

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

APPLICATION OF TIDEWATER UTILITIES,) PSC DOCKET NO. 13-466
INC. FOR A GENERAL RATE INCREASE IN)
WATER BASE RATES & TARIFF REVISIONS)
(FILED NOVEMBER 25, 2013)

DIRECT TESTIMONY OF

CONNIE S. McDOWELL

ON BEHALF OF

COMMISSION STAFF

MAY 20, 2014

1 **Statement of Qualifications**

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

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

6

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

8 A: I am a Senior Regulatory Policy Administrator with the Commission. I was
9 employed with the Commission from July 1984 to December 2006 and
10 rehired in June 2013.

11

12 **Q: Please describe your duties and responsibilities at the Commission.**

13 A: My duties include reviewing dockets filed with the Commission to determine
14 the policy direction for the Commission Staff to address the dockets,
15 providing technical direction and training to the public utility analysts
16 assigned to me, preparing and presenting testimony with recommendations,
17 participating in the development of work plans for dockets, and managing the
18 public utility analysts assigned to me on their participation in those dockets.

19

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

21 A: I received a Bachelor of Arts & Science Degree in Mathematics from the
22 University of Delaware and Master’s Degree in Business Administration from
23 Delaware State University. Also, I was an adjunct instructor in the area of
24 Accounting and Marketing at Delaware Technical & Community College –
25 Terry Campus for 5 years. During my 24 years of employment at the
26 Commission, I have held various positions as a Public Utility Analyst I, II and
27 III, Chief of Technical Services, Hearing Examiner and Senior Regulatory
28 Policy Administrator and have testified in several telecom, cable and water
29 cases.

30

31 **Q: For whom are you testifying in this proceeding?**

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

2

3 **Q: What is the purpose of your testimony?**

4 A. I am Case Manager and lead policy witness in this proceeding. The purpose
5 of my testimony is to present the overall recommendations of the Commission
6 Staff and I will be testifying on the following issues: Rate Base Items such as
7 Materials & Supplies, Customer Deposits, Deferred Federal Income Tax and
8 Cash Working Capital and Revenue Requirement Items such as Interest
9 Synchronization.

10

11 **Q. Please identify the witnesses who will also be testifying for the**
12 **Commission Staff in this proceeding?**

13 A. In addition to me, the Commission Staff is sponsoring six other witnesses who
14 address different aspects or issues of Tidewater Utilities, Inc.’s (“Tidewater”
15 or the “Company”) filing. Mr. Kevin Neilson’s testimony addresses Utility
16 Plant in Service, Contributions In Aid of Construction, Construction
17 Advances and Tariff Revisions, Mr. Ron Teixeira’s testimony addresses
18 Accumulated Depreciation and Depreciation Expense, Ms. Amy Woodward’s
19 testimony addresses Senior Executive Retirement Plan (“SERP”) and
20 Incentive Compensation, Mr. Jason Smith’s testimony addresses Operating
21 Revenues, Ms. Lisa Driggins’ testimony addresses Chemicals, Treatment and
22 Laboratory Services, Tank Painting and Outside Services, Ms. Malika Davis’
23 testimony addresses Rate Case Expense and ERP Lease Cost, Mr. Brian
24 Kalcic’s testimony addresses Cost of Service/Rate Design and Mr. Charlie
25 King’s Testimony addresses Capital Structure, Cost of Capital, Cost of
26 Equity.

27

28 **Q. Please summarize Tidewater’s Rate Request.**

29 A. On November 26, 2013, Tidewater filed an application with the Commission
30 seeking an approval for an increase in its water base rates and to make some
31 tariff revisions. Tidewater is requesting an increase in its annual operating

1 revenues of \$3,903,338 or approximately 14.42% over its current operating
2 revenues. The Company states in its application that the increase is needed to
3 recover capital investments in utility plant and increases in various operation
4 and maintenance expenses, including depreciation, labor-related costs and
5 water production costs. The Company is seeking a Cost of Equity of 10.95%
6 and an overall Rate of Return of 8.53%. The Company's currently authorized
7 Cost of Equity is 9.75%. and overall Rate of Return of 7.91%.

