

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
TIDEWATER UTILITIES, INC. FOR AN) PSC DOCKET NO. 11-397
INCREASE IN WATER RATES)
(FILED SEPTEMBER 15, 2011))

ORDER NO. 8164

AND NOW, this 19th day of June, 2012:

WHEREAS, the Commission has received and considered the Findings and Recommendations of the Hearing Examiner, which is attached hereto as "Attachment A," issued in the above-captioned docket, which was submitted after a duly-noticed public evidentiary hearing held on May 30, 2012; and

WHEREAS, the Hearing Examiner recommends that the Commission approve the proposed Settlement Agreement, which is endorsed by all the parties, and which is attached hereto as "Attachment B," and;

WHEREAS, the Commission finds that the proposed rates contained in the proposed Settlement Agreement and the tariff revisions attached hereto as "Attachment C" are just and reasonable, and that adoption of the proposed Settlement Agreement and tariff revisions 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 hereby adopts the June 14, 2012 Findings and Recommendations of the Hearing Examiner, attached hereto as "Attachment A."

2. That the Commission approves the proposed Settlement Agreement (attached hereto as "Attachment B") and the proposed rates therein, reflect an additional revenue requirement for Tidewater Utilities, Inc. ("Tidewater") of \$1,422,014 or approximately a 6.2% increase over its interim rates placed under bond effective November 15, 2011. This revenue requirement amount is based upon a capital structure of 50.18% equity and 49.82% long-term debt, an overall cost of capital of 7.91% and a Return on Equity of 9.75%.

3. That the final rates contained in the proposed Settlement Agreement are approved for implementation effective for service provided on and after June 19, 2012. These rates shall remain in effect until further Order of the Commission.

4. That all tariff revisions attached hereto as "Attachment C" are hereby approved and deemed filed as of the date of this Order.

5. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary

A T T A C H M E N T "A"

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATE: June 12, 2012

Mark Lawrence
Hearing Examiner

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(FILED SEPTEMBER 15, 2011))

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. 101, by Commission Order No. 8049, dated October 3, 2011, reports to the Commission as follows:

I. APPEARANCES

On behalf of the Applicant Tidewater Utilities, Inc.:

RICHARDS, LAYTON & FINGER, P.A.

By: GLENN C. KENTON, ESQUIRE

TODD A. COOMES, ESQUIRE

On behalf of the Delaware Public Service Commission:

ASHBY & GEDDES

By: JAMES McC. GEDDES, ESQUIRE, Rate Counsel

On behalf of the Division of the Public Advocate:

MICHAEL D. SHEEHY, Public Advocate

REGINA A. IORII, ESQUIRE, Deputy Attorney General
Delaware Department of Justice

II. BACKGROUND

1. On September 15, 2011, Tidewater Utilities, Inc. ("Tidewater" or "the Company") filed an Application, Minimum Filing Requirement Schedules, and supporting direct testimony with the Delaware Public Service Commission. ("Commission") Tidewater is seeking to increase its currently effective water rates and to revise certain tariffs previously approved by the Commission. In its Application, Tidewater requests that the Commission approve rates which would allow the Company an additional, annual revenue requirement of \$6,852,236, or an increase of 29.37% over existing rates.¹ (Application, Exh. 4, Briefing Sheet.)

2. After reviewing the Application, the Commission initiated this docket pursuant to 26 Del. C. §306(a)(1), and by Order No. 8049, dated October 3, 2011, suspended the proposed rate increases pending full and complete evidentiary hearings into the justness and reasonableness of the proposed rates and tariffs. The Commission also designated me as Hearing Examiner to conduct such hearings and thereafter report to the Commission my proposed Findings and Recommendations concerning this docket.

3. In Order No. 8049, pursuant to 26 Del. C. §306(c) and upon Tidewater's Application, the Commission also allowed Tidewater, to place interim rates into effect. Pursuant to this Order, effective November 15, 2011, the Company placed into effect, under bond, an interim rate increase of \$2,477,986, or 10.49% over existing rates.

¹ The Evidentiary Hearing Exhibits will be cited herein as "(Exh. ____)." References to the pages of the Evidentiary Hearing transcript will be cited as "T-____." Schedules from the Company's Application or pre-filed testimony will be referred to as "Sch.____."

