

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

IN THE MATTER OF THE APPLICATION)
OF ARTESIAN WATER COMPANY, INC.) PSC DOCKET NO. 11-207
FOR A REVISION TO RATES)
(FILED APRIL 11, 2011))

FINAL FINDINGS, OPINION AND ORDER NO. 8097

BEFORE COMMISSIONERS: **JOANN T. CONAWAY, Acting Chair**
 JAYMES B. LESTER, Commissioner
 J. DALLAS WINSLOW, Commissioner
 JEFFREY J. CLARK, Commissioner

APPEARANCES:

ON BEHALF OF THE APPLICANT, ARTESIAN WATER COMPANY, INC.:

MORRIS, NICHOLS, ARSHT & TUNNELL LLP
MICHAEL HOUGHTON, ESQ.
R. JUDSON SCAGGS, JR., ESQ.
BRYAN TOWNSEND, ESQ.

ON BEHALF OF THE DELAWARE PUBLIC SERVICE COMMISSION STAFF:

DELAWARE DEPARTMENT OF JUSTICE
REGINA A. IORII, ESQ.
Deputy Attorney General

ON BEHALF OF INTERVENOR DIVISION OF THE PUBLIC ADVOCATE:

DELAWARE DEPARTMENT OF JUSTICE
KENT WALKER, Deputy Attorney General
THOMAS E. BROWN, ESQ., Deputy Attorney General

MICHAEL DAMIEN SHEEHY, Public Advocate

ON BEHALF OF INTERVENOR CHRISTIANA CARE HEALTH SERVICES, INC.:

RICHARDS, LAYTON & FINGER, P.A.
GLENN C. KENTON, ESQ.
TODD A. COOMES, ESQ.

I. PROCEDURAL BACKGROUND¹

1. On December 20, 2011, the Delaware Public Service Commission (the "Commission") conducted an evidentiary hearing on a proposed settlement (the "Proposed Settlement") proffered by Artesian Water Company, Inc. ("Artesian" or the "Company"), the Division of the Public Advocate ("DPA"), Christiana Care Health Services, Inc. ("CCHS") and the Commission Staff. The parties introduced sixteen exhibits into evidence, including the Proposed Settlement and their prefiled direct testimonies of their witnesses. See Exhibit A. Regarding the justness and reasonableness of the Proposed Settlement, Artesian proffered oral testimony from David B. Spacht, Chief Financial Officer and Treasurer of Artesian Resources Corporation and its subsidiaries, including Artesian; the DPA proffered oral testimony from Public Advocate Michael Damien Sheehy; CCHS proffered oral testimony from Robert A. Mulrooney, CCHS Vice President of Facilities and Services; and Staff proffered oral testimony from Jack Schreyer, a Staff Public Utilities Analyst III. All witnesses were subject to cross-examination and questioning by us.

2. At the conclusion of the evidentiary hearing, we closed the record, consisting of the sixteen exhibits and a 66-page transcript. We then deliberated in open session and voted unanimously to approve

¹ We described the procedural background of this docket at length in Order No. 8092 dated December 20, 2011. In the interest of brevity, we will recite in this Order only that background necessary to bring the procedural history current.

the Proposed Settlement. See Order No. 8092. We stated in that Order that we would enter a formal Findings, Opinion and Order at a later date. This is our final Findings, Opinion and Order.

II. THE PARTIES' PREFILED TESTIMONY

A. ARTESIAN

3. Artesian selected a test year comprised of the twelve months ended December 31, 2010 and a partially-projected test period comprised of the twelve months ended September 30, 2011. Ex. 3 at 8. After adjusting the test year rate base and expenses, the Company requested an annual revenue requirement increase of \$10,926,304, derived from a rate base of \$198,287,048; an 8.32% overall rate of return and 10.85% cost of equity ("COE") on a capital structure consisting of 50.95% long-term debt and 49.05% common equity; and operating income of \$9,861,823. Ex. 5 at 3; Ex. 7 at 2. Artesian witness Spacht testified that its 7.03% earned test year overall rate of return was less than the 7.81% overall rate of return authorized in its last base rate case. (Ex. 3 at 33).

4. Rate Base. Artesian testified that it considers many factors in designing a water system. First, it determines the current and foreseeable future level of demand for water. It then evaluates alternatives for meeting that demand, which in turn requires it to assess the capacity of any given solution to supply the needed quantity and quality of water; each alternative's cost, reliability and level of complexity; and the safety of the end-users and those in

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daily contact with the equipment. It then estimates how many new customers need water immediately and the rate at which it expects to add new customers to the system. Finally, it designs the most cost-efficient solution allowing it to satisfy that demand. Ex. 6 at 5-6.

5. Artesian calculated test period capital additions and retirements based on forecasts (using investment work orders for all significant utility plant projects, purchase orders and invoices) of investments that would be used and useful prior to September 30, 2011. Ex. 3 at 9. It projected closing close to \$12.1 million in additional capital investments to service prior to September 30, 2011 (approximately \$2 million of supply and treatment investments, \$7.7 million of transmission and distribution investments, and \$661,000 of retirements). *Id.* at 10.² Some \$6 million of this amount is for non-revenue generating projects. (Ex. 6 at 32-33).

6. Finally, Artesian described how it derived its other rate base items: intangible assets (the value of its franchises to serve customers); accumulated depreciation on plant; advances for construction and contributions in aid of construction ("CIAC") and the accumulated depreciation thereon; deferred income taxes and deferred

²Artesian witness Bruce P. Kraeuter, a Senior Vice President of Artesian principally responsible for planning and engineering, submitted direct and supplemental testimony describing these capital investments and retirements. Ex. 6 at 32-41 and BPK Ex. 12; Ex. 8 at 1-3 and BPK Ex. 12R.

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income tax credits; materials and supplies ("M&S"); cash working capital ("CWC"); and taxes paid on CIAC. Ex. 3 at 11-12; Ex. 7 at 2-3.

7. Net Operating Income. Artesian stated that the primary reasons its net operating income under present rates at the end of the test period had declined were projected decreased operating revenues and increased operating and maintenance ("O&M") expenses. Payroll and related benefits and purchased power and water comprised nearly 67% of its total O&M expenses, and of that 67%, payroll and related benefits accounted for approximately 48%. Ex. 3 at 13-14. Artesian made several adjustments to its projected test period expenses that it claimed were based upon known and measurable changes or whose expense levels were reasonably expected to change.³ *Id.* at 16.

8. To normalize revenue, Artesian analyzed customer consumption for the 12-month period beginning December 2006. It calculated a simple average of per-customer annual consumption for the five-year period January 1, 2006 through December 31, 2010, and used this average to calculate each customer's test period gross water sales revenues. If five years of data were unavailable, Artesian used the data that was available. Additionally, the Company stated that certain anomalies within the measurement periods "significantly"

³These were payroll and related benefits; rate case expense; Hockessin station carbon filter; chemical expenses; purchased power and water; monthly billing expenses; the portion of office building expenses allocated to Artesian; rent; depreciation expense; property taxes; payroll and income taxes; investment tax credits; and tank painting. Ex. 3 at 22-32; Ex. 7 at 3-5.

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skewed the five-year average data. In such cases, Artesian compared the average results to the standard deviation of the customer's data. If the average differed more than twice the standard deviation, Artesian adjusted the bill to the average of the customer's rate class. If the average was more than 50% above or below the customer's actual test year consumption, Artesian used the customer's actual test year consumption. Once Artesian determined each customer's consumption, it then determined, on average, how much each customer used per quarter and the rate block into which its individual consumption fell. Last, Artesian removed two bulk sales of water that it did not expect to recur in the test period. *Id.* at 14-16.

9. Cost of Capital. Artesian proposed a capital structure consisting of 50.95% long-term debt costing 5.88% and 49.05% common equity costing 10.85%. Ex. 5 at 3, 19-20. To derive its recommended cost of long-term debt, Artesian used the cost rate to maturity for each outstanding issuance using the average term of issue, coupon rate and net proceeds ratio as inputs. *Id.* at 22-23 and Sch. PMA-7.

10. Artesian calculated its recommended cost of equity ("COE") by applying four equity costing methodologies - a Discounted Cash Flow ("DCF") methodology, a Risk Premium methodology ("RPM"), two Capital Asset Pricing Methodologies ("CAPM") and a Comparable Earnings ("CE") methodology - to a proxy group of six water utilities. *Id.* at 4, 16-17. It derived the following equity cost rates from its models:

Methodology	Result
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Discounted Cash Flow	10.09%
Risk Premium	10.23%
Capital Asset Pricing Methodology (including empirical CAPM)	9.95%
Comparable Earnings Methodology	14.00%

Id. at 54 and Sch. PMA-1.

11. The results of Artesian's studies indicated a 10.55% COE for the six proxy companies prior to application of flotation cost and business risk adjustments. *Id.* at 54. Artesian added ten and twenty basis points respectively to its COE for flotation costs and a small size adjustment, deriving a final COE of 10.85%. *Id.* at 59.

12. Cost of Service Study/Rate Design. Artesian prepared a class cost of service study ("COSS") using the same Base-Extra Capacity methodology⁴ used in previous cases to quantify the portion of the revenue requirement that should be recovered through rates from each customer class and to develop the rate design. Ex. 4 at 3-6. Artesian testified that CCHS should not pay a disproportionate amount of distribution system-related costs, and so adjusted the COSS results to exclude approximately 25% of the cost of mains 6" in diameter and smaller from the costs allocated to CCHS. *Id.* at 9.

