

**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**

1 **Q. Please state your name and business address.**

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

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

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

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

8 A. Since April of 2010.

9 **Q. What is your educational background?**

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

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

15 A. My duties and responsibilities with the Commission include serving as a team member or  
16 case manager for various Commission dockets which includes regularly examining  
17 monthly, quarterly, and annual reports for Chesapeake Utilities Corporation, performing  
18 reviews of various utility applications, preparation of reports and other schedules in other  
19 proceedings, provide written recommendations to the Commission, and perform other  
20 related tasks as assigned. Additionally, I participate in the planning and execution of the

1 required audits of regulated companies, including performing a review of supporting  
2 documentation at utilities offices to evaluate and make recommendations regarding the  
3 financial and managerial condition of a utility.

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

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

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

14 A. Beginning on page four of the Pre-Filed Testimony of Company Witness A. Bruce  
15 O’Connor describes the process entailed in the development of Test Year revenues. Test  
16 Year revenues are developed by utilizing the actual consumption for the twelve months  
17 ending September 30, 2013. Then a combination of actual and projected consumption  
18 was used to develop data for the Test Period consumption for period ending June 30,  
19 2014. Mr. O’Connor further details the process of how Company Witness Bruce E.  
20 Patrick develops the Test Period water production data by reviewing monthly production  
21 records for a five-year period from 2008 through 2012 as well as any available data for  
22 2013. Using this data, Mr. Patrick used a 5 or 6 year average from where consumption

1 was consistent from year to year and then rounded his projections. In some cases if the  
2 last two to three years of consumption differed greatly from the average, he then used a  
3 two to three year average based on the most recent two to three years of production data.  
4 Then, if necessary, Mr. Patrick normalized any production data to reflect expected  
5 production during the Test Period. This data, along with current tariff rates and proposed  
6 tariff rates, was used to develop the figures presented on Schedule 3A sponsored by  
7 Company Witness O'Connor. Based upon my review of Schedule 3A contained in the  
8 Company's application, this process appears reasonable and appropriate in the  
9 development of the Company's projected Operating Revenues.

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

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

1 **Q. Please elaborate on your adjustment for the inclusion of rental income that the**  
2 **Company receives.**

3 A. Tidewater’s response to PSC-RR-12 and DPA-A-93 shows that the Company has  
4 received rental income for a communications antenna on top of an elevated storage tank.  
5 In 2012, the Company received \$48,942 in rental income. In 2013, the Company  
6 received \$31,663. And for January and February 2014, the Company has received  
7 \$4,182 in rental income. The Company states that it, “...did not include rental income  
8 from communication companies in Operating Revenue.”

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

11 A. Yes. Based on Schedule 3A that was originally submitted with this application, and the  
12 response to PSC-RR-12, it appears this rental income was not included in the Company’s  
13 Operating Revenues. I believe that since Tidewater is receiving revenue that has been  
14 generated by a regulated asset of the Company, which is being supporting by ratepayers,  
15 that it is only fair that ratepayers should benefit from this rental income. It’s my  
16 understanding that Artesian Water Company includes rental income above-the-line in the  
17 development of its revenues and the same treatment should be also applied to Tidewater.  
18 Based on the Company’s response to PSC-RR-12 and DPA-A-93, it would appear that  
19 due to how these lease agreements are structured that the monthly amount of rental  
20 income received can fluctuate from term to term. Therefore, I believe that it would be  
21 reasonable for the Company to include a \$2,091 monthly adjustment for test period rental  
22 income. \$2,091 is the amount Tidewater has collected for a majority of the Test Period

1 based on its response to PSC-RR-12. For the twelve month test period this would be a  
2 \$25,092 adjustment to test period rental income, which should be reflected above-the-line  
3 in other operating revenue and recognized in the development of Tidewater's revenue  
4 requirement in this case, and as well as in future cases.

5 **Q. Does this conclude your testimony in this proceeding?**

6 A. Yes.

Test Period Revenues as Provided by the Company*		
Jul-13	\$2,698,562.64	Actual
Aug-13	2,880,516.89	Actual
Sep-13	2,781,365.05	Actual
Oct-13	2,270,637.20	Budget
Nov-13	2,101,104.40	Budget
Dec-13	2,033,797.18	Budget
Jan-14	2,141,671.01	Budget
Feb-14	2,039,853.46	Budget
Mar-14	2,122,602.74	Budget
Apr-14	2,301,497.96	Budget
May-14	2,626,185.19	Budget
Jun-14	2,922,865.97	Budget
	\$28,920,659.69	Test Period Total*
	(1,845,123.69)	Company Made Adjustment**
	\$27,075,536.00	Test Period Total Revenues (Provided on Schedule 3A)

Test Period Revenues calculated by PSC Staff		
Jul-13	\$2,698,562.64	Actual
Aug-13	2,880,516.89	Actual
Sep-13	2,781,365.05	Actual
Oct-13	1,941,620.42	Actual from Company Submitted Income Statement
Nov-13	2,260,397.82	Actual from Company Submitted Income Statement
Dec-13	2,072,780.40	Actual from Company Submitted Income Statement
Jan-14	1,958,766.92	Actual from Company Submitted Income Statement
Feb-14	2,198,733.95	Actual from Company Submitted Income Statement
Mar-14	2,096,663.74	Actual from Company Submitted Income Statement
Apr-14	2,301,497.96	Budget
May-14	2,626,185.19	Budget
Jun-14	2,922,865.97	Budget
	\$28,739,956.95	Test Period Total
	\$25,092.00	Staff Adjustment for inclusion of Rental Income
	(1,845,123.69)	Company Made Adjustment**
	\$26,919,925.26	Test Period Total Revenues calculated by PSC Staff

**\$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.