

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF UNITED WATER DELAWARE INC.)
FOR A GENERAL INCREASE IN RATES) PSC DOCKET NO. 10-421
AND FOR REVISIONS TO ITS TARIFF)
(Filed February 13, 2009))

ORDER NO. 8039

AND NOW, this 20th day of September, 2011.

WHEREAS, the Delaware Public Service Commission (the "Commission") has received and reviewed the Findings and Recommendations of the Hearing Examiner dated September 12, 2011 issued in the above-captioned docket, which Findings and Recommendations were submitted after a duly-noticed evidentiary hearing; and

WHEREAS, the Hearing Examiner recommends that the Settlement Agreement submitted on August 2, 2011, which was executed by all of the parties to the proceeding (Exhibit "A" hereto) be approved; and

WHEREAS, the Commission finds that the proposed rates and tariff changes resulting from the Settlement Agreement are just and reasonable, and that approval of the Settlement Agreement is in the public interest.

**NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE
OF NOT FEWER THAN THREE COMMISSIONERS:**

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission adopts the September 12,

2011 Findings and Recommendations of the Hearing Examiner, appended to the original hereof as Exhibit "A."

2. That the Commission approves as just and reasonable and in the public interest the jointly proposed Settlement Agreement of the parties attached hereto as Exhibit "B." The Commission also approves the tariff changes and rates contained therein, reflecting a total test period revenue requirement of \$25,040,118, which is hereby approved for implementation effective for service provided on and after September 20, 2011 until further Order of the Commission.

3. That all Tariff revisions attached as Exhibit "B" to the parties' Settlement Agreement are hereby approved. United Water Delaware Inc. shall file these Tariff revisions within five (5) business days of the date of this Order.

4. That the Commission reserves jurisdiction to enter such further Orders as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae_____
Chair

/s/ Joann T. Conaway_____
Commissioner

/s/ Jaymes B. Lester_____
Commissioner

/s/ Dallas Winslow_____
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

E X H I B I T "A"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF UNITED WATER DELAWARE INC., FOR)
AN INCREASE IN WATER RATES AND FOR) PSC DOCKET NO. 10-421
REVISIONS TO ITS TARIFF)
(Filed December 6, 2010))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Dated: September 12, 2011

Mark Lawrence
Hearing Examiner

TABLE OF CONTENTS

	<u>PAGE</u>
I. APPEARANCES	1
II. BACKGROUND	2
III. UNITED WATER'S APPLICATION FOR A RATE INCREASE	5
IV. SUMMARY OF THE EVIDENCE	7
A. UNITED WATER DELAWARE'S TESTIMONY	7
B. PUBLIC SERVICE COMMISSION STAFF'S TESTIMONY	13
C. PUBLIC ADVOCATE'S TESTIMONY	17
D. THE PROPOSED SETTLEMENT AGREEMENT	18
V. DISCUSSION.....	21
VI. RECOMMENDATION.....	23

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF UNITED WATER DELAWARE INC. FOR)
AN INCREASE IN WATER RATES AND FOR) PSC DOCKET NO. 10-421
REVISIONS TO ITS TARIFF)
(Filed December 6, 2010))

FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Mark Lawrence, duly appointed Hearing Examiner in this Docket pursuant to 26 *Del. C.* §502 and 29 *Del. C.* Ch. 29, by Commission Order No. 7889 dated January 11, 2011, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant, United Water Delaware Inc.:
Morris James LLP
By: P. CLARKSON COLLINS, Esq.

James C. Cagle, Vice President, Regulatory Business
Susan Skomorucha, General Manager

On behalf of the Public Service Commission Staff:
By: REGINA A. IORII, Esq., Deputy Attorney General
Heidi Wagner, Public Utilities Analyst

On behalf of the Division of the Public Advocate:
Michael D. Sheehy, Public Advocate

On behalf of the Delaware Attorney General:
By: KENT WALKER, Esq., Deputy Attorney General

II. BACKGROUND

1. On December 6, 2010, United Water Delaware Inc. ("United Water," "the Company" or "UWDE") filed an Application with the Delaware Public Service Commission ("the Commission"), pursuant to 26 Del. C. §§§§201, 209, 304, and 306. United's Application sought: 1) a rate increase of \$3,679,299 in additional annual revenue (a 16.04% increase); and 2) approval to implement four (4) proposed Tariff amendments discussed later herein.

2. United Water's Application also sought an additional \$203,772 for previously paid Distribution System Improvement Charges ("DSIC") through April 14, 2009 which would be rolled into the new base rates, if approved.¹ (Application, Exhibit 2, §9.) If approved, the total change in base rates would total \$3,883,071 or 16.93%. (*Id.*) The DSIC surcharge balance would then be re-set to \$0. DSIC eligible improvements are defined in 26 Del. C. §314. The purpose of DSIC surcharges is to reimburse a utility for water system improvements such as replacing water mains and meters, and system improvements to meet water quality standards. (*Id.*) Utility expansion costs cannot be included in a DSIC surcharge. (*Id.*)

3. United Water's Application included the pre-filed testimony of eight (8) witnesses: Susan Skomorucha, the General Manager of UWD; Thomas G. Lippai, Senior Regulatory Specialist for United Water Management & Services, Inc. ("UWM&S"); Elda Gil, Senior Rate Analyst

¹ The various Affidavits of Publication of Notices from *The News Journal* and the *Delaware State News* newspapers are included in the record as composite Exhibit 1. Hearing Exhibits will be hereinafter cited as "Exh.--" and references to the evidentiary hearing transcript will be cited as "Tr.--." Schedules attached to testimony filed by the parties will be cited as "Sch."

with UWM&S; Nancy Trushell, UWD's Director of Engineering; James C. Cagle, UWM&S' Vice President of Regulatory Business for UWM&S; Peiling Lin, UWM&S' Senior Accountant, Obie N. Ugboaja, a Rate Analyst with UWM&S, and Pauline M. Ahern, a principal of AUS Consultants.

4. On January 11, 2011, the Commission issued Order No. 7889, suspending the Company's application for a rate increase pursuant to 26 *Del. C.* §306(a)(1), and appointed this Hearing Examiner to process the docket and to hold evidentiary hearings concerning the justness and reasonableness of the proposed rates.

5. On January 13, 2011, the Company filed an Application to place interim rates into effect under bond pursuant to 26 *Del. C.* §306(c). This Motion was amended on January 21, 2011. On January 27, 2011, the Commission issued Order No. 7900, granting the Company's request to place interim rates into effect under bond, which rates would not exceed 15% of the Company's annual gross intrastate operating revenues. (See 26 *Del. C.* §306(c).) Pursuant to this Order, the Company placed a rate increase of \$2.5 million (or a net increase of approximately 10%) into effect on February 4, 2011.

6. On February 2, 2011, I permitted the Delaware Attorney General to intervene on behalf of UWDE's ratepayers normally represented by the Division of the Public Advocate (the "Public Advocate"). (See Order No. 7910 dated Feb. 2, 2011.) The Public Advocate has a statutory right of intervention in this docket pursuant to 29 *Del. C.* §8716(d)(1). The Delaware Attorney General Office intervened because the Public Advocate position was vacant at the

time. The Public Advocate position has since been filled. The Public Advocate subsequently filed a Statutory Notice of Intervention. (See 4/29/11 Filing.)

7. On April 13, 14, 15 and 20, 2011, PSC Staff conducted a field audit at UWDE's offices and reviewed the documents supporting the Company's Application. On April 27, 2011, this Hearing Examiner presided over a duly-noticed Public Comment Session at the Carvel State Building in Wilmington, Delaware.² No customers attended.

8. Staff and the Public Advocate each submitted their pre-filed testimony on May 17, 2011. Staff submitted the pre-filed testimony of Consultants Robert J. Henkes, principal of Henkes Consulting; Brian Kalcic, principal of Excel Consulting; and David C. Parcell, President of Technical Associates, Inc. The Public Advocate submitted the pre-filed testimony of Consultant Andrea C. Crane, principal of The Columbia Group, Inc. On June 7, 2010, representatives of United Water, Staff and the Public Advocate met to discuss whether a negotiated resolution of this case was possible. Subsequent negotiations ensued.

9. On August 2, 2011, the parties submitted a proposed Settlement Agreement to the Hearing Examiner which is attached hereto as Exhibit "A."³ If the Settlement Agreement is approved by the Commission, the additional annual revenue awarded to the Company will

² The Notice of Public Comment Hearing *et al.* was published on March 29 and 30, 2011. (Exh. 1.)

³ Due to the parties' settlement, the Company did not file rebuttal testimony responding to the testimony filed by Staff and the Public Advocate. (Settlement Agreement, Exh. A, p.2.) However, the Company orally informed Staff and the DPA of its rebuttal to their testimony. (Tr.-29)

be \$1,600,000, or an approximately 6.83% increase over the base rates preceding the interim rates, plus the on-going Distribution System Improvement Charge revenue. This increase is approximately \$700,000 less than the amount included in interim rates in place under bond as approved by the Commission on January 27, 2011 in Order No. 7900. This stipulated revenue requirement increase will reflect and produce an overall revenue requirement of \$25,040,118, as detailed on Exhibit "A" to the Settlement Agreement. The parties also agreed to various tariff amendments. The Settlement Agreement is discussed in detail later herein in Section IV(D).

10. On August 30, 2011, I conducted a duly-noticed, evidentiary hearing at which the parties introduced their pre-filed testimonies and testified about the settlement.⁴ At the conclusion of the hearing, the record consisted of fifteen (15) exhibits and a fifty-four (54) page verbatim transcript. As there were no matters in dispute, post-hearing briefs were deemed unnecessary. I have considered the entire record of this proceeding and, based thereon, I submit these Findings and Recommendations for the Commission's consideration.

III. UNITED WATER'S APPLICATION FOR A RATE INCREASE

11. **Introduction:** United Water Delaware Inc. is a regulated private water company providing water service to approximately 36,700 customers in New Castle County, Delaware.⁵ (Skomorucha, Exh. 3, p.5 LL

⁴ The Notice of Evidentiary Hearings was published in *The News Journal* and *Delaware State News* newspapers on August 5, 2011. (Exh.1.)

