BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES INC., FOR A GENERAL RATE INCREASE IN WATER BASE RATES AND TARRIFF REVISIONS (FILED NOVEMBER 25, 2013)	))))))	PSC DOCKET NO. 13-498

DIRECT TESTIMONY OF

RON TEIXEIRA

ON BEHALF OF

THE COMMISSION STAFF

May 20, 2014

Statement of Qualifications

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

A: Ron Teixeira. I am employed by the Delaware Public Service Commission (Commission). My work address is 861 Silver Lake Boulevard, Suite 100, Dover, Delaware, 19904.

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

A: I am a Public Utilities Analyst with the Commission. I have been employed with the Commission since December 2013.

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

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

Q: What is your professional experience and education?

A: I have a B.A. (1997) from the University of Maryland at College Park, an M.B.A (2010) and M.A. in Economics (2012) from the University of Delaware. I have provided regulatory and financial analysis on Federal Communications Commission telecommunications filings for the National Governor’s Association, and represented telecommunication and Internet companies on regulatory matters. My education and professional experience have provided me the opportunity to become familiar with and to analyze various components of utility rate structures.

Q: For whom are you testifying in this proceeding?

A: I am testifying on behalf of the Commission Staff.

Q: What is the purpose of your testimony?

A. I am presenting the Commission Staff's (Staff) review and evaluation of Tidewater Utilities, Inc.'s (TUI) accumulated depreciation and depreciation expenses reported in the rate case. Section I covers Staff's recommended accumulated depreciation for the rate case, and explains Staff's proposed adjustments. Section II explains the depreciation rates used to calculate the test period depreciation expenses, and explains the adjustments Staff made to various accounts.

Section I: Accumulated Depreciation

Q: Please briefly describe Staff's adjustments to Utility Plant in Service?

A: In Staff Witness Kevin Neilson's testimony, he recommended that only six of the non-blanketed projects be added to the Utility Plant in Service (UPIS) for the test period. Based on the project status update provided in PSC-GEN-11, most non-blanket projects are not 100% complete as of April 30, 2014. As a result, all projects not complete as of April 30, 2014 were taken out of TUI's UPIS. The following testimony in Section I and II describes Staff adjustments made to accumulated depreciation and depreciation expense based on the six remaining projects added to UPIS.

Q: Please describe Schedule RT-1 entitled "PSC Staff's Adjustments to Accumulated Depreciation – Test Period"?

A: Schedule RT-1 is based on Schedule 2A in Ms. Tilley's direct testimony. Staff's adjustments to accumulated depreciation are highlighted in bold, next to the original figures provided by TUI in Schedule 2A. Staff's adjustments were calculated using nine months of the test period data -- the same method used by TUI. The column entitled "Staff Adjustment Depreciation (A) Test Period" represents the accumulated depreciation for a nine-month period during the test period. The column entitled "Staff Adjustment Test Period

6/30/2014" represents the accumulated depreciation gained during the test period added to the test year accumulation.

Q: Please explain the changes made to Accumulated Depreciation due to Staff's adjustments to UPIS?

A: As stated previously, Utility Plant in Service (UPIS) adjustments outlined in testimony given by Staff Witness Kevin Neilson reduces accumulated depreciation for the test period to the remaining six projects that are 100% complete as of April 30, 2014. Previously, TUI projected an increase in accumulated depreciation of $235,590 from the test year to the test period, for a total of $2,604,610. Based on the reduction in test period UPIS suggested by Staff's Witness Mr. Neilson, Staff reduced TUI's test period accumulated depreciation by $228,582, for a total of $2,376,028. This Staff adjustment is reflected in Schedule RT-1, column entitled "Staff Adjustment Depreciation (A) Test Period". The reduction in TUI accumulated depreciation will result in an increase in rate base of $228,582.

Q: What is the Company's actual Accumulation Depreciation balance as of September 30, 2013?

A: According to the response to PSC-GEN-1, the Company's actual accumulated depreciation balance as of September 30, 2013 is $21,809,404. This compares with an accumulated depreciation balance projected by the Company of $23,928,171 at June 30, 2014.

Q: Based on Staff's adjustments, what is the Company's projected Accumulation Depreciation as of June 30, 2014?

