

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION)
OF ARTESIAN WATER COMPANY, INC.)
FOR AUTHORITY TO INCREASE RATES)
AND CHARGES FOR WATER SERVICE)
(FILED APRIL 11, 2014))**

PSC DOCKET NO. 14-132

**DIRECT TESTIMONY OF
LISA B. DRIGGINS
ON BEHALF OF THE STAFF OF THE
DELAWARE PUBLIC SERVICE COMMISSION**

SEPTMEBER 24, 2014

1 **Q. Please state your name, business address, and current occupation.**

2 A. My name is Lisa Driggins. My business address is 861 Silver Lake Boulevard, Suite 100,
3 Dover, Delaware 19904. I am a Public Utility Analyst I for the Delaware Public Service
4 Commission (“PSC” or “Commission”). I have been employed as a Public Utility
5 Analyst since joining the Commission in January 2013.

6 **Q. What is your educational background?**

7 A. I received a Bachelor of Science Degree in Business Management and a Masters of
8 Business Administration from Wesley College. Since my employment at the PSC, I
9 completed the NARUC Eastern Utility Rate School in Florida and Camp NARUC
10 Annual Regulatory Studies program at Michigan State University.

11 **Q. Briefly describe your duties and responsibilities with the Commission.**

12 A. My duties include the review of filings by regulated utilities that propose changes in their
13 rates and charges; assisting senior Staff with executing the annual compliance and
14 financial review for wastewater utilities; planning and participating in the audit of small
15 regulated companies; assisting senior Staff with the preparation of schedules and
16 documents; and participating in the review of source documents at utility offices. Such
17 documents include general ledger transactions and invoices to assess whether the expense
18 claims are appropriate for ratemaking purposes. I also review and make
19 recommendations to the Commission to grant Certificates of Public Convenience and
20 Necessity for water and wastewater utilities.

1 **Q. Please explain for whom you are testifying and the purpose of your testimony in this**
2 **proceeding?**

3 A. I am testifying on behalf of Delaware Public Service Commission Staff in this
4 proceeding. The purpose of my testimony is to present Staff's recommended adjustments
5 to certain expenses claimed by Artesian Water Company, Inc. (the "Company") for
6 ratemaking purposes. The expenses I was assigned to review were Purchased Power,
7 Chemical Cost, Chester Legal Expenses and Purchased Water.

8 **Q: Please describe the nature of Staff's review.**

9 A: Staff reviewed the Application to ensure its compliance with the Minimum Filing
10 Requirements as recorded in 26 *Del. C.* §1002. Staff performed an analysis and
11 evaluation of the general ledger transactions, vendor files and invoices to assess whether
12 the expenses claimed are appropriate to be included in rates. In addition on Wednesday,
13 September 10, 2014, Staff visited the Company to review supporting documentation
14 regarding revenues, expenses, and other financial, administrative, and operational
15 information. Lastly, on Thursday, September 11, 2014 we also participated in a plant
16 tour.

17 **Q. Please explain any adjustments for annualizing test year purchase power?**

18 A: In the original application and the supplemental testimony filed by Artesian, the
19 Company annualized rate changes from Delmarva Power & Light Company and also
20 annualized changes for purchases from Direct Energy. I performed a detailed review of
21 the purchase power expense in Schedule DLV-3B-2 in both the application and
22 supplemental testimony, the work papers submitted in support of this adjustment and all

1 the data request submitted to Staff and DPA. I reviewed the response to data request
2 PSC-RR-32, which states the application, was filed before Docket No. 13-115, Order No.
3 8549 was finalized. This order made changes to the electric rate Artesian used to figure
4 out the purchase power expense. The original rate used to determine the expense was
5 higher than what was approved in Order No. 8549. The Company's original request was
6 \$36,400. Therefore, I recommend AWC should adjust the purchase power downward by
7 \$26,318. (See Schedule LBD-1)

8 **Q. Please explain any adjustments for annualizing test year chemical cost?**

9 A: I performed a detailed review of the chemical expense in Schedule DLV-3B-3 in the
10 Application, the work papers submitted in support of this adjustment and the data request
11 submitted to Staff and DPA. The application states this adjustment annualizes chemical
12 cost based on the volume of chemicals used in the test year at current bid prices. Based
13 on my review, I did not propose any adjustments and, accordingly, I recommend that the
14 negative adjustment of \$16 be accepted as filed.

15 **Q. Please explain any adjustments for amortize Chester legal expenses?**

16 A: I performed a detailed review of the Chester legal expenses set forth in Schedule DLV-
17 3B-4 in the Application, which contain the work papers submitted in support of this
18 adjustment and the data request submitted to Staff and DPA. In the filing, the adjustment
19 removes costs related to the litigation booked to operating income during the Test Year
20 and amortizes the total legal cost related to the Chester litigation over 7 years of the
21 remaining contract. Based on my review, I have concerns regarding the level of expenses
22 being incurred to date. Although I note that the Company is trying to mitigate the costs

1 associated with this litigation for its customers, it has not provided any cost benefit
2 analysis for those expenses incurred to date or a clear exit strategy. There is no way to
3 determine whether the Company has reached a point where the costs of continuing the
4 litigation outweigh the remaining benefits to its customers. The Company has incurred
5 \$813,304 in legal expense during the test year and in total it has spent \$1.6 million. The
6 Company has proposed to amortize these costs over seven years which amounts to an
7 annualized expense level of \$235,264. Therefore, I recommend a negative adjustment of
8 \$578,040 (the difference of \$813,304 and \$235,264) be accepted. In addition, any future
9 costs associated with Chester Legal will be analyzed during the next rate case.

10 **Q. Please explain any adjustments for annualizing test year purchased water?**

11 A: The application states the cost of purchased water will increase 10% for CWA before the
12 end of the test period. I performed a detailed review of the purchase water expense in
13 Schedule DLV-3B-5 to the Application, the work papers submitted in support of this
14 adjustment, and the data request submitted to Staff and DPA. Based on my review, I
15 have not proposed any adjustments. Therefore, I recommend that the adjustment of
16 \$347,348 be accepted.

17 **Q. Does this conclude your testimony?**

18 A. Yes it does.
19

Artesian Water Company, Inc.
Purchased Power
For The Test Year Ended December 31, 2013

Line No.	Description	
1	Adjustment Amount	\$ (26,318)
2	Company's Requested Amount	\$ <u>36,400</u>
3	Net Staff Adjustment	\$ 10,082
4	State Income Taxes @ 8.7%	\$ (877)
5	Federal Income Taxes @ 34%	\$ (3,130)
6	Net Income Adjustment	\$ 6,075

Sources

Line 2 AWC's Schedule DLV-3B-2-S