comment objecting to the increase.

5. Pursuant to 29 Del. C. § 8716, the Division of the Public Advocate (the "DPA") intervened in this proceeding to represent the interests of Delaware ratepayers, and on June 14, 2006, pursuant to Rule 21 of the Commission's Rules of Practice and Procedure, General Motors Corporation ("GM") and Christiana Care Health Services, Inc. ("CCH") (collectively, "the Intervenors") each separately intervened in this proceeding.

¹References to the Exhibits entered into the evidentiary record of this proceeding will be cited as "(Ex. ____)." See Ex. 1, Notice of Public Comment Sessions.

6. On July 10, 2006, Artesian filed supplemental testimony, the result of which was to reduce Artesian's requested revenue increase to \$8,657,328 applied to a rate base of \$162,800,564. Thereafter, the Public Service Commission Staff ("Staff"), the DPA and the Intervenors conducted extensive written discovery of the Company, and Staff performed a rate case audit of Artesian's books and records extending over a period of several weeks.

7. On September 18, 2006 and October 2, 2006, Staff, the DPA and the Intervenors filed written testimony in which they recommended certain adjustments to Artesian's requested revenue increase. The parties' pre-filed testimony addressed in detail various issues, including: Artesian's *pro forma* rate base calculation, operating revenues; operations and maintenance expenses; and rate of return.

8. On November 22, 2006, the parties notified the Hearing Examiner that they had reached a settlement in this matter, subject to approval of the Commission. A copy of the agreement reflecting the terms of the parties' proposed settlement is attached hereto as Exhibit B (the "Settlement Agreement") (Exh. 10).

9. On December 6, 2006, a duly noticed² evidentiary hearing was held at the Carvel State Office Building, Third Floor Conference Room, 820 N. French Street, Wilmington, Delaware 19801. No members of the public attended or otherwise participated in the hearing. At the conclusion of the hearing, which included the

²See Ex. 1, Notice of Evidentiary Hearings.

testimony of witnesses appearing on behalf of the Company, Commission Staff, the DPA, and the Intervenors, the record consisted of eighteen (18) exhibits, some with subparts, including the public notice of hearings, the application, the pre-filed testimony of the parties' witnesses and the Settlement Agreement. As there were no matters in dispute, briefs were deemed unnecessary. I have considered the entire record of this proceeding. Based upon my review of that record, I submit for the Commission's consideration these Findings and Recommendations.

III. THE PARTIES' POSITIONS

10. As noted above, on July 10, 2006, Artesian filed supplemental testimony of various Company witnesses in which it reduced its initially requested revenue increase to \$8,657,328 applied to a rate base of \$162,800,564.

11. In his direct pre-filed testimony, Staff witness, Ralph C. Smith, proposed a reduction in the Company's requested increase to \$5,081,847 applied to a rate base of \$158,874,056.

12. DPA witness, Andrea Crane, proposed a reduction in the Company's requested increase to \$3,470,012, applied to a rate base of \$158,559,466.

13. Both Staff's and the DPA's proposals were based on adjustments to Artesian's *pro forma* calculations for rate base, operating revenues and operations and maintenance expenses and overall rate of return.

A. Rate Base.

14. As adjusted in its supplemental filings, Artesian requested rate base recognition of \$162,800,564, based on a projected end of test period utility plant in service balance of \$287,907,802.

15. DPA witness Crane recommended rate base recognition of \$158,559,466, based upon a \$4,241,097³ reduction to Artesian's projected end of test period utility plant-in-service balance, and various adjustments to Artesian's calculation of accumulated depreciation, materials and supplies balances and cash working capital.⁴ DPA's proposed utility plant adjustment was based upon an analysis of the average variances over the past five years between budgeted and actual plant-in-service additions.

16. In his pre-filed testimony, Staff witness Smith recommended rate base recognition of \$158,874,056 based upon a \$3,926,508 adjustment to Artesian's projected end of test period utility plant-in-service balance, and various adjustments to Artesian's calculation of accumulated depreciation, materials and supplies balances and cash working capital.⁵ Staff's recommended adjustment to Artesian's *pro forma* utility plant-in-service balance was based upon a calculation of the Company's projected capital

³Ex. 11 at 24-25.

⁴Ex. 11 at 24-25.

⁵Ex. 13A at 9-11.

expenditures as compared to the actual additions to plant in service for each of the last five years, 2001-2005.⁶

17. The various positions of the parties with respect to rate base issues were not specifically resolved as part of the Settlement Agreement.