A: After Staff's adjustments, the projected total accumulated depreciation balance for the test period is $23,699,591 at June 30, 2014. This is reflected in Schedule RT-1, column entitled "Staff Adjustment Test Period 6/30/2014." This is $228,582 less than the projected total accumulated depreciation calculated by TUI. This reduction in the projected total accumulated depreciation will increase rate base by $228,582. Moreover, this accumulated depreciation figure includes Staff changes made to the depreciation rates for Accounts 316 and 343. Details on these changes are provided in "Section II – Depreciation Rates" of this testimony.

Q: Should the Accumulated Depreciation Information be Updated for Actuals?

A: Yes. Staff recommends that the Company provide its actual accumulated depreciation balances through May 30, 2014 and provide the updated information at the time it files its rebuttal testimony in this case.

Section II: Depreciation Rates

Q: Please describe Schedule RT-2 entitled "PSC Staff's Adjustments to Depreciation Expense– Test Period"?

A: Schedule RT-2 is based on Schedule 3N in Mr. O'Conner's direct testimony. Staff's adjustments are highlighted in bold, next to the original figures provided by TUI. The column entitled "Staff Adjustment Depreciation (A) Test Period" represents the accumulated depreciation for a nine month period during the test period. The column entitled "Staff Adjustment UPIS Balance 6/30/2014" represents UPIS adjustment made by Staff Witness Neilson that is described above. The column entitled "Staff Adjustments Depr. Plant Test Period 6/30/2014" shows staff adjustments for UPIS less the CAC & CIAC column. The column "Staff Adjustments Depr. Rate" includes the adjustments made to depreciation rates and is further described in testimony below. The column "Staff Adjustments Depr. Test Period" reflects the Staff's depreciation expense calculated for the test period. The last column shows the difference between TUI's and Staff's depreciation expense.

Q: What does Tidewater's direct testimony state with respect to depreciation rates?

A: Tidewater witness Bruce O'Connor's direct testimony on page 16, line 17-22 states that: "The depreciation rates used to calculate the annual depreciation expense for categories of utility plant shown on schedule 3N were approved in PSC Docket No. 99-466, dated November 21, 2000."

In addition, TUI further confirmed this fact in their response to discovery question PSC-RR-81. According to discovery response "a" on page 2 of PSC-RR-81: "Tidewater is not proposing to change the depreciation rates that were recommended by a PSC Staff hired depreciation consultant and approved by the Commission in its decision in Order No. 5592 in Docket No. 99-466."

Q: In conjunction with Staff's review of Tidewater's depreciation rates in the current Tidewater rate case, did Staff review information from Order No. 5592 and Docket No. 99-466?

A: Yes. Staff reviewed the order, the docket testimony and evidence. More specifically, Staff examined the "PSC Staff hired depreciation consultant's" testimony and depreciation rates referred to by TUI in PSC-RR-81. As way of background, Staff hired Michael J. Majoros to serve as its depreciation expert in Docket No. 99-466, and is the person TUI refers to as "depreciation consultant" in PSC-RR-81.

In his testimony Mr. Majoros included Schedule MJM-1 page 1 of 3, a table that lists all his calculated depreciation rates for TUI's accounts. Based on TUI's direct testimony and discovery responses, Staff referred to Mr. Majoros' depreciation rates as the basis for TUI's calculations used to depreciation expense in this rate case.

Q: Do Tidewater's depreciation rates in the current rate case match those rates used by Mr. Majoros in Docket No. 99-466?

A: No. TUI incorporates almost all of the depreciation rates used by Majoros in Docket No. 99-466 with the exception of Account 316 (Supply Mains) and

Account 343 (Mains). The depreciation rates used in Docket No. 99-466 for Account 316 and 343 were 1.02% and 1.04% respectively. These rates can be seen in Schedule RT-2, column "Staff Adjustments Depr. Rates". In this rate case, Tidewater uses the depreciation rate of 1.39% for Accounts 316, and 1.43% for Account 343. Nowhere in its testimony does TUI provide justification or rationale for these depreciation rate changes.

Q: What depreciation rates do Staff recommend Tidewater uses in the current rate case?

A: Based on TUI's direct testimony, and the fact that TUI has not conducted a new depreciation study since Docket No. 99-466, Staff recommends that TUI adopt all the depreciation rates listed in Schedule MJM-1 page 1 of 3 in Docket No. 99-466 and previously adopted by the Commission.

TUI does not provide any justification or basis for the new depreciation rates for Accounts 316 and 343. It's unclear what method or calculations they used to determine the new depreciation rates. Therefore, the new depreciation rates appear arbitrary and do not follow a process of allocating depreciation expenses in a systematic and rational manner.