4. On November 14, 2011, the Division of Public Advocate ("Public Advocate") intervened in this docket pursuant to 29 Del. C. 8716(d)(1). On November 30, 2011, the Company, myself, and representatives of Staff and the Public Advocate's offices, conducted a field inspection of the Company's two (2) proposed largest capital projects. (T-93) This field inspection is described in detail later herein.

5. Thereafter, I issued a Procedural Schedule listing the deadlines for this docket, which was agreed upon by the parties. Duly-noticed Public Comment Sessions were held in each of Delaware's three (3) counties. Public Comment Sessions were held in Kent County at the Commission's Dover office on January 11, 2012; in Georgetown, Sussex County at the Delaware Technical & Community College (DTCC) on January 18, 2012; and in New Castle County at the VFW Post 3792, Summit Bridge Rd., Townsend, Delaware 19709 on January 25, 2012. Unfortunately, the sessions were not well attended by the public.

6. Tidewater's Application included the pre-filed testimony of its President Gerard L. Esposito; A. Bruce O'Connor, Chief Financial Officer; Jeremy M. Kalmbacher, Director of Engineering; Edward A. Rapciewicz, Jr., Vice President of Operations; and Pauline M. Ahern and Scott D. Fogelsanger, Principals of AUS Consultants. (Exh. 4.)

7. On October 18, 2011, Mr. Esposito and Mr. O'Connor each filed "revised" pre-filed testimony, including revised Minimum Filing Requirement ("MFR") Schedules. (Exh. 5) On March 13, 2012, Mr. O'Connor also filed "supplemental" pre-filed testimony, including supplemental MFR Schedules. (Exh. 6.)

8. Thereafter, the Public Service Commission Staff ("Staff") and the Public Advocate conducted extensive written discovery with the Company. (T-87) Moreover, Staff performed a three (3) day, on-site audit of Tidewater's books and records. (See Procedural Schedule.)

9. On April 5, 2012, Staff and the Public Advocate each filed pre-filed testimony in which they recommended certain adjustments to Tidewater's requested revenue increase. The Parties' pre-filed testimony addressed various issues in detail, including: Tidewater's pro-forma rate base calculation, operating revenues, operations and maintenance expense, and rate of return.

10. On May 2, 2012, the Company filed pre-filed rebuttal testimony. On May 4 and May 8, 2012, the Company updated its Test Period information with actual data and revised its Cost of Capital information, specifically its proposed Return on Equity. Based upon its revised Test Period through March 31, 2012, Tidewater reduced its overall revenue request by \$544,343 to \$6,307,893, with a rate base of \$96,946,322. (Exh. 11, Sch.1, O'Connor, p.1; Tr.-89.)

11. On Wednesday, May 30, 2012, I conducted a duly-noticed evidentiary hearing in Dover, at which time I heard evidence on the proposed settlement.² (Tr.-79) The parties' pre-filed testimony and exhibits were introduced into the record. (*Id.*) Moreover, the parties' witnesses testified on the reasonableness of the proposed settlement and whether the proposed settlement was in the public interest.

12. At the conclusion of the hearing, the record consisted of twelve (12) exhibits and a one hundred and sixteen (116) page

² The Notice of Evidentiary Hearing was published in *The News Journal* and the *Delaware State News* newspapers on May 3, 2012. (Exh. 3.)

transcript. I have considered the entire record of this proceeding. Based upon my review of that record, I submit for the Commission's consideration these Findings and Recommendations.

III. THE PARTIES' POSITIONS

13. By way of background, in 2011, Tidewater delivers over two (2) billion gallons of drinking water to a total of approximately 35,000 Delaware households. (Tr.-92) The Company operates in each of Delaware's three (3) counties. (*Id.*) Tidewater operates 83 water plants and 50 water districts, serving 348 residential communities and 582 commercial accounts. (*Id.*)

14. Based on its rebuttal testimony, and its updated Test Period information through March 31, 2012, Tidewater's revised position proposed an increase in annual revenues of \$6,307,893, based upon a claimed rate base of \$96,946,322, operating income of \$4,509,000, a Return on Equity³ ("ROE") of 11.05% and an overall proposed overall Rate of Return of 8.56%.⁴ (Exh. 11, Sch.1, O'Connor, p.1; Exh. 10, Ahern, p.53 LL 9-11.)

