BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION )
OF TIDEWATER UTILITIES, INC. ) PSC DOCKET NO. 13-466
FOR AN INCREASE IN WATER RATES )
(FILED NOVEMBER 25, 2013) )

DIRECT TESTIMONY OF
JASON R. SMITH
ON BEHALF OF THE STAFF OF THE
DELAWARE PUBLIC SERVICE COMMISSION

MAY 20, 2014
Q. Please state your name and business address.

A. My name is Jason R. Smith, and my business address is 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware 19904.

Q. By whom are you employed and in what capacity?

A. I am employed by the Delaware Public Service Commission (the “Commission”) as a Public Utility Analyst.

Q. How long have you been employed by the Delaware Public Service Commission?

A. Since April of 2010.

Q. What is your educational background?

A. I received an Associate of Applied Science Degree from Delaware Technical and Community College in 2005. In 2008, I received a Bachelor of Science Degree from Wilmington University. I am presently enrolled in the Masters of Business Administration program at the same institution.

Q. Briefly describe your duties and responsibilities with the Commission.

A. My duties and responsibilities with the Commission include serving as a team member or case manager for various Commission dockets which includes regularly examining monthly, quarterly, and annual reports for Chesapeake Utilities Corporation, performing reviews of various utility applications, preparation of reports and other schedules in other proceedings, provide written recommendations to the Commission, and perform other related tasks as assigned. Additionally, I participate in the planning and execution of the
required audits of regulated companies, including performing a review of supporting
documentation at utilities offices to evaluate and make recommendations regarding the
financial and managerial condition of a utility.

Q. Please explain for whom you are testifying and the purpose of your testimony in this
proceeding.

A. I am testifying on behalf of Commission Staff (“Staff”) in this proceeding. The purpose
of my testimony is to provide a recommendation regarding my review of the revenue
projections and projects which were detailed in Tidewater Utilities, Inc. (“Tidewater” or
the “Company”) application, the Company’s pre-filed testimony, and subsequent
responses to the data requests of Staff and the Division of the Public Advocate (the
“DPA”).

Q. Please explain your understanding of the process that the Company undergoes in
order to arrive at its revenue projections included in its original application.

A. Beginning on page four of the Pre-Filed Testimony of Company Witness A. Bruce
O’Connor describes the process entailed in the development of Test Year revenues. Test
Year revenues are developed by utilizing the actual consumption for the twelve months
ending September 30, 2013. Then a combination of actual and projected consumption
was used to develop data for the Test Period consumption for period ending June 30,
2014. Mr. O’Connor further details the process of how Company Witness Bruce E.
Patrick develops the Test Period water production data by reviewing monthly production
records for a five-year period from 2008 through 2012 as well as any available data for
2013. Using this data, Mr. Patrick used a 5 or 6 year average from where consumption
was consistent from year to year and then rounded his projections. In some cases if the
last two to three years of consumption differed greatly from the average, he then used a
two to three year average based on the most recent two to three years of production data.
Then, if necessary, Mr. Patrick normalized any production data to reflect expected
production during the Test Period. This data, along with current tariff rates and proposed
tariff rates, was used to develop the figures presented on Schedule 3A sponsored by
Company Witness O’Connor. Based upon my review of Schedule 3A contained in the
Company’s application, this process appears reasonable and appropriate in the
development of the Company’s projected Operating Revenues.

Q. Please explain any adjustments that you may have relating to the revenue
projections that the Company has included in its original application.

A. I am proposing a net adjustment of $155,611 to Test Period Revenues. This adjustment
is based on calculations in which the budgeted monthly test period revenues provided in
the original application and subsequent data responses were updated to include actual
figures provided by the Company from its monthly submission of its Income Statement.
In some months, monthly revenues were lower than the budgeted Test Period Revenues
provided by the Company in the original application. Schedule JRS-1 provides a clearer
insight into the calculations I performed to support the calculation of this adjustment.
This schedule will also show an adjustment for the inclusion of rental income that the
Company receives that I believe should also be included in the development of Test
Period Revenues.
Q. Please elaborate on your adjustment for the inclusion of rental income that the Company receives.

A. Tidewater’s response to PSC-RR-12 and DPA-A-93 shows that the Company has received rental income for a communications antenna on top of an elevated storage tank. In 2012, the Company received $48,942 in rental income. In 2013, the Company received $31,663. And for January and February 2014, the Company has received $4,182 in rental income. The Company states that it, “…did not include rental income from communication companies in Operating Revenue.”