13. Artesian then described how it calculated the proposed rates for each of its rate classes. *Id.* at 10-12. Although the proposed percentage increase for each customer class was different, Artesian stated that this was "inevitable when the goal is to

⁴The Base-Extra Capacity methodology allocates cost components to the functions of Base, Extra Capacity Maximum Day, Extra Capacity Peak Hour, Customer and Hydrants. Ex. 4 at 6.

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establish cost-based rates.” *Id.* at 13. It concluded that its proposed rates covered the cost of serving each customer class without any individual customer class receiving a disproportionate increase, and maintained a conservation-oriented rate structure. *Id.* Last, it described how it calculated the suggested monthly charges in light of the proposed conversion to monthly billing. *Id.* at 13-14.

14. Depreciation. Artesian prepared a depreciation study, but did not use the recommended depreciation rates to derive its revenue requirement so as to mitigate the overall rate increase. Consequently, it adjusted the net salvage value levels to produce lower depreciation rates. *Id.* at 14-15 and JFG Exhibits 2-3.

15. Tariff Changes. Artesian proposed several tariff changes. First, it added language regarding monthly billing. Ex. 3 at 33-34. It stated that it had proposed monthly billing in its last two base rate cases, and that Staff and the DPA had agreed to implementation of monthly billing in its next base rate case. *Id.* at 34.

16. Second, it removed a provision offering a monthly billing option for an extra \$1.00 per month because it would be obsolete with the conversion of all customers to monthly billing. *Id.* at 35.

17. Third, it added language clarifying the circumstances under which Customer, Public Fire Hydrant Ready to Serve and Distribution System Improvement Charges (“DSIC”) were due in light of a customer’s complaint about being assessed the Customer Charge despite no longer receiving water service. *Id.* at 35-38.

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18. Fourth, it removed references to General Motors. *Id.* at 37.

19. Fifth, it increased its after-hours reconnection fee from \$95 to \$140, stating that the higher fee more closely reflects the actual costs of these reconnections. It also added language making clear that it will not reconnect between 8 p.m. and 8 a.m. where the disconnection was due to nonpayment of bills, claiming that this prohibition was necessary for its employees' safety. *Id.* at 37-38.

20. Sixth, it added language clarifying when the responsibility for water service transfers from tenant to landlord when service is disconnected for nonpayment of bills. *Id.* at 38-39.

21. Seventh, it added a provision permitting security deposits greater than \$300 for non-residential properties to allow it to collect appropriate security given a customer's consumption history. *Id.* at 39.

22. Eighth, it added language permitting a second party to receive a copy of a customer's bill. Artesian explained that it can provide a second party with notice of discontinuance of service but cannot provide that same party with copies of the invoices leading to the discontinuance. Since the tariff provides that a second party can pay the invoice(s) to avoid discontinuance, Artesian concludes that it should be permitted to provide invoices to those parties. *Id.*

23. Ninth, it removed language permitting use of meter bars as an interim solution to using water during construction periods. A meter will now be required after the service is installed but before

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any water is used. Artesian states that this assures proper accounting for water use and promotes conservation. *Id.* at 39-40.

24. Tenth, it requested an increase from \$25 to \$50 in the fee for testing smaller residential (5/8" to 1") meters. It notes that this fee has not been increased since it was first imposed, and the cost of testing meters and maintaining a certified testing facility has increased over the years. The proposed fee will cover the meter testing personnel and recognize the cost of the investment in and upkeep of the testing equipment. *Id.* at 40.

25. Finally, it added a provision limiting its liability in a civil action where its water complied with state and federal primary maximum contaminant levels. *Id.*

26. After Artesian filed its direct and supplemental testimonies, Staff, the DPA and CCHS conducted substantial written discovery on Artesian's filing. Ex. 16, ¶8.

B. DPA

27. The DPA rejected Artesian's proposed revenue requirement increase, contending that it was entitled to no more than \$1,527,210. Ex. 9 at 6. The DPA did not challenge Artesian's selection of a test year or test period, but did take issue with several of its claimed rate base and O&M expense levels, as well as its proposed capital structure and COE.

28. Rate Base. The DPA noted that Artesian's rate base claim included projected capital expenditures and related retirements

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through September 30, 2011. The DPA observed that over the past five years Artesian had only completed an average of 81.15% of budgeted capital expenditures. *Id.* at 20. In light of this, the DPA recommended using Artesian's most recent plant-in-service balance, and updating that balance as the case progressed. *Id.* at 21. It made corresponding adjustments to the accumulated depreciation balance and its advances and CIAC claims to be consistent with its plant-in-service adjustment. *Id.* at 21-23.

29. Second, the DPA used a 13-month average M&S balance based on the 13 months ending May 31, 2011, rather than the 13 months ending December 31, 2010. *Id.* at 23.

30. Next, the DPA recommended reducing the revenue lag used in Artesian's CWC claim if monthly billing were approved and updating the CWC with the most recent 13-month balances for customer deposits and service deposits. *Id.* at 27-28.

31. The DPA's adjustments reduced Artesian's requested rate base from \$198,287,047 to \$189,067,271. *Id.* at 28 and Sch. ACC-9.

32. Net Operating Income - Revenues. The DPA challenged Artesian's revenue normalization methodology on several grounds, and recommended using a normalized five-year average. *Id.* at 30-38. It rejected Artesian's adjustment reducing test period contract operations revenues, and recommended that it be ordered to track its contract operations costs and demonstrate in its next case that its prices therefor cover all associated costs. *Id.* at 40-41. Finally, the

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DPA reversed Artesian's adjustment reducing test period rental revenues. *Id.* at 41.

33. Net Operating Income - Expenses. The DPA made adjustments to Artesian's test period O&M expenses for salaries and wages; other compensation; payroll tax; pension; workers' compensation; tank painting; incremental billing; charitable contributions; dues and lobbying; advertising; meals and entertainment; interest on customer deposits; property tax; depreciation; and state income tax. *Id.* at 41-61. It also urged adoption of a consolidated tax adjustment. *Id.* at 61-64. Last, it calculated an interest synchronization adjustment based on its recommended rate base, capital structure and operating income. *Id.* at 64-65.

34. Cost of Capital. The DPA recommended using Artesian's actual capital structure as of May 31, 2011, consisting of 44.10% common equity and 55.90% long-term debt. *Id.* at 7. Although the DPA accepted Artesian's cost of long-term debt, it proposed an 8.92% COE, based on the results of its DCF and CAPM costing methodologies, and assigning a 75%/25% weight to the DCF and CAPM results, respectively. *Id.* at 7-18. The DPA's cost of capital recommendations resulted in a 7.22% overall cost of capital. *Id.* at 19.

35. Depreciation. The DPA proposed depreciation rates designed to yield \$8.9 million in annual depreciation expense (\$1.4 million less than Artesian's proposed expense level) based on Artesian's test period plant balances. Ex. 10 at 3. It recommended removing negative

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net salvage from depreciation rates and using a five-year normalized historical rolling average of removal costs, as the Commission ordered in Docket No. 05-304. *Id.* at 6. Finally, the DPA recommended different depreciation rates for Artesian's plant in service classes based on average service lives that were no less than the average age of class retirements. *Id.* at 7 and Ex. MJM-4.

36. COSS/Rate Design/Monthly Billing/Tariff Modifications. The DPA concluded that Artesian's COSS "significantly" overallocated costs to the Public and Private Fire Protection classes and Artesian Water of Maryland; "significantly" underallocated costs to Middletown's and the Delaware Correctional Center's wholesale contract rates; "somewhat" underallocated costs to New Castle's contract wholesale rates; and allocated costs to all other customer classes and CCHS "within a range of reasonableness." Ex. 11 at 5-6. It also identified limitations and programming errors in Artesian's COSS. *Id.* at 6-12. Last, it disagreed with Artesian's treatment of large customer accounts for costing purposes. *Id.* at 12-17. Based on its COSS findings, the DPA recommended revised revenue allocations among the customer classes. *Id.* at 19-21.

37. Residential Rate Design. Despite the proposed conversion to monthly billing, the DPA opposed Artesian's residential rate design, which maintained the same relative magnitude of the rate differentials within the three volumetric usage blocks but increased the residential 5/8" meter fixed customer charge by 25.5%. It recommended maintaining

the residential fixed customer charge at its current level and increasing the differentials between the three volumetric usage blocks. *Id.* at 22-26.

38. Monthly Billing. The DPA agreed in concept with monthly billing, but disagreed with Artesian's proposed residential rate structure because its proposed monthly usage blocking did not coincide with the current quarterly usage blocking. Consequently, the DPA opposed the conversion to monthly billing. *Id.* at 27-28.

39. Tariff Modifications. Finally, the DPA opposed the proposed tariff language that would hold property owners or former customers liable for payment of the customer charge even when the service connection was turned off. It agreed that seasonal customers should not be able to "game the system" and avoid payment of customer charges by discontinuing service during the off-season and reconnecting each year. Thus, the DPA recommended "a compromise solution" adopted by other utilities with significant levels of seasonal customers:

If a customer requests discontinuance of service and re-activates service again within a twelve-month period at the same address, the customer will be responsible for all customer charges not paid during the period of discontinued service; up to a maximum of twelve-months.