15. Staff sponsored the testimony of the following witnesses: 1) Independent Regulatory Consultant, Aaron L. Rothschild; 2) Ralph C. Smith, Senior Utility Regulatory Consultant with Larkin & Associates; and 3) Independent Regulatory Consultant Scott J. Rubin, (Exh. 7). Staff's original position was that Tidewater should be allowed an

³ The "Return on Equity" is also known as the Common Equity Cost Rate. This Report uses the phrase Return on Equity because the witnesses generally used that term in their testimony. The Return on Equity is the annual rate which an investor expects to earn when investing in shares of the Company. (Exh.7, Rothschild, pp. 2-6.)

⁴ "Rate of Return" is Tidewater'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).

additional revenue requirement of \$2,528,438, applied to a rate base of \$88,221,250, rather than the \$6,852,236 in additional revenues the Company originally requested in its Application. (Exh. 7, Smith, Sch. RCS-1.)

16. The Public Advocate sponsored the testimony of Glenn A. Watkins, Vice President and Senior Economist of Technical Associates, Inc. (Exh. 9) The Public Advocate's original position was that Tidewater should be allowed an additional revenue requirement should increase by \$2,716,997, applied to a rate base of \$90,723,157. (Exh. 9, Watkins, Sch. GAW-10.)

17. As part of the Commission-approved Settlement in Tidewater's 2009 rate case, the Company agreed to include in its next rate case, a proposed tariff that included inclining block rates for residential customers in an effort to promote conservation. (See PSC Order No. 7639 (Sept. 9, 2009.))

18. In this case, Staff proposed larger differentials in the charges proposed by the Company in the various blocks, and supported a modification in the Cost of Service Study which included a different allocation of costs to the facilities, private fire protection, and public fire protection charges. (Exh. 7, Rubin.) The Public Advocate also proposed certain changes in the allocation of costs to the various classes. (Exh. 9, Watkins.)

IV. THE PROPOSED SETTLEMENT AGREEMENT.

19. The Parties entered into a proposed Settlement Agreement on May 30, 2012. The Settlement Agreement is attached hereto as Exhibit "A" and was marked as Exhibit "12" at the evidentiary hearing.

20. The Settlement Agreement provides that the Company's rates will increase by \$1,422,014 or approximately a 6.2% increase over the interim, bonded rates. (Settle. Agreement, Exhibit "1," ¶¶2,8) The additional revenue requirement awarded to the Company is \$3,900,000.⁵ (Id. at ¶8.) Finally, the Parties stipulated that the Company is allowed a Return on Equity of 9.75%. (Id. at ¶9 (citing Sch. A.))

21. At the evidentiary hearing, Staff Utility Analyst Jack Schreyer testified that the \$3,900,000 additional revenue award was almost \$3,000,000 less than the \$6,852,236 in additional revenue the Company originally requested in its Application. (Tr-99) Moreover, the Settlement's 9.75% Return on Equity ("ROE") was substantially less than the 11.30% ROE Tidewater originally requested. (Id.) Public Advocate Michael Sheehy testified that, in addition to saving Tidewater's ratepayers litigation expenses, the Settlement is within the range of reasonableness. (Tr.103-04.)

22. On November 30, 2011, the Company, Staff's Jack Schreyer and Heidi Wagner, the Public Advocate's Andrea Maucher and I conducted a field inspection of the Company's two (2) proposed largest capital projects. (T-93) The two (2) capital projects are the Company's Supervisory Control and Data Acquisition System ("SCADA") and replacement of the Angola-By the-Bay Distribution System. (Id.)

23. Fully operational since October, 2011, the Company's SCADA system monitors the quantity of water being diverted or withdrawn from the Company's three (3) largest Sussex County water districts.

⁵ The Company's "Revenues Under Present Rates and Settlement Rates," set forth according to meter size and contract sales, are also reflected in the Settlement. (Settle. Agree., Exhibit "1," Sch. A, p.2.)

