

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

APPLICATION OF ARTEISAN WATER) PSC DOCKET NO. 14-132
COMPANY, INC. FOR A GENERAL RATE)
INCREASE IN WATER BASE RATES & TARIFF)
REVISIONS (FILED APRIL 11, 2014)

DIRECT TESTIMONY OF

AMY WOODWARD

ON BEHALF OF

COMMISSION STAFF

SEPTEMBER 24, 2014

1 **Statement of Qualifications**

2 **Q: State your name and the name and address of your employer.**

3 A: Amy Woodward. I am employed by the Delaware Public Service
4 Commission (Commission). My work address is 861 Silver Lake Boulevard,
5 Suite 100, Dover, Delaware, 19904.

6
7 **Q: What is your position with the Public Service Commission?**

8 A: I am a Public Utilities Analyst III with the Commission. I have been
9 employed with the Commission since April 2012.

10
11 **Q: As an analyst with the Commission, what is the general nature of your**
12 **duties?**

13 A: My duties include the review of filings by regulated utilities that propose
14 increases in rates and charges; planning and executing the annual compliance
15 and financial reviews for wastewater utilities; analysis of utilities requesting
16 the issuance of debt securities; planning and participating in the audit of small
17 regulated companies; conducting reviews of source documents at utility
18 offices, and evaluating the financial, managerial, and technical conditions of
19 utilities.

20
21 **Q: What is your professional experience and education?**

22 A: I received an Associate of Applied Science Degree in Accounting from
23 Delaware Technical and Community College and I received a Bachelor's of
24 Science in Degree in Accounting from Wilmington University. I also
25 received a Graduate Certificate of Financial Management in Organization and
26 a Master's of Science Degree in Accounting and Financial Management from
27 the University of Maryland University College in 2007. My education and
28 professional experience have provided me with a detailed understanding of
29 utility rate structures, as well as in mathematical logic and financial analysis.
30 I have also gained knowledge in the areas of residential, commercial and
31 industrial operations in the energy industry.

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Q: For whom are you testifying in this proceeding?

A: I am testifying on behalf of the Commission Staff (“Staff”).

Q: What is the purpose of your testimony?

A. The purpose of my testimony is to present Staff’s recommendations on certain adjustments proposed by Artesian Water Company, Inc. (“Artesian” or the “Company”), specifically the adjustments concerning the insurance expenses, postage rates, and rate case expenses.

Q: Have you carefully reviewed Artesian’s proposed adjustment to the test year insurance expenses.

A: Yes, I have. I performed a detailed review of the Artesian’s proposed insurance expenses adjustment shown in Schedule DLV-3B-10 in the Application as well as the same schedule in the Company’s supplemental filing. Artesian is asking for an adjustment of \$26,533 to the test year on the basis of using a conservative approach by using a 10% increase estimated by the Company’s insurance vendors. In my review, I analyzed Artesian’s response to data request PSC-RR-50, which provided a detailed accounting by month of the Company’s property and liability, professional and auto insurance expense accruals. The Company projected a ten percent (10%) increase in insurance premium costs based on information provided by its insurance vendors. After reviewing the monthly account actual accruals and the supplemental filing it appears that the new rates have been put into effect for the coverage period 2014/2015 of 5.42 percent. After reviewing the information provided by the Company, I believe the increase is a known and measurable change and, therefore, will support the annualized insurance adjustment of \$26,533.

Q: What has Artesian included in its rate request relative to postage rates?

1 A: Artesian has included a 6% increase in postage rates approved by the U.S.
2 Postal Rate Commission. I carefully reviewed the documentation provided by
3 Artesian in support of its proposed postage rate expense adjustment, including
4 the Company's response to PSC-RR-50-0001, which included a monthly
5 breakdown of the postage expenses incurred by the Company, and the
6 Company's response to DPA-RR-47, which provided additional back up for
7 the adjustment. The postage rate increase in question was approved by the
8 U.S. Postal Rate Commission and made effective on January 26, 2014.
9 Because the postage rate increase was already made effective, it qualifies as a
10 known change affecting Artesian's costs. Therefore, I recommend that the
11 Commission adopt Artesian's proposed adjustment to postage costs of
12 \$19,580.

13
14 **Q: What has Artesian included in its proposed revenue requirement for rate**
15 **case expenses associated with this proceeding?**

16 A: The Company estimates it will incur approximately \$1.1 million in total rate
17 case costs for the instant proceeding. This estimate includes projected legal
18 costs of \$600,000, \$42,816 for the rate of return study that the Company has
19 presented, \$50,000 for rate design and cost of capital witnesses, \$350,000 for
20 PSC costs, \$6,000 for printing, \$75,000 for a compensation study and \$11,000
21 in miscellaneous costs. The Company is proposing to amortize the litigation
22 costs over two-year period and to amortize the \$75,000 associated with the
23 compensation study over a five-year period. The Company recommended an
24 adjustment of \$439,463, as shown in Schedule DLV-3H-S.

25
26 **Q: Are you recommending any adjustments to the Company's claim for rate**
27 **case expenses?**

28 A: Yes, I am. The Company's requested expense allowance for rate case costs is
29 clearly excessive. We cannot know at this point what costs Artesian will
30 actually incur throughout this proceeding. Therefore, it is reasonable to
31 include a normalized level of anticipated expenses. In order to determine a

1 normalized level, I averaged the rate case costs incurred by the Company in its
2 last three rate proceedings (Docket Nos. 11-207, 08-96 and 06-158),
3 excluding Depreciation Study and Compensation Study expenses. It is
4 reasonable to exclude the costs associated with these two items because such
5 costs were not present in the three most recent rate proceedings. My
6 normalization calculation is shown on my Exhibit AJW-Exp1. As shown in
7 this schedule, using a three-year normalization period for rate case costs
8 reflect a rate case reduction of \$332,212. I believe a three-year period is
9 appropriate given Artesian's recent history of rate case filings.

10
11 **Q: Does this conclude your testimony?**

12 **A: Yes.**

13

Artesian Water Company, Inc.

Rate Case Expense Adjustment
Test Year Ended December 31, 2013

Rate case expense prior water rate cases		
1 Docket No. 11-207	\$	425,149
2 Docket No. 08-96	\$	841,236
3 Docket No. 06-158	\$	<u>377,875</u>
4 Average	\$	548,087
5 Amortization allowance - 3 years	\$	182,696
6 Compensation Study (5-yr amort)	\$	<u>15,000</u>
7 Rate case expense allowance	\$	197,696
8 Artesian as filed (\$1,059,816/2)	\$	529,908
9 Adjustment to rate case expense	\$	(332,212)
10 State income taxes @ 8.7%	\$	28,902
11 Federal income taxes @ 34%	\$	<u>103,126</u>
12 Total income taxes	\$	<u>132,028</u>
13 Net income adjustment	\$	<u><u>200,184</u></u>

Sources

Lines 1, 2, 3 AWC's response to PSC-RR-66 Attachment
Less Depreciation Study & Compensation Study
Line 5 AWC Schedule DLV-3H-S