B. Rate of Return.

18. Artesian requested an overall rate of return of 8.18% and a return on common equity of 11.00% based on the testimony of Richard S. Minch and Harold Walker, III. Artesian's calculation was based, in part, on the estimate of the cost of common equity using the Discounted Cash Flow ("DCF") method, Capital Asset Pricing Model ("CAPM") and Risk Premium method to reach Mr. Walker's recommended return on equity calculation of 11.70%, which was adjusted by Company witness Minch to 11.0%.⁷

19. As set forth in the testimony of Staff witnesses Smith and Dr. J. Randall Woolridge, Staff recommended an overall rate of return of 7.38% based on a recommended return on equity range of 9.25% to 9.75%. Dr. Woolridge's equity cost rate calculation was based, in part, on his cost of equity analysis using DCF and CAPM methods to arrive at the recommended range.⁸

20. DPA witness Crane recommended an overall rate of return of 7.35% based on a recommended return on equity of 9.61%. Ms.

⁶Ex. 13A at 9-10.

⁷Ex. 3 at p. 27.

⁸Ex. 15 at p. 1.

Crane's equity cost rate calculation was based, in part, on her cost of equity analysis using DCF and CAPM to arrive at the 9.61% number.⁹

21. The Intervenor's witness, Michael Gorman, recommended an overall rate of return of 7.63% based on a recommended return on equity of 9.80%. Mr. Gorman's recommended return on equity was based on a range derived from his application of the DCF and CAPM methods.¹⁰

22. The various positions of the parties with respect to rate of return issues were not specifically resolved as part of the Settlement Agreement.

C. Operating Income and Operation and Maintenance Expenses.

23. The parties took various positions on several other issues concerning the Company's *pro forma* operating income and operations and maintenance expenses, such as payroll and various overhead items. None of these issues were specifically resolved as part of the Settlement Agreement.

IV. SUMMARY AND DISCUSSION OF THE EVIDENCE

A. The Proposed Settlement

24. The parties entered into a proposed Settlement Agreement on November 21, 2006. The proposed Settlement Agreement was entered into the record as Exhibit 10 and is incorporated herein by this reference. The Settlement Agreement provides for an additional annual revenue requirement increase of \$6,000,000.

⁹Ex. 11 at pp. 11-22.

¹⁰Ex. 12 at pp. 24-32.

25. The Settlement revenue requirement amount of \$6,000,000 will be recovered through a two-step increase. Initially, Artesian will employ a capital structure of 38.75% equity and 61.25% long-term debt to recover \$4,757,135. It is anticipated that the Company will issue additional equity of approximately \$20 million, at which time the equity/debt ratios will be adjusted and the remaining agreed upon revenue requirement will be recovered pursuant to and in accordance with that adjusted capital structure; however, the Company will not receive additional revenue recovery beyond an equity issuance of \$20 million. Should the Company issue less than the anticipated \$20 million in additional equity, the equity/debt ratios and total revenue requirement number will be adjusted downward accordingly.

26. In addition, within fifteen (15) days from the date the Settlement is approved by the Commission, Artesian will circulate to the Parties a draft Request for Proposal ("RFP") for a consultant to analyze Artesian's current method of calculating the average five-year residential consumption, and to analyze and recommend possible alternative best predictive calculation methods as part of Artesian's future *pro forma* revenue claims. The Parties shall have fifteen (15) days to submit their written comments and input on the draft RFP, and the final RFP will be issued no later than forty-five (45) days from the date the Commission approves the Settlement. Proposals from the consultants must be submitted thirty (30) days after the RFP is issued, and the consultant shall be selected no more than 15 days from the due date for submission of the Proposals. The Consultant's Draft Report will be generated and circulated to the Parties for their

reasonable review and comments no later than 120 days from the date the Consultant is retained. The Parties will have 60 days to submit their written comments on the Draft Report with the Final Report due 90 days after the Draft Report is submitted.

27. As noted by its terms, the Settlement Agreement is the product of extensive negotiation among the parties, and reflects a mutual balancing of various issues and positions. The Settlement Agreement resolves certain underlying issues but not others, which may be contested in future proceedings. As reflected in the testimony during the December 6, 2006, evidentiary hearing, and as more fully described below, the parties have concluded that the Settlement, as proposed, will result in just and reasonable rates and thus, serves the public interest.

