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. 7238

AND NOW, to wit, this 24th day of July, 2007, Artesian Water Company, Inc. ("Artesian" or "the Company"), having, on May 9, 2006, filed with the Commission the above-captioned application ("the Application") seeking approval of a two-phase water rate increase to reflect an additional revenue requirement of $9,883,432;

AND, the Commission having approved, by Order No. 7102 on December 19, 2006, a Settlement Agreement that contained a two-phased increase in rates that awarded the Company up to $6,000,000 in additional revenue;

AND, the Settlement Agreement having provided for: (1) implementation of the first phase permitting the Company to collect approximately $4,757,135 effective on or after January 1, 2007; (2) implementation of the second phase permitting the Company to collect approximately $1,242,865 contingent on the Company's issuance of additional equity not to exceed $20 million; (3) an appropriate downward adjustment in the total revenue requirement in the event that the Company issued equity in an amount less than $20 million; and (4) filing of the Company's public offering of securities with the Commission for its subsequent review;

AND, Artesian having, on June 19, 2007, made a public offering of 1,000,000 shares of Class A Non-Voting Common Stock at a price of $19.15 per share that realized proceeds of $18,286,125 after underwriting discounts and commissions, which constituted a deficiency of $106,506 as provided in the Settlement Agreement;

AND, Artesian having, on June 22, 2007, made a compliance filing with the Commission requesting implementation of the second phase rate increase of $1,136,359 that accounted for the deficiency in the Company's public offering, effective on or after July 3, 2007, and that the Commission consider the compliance filing at its July 3, 2007 public meeting;[1]

AND, the Commission Staff ("Staff"), the Division of the Public Advocate ("the DPA"), and the Company having agreed to permit the Company to file an amended compliance filing to account for its losses incurred due to a delay in implementation of its second phase water rate increases;

AND, Artesian having, on July 10, 2007, filed with the Commission an amended compliance filing consistent with the agreement among Staff, the DPA, and the Company that included: (1) a proposal to collect the $66,287 loss, documented in an attached rate calculation schedule to the amended compliance filing, incurred by the Company due to the 21-day delay in the effective date of the second phase water rate increase; and (2) a proposal to allow the Company to recover the

[1]Artesian's compliance filing was placed on the Commission's agenda for the July 24, 2007 public meeting rather than the July 3, 2007 public meeting. Accordingly, Artesian claimed a potential $75,000 loss in revenue due to the delay in implementation of the second phase water rate increases.

$106,506 deficiency from the Company's original public offering on the ground that the underwriting company exercised the over-allotment provision of the underwriting agreement that transferred $2,365,360.13 to the Company and increased the total proceeds realized by Artesian in the two public offerings to over $20 million;

AND, the Commission having determined that the Company recovered, in the supplemental issuance of securities, proceeds in excess of the $20 million ceiling established by Order No. 7102;

AND, the Commission having determined that the rate increases proposed in the amended compliance filing are just and reasonable and approval of the amended compliance filing 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 approves Artesian Water Company, Inc.'s proposed recovery of the second phase water rate increase of $1,242,865 that completes the $6 million additional revenue requirement pursuant to the Settlement Agreement, attached hereto as Attachment "A."

2. That, the Commission approves Artesian Water Company, Inc.'s proposed recovery of $66,287 that compensates Artesian Water Company, Inc. for the revenue loss it incurred as a result of the 21-day delay in the effective date of the second phase water rate increases.

3. That, Artesian Water Company, Inc. shall file with the Commission, a rate collection schedule depicting the pro rata rates,

effective on or after July 24, 2007, that will allow Artesian Water Company, Inc. to collect the $66,287 loss by December 31, 2007. Artesian Water Company, Inc. shall also file an amended tariff depicting reduced rates effective on or after January 1, 2008 that account for Artesian Water Company, Inc.'s realization of the $66,287 by December 31, 2007 and allow the Artesian Water Company, Inc. to recover the balance of the $6 million water rate increase pursuant to the Settlement Agreement.

4. That, Artesian Water Company, Inc. shall apply for the recovery of any additional equity above the $20 million cap set by Order No. 7102 in its next rate case.

5. 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/ Dallas Winslow
Commissioner

Commissioner

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 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