(Tr.:93-94) These events (and historical data) are monitored by licensed operators for more efficient management and cost control regarding pump status, plant flow, chlorine levels, pressure, etc. (Id.) The Company intends to expand its SCADA system into Kent and southern New Castle Counties. (Tr.-96)

24. Fully operational since March 2012, the new Angola- By-the-Bay Distribution System serves "seven-and-a-half miles of water main, fire hydrants, meters, and service connections in a 790 home community." (Tr.-95) The community is located east of Highway 24 in Sussex County and before replacement, its water system was approximately forty (40) years old. (Id.) The Company coordinated the water main replacement with Sussex County's simultaneous new sewer installation in the community. (Tr.-95) This is an example of County government and private industry cooperating to efficiently serve Delaware residents.

25. Moreover, in this settlement, the Parties have also resolved their rate design differences by implementing a smaller increase for the customer charge than the Company had originally proposed, increasing public fire revenues by an amount greater than the Company had proposed, and implementing no change in private fire revenues (rather than the reduction proposed by Tidewater). (Id. at ¶11 (citing Sch. A.))

26. According to Paragraph 11 of the Settlement, "[t]he inclining block differential of approximately \$.10 included in the Company's proposal will be accepted for this Settlement, but the Parties agree that the Company will: (1) evaluate the costs, benefits

and feasibility of implementing monthly billing and meter reading for residential customers; and (2) develop a rate block structure and price differentials for a residential inclining block rate design to be implemented if monthly billing and metering are found to be cost-effective and feasible. The Company will conduct the study and submit a report to the Parties for their review prior to the filing of its next base rate case.

27. Paragraph 11 of the Settlement further provides that "[i]n addition, the Company commits to in its next base rate proceeding to file a lead-lag study to help determine its actual Cash Working Capital needs going forward. This study will be important in the context of moving from quarterly to monthly billing."

28. Finally, according to Paragraph 12 of the Settlement, "the Company agrees that in its future quarterly Rate of Return Reports to the Commission, it will reflect costs associated with its Enterprise Resource Planning ("ERP") system⁶ as a lease cost rather than as a rate base investment solely for the purpose of filing those reports. This requirement shall be effective with the filing of the Rate of Return Report for the first full calendar quarter subsequent to the Commission's approval of this Settlement and shall terminate with the filing of the Rate of Return Report for the calendar quarter

⁶ Tidewater's Enterprise Resource Planning (ERP) system integrates many of the Company's business systems including Customer Care & Billing, Human Resource Management, Financial and Management Reporting, along with automated Procurement and Fixed Asset Modules. (Exh. 4, Applic., Esposito, p.4.) Also, the ERP system is being expanded to include customer appointments, automated time reporting, inventory controls and work orders. (Id. at pp. 4-5.)

immediately preceding the date of the Company's next base rate filing."

V. DISCUSSION.

29. The Commission has jurisdiction over this case. 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..."

30. 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 Del. C. §§512(a), (c).)

31. I incorporate the prior four (4) sections of this Report as my Findings of Fact. Based upon those Findings of Fact and my analysis in this Section, I find that Tidewater has met its Burden Proof in this case.

32. Tidewater has the Burden of Proof in this case pursuant to 26 Del. C. §307(a), which provides as follows:

§ 307. Burden of Proof

In any proceeding upon the motion of the Commission, or upon complaint, or upon application of a public utility, involving any proposed or existing rate of any public utility, or any proposed change in rates, the burden of proof to show that the rate involved is just and reasonable is upon the public utility.

(emphasis supplied)

33. Next, I find that the Parties have demonstrated that the proposed Settlement Agreement results in just and reasonable rates and should be approved by the Commission. For the reasons discussed below, I recommend to the Commission its approval and adoption.

34. The Settlement Agreement is the product of extensive negotiation among the parties, and reflects a mutual balancing of various issue and positions.⁷ (Exhibit "1;"¶13, Tr.-99, 102-03.) As described earlier, the Parties have concluded that settlement on the agreed-upon terms and conditions will serve the interest of the public and Tidewater, while meeting the statutory requirement that rates must be just and reasonable.