28. The Settlement Agreement calls for application of an agreed upon cost of service analysis and rate design. The Company's rates shall be those that result from the application of the agreed-upon additional revenue requirement to this cost of service analysis and rate design.

29. The parties differed as to the proper resolution of many of the specific underlying issues in the rate proceeding and have, therefore, preserved their rights to raise those issues in future proceedings.

B. Discussion

30. The Commission has jurisdiction over this matter. 26 Del. C. § 201(a). The evidentiary record supports a conclusion that the proposed Settlement Agreement results in just and reasonable rates

and should be approved by the Commission. For the reasons discussed below, I concur and recommend to the Commission its approval and adoption of the proposed settlement.

31. As noted above, an evidentiary hearing was conducted on December 6, 2006, in which each of the parties presented a witness who testified as to his or her reasons for supporting the Settlement Agreement.

32. Artesian proffered the testimony of David B. Spacht, Vice President, Treasurer and Chief Financial Officer of Artesian as a witness. Mr. Spacht sponsored the pre-filed testimony of Richard S. Minch (Exs. 3,4), Daniel P. Barbato (Ex. 5), Harold Walker III (Ex. 7), John M. Guastella (Ex.8), and John F. Guastella (Ex. 9), who filed testimony in support of the application for Artesian, and testified that he believed the settlement results in the establishment of just and reasonable rates, taking into account the Company's anticipated revenue requirements and its past and projected rates of return as required under 26 Del. C. § 311.

33. The DPA presented the testimony of its consultant, Andrea Crane, as a witness to sponsor her pre-filed testimony. Ex. 12. Ms. Crane testified that the first step increase of \$4,757,135 reflected the actual capital structure of the Company, which was the capital structure used in her recommended rate increase of \$3,470,012. Ms. Crane stated that the only difference between the first and second step increase is the change in capital structure resulting from the additional equity that the Company plans to issue. Ms. Crane also discussed the Public Advocate's concerns about the methodology used to

develop *pro forma* revenues and stated that these concerns are being addressed in the settlement by requiring the Company to issue an RFP for a consultant's study on the issue of revenue methodologies. Ms. Crane expressed a hope that the study will result in agreement among the parties regarding the appropriate methodology prior to the Company's next base rate case. In addition, Ms. Crane testified that she believed the settlement to be a reasonable compromise of the parties' positions and in the public interest and that it results in the establishment of just and reasonable rates.

34. Staff presented the testimony of two witnesses. Commission Public Utilities Analyst Robert D. Ambrose presented testimony regarding Staff's rationale supporting the settlement. In addition, Mr. Ambrose adopted the pre-filed testimony of Staff witnesses Ralph C. Smith (Ex. 13A, 13B, 14A-14C), Dr. J. Randall Woolridge (Ex. 15), Scott J. Rubin (Ex. 16), Heidi L. Wagner (Ex. 17) and LeFeisha Williamson (Ex. 18). Mr. Ambrose testified that the settlement was the product of extensive negotiations and investigation by all of the parties, and that the settlement itself represents a balancing of the interests of the Company and the ratepayers. Mr. Ambrose also expressed his belief that a prolonged investigation that would result from continued litigation would result in considerable additional cost, and as a result the settlement was in the best interest of Artesian's ratepayers.

35. Staff then tendered the Commission's Chief of Technical Services, Connie S. McDowell, to address the mechanics of how the agreed-upon \$6,000,000 revenue increase will be recovered

through a two-step increase. Ms. McDowell testified that the original \$4,757,135 will be recovered immediately upon approval of the settlement by the Commission. Once the Company issues additional equity, the remaining revenue requirement, or approximately \$1,242,865 if the Company issues \$20 million in additional equity, will be recovered. Ms. McDowell stated that the procedure for the second-step revenue recovery would be that the Company, once the additional equity is issued, would submit a compliance filing to Staff, which will review the filing and then file a Staff memorandum supporting implementation of the next rate increase and short form of Order for the Commission's adoption, which would put the second phase of the increase into effect. Ms. McDowell testified that this procedure has been used with other companies in similar settlement contexts.

36. Prior to the hearing, the Intervenors requested that CCH counsel represent both CCH and GM for purposes of sponsoring the joint Intervenors' testimony and opining on the reasonableness of the settlement. CCH Counsel of record Kelly Farnan, Esquire, adopted the pre-filed testimony of Michael Gorman, and expressed her belief on behalf of the Intervenors that the settlement resulted in just and reasonable rates and was ultimately in the public interest.