Id. at 28-30.

C. CCHS.

40. CCHS contended that the costs incurred for purchased power and water for average daily usage vis-à-vis peak period usage vary in

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part based on Artesian's customer peak demands and should be allocated correspondingly to the customers that created the demands that caused the costs to be incurred. Thus, Artesian's COSS should not have classified these costs exclusively to the Base cost category. CCHS' reallocation of these costs reduced the cost of serving it by \$19,617. Ex. 12 at 3, 6.

D. Staff.

41. Like the DPA, Staff also rejected Artesian's proposed revenue requirement increase, contending that the approved revenue increase should be \$4,472,857. Ex. 15 at 3-4. Staff did not take issue with Artesian's test year or test period, but challenged several of its claimed rate base and O&M expense levels, as well as its proposed capital structure and COE.

42. Rate Base. Staff contended that Artesian had consistently overestimated what it would spend on capital additions. Thus, Staff recommended reducing Artesian's projected net plant additions by 18.85%, the five-year average by which it had overbudgeted capital additions. Staff made corresponding adjustments to Artesian's accumulated depreciation and depreciation expense to be consistent with its plant-in-service adjustment. *Id.* at 8-9.

43. Next, Staff reduced the revenue lag used in Artesian's CWC claim to account for monthly billing, and adjusted the CWC claim to recognize the effect of state income taxes. *Id.* at 9-12.

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44. Staff's adjustments reduced Artesian's requested rate base from \$198,287,047 to \$195,509,273. *Id.* at 3.

45. Net Operating Income - Expenses. Staff made adjustments to Artesian's test period O&M expenses for Staff's field audit adjustments based on its review of Artesian's invoices; City of Wilmington water purchases; depreciation; service line protection plan labor cost; payroll (including the removal of vacant positions and bonuses); employee benefits; directors' fees and expenses; rate cases; stock options; rent; tank painting; donations; uncollectibles; state income taxes; and property tax based on its plant in service adjustments. *Id.* at 13-14, 46-62. Staff also calculated an interest synchronization adjustment based on its recommended rate base, capital structure and operating income. *Id.* at 61.

46. Cost of Capital. Staff accepted Artesian's proposed capital structure and cost of long-term debt. It recommended a 10% COE based on the results of its DCF, CAPM and CE costing methodologies. Ex. 14 at 2-3, 24.⁵ Staff's cost of capital recommendations resulted in a 7.91% overall cost of capital. *Id.* at 3, 25.

⁵Staff noted that the CAPM COE study results were low due to current economic conditions, but that the flip side of that was that those same economic conditions resulted in higher DCF results. It further observed that the CE COE results are not as affected by current conditions because they examine a longer time period. Therefore, Staff concluded that it would be inappropriate to ignore the CAPM COE study results without also discounting the higher DCF and CE COE study results. Ex. 14 at 24.

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47. Depreciation. Staff proposed depreciation rates designed to yield \$7.1 million in annual depreciation expense (about \$2.3 million less than Artesian's proposed expense level) based on Artesian's test period plant balances. Ex. 15 at 46 and Schs. RCS-4, 10, 11. Staff recommended removing negative net salvage from depreciation rates and using a five-year normalized historical rolling average of removal costs, as approved in Docket No. 05-304. *Id.* at 17-42. Staff also recommended different depreciation rates for the plant classes based on different average service lives than those that Artesian used. *Id.* at 42-46 and Sch. RCS-11.

48. COSS/Rate Design/Monthly Billing/Tariff Modifications. Staff accepted Artesian's COSS, with a correction to an allocation factor formula that inappropriately shifted \$264,000 of revenue responsibility from the Fire Protection class to the non-fire protection classes. Ex. 13 at 3.

49. Rate Design. Staff accepted Artesian's revenue allocation approach, and recommended an allocation that moved all classes toward cost of service. If the Commission awarded a revenue requirement different than Staff's, Staff recommended proportional revenue increases. Staff also accepted Artesian's proposed increased after-hours disconnect and reconnect charges. *Id.* at 4-9.

50. Monthly Billing. Staff pointed out that Artesian's proposed monthly usage blocking for the residential class did not coincide with the current quarterly usage blocking for the residential class. Staff

recommended establishing the monthly rate blocks at exactly one-third of the size of the quarterly rate blocks. *Id.* at 6-8.

51. Tariff Modifications. Staff opposed Artesian's proposed modification to hold property owners or former customers liable for payment of the customer charge even when the service connection was turned off. (Staff also opposed holding such customers liable for the fire protection charge and the DSIC). *Id.* at 9-13. Staff agreed that seasonal customers should not be able to avoid payment of these charges by discontinuing service during the off-season and reconnecting each year. Thus, Staff recommended language similar to that in Chesapeake Utilities Corporation's tariff:

Customer Charge

This is a quarterly or monthly service fee, depending on frequency of billing, for providing the customer with water service and recovers expenses not directly associated with water production delivery, such as meter reading, billing, payment remittance and other costs. The charge is the same in each billing period, is billed in advance, and is based on the size of the meter through which service is furnished.

Seasonal Reconnection Charge

Whenever a Customer's water service is shut-off by the Company at the Customer's request and the account placed on inactive status, and such account is reactivated by the same Customer no less than thirty (30) days and no more than one hundred eighty (180) days from the date of the shut-off, a Seasonal Reconnection Charge equal to the following shall be paid by the Customer: a) the Customer's otherwise applicable monthly Customer Charge times the number of months the account was inactive, plus b) the Turn-On Charge.

Id. at 12-13. Last, Staff opposed Artesian's proposal to delete its Conservation Regulations. *Id.* at 13.

III. PROPOSED SETTLEMENT

52. After Staff, the DPA and CCHS filed direct testimony, the parties convened a settlement meeting. On November 22, 2011, Staff submitted a Proposed Settlement (the "Proposed Settlement") on behalf of all parties. Ex. 16. The Proposed Settlement is a "black box" settlement, meaning that the parties agree on a revenue requirement without resolving the contested issues in the case except for those matters specifically addressed in the Proposed Settlement.

53. The parties propose an annual revenue requirement increase of \$6,250,000, representing an approximate 11.13% increase over present base rates and the revenues from the DSIC currently in place. *Id.* at ¶9 and Exhibit A thereto. The Proposed Settlement also addresses several specific revenue requirement, cost of service and tariff issues.

54. First, it stipulates a 10% COE. *Id.*

55. Second, it reflects the agreed-upon cost of service, billing determinants and rate design. *Id.* at Exhibit A.

56. Third, it contains specific depreciation rates for Artesian's plant in service. *Id.* at Exhibit C.

57. Fourth, it contains the following agreed-upon tariff modifications:

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- (a) Ninth Revised Sheet No. 2 - Method of Billing;
- (b) Twenty-sixth Revised Sheet No. 3 - Customer Charge; Monthly Charge;
- (c) Twenty-sixth Revised Sheet No. 4 - Water Charge;
- (d) Original Sheet No. 4a - Public Fire Hydrant Ready to Serve Charge;
- (e) Thirty-second Revised Sheet No. 5 - Public Fire Hydrant Ready to Serve Charge; Private Fire Protection Charge;
- (f) Twenty-fourth Revised Sheet No. 6 - Service Appointments
- (g) Original Sheet No. 6a. - Turn-On and Shut-Off Charges;
- (h) Fifth Revised Sheet No. 8 - Definition of "Customer;" Application for a New Service Connection;
- (i) Fifth Revised Sheet No. 9 - Billings and Changes in Ownership; Seasonal Reconnection Charge;
- (j) Original Sheet No. 9a. - Security Deposit;
- (k) Third Revised Sheet No. 17 - Second Party Notification; Conservation Regulations
- (l) Fourth Revised Sheet No. 18 - Location;
- (m) Fourth Revised Sheet No. 20 - Fee Schedule - Customer Requested Meter Test;
- (n) Eighth Revised Sheet No. 21 - Responsibility for Service;
- (o) Original Sheet No. 21(a) - Place of Payment;
- (p) Ninth-Second Supplemental Sheet - Water Charge;
- (q) Twelfth-Third Supplemental Sheet - Water Charge; and
- (r) Third-Fourth Supplemental Sheet - Water Charge.

Id. at ¶10 and Exhibit B.

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58. Fifth, it includes the parties' agreement to include in Artesian's tariff the following language regarding the Customer Charge, the definition of Customer and the Seasonal Reconnection:

This is a monthly service fee for providing the customer with water service and recovers expenses not directly associated with water production or delivery, such as meter reading, billing, payment remittance and other costs. The charge is the same in each period, is billed in advance, and is based on the size of the meter through which service is furnished.

Seasonal Reconnection Charge

Whenever a Customer's water service is shut-off by the Company at the Customer's request and the account placed on inactive status, and such account is reactivated by the same Customer no less than thirty (30) days and no more than twelve (12) months from the date of the shut-off, a Seasonal Reconnection Charge equal to the following shall be paid by the Customer: (a) the Customer's otherwise applicable monthly Customer Charge times the number of months the account was inactive; plus (b) the Turn-On Charge.

