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April 11, 2014

Ms. Alisa Bentley
Secretary
Delaware Public Service Commission
Suite 100, Cannon Building
861 Silver Lake Boulevard
Dover, DE 19904

Re: Application of Artesian Water Company, Inc.
For A Revision of Rates

Dear Ms. Bentley:

Enclosed please find the original and ten (10) copies of the application of Artesian Water Company, Inc. ("Applicant") for a general rate increase pursuant to Subchapter III of Title 26 of the Delaware Code, along with the Applicant's direct testimony and supporting schedules and exhibits prepared in accordance with the Commission's Minimum Filing Requirements. Also enclosed are a form of proposed Public Notice and a check in the amount of \$100.00 for the required filing fee. Applicant also seeks to put changes in rates in effect on an interim basis and submits herewith tariff sheets detailing the interim rates.

If you have any questions or concerns regarding the enclosed, please contact me or the appropriate Applicant official at your earliest convenience.

Very truly yours,



Karl G. Randall

KGR/ar
Enclosures

cc: Mr. Robert Howatt, Executive Director (w/o enc.)
Mr. David Bonar, Division of the Public Advocate
Mr. David B. Spacht (w/o enc.)

8159169



STATE OF DELAWARE
THE PUBLIC SERVICE COMMISSION
 CANNON BUILDING
 861 SILVER LAKE BLVD., SUITE 100
 DOVER, DELAWARE 19904

TELEPHONE: (302) 739-4247
 TELECOPIER: (302) 739-4849

FILING COVER SHEET

1. NAME OF APPLICANT: ARTESIAN WATER COMPANY, INC.
2. TYPE OF FILING: RATE CHANGE X
 FUEL ADJUSTMENT _____
 ADMINISTRATIVE _____
 CPCN _____
 NEW SERVICE OFFERING _____
 OTHER _____

IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED ?

BASIC _____ COMPETITIVE _____ DISCRETIONARY _____

3. PROPOSED EFFECTIVE DATE: June 10, 2014

IS EXPEDITED TREATMENT REQUESTED? YES ___ NO X ___

4. SHORT SYNOPSIS OF FILING: Artesian Water Company, Inc. requests authority to increase its rates and charges for water service to provide the Company with an opportunity to earn a fair rate of return. The increase is directly attributable to increased capital investments in non-revenue producing plant and increased costs including operating and maintenance expenses and depreciation expenses.

5. DOES THIS FILING RELATE TO PENDING DOCKETS: YES ___ NO X ___

IF YES, LIST DOCKET(S) NO(S): _____

6. IS PUBLIC NOTICE REQUIRED: YES X ___ NO _____

IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON: NAME: DAVID B. SPACHT
 TITLE: CFO AND TREASURER
 PHONE: (302) 453-6912
 FAX: (302) 322-6149

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

YES X ___ NO ___ IF YES, WHEN? 4/11/14 by courier

9. FILING FEE ENCLOSED: AMOUNT: \$100.00

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION *
OF ARTESIAN WATER COMPANY, INC. *
FOR AUTHORITY TO INCREASE RATES *
AND CHARGES FOR WATER SERVICE *
(Filed April 11, 2014) *

PSC Docket No. 14-_____

APPLICATION OF
ARTESIAN WATER COMPANY, INC.
FOR A REVISION OF RATES

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April 11, 2014

Artesian Water Company, Inc. ("AWC" or the "Company") hereby submits this application for authority to increase rates and charges for water service pursuant to 26 *Del. C.* §§ 201, 209, 304 and 306.

I. APPLICANT

1. AWC is a Delaware public water utility, regulated by the Delaware Public Service Commission ("Commission"). AWC distributes and sells water to residential, commercial, industrial, governmental, municipal and utility customers throughout the state of Delaware. As of December 31, 2013, the Company was serving 79,676 metered, mostly residential customers across the state of Delaware. AWC is a wholly owned subsidiary of Artesian Resources Corporation. AWC is a Delaware corporation providing water service to customers pursuant to rates last established by the Commission in Order No. 8934, dated December 22, 2011 in Docket No. 11-207.

2. Communication with regard to this application may be directed to the following persons:

David B. Spacht
CFO & Treasurer
Artesian Water Company, Inc.
664 Churchmans Road
Newark, Delaware 19702
(302) 453-6900
E-mail dspacht@artesianwater.com

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E-mail: mhoughton@mnat.com
Counsel for the Applicant

II. REQUESTED COMMISSION ACTION

3. AWC requests Commission authority to implement revised rates that afford the Company the opportunity to increase rates by an overall 15.91 percent to collect an additional \$9,983,823 in annual water service revenues from customers beginning June 10, 2014. The actual proposed increase is less since the Company has been permitted to recover specific investments made in infrastructure through the assessment of a 3.32 percent Distribution System Improvement Charge ("DSIC"). Since the DSIC rate is set to zero when temporary rates are placed into effect, customers would experience an incremental increase of 12.59 percent, the net of the overall 15.91 percent increase less the DSIC rate currently in effect of 3.32 percent. If the Commission elects to further analyze AWC's proposal for revising its rates and charges for water service, the Company respectfully requests that the Commission approve temporary rates in accordance with 26 *Del. C.* § 306 (c).

III. THE NEED FOR RATE RELIEF

4. AWC has developed a financial analysis based on data consistent with the period ended September 30, 2014. The testimony of David L. Valcarengi, filed with this application, describes and supports the Company's need for additional water service revenues. The application also includes the testimony of Pauline M. Ahern, CRRRA, who fully describes and supports the Company's cost of capital requirements; and the testimony of John F. Guastella, who describes and supports the development of the reasonable rates that will be assessed by the Company.