37. Based upon my review of the entire record, including a consideration of the testimony adduced at the evidentiary hearing, I find that the approval of the proposed Settlement Agreement is in the public interest because it balances the interests of both ratepayers and Artesian's shareholders and obviates the need to fully litigate the issues raised in the Company's application, the cost of which

would ultimately be borne by ratepayers. In addition, I note that settlements are encouraged under Delaware law, particularly when supported by all parties. 26 Del. C. § 512. In summary, the proposed settlement is a fair and reasonable resolution of the issues in this matter and I therefore recommend that the Commission adopt and approve it.

V. RECOMMENDATIONS

38. In summary, and for the reasons stated above, I find that Artesian, the DPA, Staff and the Intervenors have presented sufficient evidence to support the justness and reasonableness of the proposed settlement and, accordingly, I recommend that the Commission adopt this report and approve the Settlement Agreement, confirming that the settlement rates can immediately be placed into effect and shall remain effective until further changed by Commission Order.

39. A form of Order implementing the foregoing recommendations is attached for the Commission's consideration.

Respectfully submitted,

/s/ Ruth Ann Price
Ruth A. Price
Hearing Examiner

Dated: December 14, 2006

ATTACHMENT “B”

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF ARTESIAN WATER COMPANY, INC.) PSC Docket No. 06-158
FOR A REVISION OF RATES)
(Filed May 9, 2006))

PROPOSED SETTLEMENT AGREEMENT

This Settlement Agreement (the “Settlement”), is entered into by and among Artesian Water Company, Inc. (“Artesian” or “the Company”), the Staff of the Public Service Commission (“Staff”), the Division of the Public Advocate (“DPA”), General Motors Corporation (“GM”) and Christiana Care Health Services, Inc. (“CCH”)(collectively, the “Parties”).

WHEREAS, on May 9, 2006, Artesian 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, for a revision to its currently effective water service rates designed to produce an additional \$9,880,000 in annual revenues, applied to a rate base of \$173,995,273 (the “Application”); and

WHEREAS, the Application also sought certain changes to Artesian’s Rules and Regulations concerning, among other things (1) clarifying that the customer charge is billed in advance; (2) the Public Fire Hydrant Ready to Serve Charge; (3) criminal liability for unauthorized use of water from an open by-pass; (4) the PSC’s Minimum Standards Governing Service Provided by Public Water Companies as contained in PSC Order No. 6873 as those standards relate to Advances for Construction and Contributions in Aid of Construction;

(5) Reasons for Nondiscontinuance pursuant to Title 26 of the Delaware Code; (6) payment requirements for meter tests; and (7) Hydrant Flow test fees; and

WHEREAS, on June 20, 2006 the Commission entered Order No. 6948 pursuant to which Artesian placed into effect on or before July 10, 2006 approximately \$2,500,000 of the proposed increase under bond, and subject to refund as permitted under 26 Del. C. § 306(c); and

WHEREAS, on July 10, 2006, Artesian filed a supplement to the Application based on information received subsequent to May 9, 2006, the result of which was to reduce its requested revenue request to \$8,657,328 applied to a rate base of \$162,800,564; and

WHEREAS, on October 2, 2006, Staff filed testimony in which it took the position that Artesian should be allowed an additional revenue requirement of \$5,081,847 applied to a rate base of \$158,874,056; and

WHEREAS, pursuant to 29 Del. C. § 8716, the DPA intervened in this proceeding, and on September 18, 2006, filed testimony in which it took the position that Artesian should be allowed an additional revenue requirement of \$3,470,012, applied to a rate base of \$158,559,466; and

WHEREAS, on June 14, 2006, pursuant to Rule 21 of the Commission's Rules of Practice and Procedure, GM and CCH each separately intervened in this proceeding, and on September 18, 2006, filed joint testimony on certain issues relevant to both GM and CCH; and

WHEREAS, (1) the Parties have conducted substantial written discovery; and (2) public comment sessions were conducted on July 17, 18, 19 and 20, 2006 in Dover, Middletown, Bethany Beach and Wilmington, Delaware respectively; and

WHEREAS, Artesian desires to avoid the substantial cost which would be involved if this case were to proceed to evidentiary hearing; and