Ex. 16 at ¶11 and Exhibit B, Twenty-sixth Revised Sheet No. 3.

59. Sixth, it includes Artesian's agreement to implement and use the methodology we approved in Docket No. 05-304 for Delmarva Power & Light Company to calculating depreciation expense based upon depreciation rates plus an allowance for recovery of a five-year rolling average amount of new salvage costs (which in this case equals \$23,862) unless and until ordered otherwise. Ex. 16 at ¶13.

60. Finally, it contains typical language regarding compromise and settlement, the effect of a reversal on appeal on the parties' positions, voidability, enforceability and execution. *Id.* at ¶¶14-24.

IV. THE EVIDENTIARY HEARING

61. As mentioned previously, we conducted a duly-noticed evidentiary hearing on the Proposed Settlement at our regularly-scheduled meeting on December 20, 2011, during which we heard testimony from each party's witnesses.

62. Artesian witness Spacht sponsored its application, adopted the prefiled direct and supplemental testimonies of its witnesses, and described the salient points of the Proposed Settlement. He testified that the Proposed Settlement resulted in just and reasonable rates, taking into account the Company's anticipated revenue requirements and its past and projected rates of return. Tr. at 50. He further testified that the proposed settlement was in the public interest. He noted that Staff, the DPA and CCHS had each extensively scrutinized the Company's application and its supporting information in an extensive process involving hundreds of data requests and hundreds of pages of testimony, and that the Proposed Settlement reflected a compromise by all parties of their litigated positions. Finally, he testified that the Proposed Settlement would eliminate litigation fees, which could be considerable, going forward. *Id.* at 53-54.

63. Public Advocate Michael Sheehy adopted his witnesses' prefiled direct testimony. He testified that he asks three questions

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in evaluating whether a proposed settlement results in just and reasonable rates and is in the public interest: First, is there enough information in the record for the Commission to find that the settlement is in the public interest? Second, is it likely that the Commission would have reached a substantially different result? Third, does the proposed settlement make sense? Mr. Sheehy answered all three questions affirmatively. He testified that there was "[m]ore than enough information" in the record for us to conclude that the Proposed Settlement is in the public interest; that he believed that it represented a point within a range that we would consider; and that it made sense because it substantially reduced litigation costs and addressed the customer charge/seasonal reconnection charge issue, which was important to him. Tr. at 55-56.

64. CCHS witness Mulrooney adopted Mr. Gorman's prefiled testimony. He testified that he had reviewed the Proposed Settlement and that it was just and reasonable to CCHS. *Id.* at 58.

65. Staff witness Jack Schreyer adopted Staff's witnesses' prefiled direct testimonies. He also testified that the Proposed Settlement resulted in just and reasonable rates and was in the public interest. He noted that no refund would be necessary because the Proposed Settlement's proposed rates were already in place as a result of the expiration of the seven-month statutory period. *Id.* at 61. He stated that securing the Company's agreement not to assess customer, fire protection and DSIC charges against customers that permanently

PSC Docket No. 11-207, Order No. 8097 Cont'd

leave its system had been very important to Staff from a public policy standpoint because no other Commission-regulated utility assesses such charges to customers that have permanently left its system. He further observed that the new tariff provision permitting Artesian to back-charge seasonal customers that disconnect and reconnect at the same address within one year would allow Artesian to collect the fixed costs it incurs to serve these customers notwithstanding that they do not take service for the entire year. *Id.* at 62.

66. Mr. Schreyer testified that Staff recognized that Section 512 of the Public Utilities Act encourages resolving matters by stipulation or settlement, and that Staff typically supports settlements when they will avoid substantial further administrative and hearing costs and yield a reasonable outcome in light of Staff's filed position. He observed that settling before Artesian's rebuttal testimony was due enabled Artesian to avoid the cost of preparing such testimony; allowed all parties to avoid substantial hearing costs (including the cost of Artesian witnesses allocating their time to the Company); and allowed Staff to attend to other matters, which he called a "significant benefit" in light of the number of pending matters. For all of these reasons, Mr. Schreyer concluded that the Proposed Settlement resulted in just and reasonable rates and was in the public interest. *Id.* at 63-64.

V. DISCUSSION

67. The following discussion supports our conclusion on December 20, 2011 that the Proposed Settlement results in just and reasonable rates and is in the public interest.

68. First, as Staff witness Schreyer pointed out, 26 *Del. C.* §512(a) directs us to "encourage the resolution of matters ... through the use of stipulations and settlements." This reflects a recognition that stipulations and settlements are in the public interest because they reduce the costs of proceedings before us that are ultimately passed through to utility ratepayers in their rates.

69. Next, in determining whether rates are just and reasonable, we are statutorily directed to consider the utility's revenue needs and its past and projected rates of return on its rate base. *Id.* §311. Moreover, the rates that we approve should be just and reasonable in the foreseeable future as well as the present. *In re Delmarva Power & Light Co.*, 337 A.2d 517, 519 (Del. Super. 1975). The record reflects that Artesian did not earn its authorized overall rate of return during the test year and that it is incurring significant capital expenses for infrastructure repair and replacement. No party challenged that testimony. The record also reflects that prior to the settlement, although Staff and the DPA did not agree that Artesian needed the amount of revenue requirement increase that it requested, it did require *some* revenue requirement increase.

PSC Docket No. 11-207, Order No. 8097 Cont'd

70. We are not only to examine whether rates are just and reasonable to the utility, however. We must also consider the interests of the utility's ratepayers. As the United States Supreme Court has stated:

The [Federal Power] Commission cannot confine its inquiries either to the computation of costs of service or to conjectures about the prospective responses of the capital market; it is instead obliged at each step of the regulatory process to assess the requirements of the broad public interests entrusted to its protection by Congress. Accordingly, the "end result" of the Commission's orders must be measured as much by the success by which they protect these interests as by the effectiveness with which they "maintain...credit and...attract capital."

Permian Basin Area Rate Cases, 390 U.S. 747, 791 (1968). Thus, consistent with the passage above, our consideration of the justness and reasonableness of the rates resulting from the Proposed Settlement should encompass both Artesian's and its ratepayers' interests.

71. As discussed *supra*, each party's witnesses testified that the settlement would result in just and reasonable rates. Staff's witness testified that Staff evaluated the Proposed Settlement from the perspective of whether it yielded a reasonable outcome in light of Staff's filed position, and based on that evaluation, Staff was satisfied that the proposed rates were just and reasonable. Tr. at 63. The Public Advocate (who is statutorily charged with representing the interest of a utility's consumers) testified similarly, stating that in determining whether it should enter into a settlement it considers

PSC Docket No. 11-207, Order No. 8097 Cont'd

the likelihood that the Commission would reach a different position on rates than was reached in the settlement. *Id.* at 55-56. This evaluation is reasonable in light of our experience that parties often take aggressive positions in prefiled testimony that ultimately may not be sustainable under the legal principles pursuant to which we must act, or that may not be supported by the evidence adduced at a litigated hearing. This supports our conclusion that the proposed rates are just and reasonable for both the utility and its ratepayers.

72. We are also persuaded by the fact that four parties with disparate interests concluded that the Proposed Settlement will result in just and reasonable rates. Although we may consider settlements even if they are not unanimous, it is generally the case that - at least with base rate cases - settlements are not presented to us unless all parties agree.

73. Finally, we note that the Proposed Settlement contains two significant policy concessions from the Company: the definition of "customer" and the calculation of net salvage in depreciation expense. Ex. 16 at ¶11; Tr. at 52-53, 62.

74. For the foregoing reasons, we find that the Proposed Settlement results in just and reasonable rates and is in the public interest, and we therefore approve it.

VI. ORDER

**AND NOW, this 24th day of January, 2012, IT IS HEREBY ORDERED BY
THE UNANIMOUS VOTE OF THE COMMISSIONERS:**

PSC Docket No. 11-207, Order No. 8097 Cont'd

1. That, for the reasons set forth herein, the Proposed Settlement attached hereto as Exhibit A is APPROVED.

2. The rates and tariff of the Proposed Settlement became effective on January 1, 2012 under Order No. 8092 and those rates and tariff shall remain in effect with an effective date of January 1, 2012.

3. That the Commission reserves the jurisdiction and authority to enter such further orders in this Docket as may be necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Jeffrey J. Clark
Commissioner

Commissioner

PSC Docket No. 11-207, Order No. 8097 Cont'd

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

EXHIBIT "A"

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION
OF ARTESIAN WATER COMPANY, INC.
FOR A REVISION OF RATES
(Filed April 11, 2011)

PSC DOCKET NO. 11-207

PROPOSED SETTLEMENT AGREEMENT

This proposed Settlement Agreement (the "Settlement") is entered into by and among Artesian Water Company, Inc. ("Artesian" or the "Company"), the Staff of the Delaware Public Service Commission ("Staff"), the Division of the Public Advocate (the "PA"), and Christiana Care Health Services, Inc. ("CCHS") (collectively, the "Parties").

I. BACKGROUND

1. On April 11, 2011, Artesian filed an application with the Delaware Public Service Commission (the "Commission") pursuant to 26 *Del. C.* §§201, 209, 304 and 306 requesting approval of an increase in water service rates designed to produce an additional \$10,926,304 in annual revenues (a 19.45% increase over existing rates) and approval of proposed changes to its tariff language.