⁵ United Water is a subsidiary of Suez Environment (SE) which, in turn, is a "partially owned subsidiary" of GDF Suez. 47% of SE's shares are traded publicly with the remaining 53% of shares being held under a Shareholder's Agreement between GDF

2-5) In addition to residential customers, this includes 2,679 commercial customers, 62 industrial customers and 59 public authority customers.⁶ (See Application, Exh. 2, Minimum Filing Requirements §2.2.4, p.2.)

12. UWDE's Application for a rate increase would increase its customer base rate revenues by \$3,883,071. (Company's Application, Exh. 2, pp.2-3.) This amount includes approximately \$203,772 of existing, not funded Distribution System Improvement Charges ("DSIC").⁷ (*Id.*) Including this transfer of existing DSIC Charges, the Company's Application proposed a base rate increase with the net effect of raising the Company's revenues and its customers' bills by 16.93%. (*Id.*) Excluding the DSIC charges, the proposed increase would be 16.04% over existing rates. (*Id.*)

13. In calculating its proposed rates, UWDE used the "Test Period" of the twelve (12) month period ending June 30, 2011. (See Company's Application, Exh. 2.) UWDE also used the historical or actual "Test Year" of the twelve (12) month period ending September 30, 2010. (*Id.*) In its proposed rates, UWDE requests a Common Equity

Suez and SE's former major shareholders. (See Application, Exh.2; Min. Filing Requirements, Sch. §2.1.1.)

⁶ UWDE's water transmission and distribution system has 532 miles of water main, 6700 valves and 2,198 fire hydrants. (Skomorucha, Exh. 3, p.5, LL 5-8.) UWDE has 2 surface water treatment plants. (*Id.* at LL 7-12.) UWDE has 13 interconnections with area water suppliers with the total maximum capacity of 17.64 million gallons per day. (*Id.* at LL 12-20.) Finally, UWDE has a combined total storage capacity of 30 million gallons in elevated tanks, standpipes, and various reservoirs. (*Id.* at LL 20-23.)

⁷ The purpose of the statutorily-mandated DSIC charge is to reimburse a utility for water system improvements such as replacing water mains and meters, and system improvements to meet water quality standards. (See 26 Del. C. §314.) Utility expansion costs cannot be included in the DSIC charge. (*Id.*)

Cost Rate⁸ of 11%, resulting in an overall Rate of Return of 8.68%.⁹
(*Id.*; Ahern, Exh. 10, p.3 LL 4-9.)

IV. SUMMARY OF THE EVIDENCE

A. UNITED WATER DELAWARE'S TESTIMONY

14. **Testimony of Susan Skomorucha.** On December 6, 2010, United Water pre-filed the testimony of UWDE's General Manager, Susan Skomorucha. According to Ms. Skomorucha, "a major driver" of this rate case is UWDE's loss of 17% of its overall revenue caused by its declining industrial customer base. (Skomorucha, Exh. 3, p.12, LL 14-19.) Specifically, since UWDE's last rate case was concluded in September, 2009,¹⁰ the closing of the Delaware City Refinery by Valero Energy caused UWDE's Industrial Class revenue to decline 32% and its overall revenue to decline 7%.¹¹ (*Id.* at p.12, LL 14-19.) With the closing of the Daimler Chrysler vehicle manufacturing facility and the conversion of a Pepsi facility to administrative offices/storage, UWDE

⁸ The Common Equity Cost Rate is often referred to as the "Return on Equity" or "ROE." This Report uses the term Common Equity Cost Rate since the witnesses generally used that term in their pre-filed testimony. The Common Equity Cost Rate is the annual rate of return which an investor expects to earn when investing in shares of the Company. (Ahern, Exh. 10, pp.3-4.) According to Delaware law, "[a] fair return to the utility is an amount sufficient to pay operating expenses, to attract new investors, and to pay a fair return to the utility's existing investors." PSC v. Wilmington Suburban Water Corp., 211 A.2d 602,605 (DE. 1983)

⁹ The Rate of Return is UWDE's net operating income divided by the rate base. *E.g.*, FPC v. Hope Nat. Gas Co., 320 U.S. 591,596-97 (1944). "Rate base" is defined in 26 *Del. C.* §102(3).

¹⁰ UWDE's last rate case was decided by the Commission on September 9, 2009. (See PSC Docket No. 09-60 & PSC Order No. 7637 (Sept. 9, 2009).) The Commission permitted a 7.2% increase based upon \$1.7 million of increased annual revenues, excluding DSIC charges. (See PSC Order No. 7637, Exh. "A" thereto-Settlement Agree. §1.)

¹¹ Additionally, "[t]he loss of revenues was close in amount to the Company's last rate increase received in 2009 and made up approximately 25% of the Company's operating income before interest and taxes in the last rate filing." (Cagle, Exh. 4, p.8, LL 4-7) During the test period, the closing of Valero Energy's operation of the refinery and the closing of the Daimler Chrysler facility resulted in a 4% loss from the historical test period. (Ugboaja, Exh. 9, p.7, LL 2-5)

maintains that it has lost 17% of overall revenue. (Lippai, Exh. 6, p.6, LL 3-16.)

15. In June, 2010, the Delaware City Refinery was sold to its current owner, a subsidiary of PBF Energy Company, LLC. (Crane, Exh. 14, p.26 LL 13-15.) The new owner of the Delaware City refinery is, by contract with UWDE, required to pay for a minimum of 11 million gallons of water each month. (Skomorucha, Exh. 3, p.13, LL 6-9.) However, the refinery's water consumption decreased from nearly 62 million gallons in January, 2010 (four months after UWDE's last rate case was decided) to the 11 million gallon contractual minimum in June, 2010. (*Id.* at p.12 LL 22-23 - p.13 LL 1-6.)

16. Since the new owner purchased the refinery in June 2010, the monthly consumption was the 11 million gallon contractual minimum through November, 2010. (*Id.* at p.13, LL 4-6.) According to UWDE, "the future usage is not known and measureable." (*Id.* at LL 9-11.) Consequently, there is "overall uncertainty in future revenues and costs surrounding the refinery." (*Id.* at p.13, LL 21-22.) According to UWDE:

"Water usage at the refinery can vary significantly and is dependent upon a number of variables such as, the product line that they chose to refine and market or depending upon the percentage of groundwater that they plan to use from their existing wells. The refinery has also indicated its interest in water conservation practices and in locating and repairing leaks within their facility in order to conserve water usage and return to only the base flow amount of

11 million gallons per month."¹² (*Id.* at p.13, LL 11-18.)

17. **Testimony of James C. Cagle.** UWDE's Vice President of Regulatory Business, James C. Cagle, also filed testimony addressing the Delaware City Refinery.¹³ (Exh. 4.) Mr. Cagle reiterated that UWDE cannot now reasonably estimate the refinery's future water usage, and that the revenue and costs associated with the refinery are "not currently measureable." (*Id.* at p.8, LL 14-21.) According to Mr. Cagle, the "Reconciliation Mechanism" UWDE is proposing addresses the refinery's future water usage under new ownership. (*Id.* at pp. 7-8.) Mr. Cagle testified that the proposed Reconciliation Mechanism is similar to a mechanism UWDE's sister company has employed in New York since the mid-1990s. (*Id.* at p.7, LL 6-9.)

18. Mr. Cagle described the Reconciliation Mechanism, which UWDE proposed a tariff amendment, as follows:

"This mechanism establishes target revenue and production costs for the Delaware City Refinery. Actual revenues (less production costs) above or below the targets are accumulated in a deferred account and at the end of a 12 month period are then either refunded or charged to customers in the form of a credit or surcharge. The 12 month period [ending] in June of each year is the proposed measurement date as it coincides with the test period in this case." (Cagle, Exh.4, p.

¹² UWDE's original filing dated December 6, 2010 stated that UWDE anticipated that the refinery would use only the contractual minimum of 11 million gallons per month. UWDE's assumption was based upon an oral conversation between UWDE's General Manager and a representative of the refinery's new owner in October, 2010, two months prior to filing its Application for a rate increase. (Henkes, Exh.11, p.13 LL 31-32.)

¹³ Mr. Cagle filed additional testimony relating to UWDE's Minimum Filing Requirements ("MFR"), specifically the Company's calculation of the rate base, normalized depreciation expense and income taxes. (Cagle, Exh.4.)

7 LL 11-16; see Exh. 1, Sch. 2-Min. Filing Reqs. §8.1, Original Sheet No. 11C.)¹⁴

19. **Testimony of Nancy Trushell.** UWDE's Director of Engineering, Nancy Trushell filed testimony as to UWDE's capital addition projects. (Exh. 5.) These included projects which: 1) were started prior to, but not placed in service during the test year, but will be placed in service prior to June 30, 2011, the end of the test period; or 2) were started after the test year but will be placed in service prior to June 30, 2011.

20. As to category No. 1 above, the five (5) projects exceeding \$50,000 include: a) Information Technology (IT) improvements regarding software and hardware (\$127,600); b) vacuum vent replacement and handrail & manhole upgrades regarding the Company's Arden and Cherokee Woods storage tanks (\$70,200); c) replacing the single chlorine injection point at the Bellevue Pumping Station with seven (7) injection points for improved chlorine distribution (\$68,400); d) replacing residuals handling conveyors (\$61,400); and e) to improve compliance reporting, replacing turbidimeters at the Stanton Plant which currently do not retain historical data upon power failure (\$51,800). (Trushell, Exh. 5, pp. 2-4; Exh. X, Sch. 1.)