35. Based on my review of the entire record, I find that the approval of the proposed Settlement is in the public interest because it balances the interests of ratepayers and the Company. It is clear from the record that the Settlement was a product of extensive negotiations between the parties, conducted after the completion of thorough investigations by Staff and the Public Advocate, including an evidentiary hearing addressing why the proposed settlement is in the public interest.

36. The Settlement Agreement reflects a mutual balancing of various issues and positions. In addition, it is significant that the Parties, all of whom maintain that the Proposed Settlement is in the

⁷ The Parties differed as to the proper resolution of many of the remaining underlying issues in the rate proceeding and have, therefore, preserved their rights to raise those issues in future proceedings. According to Paragraph 14 of the Settlement Agreement, "[t]his Settlement Agreement shall not set a precedent, shall not have issue or claim preclusion effect in any future proceeding, and no Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding."

public interest, represent a wide variety of interests. Finally, I note that settlements are encouraged under Delaware law, particularly when supported by all parties. (See 26 Del. C. § 512.)

VI. RECOMMENDATIONS

37. In summary, and for the reasons stated above, I find that the proposed settlement is just and reasonable, and is overall a fair resolution of the issues raised in this case. A proposed Order implementing the foregoing recommendations is attached hereto as Exhibit "B" for the Commission's consideration.

38. Accordingly, I recommend that the Commission adopt this Report and approve the Settlement Agreement, confirming that the settlement rates can be placed into effect as of June 19, 2012. Finally, the approved rates and tariff revisions shall remain effective until further changed by Commission Order.

Respectfully submitted,

/s/Mark Lawrence
Mark Lawrence
Hearing Examiner

Dated: June 13, 2012

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OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)
TIDEWATER UTILITIES, INC. FOR AN) PSC DOCKET NO. 11-397
INCREASE IN WATER RATES)
(FILED SEPTEMBER 15, 2011))

PROPOSED SETTLEMENT AGREEMENT

This proposed Settlement Agreement (the "Settlement") is entered into by and among Tidewater Utilities, Inc. ("Tidewater" or "the Company"), the Staff of the Public Service Commission ("Staff"), and the Division of Public Advocate ("Public Advocate") (individually each a "Party" and collectively "the Parties").

I. BACKGROUND

1. On September 15, 2011, Tidewater filed an application with the Public Service Commission of the State of Delaware ("the Commission"), pursuant to 26 *Del. C.* §§201, 209, 304, and 306, requesting approval of an increase in water service rates designed to produce an additional \$6,852,236 in annual revenues applied to a rate base of \$96,916,160 (a 29.37% increase over existing rates) and approval of proposed changes to its tariff language (the "Application").
2. On October 3, 2011, by Order No. 8049 and pursuant to 26 *Del. C.* §306(a)(1), the Commission suspended Tidewater's proposed rate increase pending the conduct of evidentiary hearings to determine whether the proposed rate increase results in just and reasonable rates; assigned the matter to Senior Hearing Examiner Mark Lawrence (the "Hearing Examiner") to conduct such evidentiary hearings; permitted Tidewater to place into effect pursuant to 26 *Del. C.* §306(c) interim rates intended to produce an annual increase in operating

revenue of \$2,477,986, effective November 15, 2011 (approximately 10.49% over existing rates); and approved the form of rate refunding bond attached to the interim rate application to secure the interim rates.

3. In January 2012, public comment sessions were held in Dover, Georgetown and Townsend, Delaware. At each public comment session, representatives of the Company summarized the Application and members of the public were afforded an opportunity to comment on the Application.

4. On April 5, 2012, Staff filed testimony in which it took the position that Tidewater should be allowed an additional revenue requirement of \$2,528,438, applied to a rate base of \$88,221,250, rather than the \$6,852,236 in additional revenues the Company requested in its Application.

5. Pursuant to 29 *Del. C.* §8716, the Public Advocate intervened in this proceeding and, also on April 5, 2012, filed testimony in which it took the position that Tidewater should be allowed an additional revenue requirement of \$2,716,997, applied to a rate base of \$90,723,158.