8
9 **SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

10
11 **Q. Please summarize your conclusions and recommendations..**

12 **A.** Based on Commission Staff review of the Company's testimony, discovery,
13 publicly available information and our experience in the area of regulatory
14 environment, our conclusions and recommendations are as follows:

- 15 • The Company has a test period revenue requirement deficiency of \$1,055,788,
16 as shown on Section B, Schedule R & D.
- 17 • The Company has a test period pro forma rate base of \$93,992,059, as shown
18 Section on Section B, Schedule 1.
- 19 • The Company has a test period pro forma net operating income of \$6,518,526,
20 as shown on Section H, Schedule 1.
- 21 • Commission Staff's witness, Charlie King, has recommended a return on
22 equity of 9.15% based on his analysis and an overall cost of capital of 7.61%.
23 I have employed Mr. King's recommendations to compute Tidewater's
24 revenue deficiency.

25
26 **RATE BASE**

27 **Q. What is Cash Working Capital?**

28 Cash working capital is the cash needed by the Company to cover its day-to-
29 day operations. If the Company's cash expenditures, on an aggregate basis,
30 precede the cash recovery of expenses, investors must provide cash working
31 capital. In that situation, a positive cash working capital requirement exists.

1 On the other hand, if revenues are typically received prior to when
2 expenditures are made, then ratepayers provide the cash working capital to the
3 utility, and the negative cash working capital allowance is reflected as a
4 reduction to rate base. In this case, the cash working capital is an increase to
5 rate base as investors are essentially supplying these funds.
6

7 **Q. Did Tidewater file a Lead/Lag Study in its last rate case, PSC Docket No.**
8 **11-397?**

9 A. No. The Company used the one-eighth formula method. The Company's
10 filing showed a positive cash working capital requirement, which implied that
11 the revenues from ratepayers are received after Tidewater pays the associated
12 case expenditures.
13

14 **Q. Did the Commission Staff and Division of the Public Advocate ("DPA")**
15 **make any recommendation concerning the Company preparing a**
16 **Lead/Lag Study?**

17 A. Yes. Both the Commission Staff and DPA recommended that the Company
18 prepare a Lead/Lag Study. Both parties believed that there was no evidence
19 that the one-eighth method was accurate or appropriately calculated a Cash
20 Working Capital allowance that reflected Tidewater's actual requirements. In
21 the Settlement Agreement, which was approved by the Commission in PSC
22 Order No. 8164, the Company agreed to file a Lead/Lag Study in its next base
23 rate proceeding to determine its actual Cash Working Capital.
24

25 **Q. Did the Company file a Lead/Lag Study in this case?**

26 A. Yes, it did. I have reviewed the filed Lead/Lag Study submitted in the
27 Company's application and have made an adjustment to Cash Working
28 Capital based on that review.
29

30 **Q: Please explain the basis for your adjustment made to Cash Working**
31 **Capital.**

1 A I have two issues with the Company’s Lead/Lag Model. The first issue was a
2 result of the review I performed on the Lead/Lag Model to see if there were
3 any outliers of lead or lag days for the customer billings or invoices that the
4 Company used in its analysis and to see if they affected the Lead or Lag days.
5 In the file, Lag Day Calculation Details (Monthly), I removed the June 1,
6 2012 information for Account 19600199454 in which the customer took about
7 a year to pay Tidewater’s water bill. The removal of that outlier changed the
8 Operating Revenue Lead/Lag Days from 50.4 to 49.89. The second issue was
9 the inclusion of non-cash items, Depreciation and Amortization and Invested
10 Capital in its Lead Lag Summary Calculation. These two issues resulted in
11 an adjustment of (\$1,377,670) thereby reducing the Company’s Cash Working
12 Capital requirement to \$1,720,810, as shown on Schedule CSM -1.

13
14 **Q. Did you make any adjustments to Material and Supplies, Customer**
15 **Deposits or Deferred Federal Income Tax?**

16 A. No. I did review the Company’s workpapers, March 2014 balance sheet
17 details, and data responses and did not find any material differences to warrant
18 any adjustments.