21. As to category No. 2 above, the four (4) most expensive projects include: a) new and replacement projects for services,

¹⁴ Staff and the Public Advocate opposed the adoption of the Reconciliation Mechanism. (Staff's Henkes, Exh. 11, pp. 11-13; DPA's Crane, Exh. 14, pp. 27-28, respectively.) Both argued that the Reconciliation Mechanism: 1) violated traditional utility rate-making principles which do not guarantee revenue, even for a large industrial customer like the Delaware City Refinery; and 2) the Commission had never approved such a mechanism in a water utility case and refused to approve a similar mechanism proposed by another utility. (*Id.*)

meters, hydrants, short mains and valves (\$1,022,300); b) a new transmission main to provide a back-up feed to over 2,000 customers in "a hydraulically isolated section of UWDE's south distribution system" (\$863,000); c) filter media, under drains and other filter improvements to ensure compliance with upcoming filtered turbidity requirements at UWDE's Stanton Water Treatment Plant (\$444,200); and d) replacement of various water mains to improve reliability, water quality and/or water pressure (\$257,300). (Trushell, Exh. 5, pp.4-6; Exh. X, Sch. 2.)

22. Engineering Director Trushell also testified as to UWDE's decision to terminate two (2) capital projects. (Trushell, Exh. 5.) In its Application, UWDE proposed to amortize the annual cost of the two terminated projects at \$39,250 per year for 10 years, totaling approximately \$392,500. (*Id.* at p.6 L11 - p.7 L15; see MFR §5.3.2, Expense Adj. No.7.) The two terminated projects (and the reasons they were terminated) are as follows: 1) an approximately \$16,000 project to store raw water in UWDE's existing lagoons for use during a drought; UWDE maintains that, after continuing to observe drought conditions, UWDE satisfied this need at its Aquifer Storage and Recovery Facility ("ASR")¹⁵ placed in service in 2008 and validated in 2009; and 2) when the Delaware City Refinery was sold and Phase II of the ASR was postponed, water demand was significantly reduced and UWDE determined that additional work regarding the River Road System's

¹⁵ The ASR "allows 75 MG [million] of water taken from United Water's distribution system to be stored in an underground aquifer. This water is treated and pumped back to the distribution system to augment water supply during periods of drought." (Skomorucha, Exh. 3, p.6, LL 2-6.)

Transmission Main was no longer necessary. (*Id.* at pp. 6-7; Henkes, Exh. 11, p.21 LL 21-23 & p. 22 LL 1-4.) The Company requested reimbursement of \$376,639 for costs expended for the Transmission Main Project. (Henkes, Exh. 11, p.22, LL 1-4.)

23. **Testimony of Pauline M. Ahern.** Finally, Pauline M. Ahern of AUS Consultants filed pre-filed testimony on UWDE's behalf. (Exh. 10.) Ms. Ahern recommended: 1) an overall Rate of Return of 8.68%, derived from a debt cost rate of 6.15%, and a Common Equity Cost Rate of 11% applied to a capital structure consisting of 47.80% of long-term debt and 52.20% common equity.¹⁶ (*Id.* at p.3, LL 2-15.) In calculating the Common Equity Cost Rate, Ms. Ahern testified that, "because UWDE's common stock is not publicly traded, a market-based common equity cost rate cannot be determined directly for the Company." (*Id.* at LL 13-14.) Consequently, Ms. Ahern used a proxy group of seven (7) similar water utilities,¹⁷ and applied the following rate of return models: a) Discounted Cash Flow; b) Risk Premium; c) Capital Asset Pricing; and d) Comparable Earnings.¹⁸ (*Id.* at LL 5-9.)

¹⁶ *Additional Testimony Filed By UWDE.* Senior Regulatory Specialist Thomas G. Lippai testified as to normalized revenues, miscellaneous charges and the current and proposed rates. (Exh. 6.) Senior Rate Analyst Elda Gil testified as to the overall revenue requirement and operating expenses other than income taxes. (Exh.7.) Senior Accountant Peiling Lin testified as to UWDE's lead-lag study used in calculating UWDE's proposed Cash Working Capital requirement. (Exh.8.) Finally, Rate Analyst Obie N. Ugboaja testified as to UWDE's Cost of Service Study using the Base-Extra Capacity cost methodology. (Exh. 9.)

¹⁷ The criteria by which Ms. Ahern included water utilities in the proxy group is described on pages 15-16 of her pre-filed testimony. (Exh. 10) Staff's Parcell and the Public Advocate's Crane testified that the growth estimates for the proxy group relied upon by Ms. Ahern were "overly optimistic." (Parcell, Exh. 12, p.29 & Crane, Exh.14, pp. 9-13.) This issue is discussed in detail by Staff's Parcell at p.29.

¹⁸ Regarding the future, Ms. Ahern testified that "UWDE is facing an expected massive capital investment as it projects net capital expenditures of \$43,849,937 for the six years ending 2016, representing an increase of approximately 43% over 2009 net plant of \$102,315,477." (Ahern, Exh.10, p.9, LL 32-34.) This was a business risk which factored into Ms. Ahern's common equity analysis, along with other factors, including

24. **Proposed Tariff Amendments.** In addition to the proposed Reconciliation Mechanism Tariff regarding the Delaware City Refinery discussed previously, the Company proposed three (3) additional tariff amendments: 1) permitting UWDE to determine the size and location of its customers' water meters and stating that all meters shall be furnished by and remain the UWDE's property; 2) establishing that the \$1,000 deposit paid by a Developer which submits preliminary plans for project review will be credited to the Developer if it enters into a Developer Facilities Extension Agreement ("DFEA") within 24 months, but it is non-refundable if no DFEA is consummated; and 3) defining when security deposits will be required, the amount required, when security deposits must be paid, how interest is calculated, and describing the procedures for refunding security deposits. (See MFR 8.1-First Rev. Sheet No. 4, Sec. Rev. Sheet No. 10F & First Rev. Sheet No. 7, respectively.)¹⁹

B. PUBLIC SERVICE COMMISSION STAFF'S TESTIMONY

25. For the test period ending June 30, 2011, Staff determined that a rate decrease of \$694,242 was warranted, based on a rate base of \$75,005,085 (the Company calculated \$75,650,017), an overall rate of return of 7.75% (with a Common Equity Cost Rate of 9.75%), and a pro-forma operating income of \$6,219,190. (Henkes, Exh.11, p.3 LL 5-23.)

that UWDE is smaller than the 7 water utilities in Ms. Ahern's proxy group. (*Id.*; *Id.* at p.11, LL 26-27.)

¹⁹ Except for the proposed Reconciliation Mechanism relating to the Delaware City Refinery, the parties' Settlement Agreement requests that the Commission approve these tariff amendments, as well as tariff amendments relating to the proposed new rates. (See Exh. "A" hereto, Settlement Agreement, §12.)

26. Some significant areas of dispute between Staff and the Company involved: a) the proposed Common Equity Cost Rate (Staff advocated 9.75% while the Company sought 11%); b) water usage at the Delaware City Refinery (Staff maintained that the refinery would use substantially more water than the Company); c) two (2) projects terminated by UWDE discussed in Paragraph 22, *supra*; (d) whether UWDE's federal income taxes should be reduced to reflect its consolidated income tax benefits earned while participating in the consolidated income tax return filed by Suez Environnement North America, a U.S. subsidiary of Suez Environnement, as opposed to filing a separate tax return;²⁰ and e) the allocation to UWDE of United Water Management & Services, Inc.'s ("UWM&S") Incentive and Retirement Plan fees.

27. **Testimony of Robert J. Henkes.** On May 17, 2011, Staff pre-filed the testimony of its Test Period Revenue Requirement Consultant, Robert J. Henkes. (Exh.11.) As to the Delaware City Refinery, Mr. Henkes estimated that the refinery would use 58.3 million gallons of water per month or 700 million gallons annually. (*Id.* at p.15 L 32 - p.16 LL 1-4.) Mr. Henkes' conclusion was primarily based upon a letter from the refinery's Senior Vice President for the Health & Environmental Safety Division to Staff Utility Analyst Heidi Wagner dated May 11, 2011. (*Id.* at pp. 14-15.) In contrast, UWDE had

²⁰ In the Settlement Agreement, the parties represented that the agreed upon revenue increase "reflects a reduction of an unspecified amount of income taxes, due to the filing of a consolidated federal income tax return. No agreement as to the appropriateness of including a consolidated tax adjustment or any particular methodology for such calculation was reached." (See Exh. "A" hereto, Settlement Agreement, §14; Tr.-33.) This issue was described in detail by the DPA's Consultant Crane, Exh.14, p.54.

estimated the refinery's usage at the contractual minimum of 11 million gallons per month.²¹ (Cagle, Exh. 4, p.8, LL 12-14.) The Company had also proposed a Reconciliation Mechanism for any water use in excess of the contractual monthly minimum. (*Id.* at LL 14-21.)

28. Mr. Henkes also testified as to the allocation of employee, Incentive and Retirement Plan fees from UWM&S to UWDE. (*Id.* at pp.24-27.) Mr. Henkes recommended that the UWM&S fee level be reduced from the \$1.39 million proposed by the Company to \$1.06 million. (Exh. 11, Henkes, p.24, LL 19-21; p.26 LL 22-23.) Mr. Henkes' recommendation was based upon: a) using the year 2010 actual UWDE-allocated fees as opposed to the 2010 operating budget, saving \$84,915; b) eliminating the Long Term Incentive Plan and Short Term Incentive Plan expenses totaling \$191,951 with the contention that ratepayers should not be responsible for funding anything other than the "regular" salaries and wages; c) likewise, eliminating the Supplemental Executive Retirement Program, saving \$6,500; and d) eliminating UWM&S-allocated fees of \$70,207 "for public relations and community relations/civic affairs expenses" with the contention that there is no direct benefit to UWDE's ratepayers.(Exh.11, Henkes, pp. 24-26.)