WHEREAS, the Parties have conferred in an effort to resolve the issues raised in this proceeding; and

WHEREAS, it is acknowledged that the Parties differ as to the proper resolution of many of the underlying issues in the rate proceeding and are preserving their rights to raise those issues in future proceedings, but believe that settlement of the pending rate proceeding on the terms and conditions contained herein, will serve the interest of the public and the Company, while meeting the statutory requirement that rates be both just and reasonable;

IT IS HEREBY STIPULATED AND AGREED by Artesian, Staff, the DPA, GM and CCH that the Parties will submit to the Commission for its approval the following terms and conditions for resolution of this rate proceeding:

1. The additional annual revenue requirement awarded the Company will be \$6,000,000. The Parties acknowledge that these figures have been agreed to as a compromise of the Parties' positions, and the Parties believe that these proposed awards are within the bounds of the statutory requirement of a fair rate of return, based on circumstances specifically unique to Artesian. Changes will be made to the Company's tariff in order to meet the stipulated revenue requirement increase.

2. The Settlement revenue requirement amount of \$6,000,000 will be recovered through a two-step increase. Initially, Artesian will employ a capital structure of 38.75% equity and 61.25% long-term debt to recover \$4,757,135. It is anticipated that the Company will issue additional equity not to exceed \$20 million, at which time the equity/debt ratios will be adjusted and the remaining agreed upon revenue requirement will be recovered pursuant to and in accordance with that adjusted capital structure. Should the Company issue

less than the anticipated \$20 million in additional equity, the equity/debt ratios and total revenue requirement number will be adjusted downward accordingly.

3. The Parties have agreed to a cost of service analysis and rate design, as reflected in the attached Exhibit A. The Company's rates shall be those that result from the application of the agreed-upon additional revenue requirement to this cost of service analysis and rate design.

4. The Parties have agreed to certain changes to Artesian's Rules and Regulations. Artesian's revised Tariff is attached hereto as Exhibit B.

5. Within fifteen (15) days from the date the Settlement is approved by the Commission, Artesian will circulate to the Parties a draft Request for Proposal ("RFP") for a consultant to provide an analysis of Artesian's current method of calculating the average five-year residential consumption, and an analysis and recommendation of possible alternative best predictive calculation methods as part of Artesian's future pro forma revenue claims. The Parties shall have fifteen (15) days to submit their written comments and input on the draft RFP, and the final RFP will be issued no later than forty-five (45) days from the date the Commission approves the Settlement. Proposals from the consultants must be submitted thirty (30) days after the RFP is issued, and the consultant shall be selected no more than 15 days from the due date for submission of the Proposals. The consultant's Draft Report will be generated and circulated to the Parties for their reasonable review and comments, no later than 120 days from the date the Consultant is retained. The Parties will have 60 days to submit their written comments on the Draft Report with the Final Report due 90 days after the Draft Report is submitted.

6. 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 it be approved by the Commission in its entirety without modification or condition. If this Settlement is not approved in its entirety, this agreement shall become null and void.

7. This Settlement shall not set a precedent, shall not have issue or claim preclusion effect in any future proceeding, 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 Artesian. In addition, the Parties believe that the Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

8. The terms of this Settlement will remain in effect until changed by an order of the Commission or until mutually agreed by the Parties. The Commission retains jurisdiction over this agreement 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, including without limitation 26 Del. C. § 304 and 309-311.

9. This Proposed Settlement Agreement 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 Agreement. Copies of this Proposed Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Proposed Settlement Agreement warrants and represents that he or she has been duly authorized and empowered to execute this Proposed Settlement Agreement on behalf of the respective party.

DELAWARE PUBLIC SERVICE COMMISSION –
STAFF

Date: 11/21/06

/s/ Connie S. McDowell
Connie S. McDowell

DIVISION OF THE PUBLIC ADVOCATE

Date: 11/21/06

/s/ G. Arthur Padmore
G. Arthur Padmore

GENERAL MOTORS CORPORATION

Date: 11/21/06

/s/ Louis R. Monacell
Louis R. Monacell, Esq.
Counsel

CHRISTIANA CARE HEALTH SERVICES, INC.

Date: 11/21/06

/s/ Glenn C. Kenton
Glenn C. Kenton, Esq.
Counsel

ARTESIAN WATER COMPANY, INC.

Date: 11/21/06

/s/ David B. Spacht
David B. Spacht
Vice President/Treasurer
Chief Financial Officer