2. Pursuant to 26 *Del. C.* §306(a)(1), in Commission Order No. 7964 dated May 10, 2011, the Commission suspended Artesian's proposed rate increase pending the conduct of public evidentiary hearings to determine whether the proposed rate increase results in just and reasonable rates; assigned this matter to Senior Hearing Examiner Ruth Ann Price (the "Hearing Examiner") to conduct such evidentiary hearings; permitted Artesian to place into effect pursuant to 26 *Del. C.* §§306(c) interim rates intended to produce an annual increase of \$2.5 million in intrastate operating revenues, effective June 11, 2011; and waived the requirement of a bond to

secure the repayment of the interim rates based upon Artesian's agreement to abide by any Commission refund order.

3. On May 27, 2011, CCHS filed a petition for leave to intervene, which the Hearing Examiner granted on June 2, 2011.

4. On June 30, 2011, Artesian submitted supplemental testimony in which it contended that updating for actual results through March 13, 2011 would permit Artesian to amend its requested rate increase to \$11,071,868. However, Artesian stated that it was maintaining its requested rate increase at the originally-filed \$10,926,304.

5. On September 1, 2011, the PA filed a statutory notice of intervention pursuant to 29 *Del. C.* §8716(g).

6. On September 22, 2011, the PA filed testimony in which it took the position that Artesian should be allowed an additional revenue requirement of \$1,527,210 and challenged certain of Artesian's cost of service, rate design and tariff proposals. On September 22 and 29, 2011, Staff filed testimony in which it took the position that Artesian should be allowed an additional revenue requirement of \$4,472,857 and challenged certain of Artesian's cost of service, rate design and tariff proposals. On September 22, 2011, CCHS filed testimony challenging certain of Artesian's cost of service and rate design proposals.

7. On November 2, 2011, Artesian filed with the Commission a petition to place into effect, pursuant to 26 *Del. C.* §306(b), revised temporary rates designed to collect an additional \$3,813,289 in annual revenues over the current temporary rates. On November 4, 2011, Artesian submitted an amended petition reflecting changes to its proposed tariff sheets. By Order No. 8074 dated November 8, 2011, the Commission granted Artesian's request.


8. The Parties have engaged in substantial written discovery. In a desire to avoid the substantial cost of evidentiary hearings, they have conferred in an effort to resolve the issues in this proceeding. The Parties acknowledge that they differ as to the proper resolution of many of the underlying issues in the rate proceeding and that, except as specifically addressed in this Settlement, they preserve their rights to raise those issues in future proceedings; but for purposes of this proceeding, they believe that settlement on the terms and conditions contained herein both serve the interests of the public and Artesian and satisfy the statutory requirement that rates be just and reasonable.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by Artesian, Staff, the PA and CCHS that the Parties will submit to the Commission for its approval the following terms and conditions for resolution of the pending proceeding:

II. SETTLEMENT PROVISIONS

9. The additional annual revenue awarded to the Company will be \$6,250,000, an approximate 11.13% increase over current base rates and the revenues from the Distribution System Improvement Charge currently in place. The settlement stipulates a return on common equity of 10%. The Parties have agreed to this revenue requirement award as a compromise of their positions and believe that this proposed revenue requirement award is within the bounds of the statutory requirement of a fair rate of return based on circumstances specifically unique to Artesian. Artesian shall file appropriate modifications to its tariff so as to incorporate this stipulated revenue requirement increase that will reflect and produce an overall revenue requirement of \$62,413,139, as detailed on the attached Exhibit A. Exhibit A also reflects the cost of service and rate design to which the Parties have agreed. Artesian's rates shall be those

that result from the application of the agreed-upon additional revenue requirement to this cost of service analysis and rate design, using the billing determinants shown in Exhibit A.

10. The Parties have agreed to the following modifications to Artesian's tariffs:
- (a) Ninth Revised Sheet No. 2 Method of Billing;
 - (b) Twenty-sixth Revised Sheet No. 3 — Customer Charge; Monthly Charge;
 - (c) Twenty-sixth Revised Sheet No. 4 — Water Charge;
 - (d) Original Sheet No. 4a — Public Fire Hydrant Ready to Serve Charge;
 - (e) Thirty-second Revised Sheet No. 5 — Public Fire Hydrant Ready to Serve Charge; Private Fire Protection Charge;
 - (f) Twenty-fourth Revised Sheet No.6 — Service Appointments; 

Original Sheet No. 6a. — Turn-On and Shut-Off Charges;

- (h) Fifth Revised Sheet No. 8 — Definition of "Customer"; Application for a New Service Connection;
- (i) Fifth Revised Sheet No. 9 — Billings and Changes in Ownership; Seasonal Reconnection Charge;
Original Sheet No. 9a. — Security Deposit;
- (k) Third Revised Sheet No. 17 — Second Party Notification; Conservation Regulations;
- (l) Fourth Revised Sheet No. 18 —Location;
- (m) Fourth Revised Sheet No. 20 — Fee Schedule — Customer-Requested Meter Test;
- (n) Eighth Revised Sheet No. 21 — Responsibility for Service;
- (o) Original Sheet No. 21 a — Place of Payment;
- (p) Ninth-Second Supplemental Sheet Water Charge;
- (q) Twelfth-Third Supplemental Sheet — Water Charge; and
- (r) Third-Fourth Supplemental Sheet — Water Charge.

11. The Parties agree that Artesian's proposed changes to Twenty-third Revised Sheet No. 3 — Customer Charge, Twenty-third Revised Sheet No. 4 — Public Fire Hydrant Ready to Serve Charge, and Fourth Revised Sheet No. 8 — Definition of "Customer" are rejected. Instead, the Parties agree that the following language should be inserted on Twenty-sixth Revised Sheet No. 3:

Customer Charge

This is a monthly service fee for providing the customer with water service and recovers expenses not directly associated with water production or delivery, such as meter reading, billing, payment, remittance and other costs. The charge is the same in each billing period, is billed in advance, and is based on the size of the meter through which service is furnished.

Additionally, the following should be inserted into the Rules and Regulations section of Artesian's tariff:

Seasonal Reconnection Charge

Whenever a Customer's water service is shut-off by the Company at the Customer's request and the account placed on inactive status, and such account is reactivated by the same Customer no less than thirty (30) days and no more than twelve (12) months from the date of the shut-off, a Seasonal Reconnection Charge equal to the following shall be paid by the Customer: (a) the Customer's otherwise applicable monthly Customer Charge times the number of months the account was inactive; plus (b) the Turn-On Charge.

12. The appropriate modifications to Artesian's tariffs reflecting the new rates and tariff provisions are attached as Exhibit B. Upon approval of this Settlement by the Commission, Artesian shall file its amended tariff with the Commission.

13. The stipulated revenue requirement increase of \$6,250,000 reflects the methodology for calculating depreciation expense based upon depreciation rates set forth in

Exhibit C plus an allowance for recovery of an average amount of net salvage costs in a manner approved by the Commission for Delmarva Power & Light Company in Docket No. 05-304, PSC Order No. 6930 dated June 6, 2006. Until changed by the Commission, the depreciation rates shown in Exhibit C plus an allowance for the recovery of salvage costs of \$23,862.00 will be utilized in calculating depreciation expense. Artesian will continue to use this methodology for calculating its depreciation rates and expense and average amount of net salvage costs for all future rate proceedings unless and until the Commission orders otherwise.

III. ADDITIONAL PROVISIONS

14. This Settlement is the product of extensive negotiation and reflects a mutual balancing of various issues and positions of the Parties. This Settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission fails to grant such approval, or modifies any of the terms and conditions herein, this Settlement will terminate and be of no force and effect unless the Parties agree in writing to waive the application of this provision.

15. This Settlement represents a compromise for the purposes of settlement and, except as expressly provided in paragraphs 9-11 and 13 above, shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future case. No Party to this Settlement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, any calculation made, or the resolution of any particular issue, except that the Parties agree that the resolution of the issues herein taken as a whole results in just and reasonable rates and is in the public interest.

16. To the extent opinions or views were expressed or issues were raised in the pre-filed testimony that are not specifically addressed in this Settlement, no findings,

recommendations, or positions with respect to such opinions, views or issues should be implied or inferred.

17. The Parties agree that they will submit this Settlement to the Commission for a determination that it is in the public interest and results in just and reasonable rates, and that no Party will oppose such a determination. Except as expressly set forth herein, none of the Parties waives any rights it may have to take any position in future proceedings regarding the issues in this proceeding, including positions contrary to positions taken herein or in previous cases.

18. If this Settlement does not become final, either because it is not approved by the Commission or because it is the subject of a successful appeal and remand, each Party reserves its respective rights to submit additional testimony, file briefs, or otherwise take positions as it deems appropriate in its sole discretion to litigate the issues in this proceeding.

19. This Settlement will become effective upon the Commission's issuance of a final order approving it and all of its terms and conditions without modification. After the issuance of such final order, the terms of this Settlement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Settlement or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

20. The Parties may enforce this Settlement through any appropriate action before the Commission or through any other available remedy. Any final Commission order related to the enforcement or interpretation of this Settlement shall be appealable to the Superior Court of the State of Delaware, in addition to any other available remedy at law or in equity.

