

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

IN THE MATTER OF THE APPLICATION OF)
WILKERSON WATER COMPANY AND PRIME)
HOOK WATER COMPANY FOR A GENERAL)
INCREASE IN WATER RATES AND A) PSC DOCKET NO. 14-0254
REQUEST TO CONSOLIDATE PRIME HOOK)
WATER COMPANY WITH WILKERSON)
WATER COMPANY (FILED JULY 25, 2014))

**DIRECT TESTIMONY OF
LISA B. DRIGGINS
ON BEHALF OF THE STAFF OF THE
DELAWARE PUBLIC SERVICE COMMISSION**

NOVEMBER 14, 2014

TABLE OF CONTENTS

	Page
I. Introduction and Purpose of Testimony.....	1
II. Background of Application.....	3
III. Staff’s Recommendations.....	4
IV. Supporting Schedules.....	8

1 I. Introduction and Purpose of Testimony

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

3 A. My name is Lisa Driggins. 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
6 Analyst since joining the Commission in January 2013.

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

8 A. My duties include reviewing filings submitted by regulated utilities that propose changes
9 in their rates and charges; assisting senior staff with executing the annual compliance and
10 financial review for wastewater utilities; planning and participating in the audit of small
11 regulated companies; assisting senior staff with the preparation of schedules and
12 documents; and participating in the review of source documents at utility offices. Such
13 documents include general ledger transactions and invoices to assess whether the expense
14 claims are appropriate for ratemaking purposes. I also review and make
15 recommendations to the Commission to grant Certificates of Public Convenience and
16 Necessity for water and wastewater utilities.

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

18 A. I received a Bachelor of Science Degree in Business Management and a Masters of
19 Business Administration from Wesley College. Since my employment at the PSC, I have
20 attended the NARUC Eastern Utility Rate School in Clearwater, FL and Camp NARUC
21 at Michigan State University.

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

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

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

4 A. I was assigned to review the Application of Wilkerson Water Company (“WWC”) and
5 Prime Hook Water Company (“PH”) for a General Rate Increase in Water Base Rates
6 and the consolidation of the two companies (the “Application”) filed on July 25, 2014.
7 My testimony will summarize Staff’s review of the application and provide a
8 recommendation to the Commission.

9 **Q. Please explain your review of WWC and PH’s joint Application?**

10 A. Staff’s examination of the Application consisted of a review and analysis of the direct
11 testimony of WWC and PH’s witnesses. Staff submitted data requests to the Company
12 based on that testimony, and Staff reviewed the Company’s responses to the data
13 requests. Staff also utilized information provided during informal discovery. In addition
14 to the book review, Staff participated in a plant tour of Prime Hook Water Company and
15 Teal Point which is a development located within the service territory of WWC.

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

17 A. No. There was no supplemental testimony filed as of October 31, 2014. The Company
18 did however submit revised Schedule No. 3-D on October 27, 2014. The revision
19 corrected an error in the Company’s Application.

20 II. Background of the application

21 **Q. Please summarize the Application.**

1 A. Wilkerson Water Company and Prime Hook Water Company (collectively "Wilkerson"
2 or "the Company") filed with the Commission an application which proposed revised
3 tariffs designed to increase its rates for unmetered water service ranging from 10% to
4 49%; reset the Distribution System Improvement Charge ("DSIC") to zero, and increased
5 certain miscellaneous charges for tapping, activation, and deactivation services.
6 Wilkerson is also seeking to consolidate the operations of Prime Hook Water Company
7 into the WWC effective January 1, 2015. The new rates and charges are designed to
8 produce an overall increase of \$15,413 in net operating income when compared to the
9 test year ending December 31, 2013. There was no change in the rate base. The
10 Company states that the increase will bring the rates charged to customers closer to the
11 cost of providing service and enable the Company to adequately maintain upgrades to its
12 water plant. Additionally, the Company states that the reason for the consolidation is to
13 simplify record keeping which would reduce cost to the customers.