29. **Testimony of David C. Parcell.** On May 17, 2011, Staff pre-filed the testimony of its Cost of Capital Consultant, David C. Parcell, President of Technical Associates, Inc. (Exh.12.) Mr. Parcell

²¹ UWDE's pre-filed testimony dated December 6, 2010 filed with its Application stated that the refinery indicated that it would use only the contractual minimum of 11 million gallons of water per month. (Skomorucha, Exh. 3, p.13, LL 15-18.) This was based upon an oral conversation between UWDE's General Manager Ms. Skomorucha and a representative of the refinery's new owner in October, 2010, two (2) months prior to filing its Application. (Henkes, Exh. 11, p.13, LL 31-32.)

recommended a Common Equity Cost Rate of 9.75% and an overall Rate of Return of 7.75%. (*Id.* at p.2, LL 1-30-p.3 LL 1-5 & Sched. 1.) In determining the Company's capital structure and embedded cost rates of debt, Mr. Parcell analyzed short-term debt using UWDE's average 2010 cost (short-term debt was not included by the Company), long-term debt using UWDE's proposed 6.15% cost rate and common equity. (*Id.*) Finally, in recommending the Common Equity Cost Rate, Mr. Parcell employed three (3) rate of return methodologies: Discounted Cash Flow, Capital Asset Pricing Model and Comparable Earnings. (*Id.* at p.2, LL 23-29.)

30. **Testimony of Brian Kalcic.** On May 17, 2011, Staff also pre-filed the testimony of Brian Kalcic, a principal of Excel Consulting. (Exh. 13.) Mr. Kalcic was retained by Staff "to review the rate structure submitted [by UWDE] ... and develop an appropriate rate design that would recover Staff witness Robert J. Henkes' overall recommended revenue requirement of \$23.542 million." (*Id.* at p.1, LL 13-17.) Mr. Kalcic recommended: a) adopting Staff's proposed class revenue allocation, which provides for cost-based rate increases to all rate classes ranging from 1.46% to 10.92%; and b) implementing Staff's proposed rate design, which includes non-uniform decreases to the Company's current tariff charges. (*Id.* at LL 19-29.)

C. PUBLIC ADVOCATE'S TESTIMONY

31. On May 17, 2011, the Public Advocate pre-filed the testimony of its consultant, Andrea C. Crane, President of The Columbia Group. (Exh. 14) For the test period ending June 30, 2011, Ms. Crane determined that a rate decrease of \$188,664 was warranted, based on a rate base of \$73,483,834, a pro-forma operating income of \$5,727,153, and an overall rate of return of 7.64% (with a Common Equity Cost Rate of 9.01%). (Crane, Exh. 14, p.5 & p.18.)

32. The Public Advocate disputed many of the same issues with UWDE which Staff did: a) the proposed Common Equity Cost Rate (the Public Advocate advocated 9.01% while the Company sought 11%); b) anticipated water usage at the Delaware City Refinery; c) the two (2) capital projects terminated by UWDE; d) the allocation of employee, Incentive and Retirement Plan fees from UWM&S to UWDE; and e) whether UWDE's federal income taxes should be reduced to reflect its consolidated income tax benefits. (Exh.14: a) p.16; b) p.26; c) p.46 ;d) p.45;and e) p.54)

33. In recommending a Common Equity Cost Rate of 9.01%, Ms. Crane also recommended an overall rate of return of 7.64%.²² (*Id.* at p.2 & p.18.) In recommending a Common Equity Cost Rate of 9.01%, Ms. Crane primarily employed the Discounted Cash Flow Model traditionally

²² Ms. Crane did not dispute UWDE's claimed capital structure or cost of debt. (Crane, Exh. 14, p.6, LL 12-13.)

relied upon by the Commission with a 6% growth rate, along with the Capital Asset Pricing Model.²³ (*Id.* at p.7, LL 1-6; p.9 LL 5-8.)

D. THE PROPOSED SETTLEMENT AGREEMENT

34. On August 2, 2011, the parties filed a proposed Settlement Agreement, which is attached hereto as Exhibit "A." If the Settlement Agreement is approved by the Commission, the additional annual revenue awarded to the Company will be \$1,600,000, or an approximately 6.83% increase over the base rates preceding the interim rates, plus the on-going Distribution System Improvement Charge ("DSIC") revenue.²⁴ (Exh. "A"-Settlement Agree; §10.)

35. This stipulated revenue requirement increase will reflect and produce an overall revenue requirement of \$25,040,118, as detailed on Exhibit "A" to the Settlement Agreement. (*Id.*) Finally, the parties' Settlement stipulates that the appropriate Common Equity Cost Rate is 10%. (*Id.*)

36. This increase is approximately \$700,000 less annually than the amount included in interim rates in place under bond as approved by the Commission on January 27, 2011 in Order No. 7900. (*Id.*) Thus,

²³ In calculating the Public Advocate's recommended Common Equity Cost Rate, Ms. Crane did not give equal weight to each rate of return model. Ms. Crane gave 75% weight to the Discounted Cash Flow Model often relied upon by the Commission, which uses dividend growth rate. (Crane, Exh. 14, p.16, LL 11-20.) Ms. Crane also afforded 25% weight to the Capital Asset Pricing Model. (*Id.*) This model determines an appropriate required rate of return for an asset with non-diversifiable risk, to be added to an already well-diversified portfolio. (*Id.* at p.14, LL 2-11.) Finally, Ms. Crane also used historic growth rates in formulating the DPA's Common Equity Cost Rate. (*Id.* at pp. 9-12.)

²⁴ In Paragraph 15 of the Settlement Agreement, the parties agreed that, as previously required by the Commission in an unrelated docket, "[t]he stipulated revenue requirement increase of \$1,600,000 reflects the methodology for calculating depreciation expense based upon depreciation rates set forth in Exhibit C plus an allowance for recovery of an average amount of net salvage costs..." The parties further agreed that United Water would continue to calculate its depreciation expense in this manner unless the Commission orders otherwise.

the proposed Settlement Agreement also contains a "Refund Plan" which would take effect upon the Commission's Final Order and be implemented subsequent thereto. (Exh. "A"-Settlement Agree; §16.) Pursuant to the Refund Plan, United Water will refund to its customers the difference between the revenue collected under bond and the final revenue requirement, with interest calculated according to ... [Delaware law]."²⁵ (*Id.*)

37. The Refund Plan will provide one-time, proportionate refunds according to the formula described in Paragraph 16 of the Settlement Agreement, including: a) current affected customers will be given a credit; b) checks will be issued to former affected customers owed \$5.00 or more; and c) the Company will advertise in the newspaper to contact former affected customers owed \$5.00 or less and explain how to claim a refund. (*Id.*; Tr.-31-32)

38. The parties have also agreed upon three (3) substantive tariff amendments: *Tariff 1*) permitting UWDE to determine the size and location of its customers' water meters and providing that all meters shall be furnished by and remain UWDE's property; *Tariff 2*) establishing that the \$1,000 deposit paid by a Developer which submits preliminary plans for project review will be credited to the Developer if it enters into a Developer Facilities Extension Agreement ("DFEA") within 24 months, but it is non-refundable if no DFEA is consummated; and *Tariff 3*) defining when security deposits will be required, the amount required, when security deposits must be paid, how interest is

²⁵ Interest added to all customer refunds will be calculated according to 26 Delaware Adm. Code §1003 (1986) (*enacted pursuant to* PSC Order No. 2696 (November 26, 1985)).

calculated, and describing the procedures for refunding security deposits.²⁶ (See Settlement Agreement, Exh. "B" thereto, Second Rev. Sheet No. 4, Third Rev. Sheet No. 10F & Second Rev. Sheet No. 7, *respectively.*)

39. At the August 30, 2011 evidentiary hearing, each party presented a witness to testify in support of the Commission approving the Settlement Agreement. Company witness James C. Cagle, Vice President of Regulatory Business, testified regarding the Company's revenue increase request, the positions taken by Staff and the Public Advocate, and the parties' proposed Settlement Agreement. (Tr.-29)

40. Mr. Cagle testified that UWDE believed that the compromise reached by the parties in the Settlement Agreement was in the public interest and results in just and reasonable rates. (Tr.-29,32) Mr. Cagle also testified that the rate increase will be evenly spread amongst all customer classes. (Tr.32-33) Finally, Mr. Cagle testified that three (3) tariff amendments should be approved by the Commission. (Tr.30-31)

41. Staff's Heidi Wagner, a Public Utility Analyst, also testified that the Settlement Agreement was in the public interest and results in just and reasonable rates. (Tr.-38) Ms. Wagner testified that the settlement saves ratepayers continued consultant costs for all parties, and saves the Company employee and attorney costs. (Tr.38-39)

²⁶ The parties did not agree upon UWDE's proposed tariff amendment regarding the "Reconciliation Mechanism" for water usage at the Delaware City Refinery.

42. Public Advocate Michael D. Sheehy testified that the Settlement Agreement was in the public interest and results in just and reasonable rates. (Tr.-41-42) Mr. Sheehy also testified that reasonably containing the cost of regulation was a major factor behind this settlement. (Tr.-42)

V. DISCUSSION

43. The Commission has jurisdiction over this docket pursuant to 26 Del. C. §201(a). This statute provides, in pertinent part, that "[t]he Commission shall have exclusive original supervision and regulation of all public utilities and also over their rates, property rights, equipment, facilities ... so far as may be necessary for the purpose of carrying out the provisions of this title. Such regulation shall include the regulation of rates..."

44. 26 Del. C. §512 directs the Commission to "encourage the resolution of matters brought before it through the use of stipulations and settlements," and provides that the Commission may, upon hearing, approve the resolution of matters through stipulations and settlements "where the Commission finds such resolutions to be in the public interest." (See 26 Del. C. §§512(a),(c), respectively.)

45. After reviewing the Settlement Agreement and considering the testimony of the witnesses for the Company, Staff and DPA, I conclude that the Settlement Agreement is in the public interest, results in just and reasonable rates, and recommend that the Commission approve the Settlement Agreement.

46. Most of the issues contested between the parties during the course of this docket are not specifically resolved in the Settlement Agreement. The agreed upon revenue requirement increase is based on a compromise among the parties on all issues achieved as an overall resolution of the case and, except as specifically identified in the Settlement Agreement and discussed below, does not reflect any particular position on any issue. (Exh. "A"-Settlement Agree; §10.) To this extent, the parties' agreement constitutes what is commonly referred to as a "black box" settlement.