21. If a Court grants a legal challenge to the Commission's approval of this Settlement and issues a final non-appealable order that prevents or precludes implementation of any material term of this Settlement, or if some other legal bar has the same effect, then this Settlement is voidable upon written notice by any Party to all other Parties.

22. This Settlement resolves all of the issues specifically addressed herein and precludes the Parties from asserting contrary positions during subsequent litigation in this proceeding or related appeals; provided, however, that this Settlement is made without admission against or prejudice to any factual or legal positions which any of the Parties may assert (a) if the Commission does not issue a final order approving this Settlement without modifications; or (b) in other proceedings before the Commission or any other governmental body so long as such positions do not attempt to abrogate this Settlement. This Settlement, upon approval by the Commission, shall constitute a final adjudication as to the Parties of all of the issues in this proceeding.

23. The signatories hereto represent that they have the authority to execute this Settlement on behalf of the party for whom they are signing.


24. This Settlement may be executed in counterparts, and each such counterpart shall be as valid as if all signatures appeared on the same page.

NOW, THEREFORE, intending to bind themselves and their successors and assigns, the undersigned Parties have caused this Settlement to be signed by their duly authorized representatives.

Date: 11/17/

111

TBSIANNV TER COMPANY, INC.

BY: 

Print Name) DAVID B SPAH e1/7

(Title) 14d

Date: DELAWARE PUBLIC

SERVICE
COMMISSION T • F

By: William OB

(
Print Name) fry
(Title) tx b

Date: _____ DIVISION OF THE PUBLIC ADVOCATE

By: _____
(Print Name)
(Title)

Date: _____ CHRISTIANA CARE HEALTH SERVICES,
INC.

By: _____
(Print Name)
(Title)

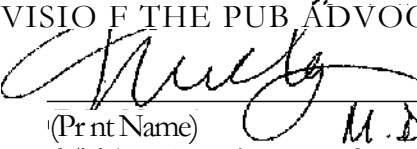
Date: _____
COMMISSION STAFF

DELAWARE PUBLIC SERVICE

By: _____
(Print Name)
(Title)

Date: _____ 1+ (of _____)

DIVISION OF THE PUBLIC ADVOCATE

By:  _____
(Print Name) M. D. SHEZ
(Title) - Public Advocate

Date: _____ CHRISTIANA CARE HEALTH SERVICES,
INC.

By: _____
(Print Name)
(Title)

Date: _____

**DELAWARE PUBLIC SERVICE
COMMISSION STAFF**

By: _____

(Print Name)

(Title)

Date: _____

DIVISION OF THE PUBLIC ADVOCATE

By: _____

(Print Name)

(Title)

Date: **WV. f, 7'011** _____

**CHRISTIANA CARE HEALTH SERVICES,
INC.**

By: *Shawn*

(Print Name)

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Artesian Water Company, Inc.
Proof of Revenue

Exhibit A
Page 1 of 2

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Determinants,

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\$7,429	\$13,577,974			
	\$1,908,610			
	\$34,327,085			11:40%
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Detail

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88692	\$16.48	\$83,64	\$74841	14.45%
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198(58	\$48.50	43A92	\$3.99	14.45%
3372	\$10,284441		\$11,701,592	14.3t%
5472				
5020	\$11.56	422603	\$1122	1.4.36%
1740	\$31.80	4146,728	\$1616	353,460
80	\$1.8:413	\$101,123	\$21,4	115,733
\$38,951	\$215,049	\$42:29	\$240,128	14A6%
644	\$48.50	3521,800	\$5451	4599,508
50328	\$73.91	\$128,603	\$84,a	\$147,1\$7
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Public Fire Charges

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Summary

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Private Fire	
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ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Eighth Ninth Revised Sheet No. 2
 Canceling
 Selienth Eighth Revised Sheet No. 2

METERED SERVICE

These Rules and Rates are applicable throughout the territory served by the Company for all metered service, with the exception of the rates charged to customers of the Boothurst development located within the City of New Castle and to portions of Middletown served by Artesian. Under an Agreement between the Company and the Board of Water and Light of the City of New Castle (the "Board") dated December 31, 1997, rates are initially determined by the Board and reviewed by the Public Service Commission, but cannot exceed the rate charged by the Company to similar classes of customers. The same provisions are included under an agreement between the Company and the Town of Middletown dated February 2, 1998. The current rates are shown at the First and Second Supplemental Sheet to this Tariff. Under that Agreement, the Board and Middletown will exercise the same degree of skill and care and apply the same standards, policies and procedures that the Company applies in performing the same functions for its other customers.

The total charge for metered service consists of the sum of the Customer Charge, and to the extent applicable, the Water Charge and Fire Protection Charge, as each is specified below.

Method of Billing:

Customers Gerved by 1" and smaller mum; will be billed quarterly monthly. Customers served by 1 ',4" and larger meters will be billed monthly. Customer Charges and Fire Protection Charges will be billed in advance. Water Charges will be billed in arrears.

~~The cost for this service is \$1.00 per month, added to the monthly bill. Quarterly consumption will be estimated based on the customer's historical consumption for the same period in the previous year. This estimated quarterly consumption will be divided by three to arrive at the monthly invoice. Actual meter readings will be taken at the end of the third month of each quarter, and the resulting consumption bill will be adjusted to reflect any over or under collections for the quarter. Over collections will be recorded as a credit on the customer's account and applied to the next scheduled monthly budget billing.~~

Quarterly billed customers may elect to pay for water service on a monthly basic. Billings covering other than the normal billing period will be calculated by prorating the full period charges on a daily basis.

The Company will not mail checks for refunds totaling less than \$10.00 to customers who have left Artesian's service territory. Those refunds are available upon request from the former customer. The refund will also be credited to that customer's new account if the former customer re-establishes a service with the Company within five years from the date of the original refund generation. If left unclaimed those funds due former customers will be escheated to the State of Delaware according to applicable state law.

Payment Terms:

ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Twenty fifth Twenty-sixth Revised Sheet No. 3
 Canceling
 Twenty fourth Twenty-fifth Revised Sheet No. 3

Late Payment Penalty:

A late payment penalty will be applied to any outstanding balance which remains outstanding 25 days after the bill date, until payment is received in full. The monthly penalty will be at a rate equal to one-twelfth of prime plus 5%, and the prime rate will be updated quarterly.

Customer Charge:

This is a quarterly or monthly service fee, depending on frequency of billing, for providing the customer with • - service and recovers expenses not directly associated with water production or delivery, such as meter reading, billing, payment, remittance and other costs. The charge is the same in each billing period, is billed in advance, and is based on the size of the meter through which service is furnished. The Customer Charge is due and payable regardless of whether the service connection is turned on or off so long as a structure is located on the property and the customer's service line is physically connected to Artesian's service main.

Quarterly Charge

ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Twenty-fifth-sixth Revised Sheet No. 4
 Canceling
 Twenty __ fourth fifth Revised Sheet No. 4

Water Charge

The charge, at a rate per thousand gallons of water registered by the meter, is as follows:

Residential				
Monthly	Quarterly			
0 — 2,000 gallons	0—570-00-gallens	\$6.155	\$6.565	I
2,000 to 7,000 gallons	<u>5,001 20,000</u>	\$64.56	\$7.098	
Over 7,000 gallons	<u>Over 20,000</u>	\$7.760	\$8.277	I
	gallons			
GIWCCH				D
	Rate	<u>\$3.765</u>	\$3.887	
All Other				
0 - 500,000 gallons		\$576-14	\$5.887	
Over 500,000 gallons		\$6A62	\$6.776	

For purposes of the Water Charge, a residential customer service is defined as:

- (a) a single family dwelling
- (b) multi-unit structures consisting of four or less units of which at least one serves as a dwelling
- (c) four or less separate structures on one property, of which at least one such structure serves as a dwelling and all of which are served through a single meter.

For purposes of the Water Charge, pursuant to prior PSC orders, General Motors and Christiana Care Hospital are is served under a separate exclusive rate classification. General Motors and Christiana Care Hospital is are the only customers eligible for this rate classification.

ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Public Fire Hydrant Ready to Serve Charge:

A charge for customers who are provided with public fire protection by means of fire hydrants. The charge is the same each billing period, is billed in advance, and is based on the size of the meter used to calculate the customer charge. The Public Fire Hydrant Ready to Serve Charge is due and payable until regardless of whether the service connection is turned on or off so long as a structure is located on the property and the customer's service line is physically connected to Artesian's service Main. Upon request of a municipality, Fire Hydrant Ready to Serve Charges may be billed to a municipality in total for all property owners within the municipality where Public Fire Protection is provided in lieu of the following individual customer billing charges:

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Size of Meter	Current Charge	Proposed Charge
5/8"	\$10.58	\$12.38
3/4"	\$15.82	\$18.51
1"	\$26.13	\$30.91

Monthly Fire Hydrant Ready to Serve Charge

Size of Meter	Current Charge	Proposed Charge
5/8"	Sr4,1:3	\$4.00
3/4"	S-64-7	\$5.98
1"	\$10.31	\$10.00

ARTESIAN WATER COMPANY, INC.
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 Effective: January 01, 2012

Thirty-first Thirty-second Revised Sheet No. 5
 Canceling
 Thirtieth-Thirty-first Revised Sheet No. 5

Monthly Fire Hydrant Ready to Serve Charge

Size of Meter				
1-1/2"	.....	18.26	\$19.94	I
2"	.....	S-2-944	\$31.99	I
3"	.....	\$-5-5,26	\$60.02	I
4"	.....	92.17	\$100.04	I
6"	.....	48440	\$200.39	I
8"	.....	204.35	\$319.71	I
10"	.....	471.08	\$511.38	I

Private Fire Protection Charge:

A charge for customers who are provided with private fire protection through a sprinkler system or a private fire hydrant. The charge will be billed quarterly monthly in advance as follows:

	<u>aqtCLmrge</u>		
	Monthly	Quarterly	
1-1/2" detector check	56.24 \$10.28	62.01	I
2" detector check	101.00 \$40.05	131.01	I
4" detector check	200.70 \$106.60	344.01	I
6" detector check	620.05 \$227.17	733.62	I
8" detector check	\$44432.36 \$378.70	1,221.42	I
10" detector check	1,527.65 \$565.73	1,824.72	I
12" detector check	1,660.20		D
Charge per private hydrant	620.05 \$227.17	733.62	I

Charges for water registered on bypass meters installed on lines providing private fire protection will be billed monthly quarterly in arrears. All water registered on bypass meters will be billed at the rate of \$8440 \$8.277 per 1,000 gallons.

Temporary or Infrequent Water Use:

Temporary or infrequent water use will be billed quarterly for connections on which 1" and smaller meters are installed and monthly for connections on which 1-1/2" and larger meters are installed.

The minimum charge for a temporary service connection for construction or other purposes is the same as the Customer Charge for a meter of the size installed on the temporary service connection. The minimum charge covers the same period as the Customer Charge on which it is based, either one month or one quarter, and is rebilled if the temporary service connection remains in use after such period has elapsed.

The minimum charge is paid in advance and does not include any allowance for water usage. All water as registered by meters installed on temporary service connections is billed at the rate of \$7.429 per 1,000 gallons. No proration of the minimum charge will be made for temporary service connections that remain in use for less than the period covered by such charge. Where a temporary service connection requires use from hydrant, there is a \$15.00 hook-up charge.

Service Appointments:

If a scheduled appointment is not kept by the customer, all rescheduled and subsequent appointments not kept by the customer will result in a s-3-0700 \$50.00 charge to the customer's account.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 WATER
Effective: January 01, 2012

Turn-On And Shut-Off Charges

Violation of Company Rules

When water service has been discontinued because of a violation of the Company's rules, such as for the nonpayment of a bill, the Customer will be responsible for the costs to disconnect and reconnect water service. The total charge will be \$100.00, representing a disconnection fee of \$50.00 and a reconnection fee of \$50.00, payable in advance of restoring water service during the Company's regular working hours. When it is necessary to reconnect service at a time other than the Company's regular working hours, the reconnection charge is \$95.00 \$140.00

for a total of \$145.00 \$190.00 also payable in advance. If the customer blocks or interferes with the Company's attempt from its ability to gain access to the curb stop to shut off service, the customer will be liable for the \$50.00 shut-off charge for each attempt that the Company makes and such charges must be paid in advance of restoration of water service.

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If a water service that has been discontinued because of violation of the Company's rules is found to have reconnected without authorization, the water service will be discontinued and an additional charge of \$50.00 must be paid in advance of restoration of water service in addition to the charges described in the previous paragraph. Such unauthorized reconnection is also a Theft of Service, which is a specific offense under Delaware statute 11 Del. C. §841 and §845. Parties found taking water illegally may be prosecuted to the fullest extent permitted by law.

When requested by a customer, water will be shut off during the Company's regular working hours for a charge of \$50.00 and at other times for a charge of \$-6-5,00 \$140.00. Service that has been shut off at the customer's request will be turned back on during the Company's regular working hours for a charge of \$50.00 and at other times for a charge of \$65.00 \$140.00. Service connection for a new customer will be by appointment only, with no charge to the customer. If it is necessary to connect service without an appointment, a charge of \$50.00 will apply if during the Company's regular working hours and \$6-540 \$140.00 if not during the Company's regular working hours.

Request for delinquent reconnections will not be performed between 8:00 P.m. and 8:00 a.m.

The Company's regular working hours for turn-on and shut-off are from 8:00 a.m. to 6:30 p.m., Monday through Friday, excluding holidays.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: January 01, 2012

Fourth Fifth Revised Sheet No. 8
Canceling
Third-Fourth Revised Sheet No. 8

RULES AND REGULATIONS

APPLICATION FOR SERVICE

Definition of "Customer":

1. The word "customer" as used hereinafter means any person, partnership, firm, association, corporation or governmental agency being supplied with water service by the Company. The "customer" shall be either the record title owner of the property receiving water service or the occupant, as the case shall be. In the case of multiple unit properties served by master meters, such as shopping centers, apartment buildings and condominiums, the customer is the property owner. For the purposes of the Customer Charge, the Public Fire Hydrant Ready to Serve Charge, the Private Fire Protection Charge, and the Distribution System Improvement Charge, an owner or occupant remains a "customer" and continues to be liable for additional charges subsequent to ..hut_eff until such time as the service line connection between customer and Company's water distribution system is discontinued or terminated. A customer is liable for all charges incurred prior to termination.

Application for a New Service Connection:

2. A new service connection will be made and water service furnished upon receipt by the Company of an application signed by the property owner, the owner's er-his authorized agent, T or a tenant. Any application made by an agent of the property owner shall identify the record title owner of the property for which water service is being sought and shall be accompanied by proof of the agent's authority to act for the property owner. An Application for Service by a tenant shall be accompanied by a signed copy of a lease. If the applicant for service property owner is a legal entity and not a natural person, the Company may require that it be provided with the name, place of residence, and telephone number of each person who is an officer, partner, or owner of such legal entity. Applications for service must be approved by the Company before a connection is made or water furnished. Charges for new service installation shall be determined at the time of application.

Service Deposit:

3. If in the sole judgment of the Company the service installation represents a speculative venture or excessive time may elapse between the actual installation and use of the service by the customer, a refundable deposit to cover the Company's investment may be required.

Billings and Changes in Ownership:

ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Fourth Revised Sheet No. 9
 Canceling
Third Fourth Revised Sheet No. 9

A request for service shall be made upon any change in the ownership of a property receiving water service from the Company or in the tenancy of a property for which a tenant is responsible for payment. Upon such change in ownership or tenancy the Company shall have the right upon 10 days' notice to discontinue water service until such request has been made and approved by the Company. If water service has been discontinued by the Company at the request of the person or entity responsible for payment, a new request for service must be received and approved by the Company before service is restored.

When the customer is a tenant and water service has been discontinued for non-payment or at the request of the tenant, the customer account will be transferred to the owner of the property and the Company will so notify said owner unless within fifteen days after the discontinuance either (i) service is properly restored at the request of the original tenant, or (ii) the Company has received and accepted an application from a new tenant pursuant to these Rules and Regulations.

Seasonal Reconnection Charge

Whenever a Customer's water service is shut-off by the Company at the Customer's request and the account placed on inactive status, and such account is reactivated by the same Customer no less than thirty (30) days and no more than twelve (12) months from the date of the shut-off, a Seasonal Reconnection Charge equal to the following, shall be paid by the Customer: (a) the Customer's otherwise applicable monthly Customer Charge times the number of months the account was inactive; plus (b) the Turn-On Charge.

Security Deposit:

- 5 Security deposits will only be required in the following instances:
- (a) For any existing customer who (1) has had service discontinued for nonpayment of bills, (2) has rendered two bad checks in the preceding 12 months, (3) has been delinquent in payment of bills twice in the preceding 12 months, (4) has tampered with a meter or other equipment of the Company, or (5) has filed for bankruptcy, in which event the post petition account will be billed a security deposit unless otherwise instructed by the bankruptcy court.
 - (b) For any new customer who (1) is the tenant of a property for which he or she is responsible for payment of water bills, (2) has been delinquent during the preceding 12 months in paying water bills at a former address, (3) is found to be using false identification when use of a correct name would reveal poor records of payment, or (4) is seasonal or temporary.

When the customer is the owner of the residential property receiving water service, security deposits will not exceed the maximum estimated bill for two consecutive billing periods or \$100, whichever is less, unless it is due from an existing customer who (1) has had service disconnected two times within the preceding 12 months, (2) has been found to be tampering with the Company's meter or equipment, (3) has used water for unauthorized purposes, or (4) is other than a residential customer and has been delinquent in paying their water bills, in which event the entire estimated charge for two billing periods or the average billed amount outstanding over the previous year, whichever is greater, will be collected. For a residential property occupied by a tenant who is responsible for paying the water bills, the security deposit will be \$300 for a quarterly billed customer and \$100 for a monthly billed customer and must be paid in full before water service is turned on.

Payment of a requested security deposit is a requirement for continued service, and failure to pay in full may result in discontinuation of service. If payment of a security deposit creates an undue hardship, the Company may allow payment of the deposit to be made over a reasonable period of time.

