BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

APPLICATION OF ARTEISAN WATER COMPANY, INC. FOR A GENERAL RATE INCREASE IN WATER BASE RATES & TARIFF REVISIONS (FILED APRIL 11, 2014)

PSC DOCKET NO. 14-132

DIRECT TESTIMONY OF

AMY WOODWARD

ON BEHALF OF

COMMISSION STAFF

SEPTEMBER 24, 2014
Statement of Qualifications

Q: State your name and the name and address of your employer.
A: Amy Woodward. I am employed by the Delaware Public Service Commission (Commission). My work address is 861 Silver Lake Boulevard, Suite 100, Dover, Delaware, 19904.

Q: What is your position with the Public Service Commission?
A: I am a Public Utilities Analyst III with the Commission. I have been employed with the Commission since April 2012.

Q: As an analyst with the Commission, what is the general nature of your duties?
A: My duties include the review of filings by regulated utilities that propose increases in rates and charges; planning and executing the annual compliance and financial reviews for wastewater utilities; analysis of utilities requesting the issuance of debt securities; planning and participating in the audit of small regulated companies; conducting reviews of source documents at utility offices, and evaluating the financial, managerial, and technical conditions of utilities.

Q: What is your professional experience and education?
A: I received an Associate of Applied Science Degree in Accounting from Delaware Technical and Community College and I received a Bachelor’s of Science in Degree in Accounting from Wilmington University. I also received a Graduate Certificate of Financial Management in Organization and a Master’s of Science Degree in Accounting and Financial Management from the University of Maryland University College in 2007. My education and professional experience have provided me with a detailed understanding of utility rate structures, as well as in mathematical logic and financial analysis. I have also gained knowledge in the areas of residential, commercial and industrial operations in the energy industry.
Q: For whom are you testifying in this proceeding?
A: I am testifying on behalf of the Commission Staff (“Staff”).

Q: What is the purpose of your testimony?
A: The purpose of my testimony is to present Staff’s recommendations on certain adjustments proposed by Artesian Water Company, Inc. (“Artesian” or the “Company”), specifically the adjustments concerning the insurance expenses, postage rates, and rate case expenses.

Q: Have you carefully reviewed Artesian’s proposed adjustment to the test year insurance expenses.
A: Yes, I have. I performed a detailed review of the Artesian’s proposed insurance expenses adjustment shown in Schedule DLV-3B-10 in the Application as well as the same schedule in the Company’s supplemental filing. Artesian is asking for an adjustment of $26,533 to the test year on the basis of using a conservative approach by using a 10% increase estimated by the Company’s insurance vendors. In my review, I analyzed Artesian’s response to data request PSC-RR-50, which provided a detailed accounting by month of the Company’s property and liability, professional and auto insurance expense accruals. The Company projected a ten percent (10%) increase in insurance premium costs based on information provided by its insurance vendors. After reviewing the monthly account actual accruals and the supplemental filing it appears that the new rates have been put into effect for the coverage period 2014/2015 of 5.42 percent. After reviewing the information provided by the Company, I believe the increase is a known and measurable change and, therefore, will support the annualized insurance adjustment of $26,533.

Q: What has Artesian included in its rate request relative to postage rates?
A: Artesian has included a 6% increase in postage rates approved by the U.S. Postal Rate Commission. I carefully reviewed the documentation provided by Artesian in support of its proposed postage rate expense adjustment, including the Company’s response to PSC-RR-50-0001, which included a monthly breakdown of the postage expenses incurred by the Company, and the Company’s response to DPA-RR-47, which provided additional back up for the adjustment. The postage rate increase in question was approved by the U.S. Postal Rate Commission and made effective on January 26, 2014. Because the postage rate increase was already made effective, it qualifies as a known change affecting Artesian’s costs. Therefore, I recommend that the Commission adopt Artesian’s proposed adjustment to postage costs of $19,580.

Q: What has Artesian included in its proposed revenue requirement for rate case expenses associated with this proceeding?

A: The Company estimates it will incur approximately $1.1 million in total rate case costs for the instant proceeding. This estimate includes projected legal costs of $600,000, $42,816 for the rate of return study that the Company has presented, $50,000 for rate design and cost of capital witnesses, $350,000 for PSC costs, $6,000 for printing, $75,000 for a compensation study and $11,000 in miscellaneous costs. The Company is proposing to amortize the litigation costs over two-year period and to amortize the $75,000 associated with the compensation study over a five-year period. The Company recommended an adjustment of $439,463, as shown in Schedule DLV-3H-S.

Q: Are you recommending any adjustments to the Company’s claim for rate case expenses?

A: Yes, I am. The Company’s requested expense allowance for rate case costs is clearly excessive. We cannot know at this point what costs Artesian will actually incur throughout this proceeding. Therefore, it is reasonable to include a normalized level of anticipated expenses. In order to determine a
normalized level, I averaged the rate case costs incurred by the Company in its last three rate proceedings (Docket Nos. 11-207, 08-96 and 06-158), excluding Depreciation Study and Compensation Study expenses. It is reasonable to exclude the costs associated with these two items because such costs were not present in the three most recent rate proceedings. My normalization calculation is shown on my Exhibit AJW-Exp1. As shown in this schedule, using a three-year normalization period for rate case costs reflect a rate case reduction of $332,212. I believe a three-year period is appropriate given Artesian’s recent history of rate case filings.

Q: Does this conclude your testimony?
A: Yes.
Artesian Water Company, Inc.
Rate Case Expense Adjustment
Test Year Ended December 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>Rate case expense prior water rate cases</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Docket No. 11-207</td>
<td>$ 425,149</td>
</tr>
<tr>
<td>2</td>
<td>Docket No. 08-96</td>
<td>$ 841,236</td>
</tr>
<tr>
<td>3</td>
<td>Docket No. 06-158</td>
<td>$ 377,875</td>
</tr>
<tr>
<td>4</td>
<td>Average</td>
<td>$ 548,087</td>
</tr>
<tr>
<td>5</td>
<td>Amortization allowance - 3 years</td>
<td>$ 182,696</td>
</tr>
<tr>
<td>6</td>
<td>Compensation Study (5-yr amort)</td>
<td>$ 15,000</td>
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<tr>
<td>7</td>
<td>Rate case expense allowance</td>
<td>$ 197,696</td>
</tr>
<tr>
<td>8</td>
<td>Artesian as filed ($1,059,816/2)</td>
<td>$ 529,908</td>
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<tr>
<td>9</td>
<td>Adjustment to rate case expense</td>
<td>$ (332,212)</td>
</tr>
<tr>
<td>10</td>
<td>State income taxes @ 8.7%</td>
<td>$ 28,902</td>
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<tr>
<td>11</td>
<td>Federal income taxes @ 34%</td>
<td>$ 103,126</td>
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<tr>
<td>12</td>
<td>Total income taxes</td>
<td>$ 132,028</td>
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<tr>
<td>13</td>
<td>Net income adjustment</td>
<td>$ 200,184</td>
</tr>
</tbody>
</table>

Sources
Lines 1, 2, 3 AWC’s response to PSC-RR-66 Attachment
Less Depreciation Study & Compensation Study
Line 5 AWC Schedule DLV-3H-S