47. The specific issues which are agreed upon by the parties include: a) the annual increase in revenue requirement, which is approximately 43% of the increase originally requested; b) the Common Equity Cost Rate as applied to a particular capital structure; c) the customer refund; d) the calculation of depreciation expense described in footnote 24 *supra*, and e) the three (3) tariff amendments.

48. The Settlement Agreement is in the public interest because it: a) balances the needs of Delaware ratepayers with the needs of the Company within the bounds of the statutory requirement that the Company earn a fair rate of return; and b) the settlement obviates the need to fully litigate the complex issues raised by the Company's Application and the testimony filed by Staff and the Public Advocate thereby saving costs and attorney's fees. (Exh. "A"-Settlement Agree; §10.)

49. The Settlement Agreement is clearly a product of extensive negotiations between the parties, conducted after Staff and the Public

Advocate completed their thorough discovery and investigation. It reflects a mutual balancing of various issues and positions. It is also evident that the parties all believe that the agreed-upon additional annual revenue requirement will produce just and reasonable rates for UWDE's Delaware ratepayers.

VI. RECOMMENDATION

50. In summary, for the reasons set forth above, I find that the proposed Settlement Agreement will produce just and reasonable rates, and that it is in the public interest to adopt the Settlement Agreement. Therefore, I recommend that the Commission approve the Settlement Agreement which is attached hereto as Exhibit "A." A proposed Order implementing the foregoing Recommendation is attached hereto as Exhibit "B."

Respectfully submitted,

/s/ Mark Lawrence _____
Mark Lawrence
Hearing Examiner

Date: September 12, 2011

“EXHIBIT “B”

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

IN THE MATTER OF THE APPLICATION)
OF UNITED WATER DELAWARE INC.)
FOR A GENERAL INCREASE IN RATES) PSC DOCKET NO. 10-421
AND FOR REVISIONS TO ITS TARIFF)
(FILED DECEMBER 6, 2010))

SETTLEMENT AGREEMENT

This Settlement Agreement (the “Settlement Agreement”), is entered into by and among United Water Delaware Inc. (“United” or “the Company”), the Staff of the Public Service Commission (“Staff”), the Public Advocate (“Public Advocate”) and Joseph R. Biden, III, Attorney General of the State of Delaware (collectively, “the Parties”).

I. INTRODUCTION AND PROCEDURAL BACKGROUND

1. On December 6, 2010, United filed an application with the Delaware Public Service Commission (“the Commission”), pursuant to 26 *Del. C.* §§201, 209, 304, and 306, for a base rate increase designed to produce \$3,679,299²⁷ in additional annual revenues (an approximate 16.04% increase over United’s current overall revenues) (the “Application”).

2. On January 13, 2011 the Company filed an application pursuant to 26 *Del. C.* §306(c) to place into effect on February 4, 2011, under bond and subject to refund, rates that would collect

²⁷ \$203,772 of existing Distribution System Improvement Charge surcharges are also being rolled into base rates in this proceeding, for a total requested rate increase of \$3,883,071.

additional annual revenue of approximately \$2,500,000 (an increase of approximately 10% over existing revenues), an amount which did not exceed 15% of United's annual gross intrastate operating revenues.

3. On January 27, 2011 the Commission entered PSC Order No. 7900, allowing United to collect said rates under bond, subject to refund as permitted by 26 *Del. C.* §306(c).

4. On January 11, 2011, Joseph R. Biden, III, Attorney General of the State of Delaware (the "Attorney General"), moved to intervene as a party to this docket in light of the vacancy in the Office of the Public Advocate caused by the retirement of Public Advocate G. Arthur Padmore on December 30, 2010. Hearing Examiner Mark Lawrence granted such intervention by PSC Order No. 7910 dated February 2, 2011.

5. The new Public Advocate was sworn into office on April 23, 2011. On April 29, 2011 the Public Advocate moved to intervene out of time. Hearing Examiner Lawrence granted such intervention by PSC Order No. 7967 dated May 2, 2011.

6. A public comment session was conducted on the evening of April 27, 2011 in Wilmington, Delaware. No members of the public attended.

7. On May 17, 2011, Staff filed testimony recommending a rate decrease of \$694,242.

8. On May 10, 2011, the Public Advocate filed testimony recommending a rate decrease of \$188,664.

9. The Parties, having engaged in substantial written discovery, desire to avoid the substantial cost of evidentiary hearings and have conferred in an effort to resolve the issues in this proceeding. The Parties acknowledge that they differ as to the proper resolution of many of the underlying issues in the rate proceeding and they preserve their rights to raise those issues in future

proceedings, but believe that settlement of this proceeding on the terms and conditions contained herein both serve the interests of the public and United and satisfy the statutory requirement that rates be just and reasonable.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by United, Staff, the Public Advocate and the Attorney General that the Parties will submit to the Commission for its approval the following terms and conditions for resolution of the pending proceeding:

II. SETTLEMENT PROVISIONS

10. The additional annual revenue awarded to the Company will be \$1,600,000, an approximate 6.83% increase over current base rates and the revenues from the Distribution System Improvement Charge currently in-place. This increase is, in turn, approximately \$700,000 less than the amount being collected in the interim rates under bond as approved by the Commission on January 27, 2011 in PSC Order No. 7900 as described above. The stipulated revenue requirement increase of \$1,600,000 encompasses a 10% return on common equity. The Parties have agreed to this revenue requirement award as a compromise of their positions and believe that this proposed revenue requirement award is within the bounds of the statutory requirement of a fair rate of return based on circumstances specifically unique to United. United shall file appropriate modifications to its tariff so as to incorporate this stipulated revenue requirement increase that will reflect and produce an overall revenue requirement of \$25,040,118 as detailed on the attached Exhibit A. Exhibit A also reflects the cost of service and rate design to which the Parties have agreed. United's rates shall be those that result from the application of the agreed-upon additional revenue requirement to this cost of service analysis and rate design, using the billing determinants shown in Exhibit A.

12. The Parties have agreed to the modifications to United's tariffs as follows:

Second Revised Sheet No. 4, Canceling First Revised Sheet No. 4 - Items 3 and 5: Meters

Second Revised Sheet No. 4, Canceling First Revised Sheet No. 4 – Item 1: Meter Setting

Second Revised Sheet No. 7, Canceling First Revised Sheet No. 7 – Items 1, 2, 3, and 4

Second Revised Sheet No. 8, Canceling First Revised Sheet No. 8 – Items 5 and 6

Second Revised Sheet No. 9, Canceling First Revised Sheet No. 9

Third Revised Sheet No. 10F, Canceling Second Revised Sheet No. 10F – Item 2

Third Revised Sheet No. 10G, Canceling Second Revised Sheet No. 10G

Third Revised Sheet No. 10H, Canceling Second Revised Sheet No. 10H

Thirteenth Revised Sheet No. 17, Canceling Twelfth Revised Sheet No. 17

13. The appropriate modifications to United’s tariffs reflecting the new rates and tariff provisions are attached as Exhibit B. Upon approval of this Settlement Agreement by the Commission, United shall file its amended tariff with the Commission.

14. For purposes of this settlement agreement only, the stipulated revenue requirement increase of \$1,600,000 reflects a reduction of an unspecified amount of income taxes, due to the filing of a consolidated federal income tax return. No agreement as to the appropriateness of including a consolidated tax adjustment (“CTA”) or any particular methodology for such calculation was reached.

15. The stipulated revenue requirement increase of \$1,600,000 reflects the methodology for calculating depreciation expense based upon depreciation rates set forth in Exhibit C plus an allowance for recovery of an average amount of net salvage costs in a manner approved by the Commission for Delmarva Power & Light Company in Docket No. 05-304, PSC Order No. 6930 dated June

6, 2006. Until changed by the Commission, the depreciation rates shown in Exhibit C plus an allowance for the recovery of salvage costs of \$35,305 will be utilized in calculating depreciation expense. United will continue to use this methodology for calculating its depreciation rates and expense and average amount of net salvage costs for all future rate proceedings unless and until the Commission orders otherwise.

III. REFUND PLAN

16. Attached as Exhibit D is a proposed refund plan (“Refund Plan”) to which the Parties have agreed. Pursuant to the Refund Plan, United will refund to its customers the difference between the revenues collected under bond and the final revenue requirement, with interest calculated according to the requirements of 26 *Del. Admin. C.* §1003 (Order No. 2696 in Regulation Docket No. 11). This Settlement Agreement contemplates that the rates will become effective on a bills-rendered basis as soon as new tariffs are filed after the Commission issues its final order in this docket. Excess revenues collected under bond will be refunded by issuing a one-time credit to each customer equal to a percentage of the total of the bills rendered to that customer from the period from February 4, 2011 to the effective date of the new final rates, plus interest. The percentage will be calculated as follows:

$$\frac{\$ \text{TBD} + \text{Interest}}{\$25,096,157} = \text{Credit \%}$$

The credit % will be applied to the total of all bills issued to each customer for the period from February 4, 2011 to the date the new rates are placed in effect. Each customer’s account will be credited for the dollar amount of this calculation. This one-time credit will appear on the next bill rendered to the customer with the following explanation of the reason for the credit.

“The credit on this bill is the result of the final decision by the Delaware PSC in Docket No. 10-421 and represents your share of the difference

between the revenues allowed in the Commission Order and the revenues collected under bond plus interest.”

All credits will be issued through the complete quarterly and monthly billing cycle of the Company. The Company will issue checks to former customers who have left the system for the appropriate refund based on the total dollars billed during the applicable period for amounts of \$5.00 or more. If the refund is less than \$5.00, the Company proposes a newspaper advertisement of the means of contacting the Company for a refund.

IV. ADDITIONAL PROVISIONS

17. This Settlement Agreement is the product of extensive negotiation and reflects a mutual balancing of various issues and positions of the Parties. This Settlement Agreement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission fails to grant such approval, or modifies any of the terms and conditions herein, this Settlement Agreement will terminate and be of no force and effect unless the Parties agree in writing to waive the application of this provision.