14 **Q. When were the current rates set for WWC and PH?**

15 A. The current rate for Prime Hook was set at \$185 per year (phased in) over 3 years in
16 1982. The current rate for Wilkerson Water Company's ¾" service is \$235 and the 1" is
17 \$385 both rates were set in in 1991. With the exception of Cedar Creek, WWC's
18 customers are billed semiannually, Cedar Creek is billed quarterly.

19 **Q. Please explain the history of Wilkerson Water Company?**

20 A. J.H. Wilkerson & Son, Inc. was founded in 1919 and was incorporated in 1959. Today
21 the Company operates as an oil distribution firm and three water companies.

22 Prime Hook – First service entity

- 1 • In 1962, the water division began with Prime Hook Water Company. The
2 Company currently has 172 customers.

3 Broadkiln Beach Water Company – Second Service entity

- 4 • In 1972, Broadkiln Beach Water Company began water service to its
5 customers. The Company currently has 486 customers.

6 Wilkerson Water Company – Third service entity

- 7 • In 1991, six small sub-divisions were consolidated forming Wilkerson Water
8 Company. The six sub-divisions were:

- 9 ➤ Cedar Creek Estates Water Company
10 ➤ Teal Point
11 ➤ Fishermans Village
12 ➤ County Club Village
13 ➤ South Shores
14 ➤ Blue Heron Estates

15 In 1997, the Company acquired another Company called “The Meadows
16 at Cabbage Pond” which is also part of WWC. WWC currently has 349
17 customers.
18

19 **Q. Please explain exhibit LBD-1.**

20 A. Exhibit LBD-1 shows the charges Wilkerson Water Company and Prime Hook Water
21 Company are proposing in the Application. The graph illustrates the percentage increase
22 compared to the current rate.

23 **Q. Please explain exhibit LBD-2.**

24 A. Exhibit LBD-2 shows the Profit or Loss that WWC and PH are proposing in the
25 Application.

26 III. Staff’s Recommendations

27 **Q. Please summarize your conclusion and recommendations.**

1 A. After reviewing the Application and responses to data requests Staff have formed the
2 following conclusions and recommendations:

- 3
- 4 • Mr. Wilkerson currently uses his personal credit card to pay for expenses incurred
5 by WWC and PH. Staff recommends that the companies use a company credit
6 card for all business related transactions.
- 7 • During the audit, Staff spoke to both Mr. Wilkerson and Mr. Campbell regarding
8 uncollectibles for WWC. Staff noticed an increasingly amount of uncollectibles
9 for WWC particularly one development located within the WWC service area.
10 Mr. Wilkerson stated that he is aware of the on-going issues. Staff recommends
11 the Company pursue any legal action available after all internal attempts by the
12 Company have been exhausted.

Uncollectible Account					
	WWC	PH	TOTAL	\$ Change	% change
2010	\$ 320	\$ -	\$ 320		
2011	\$ 1,021	\$ -	\$ 1,021	\$ 701	219.06%
2012	\$ 5,413	\$ -	\$ 5,413	\$ 4,392	430.17%
2013	\$ 6,979	\$ -	\$ 6,979	\$ 1,566	28.93%

13

14 The Application included \$6,979 for the test year ending December 31, 2013.
15 This amount is 5% of the operating revenue (Combined).

- 16 • The Companies' well pump meter readings are recorded and stored on paper
17 calendars. If a calendar cannot be located yearly meter readings are estimated.
18 Staff recommends that the Companies record and store the information in an
19 electronic format.

- 1 • The Companies do not supply each new customer with a copy of the tariff. The
2 tariff is also not posted in the Companies’ Milford office. Staff recommends that
3 all new customers be given a copy of the applicable tariffs and that a copy be
4 posted or otherwise made available in the Milford office of the Companies.
- 5 • The Companies are seeking recovery of charitable contributions totaling \$150.
6 See Exhibit LBD-3. Staff believes it is not appropriate to charge ratepayers for
7 charitable contributions. These contributions are unrelated to providing safe and
8 adequate water service. The Commission addressed the issue of charitable
9 donations in Order No. 6911 dated February 4, 2004 (PSC Docket No. 04-41)
10 stating in paragraph 92:

11 *“In our view, charitable donation costs are not necessary*
12 *for the provision of safe and adequate service...we adopt*
13 *the Hearing Examiner’s Findings and Recommendation,*
14 *and conclude that charitable contributions will not be*
15 *included as operating expenses in this proceeding.”*

- 16 • J.H. Wilkerson & Son, Inc. is a family business headed by Mr. David Wilkerson.
17 Staff inquired as to whether the Company has a succession plan in place and was
18 informed that there was no such plan. Staff recommends that a succession plan
19 should be developed, formalized and adopted.

