



STATE OF DELAWARE

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MEMORANDUM

September 30, 2016

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF ARTESIAN WATER COMPANY, 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 26, 2014, DOCKET NO. 14-0540)

IN THE MATTER OF THE APPLICATION OF ARTESIAN WATER COMPANY, 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 28, 2015, DOCKET NO. 15-1005)

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On November 26, 2014, Artesian Water Company, Inc. ("Artesian" or the "Company") filed an application to set a Distribution System Improvement Charge ("DSIC Rate") of 0.34% with an effective date of January 1, 2015. This DSIC Rate was based on net additional plant of \$1,347,689 placed into service during the month of October 2014 and an associated semi-annual depreciation expense of \$12,310. This resulted in a semi-annual DSIC revenue requirement of \$104,435.

On December 16, 2014, by way of PSC Order No. 8693, the Commission opened Docket No. 14-0540 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 28, 2015, Artesian filed an application to reset its DSIC Rate to 1.15%, an increase of 0.81%, with an effective date of July 1, 2015. This increase was based on net additional plant of \$3,276,383 placed into service between November 1, 2014, and April 30, 2015 and an associated semi-annual depreciation expense of \$27,273. This resulted in a semi-annual DSIC revenue requirement of \$266,109, and thus a total semi-annual DSIC revenue requirement of \$370,544.

On June 16, 2015, by way of PSC Order No. 8751, the Commission opened Docket No. 15-1005 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.

Effects of Artesian's Rate Case PSC Docket No. 14-132

Artesian included certain post test period capital investments in the development of the January 2015 DSIC Rate in Docket No. 14-0540 pending a final Commission decision in Docket No. 14-132. The Commission authorized the recovery of certain post test period capital investments in Docket No. 14-132. This inclusion of post test period capital investments in Docket No. 14-132 resulted in the following adjustments to Docket 14-0540: 1) a decrease in the net additional plant from \$1,347,689 to \$682,206; 2) a decrease in the semi-annual depreciation expense from \$12,310 to \$6,084; and 3) a decrease in the semi-annual DSIC revenue requirement for this period from \$104,435 to \$54,699. This adjusted semi-annual DSIC revenue requirement of \$54,699 results in a DSIC Rate of 0.18% for Docket 14-0540 and also affects the DSIC Rate in Docket 15-1005 which is discussed later in this document.

On July 13, 2016, the Commission Staff ("Staff") received the requested information for Docket Nos. 14-0540 and 15-1005 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. 14-0540: 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.

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.

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.

During the effective time period for this Docket, the Company collected \$116,968 in DSIC revenues. This resulted in an over-collection of \$62,269 of the revenue requirement of \$54,699. This over-collection is especially high because the DSIC Rate used during this period was 0.34% due to the fact final Commission decision on Docket 14-132 had not yet been made. The over-collection of DSIC revenue for the period January 1, 2015 through June 30, 2015 to be reconciled is \$62,269 plus interest.

The Company reconciled this over-collection, without the interest portion, in their DSIC Rate application, PSC Docket No. 15-1589, that went into effect for the period January 1, 2016 through June 30, 2016. The interest on this over-collection was included in the reconciliation part of the Company’s DSIC Rate application, PSC Docket No. 16-0676, that went into effect July 1, 2016.

Therefore, Staff recommends that the DSIC Rate of 0.34%, adjusted to 0.18%, in effect from January 1, 2015 through June 30, 2015, be approved as final.

Findings for PSC Docket No. 15-1005: Effective Period July 1, 2015 – December 31, 2015

The Company’s DSIC Rate that was requested in their May 2015 application for this period is 1.15%. The Company calculated this “cumulative” percentage through the summation of individual DSIC Rates calculated for each semi-annual DSIC Rate filing. This methodology is incorrect because these individual DSIC Rates are calculated using different DSIC eligible projected semi-annual total revenue numbers. The cumulative or total DSIC Rate should be calculated by adding together the individual semi-annual revenue requirements from the previous DSIC Rate filings, along with the semi-annual revenue requirement and any over- or under-collection included in the current DSIC Rate filing, and then dividing this total by the current period DSIC eligible projected semi-annual total revenue.