19
20 **INTEREST SYNCHRONIZATION**

21
22 **Q: Has Commission Staff updated the interest synchronization adjustment**
23 **to synchronize Commission Staff’s rate base and cost of capital with the**
24 **tax calculation?**

25 A: Yes. As shown on Section I, Schedule 1, the interest synchronization
26 adjustment synchronizes the Commission Staff’s rate base and cost of capital
27 with the tax calculation. It is calculated by applying Commission Staff’s
28 recommended weighted cost of debt to the Commission Staff’s rate base for
29 Tidewater to obtain a synchronized interest deduction for use in the
30 calculation of income tax expense. As shown on Section I, Schedule 1, I
31 applied Commission Staff’s recommended weighted cost of debt, which is

1 2.95% to the Commission Staff's rate base amount in order to determine the
2 pro forma interest deduction to be used in calculating income tax expense for
3 the test period. The income tax rate of 34% for federal income tax and 8.7%
4 for state income tax is applied to the resulting interest deduction difference to
5 determine the amount of adjustment to income tax expense for interest
6 synchronization.

7

8 **Q: Does this conclude your testimony?**

9 A: Yes.

Schedule CSM-1

TIDEWATER UTILITIES, INC.

LEAD LAG SUMMARY BASED 12 ME JUNE 30, 2013

Description	Actual 2012	Lead / Lag Days	Weighted Amount
Operating Revenues	\$ 26,458,216	49.89	
Operating Expenses			
Operation and Maintenance Expense	14,518,043	12.42	180,314,094
Depreciation and Amortization Expense	-	-	-
Taxes Other than Income	650,391	2.28	1,482,892
State Income Taxes	478,031	(12.09)	(5,779,395)
Federal Income Taxes	1,728,242	36.28	62,700,611
Invested Capital	-	-	-
Total Requirement	17,374,707	13.74	238,718,202
Net Lead(Lag) Days		36.15	
Daily Requirements (Total Req./365 Days)			47,602
Cash Working Capital Requirement			\$ 1,720,810

Tidewater Utilities, Inc.
Computation of Gross Revenue Conversion Factor
PSC Docket # 13-466

Witness: **Connie McDowell**

Line No.	Description	Amount
1	Gross operating revenues	1
2	PSC assessment	0.003
3	Income before state income tax	0.997
4	State income tax @8.7%	0.086739
5	Income before federal income tax	0.910261
6	Federal income tax @34%	0.30948874
7	Income after federal income tax	0.60077226
8	Gross revenue conversion factor (1/line 8)	1.664524

5/19/2014
3:32 PM

SECTION B
SCHEDULE R/D

Tidewater Utilities, Inc.
REVENUE DEFICIENCY
PSC Docket # 13-466

Witness: **Connie McDowell**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Cost of Equity (F-1)	9.150%
2	Rate of Return (F-1)	7.610%
3	Rate Base (B-1)	<u>\$93,992,059</u>
4	Required Return (LINE 2 X LINE 3)	<u>\$7,152,796</u>
5	Less: Pro Forma Return (H-1)	<u>(6,518,526)</u>
6	Return Deficiency (LINE 4 LESS LINE 5)	<u>\$634,270</u>
Applicable Adjustments:		
7	Gross Revenue Conversion Factor	<u>1.664524</u>
8	Revenue Deficiency	<u>\$1,055,758</u> =====

SECTION B
SCHEDULE 1

Tidewater Utilities, Inc.
RATE BASE
PSC Docket # 13-466

Witness: Connie McDowell

Line No.	Description	Company Filing	Staff Adjustments	Reference	Staff Position
Utility Plant					
1	Utility Plant in Service	\$ 173,533,694	\$ (4,568,118)	C-1	\$ 168,965,576
2	Construction Work in Progress				\$ -
3	Plant acquisition adjustment		\$ -		\$ -
4	Gross utility plant	\$ 173,533,694	\$ (4,568,118)		\$ 168,965,576
5	Accumulated provision for depreciation	\$ (23,928,171)	\$ 228,580	D-1	\$ (23,699,591)
6	Accumulated amortization of plant acquisition costs		\$ -		\$ -
7	Total depreciation and amortization	\$ (23,928,171)	\$ 228,580		\$ (23,699,591)
8	Net utility plant	\$ 149,605,523	\$ (4,339,538)		\$ 145,265,985
Add:					
	Materials and supplies	\$ 130,758			\$ 130,758
	Cash Working Capital	\$ 3,098,480	\$ (1,377,670)		\$ 1,720,810
	Deferred rate case expense				\$ -
	Sub-total	\$ 3,229,238	\$ (1,377,670)		\$ 1,851,568
Deduct					
	Deferred FIT	\$ 7,907,296			\$ 7,907,296
	Contributions in aid of Construction	\$ 45,037,831	\$ (114,414)		\$ 44,923,417
	Customer Deposits	\$ 294,781			\$ 294,781
	sub-total	\$ 53,239,908	\$ (114,414)		\$ 53,125,494
	Total original cost rate base	\$ 99,594,853	\$ (5,602,794)		\$ 93,992,059