Q: What are the appropriate depreciation rates for Accounts 316 and 343?

A: Based on Staff's recommendations, the depreciation rate for Account 316 should be 1.02%, resulting in a depreciation expense of $256. This is compared to TUI's depreciation rate for Account 316 of 1.39%, resulting in a depreciation expense of $353. Staff recommends reducing TUI's depreciation expense in Account 316 by $97. This will increase rate base by $97.

In addition, Staff recommends that Account 343 should be 1.04%, resulting in a depreciation expense of $413,581. This is in contrast to TUI's depreciation rate of 1.43%, resulting in a depreciation expense of $589,404. Staff recommends reducing TUI's depreciation expense in Account 343 by $175,823. This will increase rate base by $175,823.

Q: What is the appropriate depreciation expense based on Staff's adjustments to depreciation rates?

A: The overall depreciation expense for the test period that Staff is recommending is $3,168,038. This is compared to TUI's overall depreciation expense of $3,474,391. Staff is recommending a $304,774 reduction in depreciation expense, which will result in a $304,775 increase in rate base.

Q: Do the depreciation rates that are currently being applied by Tidewater include a provision for cost of removal?

A: No. The depreciation rates that were established in PSC Docket No. 99-466 and Order No. 5592 do not include any estimated cost of removal.

Q: Should Tidewater include a depreciation rate study with its next rate case?

A: Yes. During the last Tidewater rate case PSC Docket No. 11-397, Staff's Witness Ralph C. Smith's testimony recommended that Tidewater conduct a new depreciation study due to the fact that the current depreciation rates are based on a study conducted on utility plant at December 31, 1999, almost 16 years ago. By not conducting periodic depreciation rate studies, it is difficult to judge whether the depreciation rates being used are accurate. In addition, TUI's investment in new plant and technology since December 1999 could have caused depreciation rates to change. Thus, TUI could be inadvertently under or over depreciating its assets. For these reasons, I concur with Mr. Smith's recommendation in PSC Docket No. 11-397, and recommend that Tidewater include a new depreciation rate study with its next rate case.

Q: Does this conclude your testimony?

A: Yes.

PSC STAFF'S ADJUSTMENTS to ACCUMULATED DEPRECIATION - TEST PERIOD

Line No.	Account No	Account	Test Year 9/30/2014	Depreciation (A) Test Period	Staff Adjustment Depreciation (A) Test Period	Retirements Test Period	Test Period 6/30/2014	Staff Adjustment Test Period 6/30/2014	Staff/TUI Test Period Difference
		Source of Supply Plant							
	310	Land & Land Rights							
1	314	Wells and Springs	314,575	70,273	70,370	-	384,848	384,945	
2	316	Supply Mains	(31,405)	265	192	-	(31,141)	(31,213)	
		Total Source of Supply Plant	283,169	70,538	70,562	-	353,707	353,731	**24**
		Pumping Plant							
3	320	Land & Land Rights							
4	321	Structures and Improvements	1,701,800	204,610	195,236	67,704	1,838,706	1,829,332	
5	323	Other Power Prod Equipment	250,803	16,119	16,111	-	266,923	266,914	
6	325	Electric Pumping Equipment	3,040,003	427,230	395,549	217,938	3,249,295	3,217,614	
7	326	Diesel Pumping Equipment	1,746	121	108	-	1,868	1,854	
8		Total Pumping Plant	4,994,352	648,081	607,004	285,642	5,356,791	5,315,715	**(41,076)**
		Water Treatment Plant							
9	331	Structures & Improvements	69,888	5,810	5,803	-	75,698	75,691	
10	332	Water Treatment Equipment	1,325,504	163,171	160,883	-	1,488,675	1,486,387	
11		Total Water Treatment Plant	1,395,392	168,981	166,686	-	1,564,373	1,562,078	**(2,295)**
		Transmission & Dist Plant							
12	340	Land & Land Rights							
13	342	Distribution Res & Standpipes	1,626,951	159,943	158,868	58,483	1,728,411	1,727,336	
14	343	Transmission & Distribution Ma	4,854,051	442,053	310,186	141,140	5,154,964	5,023,097	
15	345	Services	2,467,981	269,655	267,351	-	2,737,635	2,735,332	
16	346	Meters	1,439,366	158,135	148,517	-	1,597,501	1,587,883	
17	347	Meters Installations	160,479	11,535	11,526	-	172,014	172,005	
18	348	Hydrants	728,515	78,491	76,172	596	806,410	804,091	
19		Total Transmission & Dist Plant	11,277,342	1,119,813	972,620	200,219	12,196,935	12,049,743	**(147,193)**
		General Plant							
	389	Land & Land Rights					-		
20	390	Structures and Improvements	45,578	4,632	5,549	-	50,209	51,127	
21	391	Office Furniture & Equipment	1,436,522	269,409	249,835	-	1,705,931	1,686,357	
22	392	Transportation Equipment	1,385,611	213,235	195,098	-	1,598,846	1,580,709	
23	394	Tools, Shop and Garage Equipme	253,131	36,374	34,980	-	289,505	288,111	
24	395	Laboratory Equipment	33,242	3,617	3,856	-	36,859	37,098	
25	396	Power Operated Equipment	264,334	21,393	21,362	-	285,727	285,696	
26	397	Communication Equipment	202,650	25,158	25,122	-	227,808	227,772	
27	398	Other Tangible Equipment	238,099	23,381	23,354	-	261,481	261,453	
29		Total General Plant	3,859,167	597,198	559,156	-	4,456,366	4,418,323	**(38,042)**
		Total Accumulated Depreciation	**$ 21,809,422**	**$ 2,604,610**	**$ 2,376,028**	**$ 485,861**	**$ 23,928,172**	**$ 23,699,591**	**$ (228,582)**