6. On May 4, 2012, and May 7, 2012, the Company updated its Test Period information with actual data, and revised its Cost of Capital information -- specifically its proposed return on equity. The revised Test Period updates reduced Tidewater's overall revenue request by \$544,343 to \$6,307,893 on a rate base of \$96,946,322.

7. The Parties have engaged in substantial written discovery. In a desire to avoid the additional cost of evidentiary hearings, they 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 this rate proceeding and that, except as specifically addressed in this Settlement, they preserve their rights to raise those issues in future proceedings; but for purposes

of this proceeding, they believe that settlement on the terms and conditions contained herein will serve the interests of the public and the Company, and meet the statutory requirement that the resulting rates will be both just and reasonable.

NOW THEREFORE, IT IS HEREBY STIPULATED AND AGREED by Tidewater, Staff, and the Public Advocate 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

8. The additional revenue requirement awarded to the Company will be -- in total -- \$3,900,000, or approximately a 16.4% increase over current base rates. The Parties agree to this revenue requirement award as a compromise of their positions and believe that it is within the bounds of the statutory requirement of a fair rate of return for the utility. Tidewater shall file the appropriate modifications to its tariff so as to incorporate the stipulated revenue requirement increase.

9. The Settlement revenue requirement amount of \$3,900,000 is stipulated to by the Parties based on a capital structure of 50.18% equity and 49.82% long-term debt, an overall cost of capital of 7.91%, and an authorized rate of return on common equity of 9.75%.

10. As part of the Settlement in the previous Tidewater base rate case, Docket No. 09-29, the Company agreed to include in any new rate filing a tariff that had inclining block rates for residential customers in an effort to promote conservation. In response to the Company's proposed inclining block rates filed in this case, Staff proposed larger differentials in the charges for each block rate than suggested by the Company, and supported a different allocation of costs to the facilities, private fire protection, and public fire protection charges in the cost of service

study. The Public Advocate also proposed certain changes in the allocation of costs to the various rate classes.

11. The Parties have resolved the rate design issues raised in this proceeding by implementing a smaller increase than the Company proposed in the customer charge, increasing public fire revenues by an amount greater than the Company proposed, and implementing no change in private fire revenues (rather than the reduction proposed by Tidewater). (See Schedule A attached hereto). The inclining block differential of approximately \$.10 included in the Company's proposal will be accepted for this Settlement, but the Parties agree that the Company will: (1) evaluate the costs, benefits and feasibility of implementing monthly billing and meter reading for residential customers; and (2) develop a rate block structure and price differentials for a residential inclining block rate design that encourages efficient water use to be implemented if monthly billing and metering are found to be cost-effective and feasible. The Company will initially conduct the study and submit a report to the Parties for their review prior to the filing of its next base rate case. In addition, the Company commits in its next base rate proceeding to file a lead - lag study to determine its actual Cash Working Capital needs going forward. This study will be important in the context of moving from quarterly to monthly customer billing.

12. Finally, the Company agrees that in its future quarterly Rate of Return Reports to the Commission that it will reflect costs associated with its Enterprise Resource Planning ("ERP") system as a lease cost rather than as a rate base investment solely for the purpose of filing those reports. This requirement is effective with the filing of the Rate of Return Report for the first full calendar quarter subsequent to the approval by the Commission of this Settlement and shall terminate with the filing of the Rate of Return Report for the calendar quarter immediately preceding the date of the Company's next base rate filing.

III. ADDITIONAL PROVISIONS

13. This Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that the Commission approves it in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Agreement shall become null and void.

14. This Settlement shall not set a precedent and no Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. The purpose of this Settlement is to provide just and reasonable rates for the customers of Tidewater, and the Parties believe that this Settlement accomplishes this goal. In addition, the Parties believe that the Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

15. The terms of this Settlement will remain in effect until changed by an order of the Commission. The Commission retains jurisdiction over this Agreement and all statutory procedures and remedies otherwise available to the Parties to ensure that rates are just and reasonable, while providing a fair rate of return, including without limitation 26 *Del. C.* §§304, 309-311.