SECTION C
SCHEDULE 1

Tidewater Utilities, Inc.
PLANT IN SERVICE
PSC Docket # 13-466

Witness: **Connie McDowell**

Line No.	Description	Company Filing	Staff Adjustments	Staff Position	Staff Adjustment Reference
INTANGIBLE PLANT					
1	Organization (301)	\$ 9,079	\$ -	\$ 9,079	
2	Franchise and Consents (302)	\$ 895,322	\$ -	\$ 895,322	
3	Misc. Intangible Plant (303)	\$ 6,958	\$ -	\$ 6,958	
4	0	\$ -	\$ -	\$ -	
SOURCE OF SUPPLY					
5	Land and Land Rights (310)	\$ 365,228	\$ (149,508)	\$ 215,720	C2A
6	Structures and Improvements (311)	\$ -	\$ -	\$ -	
7	Collecting and Impounding Reservoirs (312)	\$ -	\$ -	\$ -	
8	Lake, River and Other Intakes (313)	\$ -	\$ -	\$ -	
9	Wells and Springs (314)	\$ 4,006,999	\$ 5,462	\$ 4,012,461	C2A
10	Supply Mains (316)	\$ 25,383	\$ (316)	\$ 25,067	C2B
11	0	\$ -	\$ -	\$ -	
PUMPING PLANT					
12	Land and Land Rights (320)	\$ 70,485	\$ -	\$ 70,485	
13	Structures and Improvements (321)	\$ 8,749,083	\$ (400,587)	\$ 8,348,496	C2A
14	Other Power Production Equipment (323)	\$ 839,656	\$ (323)	\$ 839,333	C2B
15	Electric Pumping Equipment (325)	\$ 17,969,705	\$ (1,332,521)	\$ 16,637,184	C2A
16	Diesel Pumping Equipment (326)	\$ 2,999	\$ (326)	\$ 2,673	C2B
17	0	\$ -	\$ -	\$ -	
WATER TREATMENT PLANT					
18	Land and Land Rights (330)	\$ -	\$ -	\$ -	
19	Structures and Improvements (331)	\$ 268,070	\$ (331)	\$ 267,739	C2B
20	Water Treatment Equipment (332)	\$ 7,588,257	\$ (105,523)	\$ 7,482,734	C2A
21	0	\$ -	\$ -	\$ -	
TRANSMISSION & DIST. PLANT					
22	Land and Land Rights (340)	\$ 2,119	\$ -	\$ 2,119	
23	Distribution Reservoirs and Standpipes (342)	\$ 13,277,015	\$ (89,021)	\$ 13,187,994	C2A
24	Transmission and Distribution Main (343)	\$ 82,880,508	\$ (1,564,071)	\$ 81,316,437	C2C
25	Services (345)	\$ 17,206,899	\$ (144,893)	\$ 17,062,006	C2A
26	Meters (346)	\$ 4,553,934	\$ (276,987)	\$ 4,276,947	C2A
27	Meter Installations (347)	\$ 440,680	\$ (347)	\$ 440,333	C2B
28	Hydrants (348)	\$ 7,913,481	\$ (145,878)	\$ 7,767,603	C2A
29	0	\$ -	\$ -	\$ -	
GENERAL PLANT					
30	Land & Land Rights (389)	\$ 38,684	\$ (389)	\$ 38,295	C2B
31	Structures and Improvements (390)	\$ 233,041	\$ 46,151	\$ 279,192	C2A
32	Office Furniture and Equipment (391)	\$ 2,754,691	\$ (200,145)	\$ 2,554,546	C2A
33	Transportation Equipment (392)	\$ 2,186,709	\$ (186,168)	\$ 2,002,541	C2A
34	Stores Equipment (393)	\$ -	\$ -	\$ -	
35	Tools, Shop and Garage Equipment (394)	\$ 676,408	\$ (25,920)	\$ 650,488	C2A
36	Laboratory Equipment (395)	\$ 71,338	\$ 4,714	\$ 76,052	C2A
37	Power Operated Equipment (396)	\$ 279,917	\$ (396)	\$ 279,521	C2B
38	Communications Equipment (397)	\$ 276,083	\$ (397)	\$ 275,686	C2B
39	Other Tangible Equipment (398)	\$ 342,963	\$ (398)	\$ 342,565	C2B
40	Office Equipment-SCADA System (398.2)	\$ -	\$ -	\$ -	
41	0	\$ -	\$ -	\$ -	
42	0	\$ -	\$ -	\$ -	
39	Total Depreciable Plant	\$ 173,533,694	\$ (4,568,118)	\$ 168,965,576	
40	Non-depreciable plant			\$ -	
41	Total Plant in Service	\$ 173,533,694	\$ (4,568,118)	\$ 168,965,576	