Q. Should the rental income received by Tidewater be reflected in determining the revenue requirement in this case?

A. Yes. Based on Schedule 3A that was originally submitted with this application, and the response to PSC-RR-12, it appears this rental income was not included in the Company’s Operating Revenues. I believe that since Tidewater is receiving revenue that has been generated by a regulated asset of the Company, which is being supporting by ratepayers, that it is only fair that ratepayers should benefit from this rental income. It’s my understanding that Artesian Water Company includes rental income above-the-line in the development of its revenues and the same treatment should be also applied to Tidewater. Based on the Company’s response to PSC-RR-12 and DPA-A-93, it would appear that due to how these lease agreements are structured that the monthly amount of rental income received can fluctuate from term to term. Therefore, I believe that it would be reasonable for the Company to include a $2,091 monthly adjustment for test period rental income. $2,091 is the amount Tidewater has collected for a majority of the Test Period
based on its response to PSC-RR-12. For the twelve month test period this would be a
$25,092 adjustment to test period rental income, which should be reflected above-the-line
in other operating revenue and recognized in the development of Tidewater’s revenue
requirement in this case, and as well as in future cases.

Q. Does this conclude your testimony in this proceeding?

A. Yes.
<table>
<thead>
<tr>
<th></th>
<th>Test Period Revenues as Provided by the Company*</th>
<th>Test Period Revenues calculated by PSC Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-13</td>
<td>$2,698,562.64 Actual</td>
<td>Jul-13 $2,698,562.64 Actual</td>
</tr>
<tr>
<td>Aug-13</td>
<td>2,880,516.89 Actual</td>
<td>Aug-13 2,880,516.89 Actual</td>
</tr>
<tr>
<td>Sep-13</td>
<td>2,781,365.05 Actual</td>
<td>Sep-13 2,781,365.05 Actual</td>
</tr>
<tr>
<td>Oct-13</td>
<td>2,270,657.20 Budget</td>
<td>Oct-13 1,941,620.42 Actual from Company Submitted Income Statement</td>
</tr>
<tr>
<td>Nov-13</td>
<td>2,101,104.40 Budget</td>
<td>Nov-13 2,260,397.82 Actual from Company Submitted Income Statement</td>
</tr>
<tr>
<td>Dec-13</td>
<td>2,033,797.18 Budget</td>
<td>Dec-13 2,072,780.40 Actual from Company Submitted Income Statement</td>
</tr>
<tr>
<td>Jan-14</td>
<td>2,141,671.01 Budget</td>
<td>Jan-14 1,958,766.92 Actual from Company Submitted Income Statement</td>
</tr>
<tr>
<td>Feb-14</td>
<td>2,039,853.46 Budget</td>
<td>Feb-14 2,198,733.95 Actual from Company Submitted Income Statement</td>
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<tr>
<td>Mar-14</td>
<td>2,122,602.74 Budget</td>
<td>Mar-14 2,096,663.74 Actual from Company Submitted Income Statement</td>
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<tr>
<td>Apr-14</td>
<td>2,301,497.96 Budget</td>
<td>Apr-14 2,301,497.96 Budget</td>
</tr>
<tr>
<td>May-14</td>
<td>2,626,185.19 Budget</td>
<td>May-14 2,626,185.19 Budget</td>
</tr>
<tr>
<td>Jun-14</td>
<td>2,922,865.97 Budget</td>
<td>Jun-14 2,922,865.97 Budget</td>
</tr>
<tr>
<td>$28,920,659.69</td>
<td>Test Period Total*</td>
<td>$28,739,956.95 Test Period Total</td>
</tr>
<tr>
<td>(-1,845,123.69)</td>
<td>Company Made Adjustment**</td>
<td>$25,092.00 Staff Adjustment for inclusion of Rental Income</td>
</tr>
<tr>
<td>$27,075,536.00</td>
<td>Test Period Total Revenues (Provided on Schedule 3A)</td>
<td>$26,919,925.26 Test Period Total Revenues calculated by PSC Staff</td>
</tr>
</tbody>
</table>

$155,610.74 PSC Staff Adjustment to Test Period Total Revenues
(Company Test Period Total Revenues minus PSC Staff Test Period Total Revenues)

*These figures were provided in the response to PSC-GEN-1 in the Excel file entitled "PSC-GEN-1 TUI MFRs - TY Sept.13 Draft 11.21.13 Petition”

**This adjustment was calculated to be the difference between the Test Period Total and the Test Period Total provided on Schedule 3A in the original application.