5. AWC's corporate mission is to provide a safe, reliable and quality water supply for customers, while working to increase access to quality water in communities not previously served by a regulated water provider.

6. AWC continues to invest in essential capital improvements to ensure that customers will continue to receive safe, reliable and high-quality water supply and a resilient distribution network for delivery of that supply.

7. AWC has invested approximately \$20.5 million since the conclusion of the last rate proceeding, Docket No. 11-207, on critical supply and distribution projects for well replacements and redevelopment, as well as the use of new water treatment technology. These critical investments address ever growing and increasingly stringent regulatory requirements and assure that the high quality water AWC produces reaches its customers through AWC's network of distribution facilities without interruption. In addition to amounts already invested, AWC will invest another \$26.6 million on a number of priority capital projects that will be completed by the end of September 2014, including approximately \$11.0 million as part of the Company's ongoing effort to regularly replace aging infrastructure and \$9.5 million to continue to assure our sources of supply remain viable, efficient and capable of providing an uninterrupted supply of high quality water by rehabilitating wells, pump stations and treatment facilities. AWC also expects to invest approximately \$1.0 million to relocate various water mains to accommodate state and local government projects. Cumulatively, since the last rate case, AWC will have invested approximately \$47.1 million on these vital infrastructure projects in a 36-month period so that AWC can continue to meet increasingly stringent regulatory requirements while also assuring an ample water supply to meet its customers' demands. The testimony of C. Thomas deLorimier, filed contemporaneously with this application, provides a thorough discussion of the Company's distribution network and the need for projects the Company has undertaken and expects to complete by the end of September 2014.

8. AWC continues to invest in improvements necessary to ensure water delivered to customers is of the utmost quality. During the test period in this application, the Company will invest approximately \$4 million in new water treatment technology for an advanced water treatment system at its Llangollen wellfield to ensure removal of 1,4 dioxane, a newly detected contaminant, from the water supply. In addition to the significant capital costs, AWC will incur ongoing additional costs related to the operation of the new treatment system of approximately \$120,000 per year that is not currently reflected in AWC's rates. This investment in treatment equipment and the related increase in annual operating costs is just the most recent example of how water utilities must address the detection of contaminants found at much lower levels of detection as the scientific ability to detect them continues to improve.

9. Although AWC will have invested \$47.1 million in critical non-revenue generating infrastructure projects through September 2014, the requested Rate Base in this application has grown by only \$9 million since AWC's last rate application three years ago, which significantly reduces the otherwise dramatic effect this sort of investment might have on customer rates. The reduction in recoverable investment is achieved through the Company's strategic and effective use of developer financing through Contributions in Aid of Construction as prescribed in PSC Docket 15 and the use of specific federal tax allowances such as accelerated tax and bonus depreciation provisions that reduce the Company's current actual tax burden. Those savings are invested by AWC in infrastructure and reflected as a deduction from rate base as a deferred tax. While those taxes are payable in future periods, the customer enjoys the benefits of a reduced base upon which the Company would be permitted to earn a fair rate of return until those amounts are actually paid.

10. AWC's last rate proceeding was resolved through a negotiated settlement agreement that was approved by the Commission in PSC Order Number 8097. The approved settlement afforded the Company an opportunity to earn an overall rate of return of 7.91 percent, including a 10.0 percent return on equity. Since the last rate proceeding, AWC has not been able to earn its allowed rate of return. In the historic test year ending December 31, 2013, the Company earned an overall rate of return of 6.59 percent and the earned rate of return is expected to further deteriorate to 5.70 percent by the end of September 2014. Accordingly, AWC has filed this application seeking authority to revise its rates to recover substantial amounts expended for capital improvements and operating costs, including depreciation, and also to provide the Company an opportunity to earn a fair and reasonable rate of return.

11. AWC has continued its efforts to control and reduce operating costs. Recently, AWC hired an individual to act as the Company's central purchasing agent who specifically focuses on identifying and implementing opportunities to reduce costs. AWC has also furthered its Information Technology automation efforts and has been able to reduce Information Technology department personnel by four staff. Nonetheless, AWC has experienced, and will continue to experience in the near term, increases in operating costs, including those related to payroll and employee benefits, purchased power, purchased water, water quality testing and chemicals.

12. AWC needs to retain a trained and experienced workforce to perform critical functions across a complex integrated water system comprising multiple sources of supply with varying water characteristics and treatment technology requirements with water distributed through ten distinct service levels. It is their responsibility to ensure customers receive high-quality water and reliable service. In order to attract and retain qualified personnel

capable of meeting this responsibility, AWC must be able to offer competitive wages and benefits. To ensure that AWC's employee wages remain competitive, an independent compensation study commissioned by AWC's Compensation Committee of the Board of Director's (the "Committee") was recently conducted. The Committee, made up of entirely independent Director's (as defined by NASDAQ), sifted through 11 potential consulting firms, choosing a firm which met specific criteria including that they were certified as independent from any business or personal relationship with any member of the Company's management or Board of Directors. The successful bidder conducted two separate studies reviewing the pay and wage levels of executives and, separately, other operational personnel over the course of approximately nine months. The Consultant concluded after reviewing the study that the Company's current levels of pay and wages were appropriate.

13. AWC has managed its payroll expenditures carefully and properly. Between December 31, 2010 (historic test year in PSC Docket 11-207) and December 31, 2013 (historic test year in this application), payroll expense (not including benefits) increased a total of 2.99 percent. Comparatively, data from the U.S. Bureau of Labor Statistics show that Delaware area businesses have seen increases in wages in the range of 4 percent to 5 percent over the same period of time. AWC's full-time employee base increased by nine positions since the conclusion of the last case, from 213 employees on December 31, 2010 to 222 on December 31, 2013, including the addition of operational employees through the end of the Test Period to ensure the continued reliability of the system. In this case, AWC is seeking a \$1.5 million increase in payroll and benefit costs over the total expense included in PSC Docket 11-207, which represents an approximate 8.3 percent increase for the entire three year period, or 2.7 percent per annum over the three year period since the last rate case. Considering the significant cost

pressures placed upon employment compensation costs, especially in the area of rising medical insurance costs where companies have seen double digit increases, AWC's pro forma payroll and benefit costs are both fair and reasonable.