(A) Represents nine months of the Test Period Depreciation shown on Schedule 3N of TUI Witness O'Connor's Direct Testimony.

Delaware Public Service Commission
Docket No. 13-466

Schedule RT-2
Witness Responsible: Ron Teixeira

PSC STAFF'S ADJUSTMENTS to DEPRECIATION EXPENSE
TEST PERIOD

Line No.	Acct No	Account	UPIS Balance 9/30/2013	Less: CAC & CIAC 9/30/2013	Depreciable Plant Test Year 9/30/2013	Depr. Rate	Depr. Test Year	UPIS Balance 6/30/2014	Staff Adjustments UPIS Balance 6/30/2014	Less: CAC & CIAC 6/30/2014	Depr. Plant Test Period 6/30/2014	Staff Adjustments Depr. Plant Test Period 6/30/2014	Depr. Rate	Staff Adjustments Depr. Rate	Depr. Test Period	Staff Adjustments Depr. Test Period	Difference Depr. Test Period
		Intangible Plant															
1	301	Organization	9,079	-	9,079			9,079	9,079	-	9,079	9,079					
2	302	Franchise and Consents	695,322	-	695,322			695,322	695,322	-	695,322	695,322					
3	303	Misc Intangible Plant	6,958	-	6,958			6,958	6,958	-	6,958	6,958					
4		Total Intangible Plant	711,359	-	711,359			711,359	711,359	-	711,359	711,359					
		Source of Supply Plant															
5	310	Land & Land Rights	215,720	-	215,720			365,228	215,720	-	365,228	215,720					
6	314	Wells and Springs	3,987,169	(53,532)	3,933,637	2.37%	93,227	4,006,999	4,012,461	(53,532)	3,953,467	3,958,929	2.37%	-	93,697	93,827	(129)
7	316	Supply Mains	25,067	-	25,067	1.39%	348	25,383	25,067	-	25,383	25,067	1.39%	1.02%	353	256	97
		Total Source of Supply Plan	4,227,956	(53,532)	4,174,424		93,576	4,397,610	4,253,248	(53,532)	4,344,078	4,199,716			94,050	94,082	(32)
8		Pumping Plant															
9	320	Land & Land Rights	70,485	-	70,485			70,485	70,485	-	70,485	70,485					
10	321	Structures and Improveme	8,314,946	(5,057)	8,309,889	3.12%	259,269	8,749,083	8,348,496	(5,057)	8,744,026	8,343,439	3.12%	-	272,814	260,315	12,498
11	323	Other Power Prod Equipm	639,333	-	639,333	3.36%	21,482	639,656	639,333	-	639,656	639,333	3.36%	-	21,492	21,482	11
12	325	Electric Pumping Equipmer	16,459,813	-	16,459,813	3.17%	521,776	17,969,705	16,637,184	-	17,969,705	16,637,184	3.17%	-	569,640	527,399	42,241
13	326	Diesel Pumping Equipment	2,673	-	2,673	5.39%	144	2,999	2,673	-	2,999	2,673	5.39%	-	162	144	18
14		Total Pumping Plant	25,487,251	(5,057)	25,482,194		802,670	27,431,929	25,698,171	(5,057)	27,426,872	25,693,114			864,107	809,340	54,768
		Water Treatment Plant															
15	331	Structures & Improvement	267,739	-	267,739	2.89%	7,738	268,070	267,739	-	268,070	267,739	2.89%	-	7,747	7,738	10
16	332	Water Treatment Equipme	7,458,527	(60,200)	7,398,327	2.89%	213,812	7,588,257	7,482,734	(60,200)	7,528,057	7,422,534	2.89%	-	217,561	214,511	3,050