18. This Settlement Agreement represents a compromise for the purposes of settlement and, except as expressly provided in paragraph 15 above, shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future case. No Party to this Settlement Agreement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, any calculation made, or the resolution of any particular issue , except that the Parties agree that the resolution of the issues herein taken as a whole results in just and reasonable rates and is in the public interest.

19. To the extent opinions or views were expressed or issues were raised in the pre-filed testimony that are not specifically addressed in this Settlement Agreement, no findings,

recommendations, or positions with respect to such opinions, views or issues should be implied or inferred.

20. The Parties agree that they will submit this Settlement Agreement to the Commission for a determination that it is in the public interest and results in just and reasonable rates, and that no Party will oppose such a determination. Except as expressly set forth herein, none of the Parties waives any rights it may have to take any position in future proceedings regarding the issues in this proceeding, including positions contrary to positions taken herein or in previous cases.

21. If this Settlement Agreement does not become final, either because it is not approved by the Commission or because it is the subject of a successful appeal and remand, each Party reserves its respective rights to submit additional testimony, file briefs, or otherwise take positions as it deems appropriate in its sole discretion to litigate the issues in this proceeding.

22. This Settlement Agreement will become effective upon the Commission's issuance of a final order approving it and all of its terms and conditions without modification. After the issuance of such final order, the terms of this Settlement Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Settlement Agreement or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

23. The obligations under this Settlement Agreement, if any, that apply for a specific term set forth herein shall expire automatically in accordance with the term specified, and shall require no further action for their expiration.

24. The Parties may enforce this Settlement Agreement through any appropriate action before the Commission or through any other available remedy. Any final Commission order related to the enforcement or interpretation of this Settlement Agreement shall be appealable to the Superior Court of the State of Delaware, in addition to any other available remedy at law or in equity.

25. If a Court grants a legal challenge to the Commission's approval of this Settlement Agreement and issues a final non-appealable order that prevents or precludes implementation of any material term of this Settlement Agreement, or if some other legal bar has the same effect, then this Proposed Settlement is voidable upon written notice by any Party to all other Parties.

26. This Settlement Agreement resolves all of the issues specifically addressed herein and precludes the Parties from asserting contrary positions during subsequent litigation in this proceeding or related appeals; provided, however, that this Settlement Agreement is made without admission against or prejudice to any factual or legal positions which any of the Parties may assert (a) if the Commission does not issue a final order approving this Settlement Agreement without modifications; or (b) in other proceedings before the Commission or any other governmental body so long as such positions do not attempt to abrogate this Settlement Agreement. This Settlement Agreement, upon approval by the Commission, shall constitute a final adjudication as to the Parties of all of the issues in this proceeding.

27. The signatories hereto represent that they have the authority to execute this Settlement Agreement on behalf of the party for whom they are signing.

28. This Settlement Agreement may be executed in counterparts, and each such counterpart shall be as valid as if all signatures appeared on the same page.

NOW, THEREFORE, intending to bind themselves and their successors and assigns, the undersigned Parties have caused this Settlement Agreement to be signed by their duly-authorized representatives.

Date: August 1, 2011 By: /s/ Dennis L. Ciemniecki
UNITED WATER DELAWARE INC.

Date: August 1, 2011 By: /s/ Michael Sheehy
PUBLIC ADVOCATE

Date: August 1, 2011 By: Kent Walker
JOSEPH R. BIDEN, III,
ATTORNEY GENERAL OF THE STATE OF
DELAWARE Deputy Atty. General

Date: /s/ August 1, 2011 By: /s/ William F. O'Brien
DELAWARE PUBLIC SERVICE COMMISSION STAFF

EXHIBIT B

(SEE ORIGINAL IN DOCKET FILE)

EXHIBIT B- PROPOSED TARIFF SHEETS

EXHIBIT B

P.S.C. No. 6 – Water

UNITED WATER DELAWARE, INC.

Tariff

for

Water Service

Applicable in

The Service Area in Brandywine Hundred,
New Castle County, Delaware
and in the Service Area of the former
New Castle County Water Company and the former Delaware
Water Corporation

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

By: Susan Skomorucha
General Manager
2000 First State Boulevard
Wilmington, Delaware 19804-0508

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Fourteenth Revised Sheet No. 1

TABLE OF CONTENTS

<u>Description</u>	<u>Sheet No.</u>	<u>Revision</u>
Index	1	Fifteenth Revised
<u>Rules and Regulations</u>		
Definitions	2	Original
Request for Service	2	Original
Service Connection	3	Original
Cross Connections	4	Second Revised
Meters	4	Second Revised
Meter Setting	4	Second Revised
Meter Testing	5	Original
Bills	5	Original
Discontinuance of Service	6	First Revised
Customers' Deposits	7	Second Revised
Miscellaneous	8	Second Revised
Fire Protection	9	Second Revised
Water Main Extensions	10 – 10E	First Revised
Installation of Facilities	10F-10H	Third Revised
Appendix A Charges	10I	First Revised
Distribution System Improvement Charge (DSIC)	11 – 11B	Original

Schedule of Rates

Schedule A – General Metered Rates	12	Eighth Revised
Schedule A – Residential Service	12A	Eighth Revised
Schedule A – Commercial Service	12B	Eighth Revised
Schedule A – Industrial Service	12C	Eighth Revised
Schedule A – Public Authority Service	12D	Eighth Revised
Schedule A – Sales for Resale	12E	Eighth Revised
Schedule B – Rates for Public Fire Hydrant Service	13	Eighth Revised
Schedule C – Rates for Private Fire Hydrant Service	14	Eighth Revised
Schedule D – Rates for Private Unmetered Fire Service Line	15	Eighth Revised
Schedule E – Miscellaneous Fees and Charges	16 – 16A	Original
Schedule F – Distribution System Improvement Charge (DSIC)	17	Thirteenth Revised

ISSUED: **XXXX, 2011**
EFFECTIVE: **XXXX, 2011**

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

First Revised Sheet No. 4

CROSS CONNECTIONS

1. A cross connection is any pipe, valve or other physical connection or other arrangement or device connecting the pipelines of the Company, or facilities directly or indirectly connected therewith, to and with pipes or fixtures by which any contamination might be admitted or drawn from lines other than the Company's into the distribution system of the Company, or into lines connected therewith.
2. No direct connection of pumping equipment for any purpose or cross-connection with any other piping system will be allowed unless approved in writing by the Company.
3. The Company reserves the right to require any customer, owner or tenant to install, at their expense, and as part of a service connection such equipment or material which it deems necessary and as may be acceptable or required from time to time by any regulatory agency or good engineering practices, to prevent backflow into the water supply and minimize or eliminate contamination of its water supply system.
4. Backflow preventors shall be required in all domestic, commercial, industrial, public and municipal services where water is used in any process which, in the opinion of the Company, could constitute a cross-connection and/or health hazard.

METERS

1. All domestic, commercial, industrial, and municipal water service, except fire protection, will be rendered through meters only, except as provided for under schedule of rates.
2. Each customer's service shall have a separate meter to measure the amount of water consumed.
3. All meters will be furnished by, and shall remain the property of the Company. The Company reserves the right to establish the size **and location** of meter required by each customer.
4. Meters will be maintained by the Company. The customer, shall be responsible to the Company for damage and/or loss of any meter caused by the customer's negligence or carelessness, or by the negligence of his servants, employees, members of his household, or any person upon his premises by his consent or sufferance as set forth on Schedule E – Miscellaneous Fees and Charges. The customer shall not permit anyone other than an agent of the Company to remove, inspect or repair the Company's meter or other property of the Company on his premises.

5. The customer shall advise the Company of any damage or any operational failure of the meter as soon as it comes to his attention.

METER SETTING

1. All meters shall be set at locations **as approved by the Company**, accessible to the Company and subject to its control.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - WaterFirst Revised Sheet No. 7CUSTOMERS' DEPOSITS

1. **Customer deposits will only be required in the following instances:**
 - (a) For any existing customer who (1) has had service discontinued for non- payment of bills, (2) has rendered two bad checks in the preceding 12 months, (3) has been delinquent in payment of bills twice in the preceding 12 months, (4) has tampered with a meter or other equipment of the Company, or (5) has filed for bankruptcy, in which event the post petition account will be billed a security deposit unless otherwise instructed by the bankruptcy court.
 - (b) For any new customer who (1) is the tenant of a property for which he or she is responsible for payment of water bills, (2) has been delinquent during the preceding 12 months in paying water bills at a former address, (3) is found to be using false identification when use of a correct name would reveal poor records of payment, or (4) is seasonal or temporary.
2. When the customer is the owner of the property receiving water service, security deposits will not exceed the maximum estimated bill for two consecutive bill periods of \$100, whichever is less, unless it is due from an existing customer who (1) has had service disconnected two times within the preceding 12 months, (2) has been found to be tampering with the Company's meter or equipment, (3) has used water for unauthorized purposes, or (4) is other than a residential customer and has been delinquent in paying their water bills, in which event the entire estimated charge for two billing periods or the average billed amount outstanding over the previous, whichever is greater, will be collected. For a property occupied by a tenant who is responsible for paying the water bills, the security deposit will be \$300 and must be paid in full before water service is turned on.
3. Payment of a requested security deposit is a requirement for continued service, and failure to pay in full may result in discontinuation of service. If payment of a security deposit creates an undue hardship, the Company may allow payment of the deposit to be made over a reasonable period of time.

