

**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. 14-132**
AND CHARGES FOR WATER SERVICE)
(FILED APRIL 11, 2014))**

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

SEPTEMBER 24, 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. I have been employed by the Commission 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 in
12 General Studies from Wilmington University. I am presently enrolled in the Masters of
13 Business 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, examining monthly, quarterly, and annual
17 reports for Chesapeake Utilities Corporation and Tidewater Environmental Services, Inc.
18 (“TESI”), performing reviews of various utility applications, preparing reports and other
19 schedules in other proceedings, providing written recommendations to the Commission,
20 and performing other related tasks as assigned. Additionally, I participate in the planning
21 and execution of the required audits of regulated companies, including performing a
22 review of supporting documentation at utilities’ offices to evaluate and make

1 recommendations regarding the financial and managerial condition of those utility
2 companies.

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

5 A. I am testifying on behalf of Delaware Public Service Commission Staff (“Staff”) in this
6 proceeding. The purpose of my testimony is to provide recommendations on Artesian
7 Water Company, Inc.’s (“Artesian” or the “Company”) proposed expense adjustments
8 relating to water treatment plant disposal costs, tank painting expenses, the Llangollen
9 Well treatment costs, and Information Technology related costs. In connection with
10 making my recommendations in this matter, I carefully reviewed Artesian’s Application,
11 its pre-filed and supplemental testimony, and its responses to data requests submitted by
12 Staff and by the Division of the Public Advocate (the “DPA”). I also visited Artesian’s
13 office on Wednesday, September 10, 2014, to perform an audit of the Company’s books
14 and records as well as participated in a tour of specific plant locations previously agreed
15 upon between Staff and Artesian on Thursday, September 11, 2014.

16 **Q. Please explain your review and recommendation concerning Artesian’s proposed**
17 **adjustment to increase operating expenses by \$4,902 to annualize the Company’s**
18 **water treatment plant disposal costs.**

19 A. Artesian is proposing an adjustment of \$4,902 to reflect the additional costs that it
20 expects to incur from Artesian Wastewater Management, Inc. (“AWMI”) for the
21 treatment and disposal of water at Artesian’s Stonewater Creek water treatment facility.

1 AWMI has recently reviewed and reevaluated the Equivalent Dwelling Units¹ (“EDUs”)
2 for all of commercial facilities on its system. As a result, the number of EDUs assigned
3 to Artesian was increased, which translates into an increase in monthly costs to treat
4 water at the facility.

5 I carefully reviewed Mr. Valcarenghi’s Direct Testimony in support of his proposed
6 disposal cost adjustment. I also reviewed Artesian’s responses to data requests seeking
7 clarification on the EDUs figure that Artesian used to develop its adjustment. In the
8 Company’s response to PSC-GEN-23, it clarified that the appropriate Delaware
9 Commission Order approving EDUs is PSC Order No. 8442, not PSC Order No. 8301, as
10 was incorrectly stated in Artesian’s original filing. Additionally, the Company provided
11 in its response to PSC-GEN-1 a detailed breakdown of how it developed the monthly
12 EDUs and associated costs to arrive at its proposed adjustment of \$4,902. Based upon
13 my analysis of the information provided by the Company, I conclude that the \$4,902
14 adjustment to annualize the water treatment disposal costs is required for service, known
15 and measureable, and recurring. Therefore, I recommend that the Commission accept
16 Artesian’s waste disposal expense adjustment as filed.

17 **Q. Please explain your analysis of Artesian’s proposed adjustment to reduce test year**
18 **tank painting expenses by \$63,381.**

19 A. Artesian’s original filing included a \$16,040 adjustment to tank painting expenses based
20 on a contract for tank painting by an outside vendor that was executed in 2014 (the “2014
21 Tank Painting Contract”). However, in the Company’s supplemental filing made on June

¹ The charge for service to a commercial dwelling unit is based on the number of equivalent dwelling units (EDUs) represented by the discharge in accordance with the State of Delaware, Department of Natural Resources and Environmental Control’s (“DNREC’s”) “Regulations Governing the Design, Installation and Operation of On-Site Wastewater Treatment and Disposal Systems.”