The Company’s Current Way of Calculating DSIC Rate			
	Docket No. 14-0540	Docket No. 15-1005	Based on Company’s projections, a 1.15% charge should be able to be applied to all DSIC eligible components of customers’ bills during the recovery period defined by Docket No. 15-1005 and recover their revenue requirement. In other words $(1.15\% \times \$32,781,731)$ should equal \$370,544. In fact, $(1.15\% \times \$32,781,731) = \$376,990$ . The result is an over-collection of \$6,446.
Semi-annual DSIC revenue requirement	\$104,435	\$266,109	
Over/(Under) Collection from previous DSIC	\$0	\$0	
Total semi-annual DSIC revenue requirement	\$104,435	\$266,109	
Semi-annual projected total revenue (DSIC Eligible)	\$30,800,635	\$32,781,731	
DSIC Rate for current period	0.34%	0.81%	
Cumulative or Total DSIC Rate	0.34%	1.15%	

Correct Method of DSIC Rate Calculation			
	Docket No. 14-0540	Docket No. 15-1005	Total Current Period
Semi-annual DSIC revenue requirement	\$104,435	\$266,109	\$370,544
Semi-annual projected total revenue (DSIC Eligible)	----	\$32,781,731	\$32,781,731
DSIC Rate	----	----	1.13%

Hence, the DSIC Rate that the Company should have applied for in their original May 2015 filing is 1.13%.

The Company has since adjusted the DSIC Rate for this period from 1.15% to 0.99% (0.81% + 0.18%) to account for the adjustment to the DSIC Rate in Docket No. 14-0540. However, the correct DSIC Rate calculation method shows that the DSIC Rate for this period should be 0.98%.

Similarly to Docket No. 14-0540, Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component approved to go into effect by the Commission in Order No. 8751. No discrepancies were found.

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.

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.

During the effective time period for this Docket, the Company collected \$390,880 in DSIC revenues. This resulted in an over-collection of \$70,072 of the total semi-annual DSIC revenue requirement of \$320,808 (\$54,699 + \$266,109). Again, this over-collection is especially high because the DSIC Rate used during this period was 1.15% due to the fact final Commission decision on Docket 14-132 had not yet been made. A portion of this over-collection is subject to interest. The Company calculated the interest bearing portion of this over-collection to be \$46,606. The Company calculated this by applying their adjusted DSIC Rate of 0.99% to actual DSIC eligible revenues that were earned during this period and subtracting this amount from the actual collected DSIC Revenues (\$390,880 - \$344,274). The remaining portion of the over-collection, \$23,466, is non-interest bearing. The amount of over-collection that resulted from the Company applying an incorrect DSIC Rate is included in the \$23,466.

The Company reconciled the \$46,606 over-collection, plus interest, along with the interest portion of the over-collection from Docket No. 14-0540, for a total reconciled amount of \$50,506 in their DSIC Rate application, PSC Docket No. 16-0676, that went into effect July 1, 2016. The remaining over-collection of \$23,466 is to be reconciled in the Company's next DSIC filing.

Therefore, Staff recommends that the DSIC Rate of 1.15%, adjusted to 0.99%, in effect from July 1, 2015 through December 31, 2015, be approved as final.

Staff has discussed the methodology used for DSIC Rate calculation with the Company and the Company has agreed to use a method to calculate DSIC Rates that computes the DSIC Rate as the total semi-annual DSIC revenue requirement as a percentage of current period DSIC eligible projected semi-annual total revenue.

Staff has shared its findings with the Public Advocate and the Company. There does not appear to be any disputes among the parties. Therefore Staff recommends that PSC Docket Nos. 14-0540 and 15-1005 be closed.