

**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) PSC DOCKET NO. 13-466
BASE RATES AND TARIFF REVISIONS)
(FILED NOVEMBER 25, 2013))**

**DIRECT TESTIMONY OF
MALIKA DAVIS
ON BEHALF OF COMMISSION STAFF**

MAY 20, 2014

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1 I. Introduction and Purpose of Testimony

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

3 A. My name is Malika Davis. My business address is 861 Silver Lake Boulevard, Suite 100,
4 Dover, Delaware 19904. I am a Public Utility Analyst II for the Delaware Public Service
5 Commission (“PSC” or “Commission”). I have been employed as a Public Utility Analyst since
6 joining the Commission in March 2010.

7

8 **Q. What are your job responsibilities as a public utility analyst?**

9 A. I am responsible for the certification of Delaware electric suppliers, the monitoring of
10 Delmarva Power & Light’s (“Delmarva”) quarterly reports related to customer service and
11 operational issues, and the monitoring of Delmarva’s quarterly rate of return reports. I also
12 monitor Delmarva’s monthly reports for the gas cost rate recovery schedules and quarterly
13 hedging reports. In addition, I am part of the team that works with the Company regarding issues
14 related to customer education initiatives involving advanced metering infrastructure and dynamic
15 pricing. I have also served as the case manager in Delmarva’s Environmental Surcharge Rider,
16 Gas Cost Rate, and Base Rate cases.

17

18 **Q. What is your professional experience and educational background?**

19 A. I have a Bachelor of Science in Marketing and Business Administration and a Master of
20 Business Administration from Delaware State University. Prior to my employment with the PSC,
21 I was employed as a Management Analyst I with the Delaware Division of Motor Vehicles
22 (DMV). My duties included monitoring the Commercial Driver Licensing Program for
23 compliance with State and Federal laws and regulations, training driver license examiners,

1 issuance staff, and driver improvement staff, interacting with other State and Federal agencies,
2 representing the DMV at administrative hearings, applying for Federal grants and maintaining
3 compliance with Federal requirements for grant reporting. Before accepting the position with the
4 DMV, I was employed as a Labor Market Analyst with the Delaware Department of Labor in the
5 Office of Occupational Labor Market Information, where I was assigned to work on the
6 Occupational Employment Statistics program. Before my position with the Department of Labor,
7 I was employed at Delaware State University where I held several positions including Records
8 Office Assistant/Secretary, Acting Lead Student Services Generalist, Adjunct Instructor, and
9 Career and Academic Advisor for the College of Business.

10

11 **Q. What is the purpose of your testimony?**

12 A. I was assigned review of the purchased water expense, regulatory commission expense,
13 and Enterprise Resource Planning (“ERP”) System expense for Tidewater Utilities, Inc.’s
14 Application for a General Rate Increase in Water Base Rates and Tariff Revisions (the
15 “Application”) filed on November 25, 2013. My testimony will summarize Staff’s review of
16 these areas and provide a recommendation to the Commission.

17

18 II. Summary of Conclusions

19 **Q. Please explain your review of Tidewater Utilities, Inc.’s (“Tidewater” or the
20 “Company”) Application?**

21 A. My review of the Application consisted of a review and analysis of the testimony of
22 Tidewater’s witnesses and submitting data requests to the Company based on that testimony. I
23 then reviewed the Company’s responses to the data requests.

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Q: Has the Company filed any supplemental testimony in this docket?

A. No. There has been no supplemental testimony filed as of May 13, 2014.

Q. Please summarize your conclusion and recommendations.

A. After reviewing the Application and responses to data request I have formed the following conclusions and recommendations:

- The purchased water expense appears to be reasonable.
- The regulatory commission expense should be reduced.
- The ERP expense should be adjusted based on Staff’s recommended cost of equity.

III. Staff’s Recommendations

A. Purchased Water

Q: Please explain why the Company purchases water.

A: Tidewater purchases water from the City of Dover and its affiliate Southern Shores Water Company (“Southern Shores”) because it is more economical than constructing new supply facilities according to the Company’s response to Staff’s data requests.

