BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

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

DIRECT TESTIMONY OF RON TEIXEIRA ON BEHALF OF THE COMMISSION STAFF

May 20, 2014
Statement of Qualifications

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

Q: What is your position with the Public Service Commission?
A: I am a Public Utilities Analyst with the Commission. I have been employed with the Commission since December 2013.

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

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

Q: For whom are you testifying in this proceeding?
A: I am testifying on behalf of the Commission Staff.
Q: What is the purpose of your testimony?
A. I am presenting the Commission Staff’s (Staff) review and evaluation of Tidewater Utilities, Inc.’s (TUI) accumulated depreciation and depreciation expenses reported in the rate case. Section I covers Staff’s recommended accumulated depreciation for the rate case, and explains Staff’s proposed adjustments. Section II explains the depreciation rates used to calculate the test period depreciation expenses, and explains the adjustments Staff made to various accounts.

Section I: Accumulated Depreciation

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

Q: Please describe Schedule RT-1 entitled “PSC Staff’s Adjustments to Accumulated Depreciation – Test Period”?
A: Schedule RT-1 is based on Schedule 2A in Ms. Tilley’s direct testimony. Staff’s adjustments to accumulated depreciation are highlighted in bold, next to the original figures provided by TUI in Schedule 2A. Staff’s adjustments were calculated using nine months of the test period data — the same method used by TUI. The column entitled “Staff Adjustment Depreciation (A) Test Period” represents the accumulated depreciation for a nine-month period during the test period. The column entitled “Staff Adjustment Test Period
6/30/2014” represents the accumulated depreciation gained during the test period added to the test year accumulation.

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

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

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

Q: Should the Accumulated Depreciation Information be Updated for Actuals?
A: Yes. Staff recommends that the Company provide its actual accumulated depreciation balances through May 30, 2014 and provide the updated information at the time it files its rebuttal testimony in this case.

Section II: Depreciation Rates

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

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

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

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

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

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

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

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

Q: What depreciation rates do Staff recommend Tidewater uses in the
current rate case?
A: Based on TUI’s direct testimony, and the fact that TUI has not conducted a
new depreciation study since Docket No. 99-466, Staff recommends that TUI
adopt all the depreciation rates listed in Schedule MJM-1 page 1 of 3 in
Docket No. 99-466 and previously adopted by the Commission.

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

Q: What are the appropriate depreciation rates for Accounts 316 and 343?
A: Based on Staff’s recommendations, the depreciation rate for Account 316
should be 1.02%, resulting in a depreciation expense of $256. This is
compared to TUI’s depreciation rate for Account 316 of 1.39%, resulting in a
depreciation expense of $353. Staff recommends reducing TUI’s depreciation
expense in Account 316 by $97. This will increase rate base by $97.

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

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

Q: Do the depreciation rates that are currently being applied by Tidewater include a provision for cost of removal?
A: No. The depreciation rates that were established in PSC Docket No. 99-466 and Order No. 5592 do not include any estimated cost of removal.

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

Q: Does this conclude your testimony?
A: Yes.
<table>
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<th>Line No.</th>
<th>Account No.</th>
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<th>Staff Adjustment Depreciation (A) Test Period</th>
<th>Retirements Test Period</th>
<th>Test Period 6/30/2014</th>
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<th>Staff/TU Difference</th>
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<td>4,456,366</td>
<td>4,438,323</td>
<td>(38,043)</td>
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Total Accumulated Depreciation $ 21,809,422 $ 2,604,610 $ 2,376,028 $ 485,861 $ 23,928,172 $ 23,699,591 $ (228,582)

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