14. AWC takes seriously its responsibility for ensuring the reasonableness of its operating costs, including water purchased for customers. AWC's annual purchased water expense associated with the Chester Water Authority interconnection was \$2,750,688 in 2007. Chester notified the Company that it would raise its rates some 27% over the next three years. Previously, Chester had increased its rates modestly with increases amounting to less than 2% annually. But Chester Water is and remains an unregulated, quasi-governmental agency that sets rates based on management recommendations to its independent board of directors. From the time Artesian received the notice in 2007, the Company made a concerted effort to understand the need for the increase, through the use of independent consultants, and made extensive efforts to negotiate amicably with Chester Water for equitable relief from such increase. In 2010, after all efforts were exhausted, AWC instituted the only remaining option it had at its disposal, a lawsuit against the Chester Water Authority challenging the rate assigned by Chester as excessive and seeking relief on behalf of AWC's customers. AWC has spent approximately \$1.6 million to date attempting to mitigate the excessive rate assessed by Chester and requests recovery of those costs over the remaining life of the contract. If successful, AWC would pass along to its customers not only \$1,008,000 in annual savings associated with the Chester Water rate increases currently in this rate application but also amounts paid by its customers since 2007 when those rates were passed along to AWC's customers in rate applications in 2008 and 2011. The amortized cost of this proceeding would pale in comparison to the long-term savings of over \$1,008,000 per year afforded the customer for this effort. However, no ruling has been rendered

in the case pending before the Federal Court for the Eastern District of Pennsylvania and AWC must continue to pass along noticed and expected increases associated with this interconnection. As such, AWC expects Chester to increase its purchased water rates by 10% on or before July 1, 2014, in part because Chester has not increased its rates since AWC filed its lawsuit in 2010. The approximate \$347,000 annual increase in Chester Water purchased water cost included in this application represents the Company's best estimate of an expected increase based on past experience. Should AWC not be notified of an increase prior to the beginning of Chester's fiscal year, July 1, 2014, it will reduce the requested increase in this application.

15. Similar to other water utility companies, AWC is a highly capital-intensive company and, therefore, must have an opportunity to earn a sufficient rate of return to attract the necessary capital to accommodate significant construction projects for repair and rehabilitation, water conservation, and a tightening of state and federal water quality standards. Not only does the water industry maintain the highest multiple of nearly \$4.00 of investment for every \$1.00 revenue, compared to the multiple of \$1.47 for gas companies, but a continuing reduction in customer consumption brought about by changing plumbing codes, environmental efforts to conserve water and shrinking household size has spread historic infrastructure costs across a constantly shrinking volumetric base. Add the decreasing customer water consumption to the challenges of increasing regulation of water quality and the fact that water utilities are the only utility with an ingestible product and you have a significant increase in risk associated with the ability of a water utility to earn a fair return on that investment. In this rate application, AWC seeks an overall rate of return of 8.40 percent, which includes a return on equity of 10.90 percent applied to capitalization ratios as of the end of the test period on September 30, 2014. As noted previously, AWC has been unable to earn its allowed rate of return of 7.91 percent over

the last three years due to all the factors noted above. However, any reduction in allowed return on equity would compound the inability for the Company to earn a fair rate of return. The inability of the Company to have an opportunity to earn that fair rate of return puts AWC at significant disadvantage when investors compare AWC to other investment options that are available to them in the market place. Artesian has built a strong balance sheet, with a capital ratio of 50 percent debt and 50 percent equity, allowing it to access the appropriate financial market at the appropriate time. That flexibility has afforded the customer a reduction in overall rate of return by reducing borrowing costs as well. Conversely, as AWC has requested in this application, an increase in the return on equity would provide the stable base necessary to maintain a strong balance sheet and strengthen its position in the market so that AWC can continue to obtain funds to meet its on-going water infrastructure investment requirements.

IV. TEMPORARY RATES

16. If the Commission elects not to implement the full level of rates as requested by the Company, AWC respectfully requests authority to implement temporary rates in accordance with 26 *Del. C.* § 306 (c), which authorize a utility to implement temporary rates that will increase current annual revenues by the lower of \$2,500,000 or 15 percent of the gross utility annual revenues.

17. AWC requests authority to implement temporary rates that will enable the Company to recover \$2,460,674 in additional annual water service revenues. The expected revenues were derived by increasing current rates based on the ratio of temporary revenues per statute of \$2,500,000 to Pro Forma Revenues at Current Rates.

18. AWC has been unable to earn its authorized fair rate of return on its investments due to a combination of factors, including substantial investments in non-revenue

producing infrastructure projects, such as main replacements, that do not provide additional revenues for the Company, increased operating costs and declining per customer consumption.

19. AWC's water operations produced a book return of 6.59 percent in 2013, which is expected to decline to 5.70 percent by the end of September 2014. The earnings levels are well below the 7.91 percent overall rate of return granted in Docket No. 11-207, and significantly below the 8.40 percent overall rate of return sought by AWC in this rate application.

20. AWC requests relief from providing a surety bond with the implementation of temporary rates. AWC is strong financially and has access to sufficient financial resources to provide a refund, if so ordered by the Commission. Indeed, AWC has a Line of Credit of \$40,000,000 with Citizens Bank, and a Line of Credit of \$20,000,000 with CoBank. The Commission allowed AWC to implement temporary rates in its prior rate case, Docket No. 11-207, without the need for a surety bond. AWC agrees to abide by any Commission order that would necessitate a refund of amounts collected through the use of the temporary rates.