Interest on Customer Deposit:

4. Simple interest will accrue at the rate of the average of the percent yields of the 1-year Treasury constant maturities for September, October and November of the preceding year on security deposits held six months or longer. Accrued interest shall be credited annually to the customer's deposit account. When the customer is the owner of the property receiving water service, deposits will be refunded with accrued interest when the customer has paid the water bills as due and has had no delinquencies within the preceding 12 months. Security deposits, plus interest in accordance with the procedure as outlined in this paragraph, shall be refunded to the customer originally making the deposit.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

First Revised Sheet No. 8

5. **For properties occupied by tenants who are responsible for paying the water bills, deposits will be refunded upon termination of the tenancy.**
6. **A security deposit shall not be considered as payment on account during the time the customer is receiving water service. Customer shall pay bills for water service as rendered in accordance with Rules and Rates of the Company.**

MISCELLANEOUS

1. Water shall not be turned on for any customer by a person who is not an agent of the Company. With Company approval, a plumber may temporarily turn on the water to test his work. It shall be turned off again immediately after the test is completed.
2. Customers who request the temporary shut-off or turn-on of service for performing routine maintenance, repairs or replacement of the customer's portion of the service line may be charged in accordance with Customer Requested Turn on/off Charge as stated on Schedule E – Miscellaneous Fees and Charges.
3. The authorized agents of the Company shall have the right of access, at all reasonable hours, to the premises supplied with water for the purpose of reading meters, examining pipes and fixtures, observing manner of using water, and for any other purposes which is proper and necessary in the conduct of the Company business. Such agent will carry with them proper credentials noting their employment by the Company.
4. The Company will not be liable for any claim or damage arising from a shortage of water, breaking of machinery or other facilities, or any other cause beyond its control.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

First Revised Sheet No. 9

5. As necessity may arise because of a main break, or any other unavoidable cause, the Company shall have the right to temporarily cut off the water supply to make necessary repairs, connections, etc. The Company will use all reasonable and practicable measures to notify the customer in advance of such discontinuance of service. The Company shall not be liable for any damage or inconvenience suffered by the customer because of an interruption in service, inadequate supply, inadequate pressure, poor water quality, or for any other cause beyond its control. The Company may restrict or regulate the quantity of water used by customers in case of scarcity, or whenever the public welfare may require it.
6. No customer shall open or close any of the Company's curb stops or valves in any public or private line.
7. No agent or employee of the Company shall have the right or authority to bind the Company by any promise, agreement, or representation contrary to the letter or intent of these rules and regulations.
8. Underground lawn sprinklers and irrigation systems may be installed only under special approval by the Company. Customers must furnish schematic drawings of the proposed pipe layout, together with valves, sprinkler heads, approved backflow prevention device and appurtenances, including sizes and specifications.
9. The Company reserves the right to alter or amend these rules and regulations in the manner provided by law.

FIRE PROTECTION

1. Fire hydrants are provided for the sole purpose of aiding in fighting fires and are to be opened and used only by the Company and Fire Department personnel, or by such other persons as may be specially authorized by the Company by written permit.
2. The Company shall not be considered an insurer of property or persons or to have undertaken to extinguish fire or to protect persons or property against loss by fire or otherwise. The Company does not guarantee any special service, pressure, capacity or facility other than what is provided by its ordinary and changing operating conditions as they exist from day to day. It is agreed by the parties receiving service that the Company shall be free and exempt from any and all claims for injury to persons or property by reason of fire, water, failure to supply water pressure or capacity.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

Third Revised Sheet No. 10F

INSTALLATION OF FACILITIES COVERED UNDER A DEVELOPER FACILITIES EXTENSION AGREEMENT

1. All Developers who request a Facilities Extension shall execute a Developer Facilities Extension agreement. The cost of such Facilities Extension shall be estimated and shown in a Preliminary Memorandum. A master agreement may be executed for extensions that are to be made in phases over a period of time. A separate Agreement and separate payment of costs shall be made with each phase.
2. **The Developer shall submit preliminary plans to the Company along with an initial fee of \$1,000 for project review. This amount is nonrefundable; however it will be applied to the Developer's project in the form of CIAC upon execution of a Developer Facilities Extension Agreement, provided such agreement is executed by the developer within 24 months from the date of Company's receipt of the initial fee.**
3. The Developer shall supply the Company with a cost estimate of the project in a form acceptable to the Company. Estimates which appear to be inaccurate or do not reflect current market value, may be rejected by the Company.
4. Upon Company approval of the project, and subsequent receipt of the project cost estimate, a Preliminary Memorandum and Developer Facilities Extension agreement shall be provided to the Developer, by the Company, which includes an estimate for Construction Costs.
5. The Developer shall pay, in the form of CIAC or an Advance, the estimated Construction Costs due to the Company prior to the start of work.
6. The Developer shall be required to install the water main, service lines and appurtenances through a pre-qualified contractor retained by the Developer and to pay all costs related thereto. The Company shall supply the Developer with a list of Company approved contractors. At the sole discretion of the Company, the Company may undertake construction of all or part of the facilities and services otherwise subject to this section, in which event the Developer will retain financial responsibility for the installation of mains, services and appurtenances as specified.
7. All construction costs, whether initially incurred by the Developer or the Company, related to the Facilities Extension and services shall be the responsibility of the Developer.
8. Mains, services and appurtenance installation shall be performed in accordance with the specifications and conditions of the Company. The Company shall be the sole judge as to the adequacy of any facilities.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

9. Any construction costs involving pre-existing facilities of the Company, including but not limited to relocation of existing facilities and connections of mains or services with existing facilities shall be the responsibility of the Developer. According to good engineering practices, the Company has the right to require the relocation of any of its existing facilities contained within a right-of-way or private easement that transverses the Developer's project. The cost of relocating such facilities shall be the responsibility of the Developer.
10. The Developer shall obtain all necessary permits from federal, state and local authorities. If any of these authorities require the Company to obtain such permits, the Developer shall pay all necessary permit fees in advance of the Company applying for the permits.
11. All construction shall be subject to inspection by Company personnel. No trenches shall be backfilled prior to approval by Company inspectors.
12. The Developer shall supply the Company with an accurate "as built" set of plans for the construction project. The "as built" set of plans shall be created on the version of AUTO CAD which is compatible with the Company's version of the AUTO CAD. The plans shall be submitted in 8 ½" x 11" paper form and on Compact Disc in accordance with Company specifications.
13. Following completion of the construction of facilities, ownership of all mains, services and appurtenances shall be transferred to the Company free and clear of any liens, for the cost of \$1.00.
14. At the time of transfer of ownership of the facilities to the Company, the Company shall be provided, at no cost to the Company, legally recorded easement(s) to provide future access for repair, maintenance, replacement or other related reasons.
15. Upon completion of the project, the Developer shall provide a Final Memorandum indicating the final actual costs of the facilities and services installed.
16. The Developer shall warrant the facilities and services to the Company for a two (2) year period. The Developer shall deliver to the Company an executed Letter of Credit or Maintenance Bond in the form and substance satisfactory to the Company in the amount of twenty-five percent (25%) of the estimated Construction Cost.
17. The Company, in its sole discretion, will not accept ownership of any facilities or services or provide water service to any metered connection therefrom until the Company determines:
 - (a) that all construction related to installation of facilities and services is properly completed,
 - (b) that the facilities and services are acceptable for public service,
 - (c) that all company costs have been paid,
 - (d) that a proper accounting of the construction costs has been provided to the Company,

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Second Revised Sheet No. 10H

- (e) that the Company has received the "as built" plans in form specified in Section 11 above.
 - (f) that the Category 2-utility plant Costs have been paid,
 - (g) that all easements have been transferred, and
 - (h) Letter of Credit or Maintenance Bond warrantee has been received and accepted.
- 18.** Supplemental Memorandum shall then be prepared and completed by the Company, showing the actual costs including the Company's costs, construction overhead costs and all other applicable fees, costs and taxes. Where the estimated amount of the CIAC or Advance exceeds the finally determined cost of the Facilities Extension and services, that excess amount shall be returned to the person making the CIAC or Advance. Where the estimated amount of the CIAC or Advance falls short of the finally determined cost of the Facilities Extension and services, that shortage amount shall be paid to the utility by the person making the CIAC or Advance.
- 19.** The Company, in its sole discretion, has the right to require a non-interest bearing deposit up to the amount of three-thousand dollars (\$3,000.00) which will be refunded upon receipt of acceptable as-built drawings.
- 20.** The Company, in its discretion, and with the agreement of the applicant, may enter into a Facilities Extension agreement with alternative terms and conditions for funding of extensions if the Company concludes that the extension will provide a reasonable return or otherwise is in the long term interest of its customers.

Filed in accordance with the Commission's order No. XXXX dated XXXX, 2011 in

Docket No. 10-421

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 12

Schedule A - General Metered Rates

Application:

This schedule is applicable to general, residential, commercial, industrial, public authority and sales for resale service throughout the entire territory served.

The rate schedules are shown on the following sheets:

Residential	Eighth Revised Sheet No. 12A
Commercial	Eighth Revised Sheet No. 12B
Industrial	Eighth Revised Sheet No. 12C
Public Authority	Eighth Revised Sheet No. 12D
Sales for Resale	Eighth Revised Sheet No. 12E

Terms of Payment:

All bills for service under the schedule will be rendered in arrears, either quarterly or monthly, at the option of the Company. The bills at the rates shown are due and payable when rendered.

All customers within a Fire Hydrant District (where an incorporated town does not pay hydrant charges) are subject to a charge, as shown on Schedule B (Sheet No. 13) in addition to the above rates.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket ___10-421_____.

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 12A

Residential Service

Rate:

Residential consumption reflects an inclining block rate as set forth below in compliance with House Bill 118, the Water Supply Self Sufficiency Act of 2003 (26 Del. C. 1401-1408.).

Quarterly Consumption

<u>In 1,000 Gallons</u>	<u>Rate per 1,000 Gallons</u>
0 – 5,000	\$ 3.3819
5,001 – 20,000	4.0280
Over 20,000	5.6786

Service Charges:

To be billed in addition to the consumption usage.

No allowance for water included in service charge.

Meter Size	Per Month	Per Quarter
5/8"	\$ 11.70	\$ 35.10
3/4"	14.05	42.15
1"	18.59	55.77
1 1/4"	21.80	65.40
1 1/2"	27.10	81.30
2"	40.27	120.81
3"	102.33	306.99
4"	137.08	411.24
6"	219.74	659.22
8"	315.41	946.23
10"	410.20	1,230.60

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket __10-421_____.

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water**Seventh Revised Sheet No. 12B****Commercial Service**Rate:All consumption at **\$3.3896** per 1,000 gallons.Service Charges:

To be billed in addition to the consumption usage.

No allowance for water included in service charge.

