



STATE OF DELAWARE

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MEMORANDUM

June 15, 2016

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

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) Pursuant to 26 Del. C. § 314 (b) (5) (Filed November 14, 2014, Docket No. 14-0525)

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) Pursuant to 26 Del. C. § 314 (b) (5) (Filed May 21, 2015, Docket No. 15-1000)

On November 14, 2014, Tidewater Utilities, Inc. ("Tidewater" or the "Company") filed an application to set a Distribution System Improvement Charge ("DSIC Rate") of 0.31% with an effective date of January 1, 2015. This DSIC Rate was based on net additional plant of \$321,189 placed into service between July 1, 2014 and October 31, 2014 and an associated semi-annual depreciation expense of \$43,432.

On December 16, 2014, by way of PSC Order No. 8691, the Commission opened Docket No. 14-0525 that approved the request by the Company to set the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2015.

On May 21, 2015, Tidewater filed an application to reset its DSIC Rate to 0.37%, an increase of 0.06% over the previous period, with an effective date of July 1, 2015. This increase was based on net additional plant of \$353,454 placed into service between November 1, 2014, and April 30, 2015 and an associated semi-annual depreciation expense of \$26,026.

On June 2, 2015, by way of PSC Order No. 8747, the Commission opened Docket No. 15-1000 that approved the request by the Company to reset the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2015.

On June 2 and June 16, 2016, the Commission Staff ("Staff") received the requested information for Docket Nos. 14-0525 and 15-1000 and conducted the audit and review of the DSIC Rates. The audit consisted of the procedures utilized for each of the water companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 14-0525: Effective Period January 1, 2015 – June 30, 2015

Associated with the Rate of Return is the revenue that the Company collected within the DSIC period. Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$39,249 in DSIC revenues. This resulted in an over-collection of \$2,558 of the projected revenue requirement.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation to be accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 0.31% in effect from January 1, 2015 through June 30, 2015, be approved as final.

Findings for PSC Docket No. 15-1000: Effective Period July 1, 2015 – December 31, 2015

Similarly to Docket No. 14-0525, Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$56,656 in DSIC revenues. This resulted in an over-collection of \$1,656 of the projected revenue requirement.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital

Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant additions portion of the DSIC Rate calculation to be accurate. However, during the review of the Retirement Work Orders, it was discovered that certain Costs of Removal of Retired Plant items were not included in the Accumulated Depreciation Reserve Change. After discussions with Staff, Tidewater recalculated the DSIC Revenue Requirement for this Docket to include the Costs of Removal that were omitted. After recalculation, the Net Accumulated Depreciation Reserve Change increased by \$12,000, the Net Change in Rate Base increased by \$12,000, the Semi-Annual Investment Cost Recovery increased by \$791, and the Semi-Annual DSIC Revenue Requirement increased by \$791. The increase in the Semi-Annual DSIC Revenue Requirement was small enough that the calculated DSIC Rate of 0.37% remained the same. However, the \$791 increase in the Semi-Annual DSIC Revenue Requirement resulted in a reduction of the over-collection amount from \$1,656 to \$865.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 0.37% in effect from July 1, 2015 through December 31, 2015, be approved as final.

The total over-collection of DSIC Revenue for the two DSIC Rate periods defined in PSC Docket Nos. 14-0525 and 15-1000 after completion of the audit and review was \$3,423. This over-collection will be reconciled in the Company's currently pending DSIC Rate application, PSC Docket 16-0656.

On June 17, 2016, Tidewater submitted a revised copy of their pending DSIC Rate application, PSC Docket 16-0656, showing the adjusted DSIC Rate calculation for PSC Docket 15-1000.

Staff has shared its findings with the Public Advocate and the Company. There do not appear to be any disputes among the parties. Therefore Staff recommends that PSC Docket Nos. 14-0525 and 15-1000 be closed.