21. AWC has developed revised tariff pages for the assessment of temporary rates that will be effective 60 days after the date of the rate application. AWC estimates that Temporary Rates will enable the Company to collect approximately \$1,025,281 in additional revenues through the end of the suspension period. This application includes appropriate analyses that document and support the development of the Company's proposed Temporary Rates and show that the calculated rates are in compliance with the provisions of 26 *Del. C.* § 306 (c).

V. THE RELIEF SOUGHT

22. AWC seeks Commission approval of the rates and charges included in the attached tariff, that provide the Company the ability to collect an additional \$9,983,823 in annual water service revenues that provide the Company an opportunity to earn an overall rate of return of 8.40 percent, including a 10.90 percent return on common equity.

23. AWC requests Commission approval of various changes to its Rules and Regulations in its currently effective Operating Tariff.

24. If the Commission elects to further analyze AWC's rate application, the Company respectfully requests that the Commission approve Temporary Rates as reflected in the Temporary Tariff that will provide AWC an opportunity to collect an additional \$2.5 million in annual water service revenues.

25. AWC requests Commission approval of various changes to the Rules and Regulations set forth in its Tariff, which are described in the direct testimony of David L. Valcarenghi, filed contemporaneously herewith.

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WHEREFORE, AWC respectfully requests that the Commission authorize AWC to implement revised rates and charges for water service and to effect certain changes to its Operating Tariff.

MORRIS, NICHOLS, ARSHT & TUNNELL LLP



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Attorneys for Artesian Water Company, Inc.

April 11, 2014

CERTIFICATE OF SERVICE

I, Karl G. Randall, Esquire, do hereby certify that the APPLICATION OF ARTESIAN WATER COMPANY, INC. FOR A REVISION OF RATES will be served the 11th day of April, 2014 as indicated below:

VIA HAND DELIVERY (Original and 10 copies)

Alisa Bentley, Secretary
Delaware Public Service Commission
Suite 100, Cannon Building
861 Silver Lake Blvd.
Dover, Delaware 19904

VIA COURIER DELIVERY

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Karl G. Randall (#5054)

Artesian Water Company, Inc.
 Pro Forma Revenues Under Present Rates
 Impact of Additional Revenues From Temporary Rates

	Pro Forma Revenue at Current Rates	Adjustments	Pro Forma Revenue at Temp Rates
Total Water Sales	62,752,316		65,212,850
Other Operating Revenues	<u>1,545,173</u>	<u>2,460,534</u>	<u>1,545,173</u>
Total Operating Revenues	<u>64,297,489</u>	<u>2,460,534</u>	<u>66,758,023</u>
Operating Revenues	64,297,489	2,460,534	66,758,023
Total Operating Expenses	<u>47,171,293</u>	<u>15,354</u>	<u>47,186,647</u>
Utility Operating Income Before Income Taxes	17,126,196	2,445,180	19,571,376
Income Taxes			
Federal Income Taxes	2,955,835	759,033	3,714,868
State Income Taxes	828,418	212,731	1,041,149
Deferred Income Taxes	<u>710,044</u>		<u>710,044</u>
Total Income Taxes	4,494,297	<u>971,764</u>	5,466,061
Utility Operating Income Net of Tax	12,631,899	1,473,417	14,105,316
Pro Forma Rate Base	<u>221,767,586</u>		<u>221,767,586</u>
Rate of Return	<u>5.70%</u>		<u>6.36%</u>