1 30, 2014, Mr. Valcarengi updated the adjustment by normalizing the cost of the 2014
2 Tank Painting Contract during the three-year period over which the contract is in effect,
3 i.e., through December 2016. By normalizing the costs over a three-year period, the
4 Company's expense going forward will be less than the actual expense that it incurred
5 during the test year -- \$63,381.

6 I have reviewed Artesian's work papers submitted in support of this adjustment as well as
7 Artesian's responses to the discovery I asked regarding the Company's bid and approval
8 process for its vendors for tank painting. I am satisfied that Artesian is utilizing a bid
9 process that fairly evaluates and awards bids in a manner that is consistent with other
10 utilities regulated by this Commission. Therefore, I conclude that the negative expense
11 adjustment of \$63,381, which Artesian submitted on Schedule DLV-3B-7-S for the
12 Company's tank painting costs, should be accepted by the Commission as filed.

13 **Q. Please explain your analysis and recommendation concerning Artesian's proposed**
14 **adjustment of \$120,657 to increase costs at the Llangollen Well due to a new**
15 **treatment process.**

16 A. In both the Company's original and supplemental filings, the Company included an
17 adjustment of \$120,657 to account for an estimated increase in operating expenses related
18 to the need for a new treatment process, known as an advanced oxidation process, at its
19 Llangollen Well. This is to treat 1,4 Dioxane which has been detected in the well.
20 According to the pre-filed testimony of Mr. C. Thomas deLorimier as well as the
21 Company's response to PSC-GEN-37, the facility is expected to be in service by
22 September 30, 2014.

1 As discussed in the Direct Testimony of David E. Peterson, Staff is relying on a thirteen-
2 point test year average method for determining Artesian's rate base and revenue
3 requirement. Under this approach, investment added after December 31, 2013, is not
4 included in rate base. Based on that methodology, it would be inappropriate to include a
5 forecasted increase in operating expenses for plant that is not included in the calculation
6 of rate base. Therefore, I recommend the disallowance of Artesian's proposed \$120,657
7 adjustment to reflect increased costs at Llangollen Well based on the information
8 provided that the additional upgrades to this plant, with which these forecasted expenses
9 are based upon, is not expected to go into service until September 30, 2014. (*See*,
10 Schedule JRS-1).

11 **Q. Please explain your review and recommendation of Artesian's proposed adjustment**
12 **of \$142,064 to reflect incremental information technology ("IT") costs.**

13 A. Artesian incurred a variety of Information Technology costs that support the Company's
14 computer systems and accounting systems during its Test Year. The purpose of this
15 adjustment is so that Artesian can annualize costs pursuant to its existing contracts and
16 reflect the additional costs to be incurred through the conclusion of the Test Period.
17 Besides reviewing the original application and supplemental testimony filed by Artesian,
18 I also reviewed Artesian's subsequent responses to data requests from both Staff and the
19 DPA. Additionally, the Company provided in its response to PSC-GEN-1 a detailed
20 breakdown of its projected software maintenance costs for 2014 based on various
21 software license agreements, contracts, etc. detailing how the Company arrived at its
22 figure of \$793,851 of expected IT costs going forward. While the Company stated in
23 response to DPA-RR-44 that it would be voluminous to provide a copy of each existing

1 IT contract, the Company did indicate that these contracts would be available for Staff to
2 review at its office in Newark, Delaware, and have been verified by Staff. The existence
3 of signed contracts supports the Company's IT cost claim made by the Company in its
4 proposed expense adjustment. Thus, I recommend that the adjustment of \$142,064 be
5 accepted as filed.

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

7 A. Yes.

8

Artesian Water Company, Inc.

Llangollen Well Treatment Costs

For The Test Year Ended December 31, 2013

<u>Line No.</u>	<u>Description</u>	
1	Adjustment Amount	\$ (120,657)
2	Company's Requested Amount	\$ <u>120,657</u>
3	Net Staff Adjustment	\$ (120,657)
4	State Income Taxes @ 8.7%	\$ 10,497
5	Federal Income Taxes @ 34%	\$ <u>37,454</u>
6	Total Income Taxes	\$ <u>47,952</u>
7	Net Income Adjustment	\$ 72,705

Sources

Line 2 AWC's Schedule DLV-3B-8-S