SECTION D
SCHEDULE 1

Township Utilities, Inc.
ACCUMULATED DEPRECIATION
PSC Order # 13-066

Witness:

Connie McDowell

Line No.	Description	Test Year	Per Books	Retirements	Staff Adjustments	Test Period Pro Forma	Staff Adjustment Reference
1	INTANGIBLE PLANT						
2	Organization (301)						
3	Franchise and Contracts (302)						
4	Misc. Mergable Plant (303)						
5	SOURCE OF SUPPLY						
6	Land and Land Rights (310)						
7	Structures and Improvements (311)						
8	Collecting and Inflowing Reservoirs (312)						
9	Lake, River and Other Intakes (313)						
10	Wells and Springs (314)						
11	Supply Mains (315)						
12	PUMPING PLANT						
13	Land and Land Rights (320)						
14	Structures and Improvements (321)						
15	Other Power Production Equipment (323)						
16	Electric Pumping Equipment (325)						
17	Diesel Pumping Equipment (328)						
18	WATER TREATMENT PLANT						
19	Land and Land Rights (330)						
20	Structures and Improvements (331)						
21	Water Treatment Equipment (332)						
22	TRANSMISSION & DIST. PLANT						
23	Land and Land Rights (340)						
24	Distribution Reservoirs and Standpipes (342)						
25	Transmission and Distribution Main (343)						
26	Services (345)						
27	Meters (346)						
28	Water Inflow/Outflow (347)						
29	Hydrants (348)						
30	GENERAL PLANT						
31	Land & Land Rights (389)						
32	Structures and Improvements (390)						
33	Office Furniture and Equipment (391)						
34	Transportation Equipment (392)						
35	Stores Equipment (393)						
36	Tools, Shop and Garage Equipment (394)						
37	Laboratory Equipment (395)						
38	Power Operated Equipment (396)						
39	Communications Equipment (397)						
40	Other Tangible Equipment (398)						
41	Office Equipment-SCADA System (398.2)						
42	C&C						
43							
44							
45							
46							
47	Total Utility Plant in Service		21,898,424	485,951	2,378,028	23,699,591	

5/19/2014
3:36 PM

SECTION F
SCHEDULE 1

Tidewater Utilities, Inc.
CAPITAL STRUCTURE
PSC Docket # 13-466

WITNESS: **Connie McDowell**

<u>Line No.</u>	<u>Description</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long Term Debt	49.040%	6.01%	2.95%
2	Short Term Debt	0.000%		
3	Preferred Stock	0.000%		
4	Common Equity	50.960%	9.15%	4.66%
5	Totals	100.00%		7.61%
		=====		=====