**ARTESIAN WATER COMPANY, INC.
PROOF OF REVENUE**

Description	Bills/Usage	Present		Temporary Rates		Percent Increase
		Rates	Revenue	Rates	Revenue	
Customer Charge:						
Monthly						
5/8" or 1/2"	915,096	\$ 13.22	\$ 12,097,569	\$ 13.75	\$ 12,582,570	4.01%
3/4"	7,788	15.86	123,518	16.49	128,424	3.97%
1"	8,940	21.15	189,081	21.99	196,591	3.97%
1-1/2"	5,976	42.29	252,725	43.97	262,765	3.97%
2"	11,100	55.51	616,161	57.72	640,692	3.98%
3"	1,764	84.59	149,217	87.96	155,161	3.98%
4"	804	121.59	97,758	126.43	101,650	3.98%
6"	852	211.47	180,172	219.89	187,346	3.98%
8"	1,584	317.20	502,445	329.84	522,467	3.98%
10"	96	502.23	48,214	522.24	50,135	3.98%
Total Revenues from Customer Charges			\$ 14,256,860		\$ 14,827,800	
Water Charge:						
All Other						
First 500 T.G.	1,773,283	\$ 5.887	\$ 10,439,317	\$ 6.122	\$ 10,856,036	3.99%
Over 500 T.G.	376,740	6.776	2,552,790	7.046	2,654,513	3.98%
Total			\$ 12,992,107		\$ 13,510,549	
Residential						
First 2 T.G.	1,689,176	\$ 6.565	\$ 11,089,440	\$ 6.827	\$ 11,532,005	3.99%
Next 5 T.G.	1,866,109	7.098	13,245,642	7.381	13,773,751	3.99%
Over 7 T.G.	247,294	8.277	2,046,852	8.607	2,128,459	3.99%
Total			26,381,935		27,434,215	
CCH Rate	103,477	\$ 3.887	\$ 402,215	\$ 4.042	\$ 418,254	3.99%
Wholesale						
All Usage Rate 1 (Middletown)	226,344	2.125	480,981	2.210	500,220	4.00%
All Usage Rate 2 (DCC)	156,131	2.243	350,202	2.332	364,097	3.97%
All Usage Rate 3 (New Castle)	6,710	3.100	20,801	3.100	20,801	0.00%
All Usage Rate 4 (AWC to AWCMD)	259,700	3.762	976,991	3.762	976,991	0.00%
All Usage Rate 5 (Chesapeake City)	29,173	4.104	119,726	4.104	119,726	0.00%
All Usage Rate 6 (Clayton)	7,209	2.000	14,418	2.000	14,418	0.00%
Total			\$ 1,963,119		\$ 1,996,254	
Total Revenues from Consumption			\$ 41,739,376		\$ 43,359,272	3.88%
Total Sales Revenues from General Customers			\$ 55,996,236		\$ 58,187,072	3.91%
Public Fire Protection Charge						
5/8" or 1/2"	907,044	\$ 4.00	\$ 3,628,176	\$ 4.16	\$ 3,773,303	4.00%
3/4"	7,488	5.98	44,778	6.22	46,575	4.01%
1"	8,196	10.00	81,960	10.40	85,238	4.00%
1-1/2"	5,784	19.94	115,333	20.73	119,902	3.96%
2"	10,308	31.99	329,753	33.26	342,844	3.97%
3"	1,692	60.02	101,554	62.41	105,598	3.98%
4"	684	100.04	68,427	104.03	71,157	3.99%
6"	648	200.39	129,853	208.37	135,024	3.98%
8"	1,044	319.71	333,777	332.45	347,078	3.98%
10"	36	511.38	18,410	531.75	19,143	3.98%
Total Public Fire Charge			\$ 4,852,021		\$ 5,045,862	
Private Fire Protection Charge						
1 1/2"	300	\$ 19.26	\$ 5,784	\$ 20.05	\$ 6,015	3.99%
2"	1,296	40.95	53,071	42.58	55,184	3.98%
4"	1,932	105.69	206,125	110.94	214,336	3.98%
6"	3,828	227.47	870,755	236.53	905,437	3.98%
8"	1,920	378.70	727,104	393.79	756,077	3.98%
10"	60	565.73	33,944	588.27	35,296	3.98%
12"	12	618.19	7,418	642.82	7,714	3.98%
Total Private Fire Charge			\$ 1,904,202		\$ 1,980,058	
Total Fire Protection Revenues			\$ 6,756,222		\$ 7,025,920	
Total Revenue From Sales			\$ 62,752,459		\$ 65,212,993	
Miscellaneous Revenues			\$ 1,545,173		\$ 1,545,173	
Total Revenues			\$ 64,297,632		\$ 66,758,166	
Annualized from Temp Rates	\$ 2,500,000			\$ 2,460,534		
Annualized Percentage Increase	\$ 62,752,459					
Annualized Percentage Increase	3.98%					
Projected Revenue to be Collected During Suspension Period				\$ 1,025,222		

Late Payment Penalty:

A late payment penalty will be applied to any outstanding balance which remains outstanding 25 days after the bill date, until payment is received in full. The monthly penalty will be at a rate equal to one-twelfth of the sum of prime rate plus 5%, and the prime rate will be updated quarterly.

Customer Charge:

This is a monthly service fee for providing the customer with water service and recovers expenses not directly associated with water production or delivery, such as meter reading, billing, payment remittance and other costs. The charge is the same in each billing period, is billed in advance, and is based on the size of the meter through which service is furnished.

Monthly Charge

Monthly customer charges by meter size are as follows:

Size of Meter

5/8".....	\$ <u>13.2213.75</u>	<u>I</u>
3/4".....	\$ <u>15.8616.49</u>	<u>I</u>
1".....	\$ <u>21.1521.99</u>	<u>I</u>
1-1/2".....	\$ <u>42.9443.97</u>	<u>I</u>
2".....	\$ <u>55.5157.72</u>	<u>I</u>
3".....	\$ <u>84.5987.96</u>	<u>I</u>
4".....	\$ <u>121.59126.43</u>	<u>I</u>
6".....	\$ <u>211.72219.89</u>	<u>I</u>
8".....	\$ <u>317.20329.84</u>	<u>I</u>
10".....	\$ <u>502.24522.24</u>	<u>I</u>

Water Charge

The charge, at a rate per thousand gallons of water registered by the meter, is as follows:

Residential			
0 - 2,000 gallons.....		\$ 6.56 <u>6.827</u>	!
2,001 – 7,000 gallons.....		\$ 7.09 <u>7.381</u>	!
Over 7,000 gallons.....		\$ 8.27 <u>8.607</u>	!
CCH			
Rate.....		\$ 3.88 <u>74.042</u>	!
All Other			
0 - 500,000 gallons.....		\$ 5.88 <u>76.122</u>	!
Over 500,000 gallons.....		\$ 6.77 <u>67.046</u>	!

For purposes of the Water Charge, a residential customer service is defined as:

- (a) a single family dwelling
- (b) multi-unit structures consisting of four or less units of which at least one serves as a dwelling
- (c) four or less separate structures on one property, of which at least one such structure serves as a dwelling and all of which are served through a single meter.

For purposes of the Water Charge, pursuant to prior PSC orders, Christiana Care Hospital (CCH) is served under a separate exclusive rate classification. Christiana Care Hospital is the only customer eligible for this rate classification.

