

May 26, 2015

MEMORANDUM

TO: The Chair and Members of the Commission

From: Connie S. McDowell, Senior Regulatory Policy Administrator

SUBJECT: In the Matter of the Application of Tidewater Utilities, Inc. for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge ("DSIC") Effective July 1, 2015 Pursuant to 26 DEL. C. § 314(b)(5) (Filed May 21, 2015) - PSC Docket No. 15-1000

---

On July 9, 2001, the General Assembly and the Governor enacted 26 Del. C. § 314, which permits water utilities to impose a "Distribution System Improvement Charge" ("DSIC Rate") during the period between full rate case proceedings. This DSIC Rate recovers a return on the water utility's eligible capital improvements and its associated depreciation expenses. Eligible capital improvements include non-revenue producing plant that is in service and not already included in rate base and are:

1. Replacement water plant, such as mains, services, meters, or hydrants that are worn out, deteriorated, or had negative impacts on water quality or reliability of service;
2. Extensions to eliminate dead ends which were negatively impacting water quality or reliability of service;
3. Relocations of facilities due to government actions such as highway relocations;
4. Water plant projects identified in the Governor's Task Force Report concerning adequate water supplies; or
5. New or additional plant necessary to meet changes in federal or state water quality standards, rules, or regulations.

This DSIC Rate can be adjusted semi-annually for eligible plant that was placed in service during the 6-month period ending two months prior to the effective date of the applied-for DSIC Rate. These filings can be made semi-annually on or before December 1 or June 1 of every year with an effective date of January 1 and July 1, sequentially. A water utility calculates the DSIC Rate as a percentage of a customer's total water charges and then adds this charge to the customer's water utility bill. Between rate cases, the DSIC revenues are capped at 7.5% of the amount billed to customers under the Commission-approved rates and charges; however, the DSIC Rate revenues collected by a water utility company cannot exceed 5% of the water utility's total revenues in any 12-month period.

Tidewater has applied for a DSIC Rate of 0.37%, an increase of 0.06% over the last period, with an effective date of July 1, 2015. This is based on net additional plant of \$353,454 and an associated semi-annual depreciation expense of \$26,026.

Staff recommends that the Commission permit this DSIC Rate to go into effect on July 1, 2015, but have this DSIC Rate remain subject to review, audit, and an annual reconciliation by Staff based on a 12-month period ending December 31, 2015.