Q. Does the Company have agreements with the City of Dover or Southern Shores?

A. The Company has agreements with the City of Dover to provide water in two areas. There is no agreement with Southern Shores, the Company purchases water at the tariff rate approved by the Commission in PSC Docket No. 11-246 for the Sea Colony Condominium Associations.

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Q. Has the Company made any adjustments to the purchased water expense since the Application was filed?

A. Yes, in response to a data request the Company stated that water usage expense was incorrectly classified as purchased water in the Application. The Company will make the adjustment to the test period and test year in its filing to update the Application with actual, rather than forecasted, numbers for the test period.

Q. Does the amount of water purchased included for the test year in the Application appear reasonable?

A. Yes, the Company anticipates that it will purchase 30,071,000 gallons for the test period ending June 30, 2014. This number is based on nine months of actual data and three months of projected data. The Company's three year average is 40,690,000. The Company's purchases from Southern Shores have steadily decreased over the last three years. The amounts were 23,205,000 gallons in 2011, 16,549,000 gallons in 2012 and 8,030,000 gallons in 2013. Based on this trend Staff believes that the amount included in the Application is reasonable although it is well below the averages for the previous years.

Q. What is the dollar amount of the purchased water expense the Company is asking for?

1 A. The Application included \$139,297 for purchased water. The amount updated for nine
2 months of actual data and the adjustment due to the reclassification mentioned above is
3 \$138,533.

4

5 **B. Regulatory Commission Expense**

6 **Q. What amount of regulatory expense has the Company included in its Application?**

7 A. The Company has included \$326,129. This amount was calculated based on a two-year
8 amortization of the expenses for Tidewater's rate cases in 2009 and 2011 and an estimate of
9 expenses for the current rate case. The estimate for the current rate case is based on a fully
10 litigated case. Also included in the expenses are the four-year amortization period costs
11 associated with PSC Docket No. 10-247 and five-year amortization period costs associated with
12 the reduction of employees in 2012.

13

14 **Q. How does the amount Tidewater included for this case compare with the actual rate**
15 **case expense in the 2009 and 2011 rate cases?**

16 A. The actual costs of the 2009 and 2011 rate cases were \$258,614 and \$316,376
17 respectively. The Company has estimated \$496,000 for the current case, a 56.76% increase over
18 the last rate case. All costs are to be amortized over a 2-year period.

19

20 **Q. Do you agree with the Company's level of rate case expense?**

21 A. No. The Company's last five rate cases have resulted in settlements. While it unknown at
22 the current time if the current case will settle, Staff believes that an almost 57% increase in rate
23 case expense is excessive.

1

2 **Q. What was the total not to exceed prices for Staff consultants in the two previous rate**
3 **cases?**

4

5 A. In Docket No. 09-29 the not to exceed price was \$62,075. In Docket No. 11-397 the not
6 to exceed price was \$77,620. The 2011 case included a consultant for depreciation study
7 evaluation; another depreciation study will not be conducted in the current case.

8

9 **Q. What is Staff's recommended adjustment for regulatory commission expense?**

10 A. Staff recommends the regulatory commission expense be reduced to \$446,000. This
11 recommendation is based on the not to exceed prices of \$25,523 for Staff's consultants, the fact
12 that Staff has not retained a consultant for many of the revenue requirement issues, and a more
13 reasonable level of rate case expense compared with previous cases. In Schedule MD-1, I have
14 updated the Company's Schedule 3B-11 to reflect my recommendation.

15

16 **C. Enterprise Resource Planning System**

17 **Q. What amount of ERP system expenses did the Company include in the Application?**

18 A. The Company included \$789,426 based on a Cost of Equity of 10.95% and an overall
19 Rate of Return of 8.53%

20

21 **Q. Do you have any adjustments for the ERP expenses included in the Application?**

22 A. Yes. I recommend the ERP costs be reduced to \$724,367. The adjustment is based on the
23 recommended Rate of Return of 7.61% and the Cost of Equity of 9.15% of Staff Witness King.

1 Schedule MD-2 shows my calculation using Schedule 3B-14 of the Company's Application
2 updated with Staff's recommended rates.