Public Fire Hydrant Ready to Serve Charge:

A charge for customers who are provided with public fire protection by means of fire hydrants. The charge is the same each billing period, is billed in advance, and is based on the size of the meter used to calculate the customer charge. Upon request of a municipality, Fire Hydrant Ready to Serve Charges may be billed to a municipality in total for all property owners within the municipality where Public Fire Protection is provided in lieu of the following individual customer billing charges:

Monthly Fire Hydrant Ready to Serve Charge

Size of Meter			
5/8"	\$	<u>4.004.16</u>	<u>I</u>
3/4"	\$	<u>5.986.22</u>	<u>I</u>
1"	\$	<u>10.0010.40</u>	<u>I</u>
1-1/2"	\$	<u>19.9420.73</u>	<u>I</u>
2"	\$	<u>31.9933.26</u>	<u>I</u>
3"	\$	<u>60.0262.41</u>	<u>I</u>
4"	\$	<u>100.04104.03</u>	<u>I</u>
6"	\$	<u>200.39208.37</u>	<u>I</u>
8"	\$	<u>319.71332.45</u>	<u>I</u>
10"	\$	<u>511.38531.75</u>	<u>I</u>

Private Fire Protection Charge:

A charge for customers who are provided with private fire protection through a sprinkler system or a private fire hydrant. The charge will be billed monthly in advance as follows:

1-1/2" detector check.....	\$	<u>49,2820.05</u>	<u>I</u>
2" detector check.....	\$	<u>40,9542.58</u>	<u>I</u>
4" detector check.....	\$	<u>106,69110.94</u>	<u>I</u>
6" detector check.....	\$	<u>227,47236.53</u>	<u>I</u>
8" detector check.....	\$	<u>378,70393.79</u>	<u>I</u>
10" detector check.....	\$	<u>565,73588.27</u>	<u>I</u>
12" detector check.....	\$	<u>618,19642.82</u>	<u>I</u>
Private Hydrant.....	\$	<u>227,47236.53</u>	

The private hydrant charge is assessed monthly per hydrant for each private hydrant. Charges for water registered on bypass meters installed on lines providing private fire protection will be billed monthly in arrears. All water registered on bypass meters will be billed at the rate of \$8,2778.607 per 1,000 gallons. I

Distribution System Improvement Charge

In addition to the net charges provided for in this Tariff, a charge of 3.320.00% will apply to all charges rendered on or after January 1, 2014 June 10, 2014.

This charge will be recomputed semi-annually, using the elements prescribed by Section 314 of Title 26 of the Delaware Code.

SPECIAL SERVICES

The following Rules and Rates are applicable throughout the territory served by the Company for the following specified services.

Payment Terms:

All bills are due and payable upon presentation. See section titled "Bills and Payment" for additional information. Unpaid bills will result in finance charges and eventual shut off of service in accordance with Rule 46.

Temporary or Infrequent Water Use:

Temporary or infrequent water use will be billed monthly.

The minimum charge for a temporary service connection for construction or other purposes is the same as the Customer Charge for a meter of the size installed on the temporary service connection. The minimum charge covers the same period as the Customer Charge on which it is based, one month, and is rebilled if the temporary service connection remains in use after such period has elapsed.

The minimum charge is paid in advance and does not include any allowance for water usage. All water as registered by meters installed on temporary service connections is billed at the rate of \$~~8,2778.607~~ per 1,000 gallons. No proration of the minimum charge will be made for temporary service connections that remain in use for less than the period covered by such charge. Where a temporary service connection requires use from hydrant, there is a \$15.00 hook-up charge. **I**

Service Appointments:

If a scheduled appointment is not kept by the customer, all rescheduled and subsequent appointments not kept by the customer will result in a \$50.00 charge to the customer's account.

Consolidated Billing:

Under consolidated billing an eligible customer receives one combined bill that outlines charges for services rendered from the Company and Artesian Wastewater Management, Inc. ("AWMI"). An eligible customer, in this instance, is defined as a water customer that receives wastewater service from AWMI. When the Company provides consolidated billing that combines charges for water and wastewater service, payments will be applied in the following sequence:

- (a) Any existing arrearages for either water or wastewater service;
- (b) Arrears by vintage priority for water or wastewater service. A water service arrearage has a higher priority than wastewater service arrearage of the same vintage;
- (c) Current charges for water service;
- (d) Current charges for wastewater service.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: June 10, 2014

Ninth -Second Supplemental Sheet
Canceling
Eighth – Second Supplemental Sheet

This Second Supplemental Sheet is applicable to customers in the city of Middletown located within the County of New Castle. The total charge for metered service consists of the water charge.

| Water Charge: \$~~2.1252.210~~2.210 per thousand |

All bills are due and payable upon presentation.

Late Payment Penalty:

A late payment penalty will be applied to any outstanding balance which remains outstanding 25 days after the bill date, until payment is received in full. The monthly penalty will be at a rate equal to one-twelfth of the sum of prime rate plus 5%, and the prime rate will be updated quarterly.

Customer Charge:

This is a monthly service fee for providing the customer with water service and recovers expenses not directly associated with water production or delivery, such as meter reading, billing, payment remittance and other costs. The charge is the same in each billing period, is billed in advance, and is based on the size of the meter through which service is furnished.

Monthly Charge

Monthly customer charges by meter size are as follows:

Size of Meter

5/8".....	\$ 13.75
3/4".....	\$ 16.49
1".....	\$ 21.99
1-1/2".....	\$ 43.97
2".....	\$ 57.72
3".....	\$ 87.96
4".....	\$126.43
6".....	\$219.89
8".....	\$329.84
10".....	\$522.24

Water Charge

The charge, at a rate per thousand gallons of water registered by the meter, is as follows:

Residential	
0 - 2,000 gallons.....	\$6.827
2,001 – 7,000 gallons.....	\$7.381
Over 7,000 gallons.....	\$8.607
CCH	
Rate.....	\$4.042
All Other	
0 - 500,000 gallons.....	\$6.122
Over 500,000 gallons.....	\$7.046

For purposes of the Water Charge, a residential customer service is defined as:

- (a) a single family dwelling
- (b) multi-unit structures consisting of four or less units of which at least one serves as a dwelling
- (c) four or less separate structures on one property, of which at least one such structure serves as a dwelling and all of which are served through a single meter.