For a non-residential property occupied by a tenant responsible for paying water billed the security deposit is the entire estimated charge for two billing periods and must be paid in full before water service is turned on.

implementation or removal of any restriction imposed under this Rule 26 by press rel aso,
newspaper advertisement and such other media as may be appropriate under the circumstances.

bypass.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: January 01, 2012

Thiffi Fourth Revised Sheet No. 18
Canceling
Seend Third Revised Sheet No. 18

Turn-on or Shut-off Without Authority:

27. The customer shall not turn the water on or off at any corporation valve or curb valve, disconnect or remove the meter, or permit its disconnection or removal, without the prior consent of the Company.

Restoration of Discontinued Service:

28. Service will be restored when the conditions for which service was discontinued have been corrected to the satisfaction of the Company and upon payment of all proper charges or amounts provided in the Company's then-applicable rate schedule.

METERS

Furnished by Company:

29. All meters will be furnished by and remain the property of the Company. The Company shall determine the size of all customer meters.

Location:

30. All meters will be installed in accordance with Company specifications in a Company approved location that is at all times accessible for reading and repair. In the event a remote meter-reading device is installed on the building exterior, it shall be 3-5 feet above finished grade and at a location that is both convenient and accessible for reading and repair. In cases where the Company determines it is not practical to place a meter within a building, the customer shall install, own and maintain a meter pit in accordance with Company specifications on the property in a location to be determined by the Company. The Company will attempt, in mutual cooperation with the property owner, to locate the meter to the satisfaction of the property owner. Meters 1-1/2" or larger shall be installed with a bypass. After plumbing has been completed and tested, meter bars shall be removed, and water shut off at the curb valve until the meter is installed. A meter must be installed before the water is turned on. Meter bars are not permitted.

Valves Required:

31. The customer shall furnish and install a Company approved locking valve
on a

bypass.

ARTESIAN WATER COMPANY, INC.
 P.S.C. No. 1 - WATER
 Effective: January 01, 2012

Third Fourth Revised Sheet No. 20
 Canceling
 Sec-0W Third Revised Sheet No. 20

Fee Schedule - Customer-Requested Meter Test

<u>Meter Size</u>	<u>Fee</u>	
5/8"	\$--26 \$50	I
3/4"	\$-26 \$50	I
v.	\$-2-5 \$50	I
1-1/2"	\$100	
2"	\$100	
3"	\$150	
4"	\$150	
6"	\$150	
8"	\$200	
10"	\$200	

Error in Registration:

37. If, due to the results of a meter test, the meter is found not to be accurate within specified AWWA limits, as required by the Delaware Public Service Commission, customer billings will be corrected accordingly, commencing from the date the error developed. If that period of time cannot be determined, the error shall be assumed to have existed for three years or a period equal to one half the time since the meter was last tested, whichever is less. No billing corrections less than \$5 shall be made. A billing overcharge shall be either refunded or credited to the customer's account at the customer's election.

Periodic Meter Test:

38. In order to assure the accuracy of meters in service, periodic tests shall be made by the Company at the earlier of the yearly intervals or maximum thruput set forth below:

<u>Meter Size</u>	<u>Interval Years</u>	<u>Maximum Thruput, Million Gallons</u>		
		<u>Displacement</u>	<u>Compound</u>	<u>Turbine</u>
5/8"	15	1.8		
3/4"	15	2.6		
1"	10	4.4		--
1-1 1/2"	10	9.0		10.0
2"	3	14.0	28.0	28.0
3"	3	26.0	56.0	60.0
4"	3		88.0	100.0
6"	1		175.0	200.0
8"	1		280.0	300.0
10"	1		400.0	500.0
12"	1			800.0

PUBLIC FIRE PROTECTION SERVICE

Hydrant Location:

39. The Company will install fire hydrants at its cost, if a written contract has been signed with an incorporated town, municipality or new development or a petition has been signed by at least 70% of the residents of an un-incorporated area who agree to pay the Company's fire service charge. Hydrants will only be installed if the size of the existing main and distribution system and available pressure are sufficient to give proper fire service under normal and ordinary conditions, and providing installation costs are not prohibitive. After installation, the system must be capable of providing average domestic water service demand and, in addition, supply a flow to the hydrant in excess of 500 gpm at a 20 psi residual pressure for a period of at least two (2) hours.

Hydrant Flow Test:

40. Upon request, a hydrant flow test will be performed. The requestor may be present when the test is conducted. The fee to perform a hydrant flow test is \$300. Alternatively, if the Company has conducted a test of the hydrant within the past six months, that report can be provided to the requestor in lieu of a new flow test. The fee for the report from a previous test is \$35.

Allowable Use:

41. No person, except as authorized by the Company in writing, shall take water from any public or private fire hydrant except for the use of a fire company in case of fire. No public fire hydrant shall be used for sprinkling streets, flushing sewers or gutters or for any other than fire purposes except with prior approval of the Company.

Change of Location:

42. Upon request to relocate a fire hydrant, the Company will make such relocation at the cost of the party making the request provided an approved new location is found.

RESPONSIBILITY FOR SERVICE

43. It is agreed by the parties receiving public fire service, or any other service, that the Company does not assume any liability as an insurer of property or persons. While the Company will make every reasonable effort to maintain service, the Company does not guarantee any special service, pressure, capacity or facility other than permitted by the ordinary and changing operating conditions of the Company, as exist from day to day. It is agreed by the parties receiving service that the Company shall be free and exempt from any and all claims for injury to any persons or damage to any property by reason of fire, water, or failure to supply water pressure or capacity.

The Company is not liable in damages in a civil action to any person for injury, death or loss to person or property that allegedly arise from the person's consumption of water supplied by the Company if the water supplied by the Company complied with primary maximum contaminant levels set by the State of Delaware's Office of Drinking Water and the United States Environmental Protection Agency.

ARTESIAN WATER COMPANY, INC.
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BILLS AND PAYMENT

Place of Payment:

44. Bills may be paid by mail or in person at the Company's office. A locked deposit box, located at the Company's office, is available after normal business hours, on weekends, and on holidays. In addition, other payment arrangements are provided as described on our website.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. I - WATER
Effective: January 01, 2012

Eighth— Ninth-Second Supplemental Sheet
Canceling
Seventh Eighth-Second Supplemental Sheet

This Second Supplemental Sheet is applicable to customers in the city of Middletown located within the County of New Castle. The total charge for metered service consists of the water charge.

<u>Water Charge:</u>	\$2.125 per thousand
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All bills are due and payable upon presentation.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: January 01, 2012

EXHIBIT B
Twelfth-Third Supplemental Sheet
Canceling
Eleventh Third Supplemental Sheet

This Third Supplemental Sheet is applicable to the Delaware Correctional Center. Due to the unique nature of the agreement between the State of Delaware and Artesian, the rates are as follows:

<u>Water Charge:</u>	\$2.243 per thousand gallons
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All bills are due and payable upon presentation.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: January 01, 2012

EXHIBIT B
Third-Fourth Supplemental Sheet
canceling
Second-Fourth Supplemental Sheet

This Fourth Supplemental Sheet is applicable to Artesian Water Maryland, Inc. The total charge for metered service consists of the water charge.

Water Charge:

\$3.729 per thousand gallons

All bills are due and payable upon presentation.

Artesian Water Company
Depreciation Rates

Account	Account Description	<u>Settlement Depreciation Rates</u>
	Source of Supply Plant	
310	Source of Supply- Land & Water	0.00%
311	Structure & Improvements	1.62%
314	Source of Supply- Wells	2.22%
314.1	Monitoring Well Field	2.22%
316	Collecting Mains	1.18%
	Pumping Plant	
320	Land & Land Rights	0.00%
321	Structure & Improvements Pump Houses	1.62%
323	Power Production Equipment	2.86%
325	Electric Pumping Equipment	2.86%
325.1	Submersible Pumps	12.50%
	Water Treatment Plant	
330	Land & Land Rights	0.00%
331	Structures & Improvements	2.00%
332	Water Treatment Equipment- Purification	2.22%
	Transmission & Distribution	
340	Land & Land Rights	0.00%
342	Dist. Reservoirs, Tanks, Standpipes	1.31%
343	Transmission & Dist. Mains	1.24%
345	Services	2.57%
345.1	Services Temp Territory	2.57%
346	Meters- small	3.84%
346	Meters- other	3.84%
348	Hydrants	1.67%
	General Plant	
389	General Land	0.00%
389.1	General Land- Leasehold	0.00%
390	Office & Warehouse Bldgs	4.22%
390.1	Office & Warehouse Improvements	4.22%
391	Office Furniture	3.19%
391.1	Office Equipment	4.79%
391,2-	Office-Equip- Computer-Hardware-	-12-.00%-
391.4	Office Equip- Computer Software	19.19%
391.5	Office Equip- Mainframe Hardware	10.28%
391.7	Office Equip- Peoplesoft	6.67%
391.8	Office Equip- GIS	6.67%
392	Transportation Equipment	8.64%
393	Stores	3.20%
394	Tools- Shop & Garage Equip	3.20%
394.1	Tools- Shop& Garage Leasehold	3.20%
395	Laboratory Equipment	10.66%
396	Power Operated Equipment	5.76%
397	Communication Equipment	6.40%
398	Misc. Equipment	4.80%

EXHIBIT B

The Parties agree that the rates for settlement depreciation do not include an allowance for cost to retire.