3

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

5 A. Yes it does.

6

TIDEWATER UTILITIES, INC.
 OPERATION AND MAINTENANCE EXPENSES
 REGULATORY COMMISSION
 ACCOUNT 928
 For 2012 ACTUAL, TEST YEAR and TEST PERIOD

Line No.	Description	Actual 2012	Test Year	Net Adjustment	Test Period	Staff Adjustment
1	2013 Rate Case Expense	\$ -	\$ -	\$ 248,000	\$ 248,000	
2	2011 Rate Case (11-397)	75,580	158,188	(158,188)	\$ -	
3	Management Audit Expense (4 Year 11-397)	18,259	36,521	(0)	36,521	
4	Severance Costs (5 Year 11-397)	19,972	39,944	-	39,944	
5	Regulatory Commission Expense	2,595	1,011	654	1,665	
		<u>\$ 116,406</u>	<u>\$ 235,664</u>	<u>\$ 90,466</u>	<u>\$ 326,129</u>	

Comparison of Expenses of Current Rate Case to Prior Rate Case

	09-29 2009 Case	11-397 2011 Case	Current Case - estimated	13-466 Estimated
6	<u>\$ 53,924</u>	<u>\$ 44,730</u>	<u>\$ 106,000</u>	<u>\$ 106,000</u>
	Consultants:			
7	34,365	28,518	50,000	50,000
8	15,488	32,333	40,000	40,000
9	113,954	122,531	175,000	125,000
10	38,284	78,883	115,000	115,000
11	2,600	9,382	10,000	10,000
12	<u>\$ 258,614</u>	<u>\$ 316,376</u>	<u>\$ 496,000</u>	<u>\$ 446,000</u>
13	2	2	2	2
14	<u>\$ 129,307</u>	<u>\$ 158,188</u>	<u>\$ 248,000</u>	<u>\$ 223,000</u>

Schedule of Rate Case Normalization

Rate Case	Total Expense	Opinion/ Order Date	Normalization Period	Amount Amortized Thru 12/31/12	Amount Expensed During Test Year
14	\$ 496,000		2 years	\$ -	\$ -
14	\$ 316,376	6/19/12	2 years	\$ 75,580	\$ 158,188
15	\$ 258,614	9/9/09	2 years	\$ 258,614	\$ -