For purposes of the Water Charge, pursuant to prior PSC orders, Christiana Care Hospital (CCH) is served under a separate exclusive rate classification. Christiana Care Hospital is the only customer eligible for this rate classification.

Public Fire Hydrant Ready to Serve Charge:

A charge for customers who are provided with public fire protection by means of fire hydrants. The charge is the same each billing period, is billed in advance, and is based on the size of the meter used to calculate the customer charge. Upon request of a municipality, Fire Hydrant Ready to Serve Charges may be billed to a municipality in total for all property owners within the municipality where Public Fire Protection is provided in lieu of the following individual customer billing charges:

Monthly Fire Hydrant Ready to Serve Charge

Size of Meter	
5/8".....	\$ 4.16
3/4".....	\$ 6.22
1".....	\$ 10.40
1-1/2".....	\$ 20.73
2".....	\$ 33.26
3".....	\$ 62.41
4".....	\$ 104.03
6".....	\$ 208.37
8".....	\$ 332.45
10".....	\$ 531.75

Private Fire Protection Charge:

A charge for customers who are provided with private fire protection through a sprinkler system or a private fire hydrant. The charge will be billed monthly in advance as follows:

1-1/2" detector check.....	\$ 20.05
2" detector check.....	\$ 42.58
4" detector check.....	\$ 110.94
6" detector check.....	\$ 236.53
8" detector check.....	\$ 393.79
10" detector check.....	\$ 588.27
12" detector check.....	\$ 642.82
Private Hydrant.....	\$ 236.53

The private hydrant charge is assessed monthly per hydrant for each private hydrant. Charges for water registered on bypass meters installed on lines providing private fire protection will be billed monthly in arrears. All water registered on bypass meters will be billed at the rate of \$8.607 per 1,000 gallons.

Distribution System Improvement Charge

In addition to the net charges provided for in this Tariff, a charge of 0.00% will apply to all charges rendered on or after June 10, 2014.

This charge will be recomputed semi-annually, using the elements prescribed by Section 314 of Title 26 of the Delaware Code.

SPECIAL SERVICES

The following Rules and Rates are applicable throughout the territory served by the Company for the following specified services.

Payment Terms:

All bills are due and payable upon presentation. See section titled "Bills and Payment" for additional information. Unpaid bills will result in finance charges and eventual shut off of service in accordance with Rule 46.

Temporary or Infrequent Water Use:

Temporary or infrequent water use will be billed monthly.

The minimum charge for a temporary service connection for construction or other purposes is the same as the Customer Charge for a meter of the size installed on the temporary service connection. The minimum charge covers the same period as the Customer Charge on which it is based, one month, and is rebilled if the temporary service connection remains in use after such period has elapsed.

The minimum charge is paid in advance and does not include any allowance for water usage. All water as registered by meters installed on temporary service connections is billed at the rate of \$8.607 per 1,000 gallons. No proration of the minimum charge will be made for temporary service connections that remain in use for less than the period covered by such charge. Where a temporary service connection requires use from hydrant, there is a \$15.00 hook-up charge.

Service Appointments:

If a scheduled appointment is not kept by the customer, all rescheduled and subsequent appointments not kept by the customer will result in a \$50.00 charge to the customer's account.

Consolidated Billing:

Under consolidated billing an eligible customer receives one combined bill that outlines charges for services rendered from the Company and Artesian Wastewater Management, Inc. ("AWMI"). An eligible customer, in this instance, is defined as a water customer that receives wastewater service from AWMI. When the Company provides consolidated billing that combines charges for water and wastewater service, payments will be applied in the following sequence:

- (a) Any existing arrearages for either water or wastewater service;
- (b) Arrears by vintage priority for water or wastewater service. A water service arrearage has a higher priority than wastewater service arrearage of the same vintage;
- (c) Current charges for water service;
- (d) Current charges for wastewater service.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: June 10, 2014

Ninth -Second Supplemental Sheet
Canceling
Eighth – Second Supplemental Sheet

This Second Supplemental Sheet is applicable to customers in the city of Middletown located within the County of New Castle. The total charge for metered service consists of the water charge.

Water Charge:

\$2.210 per thousand

All bills are due and payable upon presentation.

ARTESIAN WATER COMPANY, INC.
P.S.C. No. 1 - WATER
Effective: June 10, 2014

Eleventh -Third Supplemental Sheet
Canceling
Tenth – Third Supplemental Sheet

This Third Supplemental Sheet is applicable to the Delaware Correctional Center.
Due to the unique nature of the agreement between the State of Delaware and Artesian, the rates are
as follows:

Water Charge:

\$2.332 per thousand gallons

All bills are due and payable upon presentation.

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

IN THE MATTER OF THE APPLICATION *
OF ARTESIAN WATER COMPANY, INC. *
FOR AUTHORITY TO INCREASE RATES * PSC Docket No. 14- _____
AND CHARGES FOR WATER SERVICE *
(Filed April 11, 2014) *

PUBLIC NOTICE

TO: ALL CUSTOMERS OF ARTESIAN WATER COMPANY, INC.

On April 11, 2014, Artesian Water Company, Inc. (“AWC” or the “Company”) filed with the Delaware Public Service Commission (“Commission”) an application for an increase in its water service rates across all rate classifications. The new proposed rates and charges increase annual water service revenues by approximately 15.91% or \$9.984 Million.

The following tables present a summary of AWC’s present rates and those proposed in its rate application.