20 **Q: Is the rate increase just and reasonable?**

21 A: Yes. Staff is only proposing one adjustment of \$150 to donations, but it does not affect
22 the rates proposed by PH and WWC. Furthermore, the increase is about .75% per year
23 since the last increase for both companies. Additionally, the impact this increase would

1 have on WWC customers is \$1.66 per year since the last rate increase in 1991. The
2 impact PH customers would have is \$3.00 a year since the last rate increase in 1985.
3 Lastly, the new rates will enable the Company to adequately maintain and upgrade its
4 water plant. Therefore, Staff recommends the Commission approve the Company's
5 request for an increase as filed and that PH should be consolidated into WWC.

6 **Q: Do you have any other recommendations for the Company and Commission?**

7 A: Yes. Staff recommends the Company make more timely applications to the Commission
8 for increases in its rates to avoid future rate shock to its customers. Staff is also
9 concerned about the Company's future viability and will be monitoring the Company's
10 year-end financials beginning in March 2015.

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

12 A. Yes it does.

Wilkerson Water Company
Charges Wilkerson is proposing
For the Test Year Ending December 31, 2013

Quarterly - Wilkerson Water Company Cedar Creek Customers						
	Current Rate without DSIC	Proposed Increase	Proposed New Rates	Effective Date	Annual Basis	% Increase
3/4" Service	\$58.75	\$10.00	\$68.75	4/1/2015	\$275.00	17%

Semiannually - Other Wilkerson Water Company Customers						
	Current Rate without DSIC	Proposed Increase	Proposed New Rates	Effective Date	Annual Basis	% Increase
3/4" Service	\$117.50	\$20.00	\$137.50	4/1/2015	\$275.00	17%
1" Service	\$192.50	\$20.00	\$212.50	4/1/2015	\$425.00	10%

Annually - Prime Hook Customers						
	Current Rate without DSIC	Proposed Increase	Proposed New Rates	Effective Date	Annual Basis	% Increase
Service	\$185.00	\$90.00	\$275.00	7/1/2015	\$275.00	49%

Miscellaneous Charges						
	Current Rate without DSIC	Proposed Increase	Proposed New Rates	Effective Date	Annual Basis	% Increase
Tapping charge	\$500.00	\$100.00	\$600.00	4/1/2015		20%
Turn on service	\$50.00	\$25.00	\$75.00	4/1/2015		50%
Turn off service	\$50.00	\$25.00	\$75.00	4/1/2015		50%

The DSIC charges will be set to zero.

**Wilkerson Water Company and Prime Hook Water Company (Combined)
As of December 31, 2013**

	Income	Adjustments	Rate Adjustment
OPERATING REVENUES	\$133,281		\$26,211
OPERATING EXPENSES:			
Operatings & Maintenance	\$121,128	\$6,349	\$127,477
Depreciation	\$9,782		\$9,782
Amortization	\$1,812		\$1,812
Taxes Other Than Income Tax			
State Income Tax	\$49	(\$552)	\$2,280
Federal Income Tax	\$77	(\$869)	\$2,798
TOTAL OPERATING EXPENSES	\$132,848		\$143,646
OPERATING INCOME/LOSS	<u>\$433</u>		<u>\$15,846</u>
Difference projected in Net Income			\$15,413

References:
Schedule No. 2-B, 3, 3-C, 3-D

Wilkerson Water Company and Prime Hook Water Company, Inc.

ACCOUNT	VENDOR	AMOUNT	NATURE OF EXPENSE
Account 681	Bowers Beach Fire Company	50	Donation
Account 681	Ellendale Fire Company	100	Donation

Staffs proposed adjustment 150

Per Data Request response to PSC-GEN-2