SECTION H
SCHEDULE 1

Tidewater Utilities, Inc.
STATEMENT OF OPERATIONS
PSC Docket # 13-466

Witness: Connie McDowell

Line No.	Description	Company Filing	Staff Adjustments	Reference	Present Rates
1	Sales	\$26,238,305	\$334,645		\$26,572,950
2	Miscellaneous Revenues	391,822	(\$44,847)		346,975
3	Total Operating Revenues	\$26,630,127	\$289,798		\$26,919,925
OPERATING EXPENSES					
1	Labor (Various)	\$4,078,889	\$189,448		4,268,337
2	Power Purchased for Pumping (623)	\$510,530	(\$3,898)		506,632
3	Cemicals (641)	\$435,737	(\$3,327)		432,410
4	Treatment & Laboratory Services (642)	\$262,473	(\$2,004)		260,469
5	Tank Painting (670)	\$78,871	(\$28,309)		48,562
6	Customer Records and Collection (901/902/903)	\$628,018	\$40,810		666,828
7	Uncollectibles (904)	\$312,450	\$45,055		357,505
8	Outside Services(923)	\$1,713,303	\$185,901		1,899,204
9	Property and Liability Insurance(924/925)	\$384,623	\$73,488		458,111
10	Employee Pension and Benefits (926)	\$2,624,877	(\$434,719)		2,190,158
11	Regulatory Commission (928)	\$235,664	(\$12,664)		223,000
12	Other (Various)	\$2,259,634	(\$9,960)		2,249,674
13	Interest on Customer Deposits(431)	\$9,350	(\$164)		9,186
14	Enterprise Resource Planning (ERP) System (N/A)	\$789,426	(\$65,059)		724,367
15					0
16					0
17					0
18					0
19	Total O & M	14,319,843	-25,402		14,294,441
Taxes Other Than Income					
20	Payroll Taxes	361,269	\$16,025		377,294
21	Real Estate	272,901	\$10,005		282,906
22	PSC Assessment	47,625	\$33,135		80,760
23	Other	1,593	(\$23)		1,570
24	Total Taxes Other	683,388	59,142		742,530
Depreciation and Amortization					
25	Amortization Expense		\$0		0
26	Depreciation Expense	3,237,223	(\$69,182)		3,168,041
27	Total Depreciation and Amortization	3,237,223	-69,182		3,168,041
28	Operating Expense Before Income Taxes	18,240,454	-35,442		18,205,012
29	Operating Income Before Income Taxes	\$8,389,873	\$325,241		\$8,714,914
Income Taxes					
30	State Income Taxes	\$540,749	\$211,999		\$328,750
31	Federal Income taxes	\$1,929,417	\$756,422		\$1,172,995
32	Deferred Income Tax		\$694,642		\$694,642
33	Total Income Taxes	\$2,470,166	\$1,663,063		\$2,196,388
34	Net Margins	\$5,919,507	(\$1,337,822)		\$6,518,526