17		Total Water Treatment Pla	7,726,267	(60,200)	7,666,067		221,549	7,856,327	7,750,473	(60,200)	7,796,127	7,690,273			225,308	222,249	3,059
		Transmission & Dist Plant															
18	340	Land & Land Rights	2,119	-	2,119			2,119	2,119	-	2,119	2,119					
19	342	Distribution Res & Standpi	11,447,006	(31,184)	11,415,822	1.61%	183,795	13,277,015	13,187,994	(31,184)	13,245,831	13,156,810	1.61%	-	213,258	211,825	1,433
20	343	Transmission & Dist. Main	80,160,143	(41,549,046)	38,611,097	1.43%	552,139	82,880,508	81,316,437	(41,549,046)	41,217,048	39,767,391	1.43%	1.04%	589,404	413,581	175,823
21	345	Services	16,595,467	(247,488)	16,347,980	2.12%	346,577	17,206,899	17,062,006	(247,488)	16,959,412	16,814,518	2.12%	-	359,540	356,468	3,072
22	346	Meters	4,177,588	-	4,177,588	4.63%	193,422	4,553,934	4,276,947	-	4,553,934	4,276,947	4.63%	-	210,847	198,023	12,824
23	347	Meters Installations	440,333	-	440,333	3.49%	15,368	440,680	440,333	-	440,680	440,333	3.49%	-	15,380	15,368	12
24	348	Hydrants	7,695,685	(2,976,911)	4,718,774	2.12%	100,038	7,913,481	7,767,603	(2,976,911)	4,936,570	4,790,692	2.12%	-	104,655	101,563	3,093
25		Total Transmission & Dist F	120,518,340	(44,804,628)	75,713,712		1,391,339	126,274,636	124,053,439	(44,804,629)	81,355,594	79,248,810			1,493,083	1,296,826	196,257
		General Plant															
26	389	Land & Land Rights	38,295	-	38,295			38,684	38,295	-	38,684	38,295					
27	390	Structures and Improveme	209,651	-	209,651	2.65%	5,556	233,041	279,192	-	233,041	279,192	2.65%	-	6,176	7,399	(1,223)
28	391	Office Furniture & Equipm	2,443,300	-	2,443,300	13.04%	318,606	2,754,691	2,554,546	-	2,754,691	2,554,546	13.04%	-	359,212	333,113	26,099
29	392	Transportation Equipment	2,002,497	-	2,002,497	12.99%	260,124	2,188,709	2,002,541	-	2,188,709	2,002,541	12.99%	-	284,313	260,130	24,183
30	394	Tools, Shop & Garage Equi	640,014	-	640,014	7.17%	45,889	676,408	650,488	-	676,408	650,488	7.17%	-	48,498	46,640	1,858
31	395	Laboratory Equipment	70,943	-	70,943	6.76%	4,796	71,338	76,052	-	71,338	76,052	6.76%	-	4,822	5,141	(319)
32	396	Power Operated Equipmer	279,521	-	279,521	10.19%	28,483	279,917	279,521	-	279,917	279,521	10.19%	-	28,524	28,483	40
33	397	Communication Equipmen	275,686	-	275,686	12.15%	33,496	276,083	275,686	-	276,083	275,686	12.15%	-	33,544	33,496	48
34	398	Miscellaneous Equipment	342,565	-	342,565	9.09%	31,139	342,963	342,565	-	342,963	342,565	9.09%	-	31,175	31,139	36
35		Total General Plant	6,302,472	-	6,302,472		728,089	6,861,834	6,498,886	-	6,861,834	6,498,886			796,264	745,541	50,724
		Total Utility Plant	164,973,645	(44,923,417)	120,050,228		3,237,223	173,533,695	168,965,577	(44,923,418)	128,583,443	124,042,159			3,472,813	3,168,038	304,775