MONTHLY USAGE RATES (per 1,000 gallons)

RESIDENTIAL

Current Rate Tiers	Current	Proposed Rate Tiers	Proposed
First 2,000 Gallons	\$6.565	First 2,000 Gallons	\$7.793
Next 5,000 Gallons	\$7.098	Next 5,000 Gallons	\$8.425
Over 7,000 Gallons	\$8.277	Over 7,000 Gallons	\$9.825

ALL OTHER

Current Rate Tiers	Current	Proposed Rate Tiers	Proposed
First 500,000 Gallons	\$5.887	First 500,000 Gallons	\$6.988
Over 500,000 Gallons	\$6.776	Over 500,000 Gallons	\$8.043

CCH

Current Rate per T.G. \$3.887	Proposed Rate per T.G. \$4.598
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MONTHLY CUSTOMER CHARGES

Meter Size	Current	Proposed
5/8"	\$13.22	\$14.51
3/4"	\$15.86	\$17.42
1"	\$21.15	\$23.22
1-1/2"	\$42.29	\$46.44
2"	\$55.51	\$60.96
3"	\$84.59	\$92.89
4"	\$121.59	\$133.52
6"	\$211.47	\$232.21
8"	\$317.20	\$348.32
10"	\$502.23	\$551.51

MONTHLY PUBLIC FIRE PROTECTION CHARGES

Meter Size	Current	Proposed
5/8"	\$4.00	\$4.71
3/4"	\$5.98	\$7.03
1"	\$10.00	\$11.76
1-1/2"	\$19.94	\$23.43
2"	\$31.99	\$37.59
3"	\$60.02	\$70.55
4"	\$100.04	\$117.59
6"	\$200.39	\$235.74
8"	\$319.71	\$376.03
10"	\$511.38	\$601.53

MONTHLY PRIVATE FIRE PROTECTION CHARGES

Detector Check	Current	Proposed
1-1/2"	\$19.28	\$21.11
2"	\$40.95	\$44.43
4"	\$106.69	\$114.36
6"	\$227.47	\$248.31
8"	\$378.70	\$415.05
10"	\$565.73	\$626.43
12"	\$618.19	\$737.27
Private Hydrant	\$227.47	\$248.31

WHOLESALE RATES AND CHARGES

Description	Current	Proposed
New Castle-Boothhurst	Various	No Change
City of New Castle	\$3.100 per T.G.	No Change
Middletown	\$2.125 per T.G.	\$2.489
Delaware Correctional Ctr.	\$2.243 per T.G.	\$2.491
Clayton	\$2.000 per T.G.	No Change
Artesian Water Maryland	\$3.762 per T.G.	No Change
Chesapeake City	\$4.104 per T.G.	No Change

Pursuant to 26 Del. C. 306(a)(1), the Commission has suspended the effectiveness of the proposed new rates and proposed rule revisions pending further investigations and public evidentiary hearings, which will be held at a later date after further public notice. However, pursuant to 26 Del. C. 306(c) AWC has requested authority to place a portion of the proposed rate increase into effect, under bond and subject to refund, on June 10, 2014.

The Commission will make its decision on this matter on the basis of the evidence of record taken at public evidentiary hearings. The Commission may approve or reject, in whole or in part, the proposed increase and revisions and may approve a different method for allocating among rates any increase in revenues should one be found to be appropriate.

Any person that wishes to participate formally, as a party, in this docket (PSC Docket No. 14-__) should file for leave to intervene with the Commission in accordance with Rule 21 of the Commission's Rules of Practice and Procedure. Such Petitions should be filed on or before _____ at the Commission's office located at:

Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building
Dover, Delaware 19904

Petitions filed after date shown will not be considered, except for good cause shown.

Interested customers are invited to review the application and supporting materials to see how their individual interest may be affected. Copies of the application are available for public inspection during normal business hours in the Commission's Dover office at the address listed

above. Copies may also be reviewed, by appointment, at the office of the Division of the Public Advocate (DPA) located at the Carvel State Office Building, 4th Floor 8320 North French Street, Wilmington, Delaware 19801. Please call (302) 577-5077 to arrange for a time to review the documents at such location.

Any individual with disabilities, who wishes to participate in, or to review these proceedings, may contact the Commission to discuss the use of auxiliary aides or services that may facilitate such review or participation. Such contact may be in person, by writing, by telephone, or otherwise. For inquiries, the Commission's toll free telephone number (in Delaware) is 1-800-282-8574. Any person with questions may also contact the Commission Staff at (302) 736-7500 and by Text Telephone also at (302) 736-7500. Inquiries can also be sent via the Internet to Alisa.Bentley@state.de.us.

BRIEFING SHEET

Artesian Water Company, Inc.

Application for Authority to Revise Rates and Charges for Water Service

FILING DATE: April 11, 2014

TEST YEAR: 12 months ended December 31, 2013

TEST PERIOD: 12 months ending September 30, 2014

INCREASE REQUESTED: \$9,983,823 increase in annual revenues

PERCENT INCREASE: 15.91% increase in annual revenues

EFFECTIVE DATE: June 10, 2014

RATE OF RETURN: 8.40% overall return, including a 10.90% return on equity

CAPITAL STRUCTURE:

<u>Capital</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
LT Debt	49.46%	5.84%	2.89%
Common	50.54%	10.90%	5.51%
Overall Return			8.40%

REASONS FOR FILING:

- (1) to recover substantial investments to improve and ensure continued water quality and service reliability for customers, including investments for supply and treatment, as well as transmission and distribution improvements;
- (2) to recover increases in various operating costs, including those associated with labor and labor-related costs, purchased water, and Llangollen water treatment;
- (3) to provide the Company an opportunity to earn fair rate of return from its water operations.

BREAKDOWN: The proposed increase of \$9,983,823 in annual water service revenues is directly attributable to increases in infrastructure, depreciation expenses, and operational expenses, and is necessary to provide the Company the opportunity to earn a fair and reasonable rate of return from operations.