SECTION H
SCHEDULE 1

Tidewater Utilities, Inc.
STATEMENT OF OPERATIONS
PSC Docket # 13-468

Witness: **Connie McDowell**

Line No.	Description	Company Filing	Staff Adjustments	Reference	Present Rates	Staff Position
1	Sales	\$26,238,305	\$334,845		\$26,572,960	\$27,628,708
2	Miscellaneous Revenues	391,822	(\$44,647)		346,975	346,975
3	Total Operating Revenues	\$26,630,127	\$289,796		\$26,919,925	\$27,975,683
OPERATING EXPENSES						
1	Labor (Various)	\$4,078,889	\$189,448		4,268,337	4,268,337
2	Power Purchased for Pumping (623)	\$510,530	(\$3,896)		506,632	506,632
3	Cemicals (641)	\$435,737	(\$3,327)		432,410	432,410
4	Treatment & Laboratory Services (642)	\$262,473	(\$2,004)		260,469	260,469
5	Tank Painting (670)	\$76,871	(\$28,309)		48,562	48,562
6	Customer Records and Collection (901/902/903)	\$626,016	\$40,810		666,826	666,826
7	Uncollectibles (904)	\$312,450	\$45,055		357,505	357,505
8	Outside Services(923)	\$1,713,303	\$185,901		1,899,204	1,899,204
9	Property and Liability Insurance(924/925)	\$384,623	\$73,488		458,111	458,111
10	Employee Pension and Benefits (926)	\$2,624,877	(\$434,719)		2,190,158	2,190,158
11	Regulatory Commission (928)	\$235,654	(\$12,864)		223,000	223,000
12	Other (Various)	\$2,259,634	(\$9,980)		2,249,674	2,249,674
13	Interest on Customer Deposits(431)	\$9,350	(\$184)		9,186	9,186
14	Enterprise Resource Planning (ERP) System (N/A)	\$789,426	(\$65,059)		724,367	724,367
15					0	0
16					0	0
17					0	0
18					0	0
19	Total O & M	14,319,843	-25,402		14,294,441	14,294,441
Taxes Other Than Income						
20	Payroll Taxes	361,269	\$16,025		377,294	377,294
21	Real Estate	272,901	\$10,005		282,906	282,906
22	PSC Assessment	47,625	\$33,135		80,760	83,927
23	Other	1,593	(\$23)		1,570	1,570
24	Total Taxes Other	683,388	59,142		742,530	745,697
Depreciation and Amortization						
25	Amortization Expense		\$0		0	0
26	Depreciation Expense	3,237,223	(\$69,182)		3,168,041	3,168,041
27	Total Depreciation and Amortization	3,237,223	-69,182		3,168,041	3,168,041
28	Operating Expense Before Income Taxes	18,240,454	-35,442		18,205,012	18,208,179
29	Operating Income Before Income Taxes	\$8,389,673	\$325,241		\$8,714,914	\$9,767,504
Income Taxes						
30	State Income Taxes	\$540,749	\$211,999		\$328,750	\$420,325
31	Federal Income taxes	\$1,929,417	\$756,422		\$1,172,995	\$1,499,741
32	Deferred Income Tax		\$694,642		\$694,642	\$694,642
33	Total Income Taxes	\$2,470,166	\$1,663,063		\$2,196,388	\$2,614,708
34	Net Margins	\$5,919,507	(\$1,337,622)		\$6,518,526	\$7,152,796

SECTION I
SCHEDULE 1

Tidewater Utilities, Inc.
DEPRECIATION EXPENSE
PSC Docket # 13-466

Witness: onnie McDowell

Line No.	Plant in Service Category	Test Period Pro Forma Plant	Rate of Depreciation	Annualized Charges
1	Organization (301)	\$9,079	0.00%	0
2	Franchise and Consents (302)	\$695,322	0.00%	0
3	Misc.Intangible Plant (303)	\$6,958	0.00%	0
4		0		
5	Land and Land Rights (310)	\$215,720	0.00%	0
6	Structures and Improvements (311)	\$0	0.00%	0
7	Collecting and Impounding Reservoirs (312)	\$0	0.00%	0
8	Lake, River and Other Intakes (313)	\$0	0.00%	0
9	Weils and Springs (314)	\$3,958,929	2.37%	93,827
10	Supply Mains (316)	\$25,067	1.02%	256
11		0	0.00%	0
12	Land and Land Rights (320)	\$70,485	0.00%	0
13	Structures and Improvements (321)	\$8,343,439	3.12%	260,315
14	Other Power Production Equipment (323)	\$839,333	3.36%	21,482
15	Electric Pumping Equipment (325)	\$16,637,184	3.17%	527,399
16	Diesel Pumping Equipment (326)	\$2,673	5.39%	144
17		0	0.00%	0
18	Land and Land Rights (330)	\$0	0.00%	0
19	Structures and Improvements (331)	\$267,739	2.89%	7,738
20	Water Treatment Equipment (332)	\$7,422,534	2.89%	214,511
21		0	0.00%	0
22	Land and Land Rights (340)	\$2,119	0.00%	0
23	Distribution Reservoirs and Standpipes (342)	\$13,156,810	1.81%	211,825
24	Transmission and Distribution Main (343)	\$39,767,391	1.04%	413,581
25	Services (345)	\$16,814,518	2.12%	366,468
26	Meters (348)	\$4,276,947	4.63%	198,023
27	Meter Installations (347)	\$440,333	3.49%	15,368
28	Hydrants (348)	\$4,790,692	2.12%	101,563
29		0	0.00%	0
30	Land & Land Rights (389)	\$38,295	0.00%	0
31	Structures and Improvements (390)	\$279,192	2.65%	7,399
32	Office Furniture and Equipment (391)	\$2,564,546	13.04%	333,113
33	Transportation Equipment (392)	\$2,002,541	12.99%	260,130
34	Stores Equipment (393)	\$0	0.00%	0
35	Tools, Shop and Garage Equipment (394)	\$650,488	7.17%	46,640
36	Laboratory Equipment (395)	\$78,052	6.76%	5,141
37	Power Operated Equipment (396)	\$279,521	10.19%	28,483
38	Communications Equipment (397)	\$275,686	12.15%	33,486
39	Other Tangible Equipment (398)	\$342,565	9.09%	31,139
40	Office Equipment-SCADA System (398.2)	\$0	0.00%	0
41	Total depreciable plant	<u>\$124,042,158</u>		
42	Total Depreciation on Gross Plant			\$3,168,041
43	Non-depreciable plant	<u>\$0</u>		
44	Total plant in service	<u>\$124,042,158</u>		
45	CIAC			0
46	Pro forma depreciation expense			<u>\$3,168,041</u>
47	Normalization of non-depreciable plant (15 years)			<u>\$0</u>
48	Total depreciation and normalization			<u>\$3,168,041</u>