TIDEWATER UTILITIES, INC.
 INTEREST ON CUSTOMER DEPOSITS
 TEST PERIOD CALCULATION

Lease Cost of Tidewater Portion of ERP System

	Book Depreciation Effective Date	Asset Cost	Book Depreciation Rate	Monthly Book Depreciation	Months In-Service @ 6/30/2014	Accumulated Book Depreciation	Tax Book Assets	1st Year Depreciation	2nd Year Depreciation	3rd Year Depreciation	4th Year Depreciation	5th Year Depreciation	6th Year Depreciation	Accumulated Tax Depreciation
							5 yr MACRS 3 yr MACRS STL	20.00% 16.67%	32.00% 33.33%	19.20% 33.33%	11.52% 16.67%	11.52%	5.76%	
1	ERP Phase I	EBS	2/1/2010	\$ 2,500,000	4.00%	\$ (8,333)	53	\$ (441,667)	\$ 12,088,502	\$ (2,014,730)	\$ (4,029,461)	\$ (4,029,461)	\$ (2,014,851)	\$ (12,088,502)
2	ERP Phase I	EBS	4/1/2010	500,000	4.00%	(1,667)	51	(85,000)	-	-	-	-	-	-
3	ERP Phase I	Fixed Asset & Procurement	6/1/2010	300,000	4.00%	(1,000)	49	(49,000)	455,166	(91,033)	(145,653)	(87,392)	(52,435)	(402,731)
4	ERP Phase I	CC&B	7/1/2010	9,243,668	4.00%	(30,812)	48	(1,478,987)	791,950	(131,990)	(263,981)	(263,981)	(131,998)	(791,950)
5	ERP Phase I	CC&B	9/1/2010	791,950	4.00%	(2,640)	46	(121,432)	196,615	(32,769)	(65,538)	(65,538)	(32,771)	(196,615)
6	ERP Phase I	CC&B	7/1/2011	196,615	4.00%	(655)	36	(23,594)	2,053,683	(342,277)	(684,554)	(684,554)	(171,139)	(1,882,524)
7	ERP Phase II	WAM & MWM	7/1/2011	2,095,715	4.00%	(6,986)	36	(251,486)	42,032	(8,406)	(13,450)	(8,070)	(2,421)	(32,348)
8	ERP Phase II	WAM & MWM	6/1/2012	3,675,420	4.00%	(12,251)	25	(306,285)	5,077,933	(846,314)	(1,692,627)	(846,314)	-	(3,385,255)
9	ERP Phase II	WAM & MWM	6/1/2012	2,095,715	4.00%	(6,986)	25	(174,643)	869,414	(144,901)	(289,802)	(144,901)	-	(579,604)
10			12/1/2012	240,268	4.00%	(801)	19	(15,217)	55,274	(11,055)	(17,688)	(5,306)	-	(34,049)
11							1375	8,782	8,782	(1,756)	(2,810)	(843)	-	(5,410)
12	ERP Phase II	WAM & MWM	11/1/2012	160,297	4.00%	(534)	20	(10,686)	160,297	(26,716)	(53,432)	(26,716)	-	(106,863)
13	ERP Phase II	WAM & MWM	12/1/2012	20,100	4.00%	(67)	19	(1,273)	20,100	(3,350)	(6,700)	(3,350)	-	(13,400)
14	ERP Phase II	WAM & MWM	1/1/2013	143,512	4.00%	(478)	18	(8,611)	143,512	(23,918)	(23,918)	-	-	(47,837)
15	ERP	EBS Upgrade & Enhancements	3/31/2014	690,474	4.00%	(2,302)	3	(6,905)	690,474	(57,539)	-	-	-	(57,539)
				<u>22,653,735</u>		<u>(75,512)</u>		<u>(2,974,785)</u>	<u>22,653,735</u>					
														Tax Depreciation on ERP Assets \$ (19,624,626)
	Middlesex Overhead Allocation to Tidewater			32.72%		32.72%		32.72%						Book Depreciation on ERP Assets (2,974,785)
	Gross ERP Costs Allocated to TUI			<u>\$ 7,412,234</u>		<u>\$ (24,707)</u>		<u>\$ (973,341)</u>						Tax Depreciation in Excess of Book Depreciation \$ (16,649,841)
	Tidewater Allocated ERP Cost													Combined Federal and Delaware Income Tax Rate 39.74%
	Gross ERP Costs Allocated to Tidewater			\$ 7,412,234		(973,341)								ERP Related Accumulated Deferred Income Taxes \$ (6,616,980)
	Less: ERP Related Accumulated Depreciation			(973,341)										
	Less: ERP Related Accumulated Deferred Income Taxes			(2,165,056)										Middlesex Overhead Allocation to Tidewater 32.72%
	TUI Allocated ERP Cost as of June 30, 2014			<u>\$ 4,273,837</u>										Tidewater - ERP Related Accumulated Deferred Income Taxes \$ (2,165,056)
	Income Taxes on Equity Portion													
	Allocated ERP Cost as of June 30, 2014			4,273,837										
	Weighted Cost of Equity			4.66%										
	Factor for Income Taxes			\$ 199,284										
	Income Taxes on Weighted Cost of Equity			\$ 131,434										
														8.7000% Delaware Income Tax Rate
														31.042% Adjusted Federal Income Tax Rate
														39.74% Combined Tax Rate
														60.26% Income after Taxes Rate
														1.659531 Revenue Conversion Factor (Taxes Only)

	Annual Recovery @ 6/30/2014
Lease Cost	\$ 296,489
Depreciation (Monthly Deprecation x 12)	7.61% 325,246
Return (Allocated ERP Cost x ROR)	131,434
Income Taxes on Equity Portion (above)	\$ 753,169
Affiliates Avoided Cost From Utilizing CCB System	\$ (28,802)
Net TUI ERP Lease Cost	<u>\$ 724,367</u>

Test Period	Ratio	Cost Rate	Weighted Cost Rate
L/T Debt	49.04%	6.01%	2.95%
Equity	50.96%	9.15%	4.66%

ERP SYSTEMS

CC&B = Customer Care & Billing System
 EBS = E-Business Suite of Systems
 MWM = Mobile Workforce Management System
 WAM = Work and Asset Management System