Meter Size	Per Month	Per Quarter
5/8"	\$ 11.70	\$ 35.10
3/4"	14.05	42.15
1"	18.59	55.77
1 1/4"	21.80	65.40
1 1/2"	27.10	81.30
2"	40.27	120.81
3"	102.33	306.99
4"	137.08	411.24
6"	219.74	659.22
8"	315.41	946.23
10"	410.20	1,230.60

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket __10-421__.

 ISSUED: XXXX, 2011
XXXX, 2011

EFFECTIVE:

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 12C

Industrial Service

Rate:

Monthly Consumption

In 1,000 Gallons

Rate per 1,000 Gallons

First	1,400	\$ 3.1697
All Over	1,400	2.3659

Service Charges:

To be billed in addition to the consumption usage.

No allowance for water included in service charge.

Meter Size

Per Month

5/8"	\$ 11.70
3/4"	14.05
1"	18.59
1 1/4"	21.80
1 1/2"	27.10
2"	40.27
3"	102.33
4"	137.08
6"	219.74
8"	315.41
10"	410.20

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket ___10-421___.

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water**Seventh Revised Sheet No. 12D****Public Authority Service**Rate:All consumption at **\$2.9741** per 1,000 gallons.Service Charges:

To be billed in addition to the consumption usage.

No allowance for water included in service charge.

Meter Size	Per Month	Per Quarter
5/8"	\$ 11.70	\$ 35.10
3/4"	14.05	42.15
1"	18.59	55.77
1 1/4"	21.80	65.40
1 1/2"	27.10	81.30
2"	40.27	120.81
3"	102.33	306.99
4"	137.08	411.24
6"	219.74	659.22
8"	315.41	946.23
10"	410.20	1,230.60

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket __10-421____.

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 12E

Sales for Resale

Rate:

All consumption at **\$2.9994** per 1,000 gallons.

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket ___10-421___.

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 13

Schedule B - Rates for Public Fire Hydrant Service

Application:

To public fire hydrant service through the entire territory served.

Rates:

To Political Subdivision

Net	Net
<u>Per Month</u>	<u>Per Quarter</u>

For fire hydrant installed and maintained by the Company at its expense

Each fire hydrant:	\$ 120.25	\$ 360.75
--------------------	-----------	-----------

For fire hydrant installed and maintained by the political subdivision at its expense

Each fire hydrant:	\$ 100.17	\$ 300.51
--------------------	-----------	-----------

Individual Customers

To individuals in protected areas so designed by the National Board of Fire Underwriters, and when liability for service is not assumed by a political subdivision

Each customer:

Meter Size

	Per Month	Per Quarter
5/8"	\$ 2.21	6.63
3/4"	3.30	9.90
1"	5.51	16.53
1 1/4"	8.28	24.84
1 1/2"	11.03	33.09
2"	17.67	53.01
3"	33.13	99.39
4"	55.22	165.66
6"	110.48	331.44
8"	176.76	530.28
10"	254.11	762.33

Conditions of Contract:

The monthly or quarterly charge to individual customers shall be in addition to charges under any schedule of rates.

Terms of Payment:

All bills for service under this schedule will be rendered in arrears either quarterly or monthly at the option of the Company. The bills at the above rates are due and payable when rendered.

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket ___10-421___.

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Seventh Revised Sheet No. 14

Schedule C - Rates for Private Fire Hydrant Service

Application:

Applicable to all customers who have private fire hydrant installations on fire hydrant lateral connection to the company-owned mains.

Rates:

Net
Per Month

For fire hydrant installed and maintained by the Company at its expense

Each Hydrant: **\$ 120.25**

For fire hydrant installed and maintained by the customer at his expense

Each Hydrant: **\$ 100.17**

Conditions:

The Company reserves the right to meter any fire line where evidence indicates that water is being taken from the line for purposes other than fire service, and such metered service shall then be billed in accordance with the regular schedule of meter rates in addition to the above rates, with proper allowance for water consumed in fire fighting.

Terms of Payment:

Private fire hydrant service will be billed in arrears on a quarterly or monthly basis at the discretion of the Company.

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ date _____, 2011 in Docket __10-421____.

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.
P.S.C. No. 6 - Water

Canceling:

Seventh Revised Sheet No. 15

Schedule D - Rates for Private Unmetered Fire Service Line

Application:

Applicable to all customers who have unmetered service line connection for fire protection.

Rates:

<u>Size</u>	<u>Net Per Month</u>
For each 1 ½" Service Line	\$ 6.03
For each 2" Service Line	25.07
For each 4" Service Line	40.09
For each 6" Service Line	100.17
For each 8" Service Line	180.22
For each 10" Service Line	280.44
For each 12" Service Line	400.60

Conditions of Contract:

The Company reserves the right to meter any fire line where evidence indicates that water is being taken from the line for purposes other than fire service, and such metered service shall then be billed in accordance with the regular schedule of meter rates in addition to the above rates, with proper allowance for water consumed in fire fighting.

Terms of Payment:

Private unmetered fire service will be billed in arrears on a quarterly or monthly basis at the option of the Company.

Late Payment:

Bills rendered will show the bill due upon receipt. Payment received by the Company 30 days after the date of the bill will be charged a penalty of 1.5%, and such penalty will be calculated monthly thereafter only on the overdue portion of the bill. In no event shall the penalty charged exceed 18% annually.

Filed in accordance with the Commission's Order No. _____ dated _____, 2011 in Docket __10-421__.

ISSUED: XXXX, 2011

EFFECTIVE: XXXX, 2011

UNITED WATER DELAWARE, INC.

Canceling:

P.S.C. No. 6 - Water

Twelfth Revised Sheet No. 17

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 for bills rendered on or after **XXXX, 2011**.

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

EXHIBIT C

UNITED WATER DELAWARE INC.
SCHEDULE OF DEPRECIATION RATES

Line	Account	Description of Property(C)	Depreciation
No.(A)	No.(B)		Rate(D)
		Source of Supply Plant	
1	310	Land and Land Rights	0.00%
2	311	Structures and Improvements	5.29%
2	312	Collecting and Impounding Reservoirs	0.98%
3	313	Lake, River and Other Intakes	1.76%
3	314	Wells and Springs	0.00%
4	316	Supply Mains	0.88%
4			
5		<u>Pumping Plant</u>	
5	320	Land and Land Rights	0.00%
6	321	Structures and Improvements	1.16%
6	323	Other Power Production Equipment	3.81%
7	325	Electric Pumping Equipment	2.15%
7	326	Diesel Pumping Equipment	1.87%
8			
8		<u>Water Treatment Plant</u>	
9	330	Land and Land Rights	
9	331	Structures and Improvements	1.23%
10	332	Water Treatment Equipment	2.53%
10			
11		Transmission and Distribution Plant	
11	340	Land and Land Rights	

12	342 Distribution Reservoirs and Standpipes	0.97%
12	343 Transmission and Distribution Mains	1.00%
13	344 Fire Mains	1.64%
13	345 Services	1.96%
14	346 Meters	5.99%
14	348 Hydrants	2.25%
15		
15	<u>General Plant</u>	
16	390 Structures and Improvements	1.87%
16	391 Office Furniture and Equipment	13.81%
17	391-A Computer Hardware/Software	13.81%
17	392 Transportation Equipment	20.00%
18	393 Stores Equipment	2.09%
18	394 Tools, Shop and Garage Equipment	3.75%
19	395 Laboratory Equipment	7.42%
19	396 Power Operated Equipment	9.33%
20	397 Communications Equipment	7.34%
20	398.1 Miscellaneous Equipment	6.50%
21	398.2 Office Equipment-SCADA System	6.50%

EXHIBIT D

United Water Delaware, Inc.
PSC Docket 10-421
Refund of Revenues Under Bond

The final rates are designed to collect \$696,217 less in additional base rate revenues than the rates under bond on an annual basis (\$2,499,856 bonded rates - \$203,772 DSIC - \$1,599,867 revenue increase) prorated by the number of day the bonded rates were in effect or 2.03% of the total annual bonded revenues of \$25,096,157 from the bonded rates. Interest will be included in the refund in conformance with the Commission Order 2696. The interest will be calculated based on the average prime rate for each calendar quarter. The applicable prime rate shall be the arithmetic mean, to the nearest one-hundredth of one percent of the prime rate values published in the Federal Reserve Bulletin for the fourth, third and second months preceding the calendar quarter. The interest will be compounded annually on February 4, the anniversary of the effective date of the rates under bond.

The Company's rate, as shown on the tariff leafs attached as Exhibit B to the Settlement Stipulation, will become effective on a **bills rendered** basis as soon as practicable after the Commission's Order is rendered. Customers will therefore receive the full benefit of the lower rates on the first bill after the Commission's decision. This will also eliminate the need to prorate this bill between the rates under bond and the final rates. Instituting the new rates on this basis will also simplify the calculation of the refund to customers by allowing the refund to be calculated on a **bills rendered** basis.

The Company will refund by the following method:

The Company will issue a credit to each customer equal to a percentage of the total of the bills rendered to that customer from the period from February 4, 2011 to the effective date XXXX, 2011 of the new final rates, plus interest. The percentage will be calculated as follows:

$$\frac{\$ \text{TBD} + \text{Interest}}{\$25,096,157} = \text{Credit \%}$$

The Credit % will be applied to the total of all bills issued to each customer for the period from February 4, 2011 to the date the new rates are placed in effect. Each customer's account will be credited for the dollar amount of this calculation. This one time credit will appear on the next bill rendered to the customer with the following explanation of the reason for the credit.

"The credit on this bill is the result of the final decision by the Delaware PSC in Docket No. 10-421 and represents your share of the difference between the revenues allowed in the Commission Order and the revenues collected under bond."

All credits will be issued through the complete quarterly and monthly billing cycle of the company.

The Company will issue checks to the former customers who have left the system for the appropriate refund based on the total dollars billed during the applicable period for the amounts of \$5.00 or more. If the refund credit is less than \$5.00, the Company proposes a newspaper advertisement of the means of contacting the Company for a refund.