SECTION J
SCHEDULE 1

Tidewater Utilities, Inc.
INCOME TAXES ON CURRENT RETURN
PSC Docket # 13-466

Witness: **Connie McDowell**

Line No	Description	Amount		
1	Operating income	(H-1) \$26,919,925		\$27,975,683
	Less:			
	Operation and Maintenance Expense	\$ 14,294,441	\$ 14,294,441	
	Depreciation	\$ 3,168,041	\$ 3,168,041	
	Taxes Other than Income	\$ 742,530	\$ 745,697	
	Excess Tax Over Book Value	\$ 1,747,879	\$ 1,747,879	Note 1
	Interest Charges	\$ 2,772,766	\$ 2,772,766	
	Section 199 IRC	\$ 415,532	\$ 415,532	
	Total Deductions	\$ 23,141,188	\$ 23,144,358	(\$23,141,188)
	Notes: Interest Synchronization calculation			
	Rate Base	\$93,892,059		
	Weighted Cost of Debt	2.95%		
2	Synchronized Interest (RATE BASE @ WCOD)	<u>2,772,766</u>		
3	Regulatory income before Permanent Differences		\$3,778,737	\$4,831,327
	OTHER ADJUSTMENTS			
4	Accelerated Depreciation			
5	Taxable income		<u>\$3,778,737</u>	<u>\$4,831,327</u>
6	Taxable income - State	Rate	\$3,778,737	\$4,831,327
	Delaware Income Tax @ 8.7%	<u>8.7%</u>	\$328,750	\$420,325
7	Taxable income - Federal	34%	\$3,449,987	\$4,411,002
	Federal Income Tax			
			<u>1,172,995</u>	<u>1,499,741</u>
8	Total Staff Pro Forma Income Taxes - Current		<u>\$1,801,746</u>	<u>\$1,520,066</u>
	Notes:			
	(1) Deferred income Tax -			
	Company's Calculation	\$ 1,747,879		
	Staff's % of Company's Calculation	100%		
	Excess tax over book *		\$1,747,879	State \$1,747,879 Federal \$1,595,814
	Effective tax rate	40%		
	Income tax over book		\$694,642	\$152,065
	Staff 9 months of income tax over book		\$520,982	\$542,577
	Company 9 months of income tax over book			
	Difference between Company and Staff Calculation (\$520,982 - \$)		\$520,982	
	* represents 100% of Company's Calculation			
1	Book Basis Of Assets, End Of Year 1			
2	Tax Basis Of Assets, End Of Year 1			
3	Book Vs. Tax Difference		\$0	
4	Estimated Effective Tax Rate		35.00%	
5	Deferred Tax Liability, End Of Year 1		\$0	
	TAXABLE TEMPORARY DIFFERENCES			
6	Book Basis Of Assets, As Of Formation			
7	Tax Basis Of Assets, As Of Formation			
8	Book Vs. Tax Difference		\$0	
9	Estimated Effective Tax Rate		35.00%	
10	Deferred Tax Liability, As Of Formation		\$0	
11	Increase In Deferred Income Tax Liability		\$0	
12	Total Income Tax - Staff		\$1,172,995	
13	Test Year Per Books		0	
14	Staff Pro Forma Tax Adjustment		<u>\$1,172,995</u>	