16. This Settlement Agreement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Agreement, provided that the original signature of each Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement Agreement warrants and represents that he or she has been duly

authorized and empowered to execute this Settlement Agreement on behalf of the respective Party.

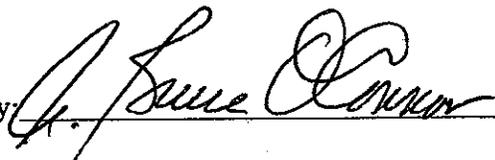
DELAWARE PUBLIC SERVICE
COMMISSION STAFF

Date: 5/30/2012

By: 

TIDEWATER UTILITIES, INC.

Date: 5/30/12

By: 

THE PUBLIC ADVOCATE

Date: 5/30/12



Tidewater Utilities, Inc.

Revenues Under Present and Settlement Rates

General Metered Service:
Facilities Charges:

Meter Size	Number of Bills	Present Tariff Rate	Present Revenue	Settlement Tariff Rate	Settlement Revenue	Increase
5/8"	118,096	\$47.62	\$5,623,732	\$52.86	\$6,242,554.56	11.004 %
3/4"	1,568	47.62	74,668.16	52.86	82,884.48	11.004 %
1"	9,276	79.37	736,236.12	88.11	817,308.36	11.012 %
1 1/2"	372	142.87	53,147.64	158.64	59,014.08	11.038 %
2"	1,220	222.24	271,132.80	246.75	301,035.00	11.029 %
3"	128	428.61	54,862.08	475.89	60,913.92	11.031 %
4"	16	666.73	10,667.68	740.28	11,844.48	11.031 %
6"	16	1,301.70	20,827.20	1,445.28	23,124.48	11.030 %
8"	8	2,031.93	16,255.44	2,256.06	18,048.48	11.030 %
Total	130,700		\$6,861,528.64		\$7,616,727.84	11.008 %

Water Usage Charges:

Residential Customers:

0 - 5 Thousand Gallons	543,248	\$6.7769	\$3,881,537.37	\$7.9469	\$4,317,137.53	17.265 %
5.1 - 20 Thousand Gallons	719,542	6.7769	4,876,264.18	8.0493	5,791,809.42	18.776 %
All Over 20 Thousand Gallon	387,587	6.7769	2,626,638.34	8.1517	3,159,492.95	20.287 %
Total Residential	1,650,377		\$11,184,439.89		\$13,268,439.90	18.633 %

Apartments & Commercial:

All Consumption	191,767	\$6.7769	\$1,299,585.78	\$8.1519	\$1,563,265.41	20.290 %
Total Water Usage Charges	1,842,144		\$12,484,025.67		\$14,831,705.31	18.805 %
Total General Metered Service			\$19,345,554.31		\$22,448,433.15	16.039 %

Public Fire Protection:

Number of Bills	Present Tariff Rate	Present Revenue	Tariff Rate	Settlement Revenue	Increase
108,796	\$10.86	\$1,181,524.56	\$15.09	\$1,641,731.64	38.950 %

Private Fire Protection:

Service Size	Number of Bills	Present Tariff Rate	Present Revenue	Tariff Rate	Settlement Revenue	Increase
1"	8	\$28.67	\$229.36	\$28.67	\$229.36	0.000 %
2"	224	100.35	22,478.40	100.35	22,478.40	0.000 %
4"	448	425.28	190,525.44	425.28	190,525.44	0.000 %
6"	580	950.90	551,522.00	950.90	551,522.00	0.000 %
8"	84	1,691.55	142,090.20	1,691.55	142,090.20	0.000 %
Total	1,344		\$906,845.40		\$906,845.40	0.000 %

TARIFF SCHEDULE OF RATES

1. GENERAL WATER SERVICE CHARGES:

General Water Service customers are charged a Facilities Charge plus a Water Consumption Charge and a Public Fire Hydrant Charge, where applicable:

(a) FACILITIES CHARGES:

A Facilities Charge payable in advance is based on the customer's meter size, as follows:

Meter Size	Monthly Facilities Charge	Quarterly Facilities Charge
5/8" - 3/4"	\$ 17.62	\$ 52.86
1"	\$ 29.37	\$ 88.11
1-1/2"	\$ 52.88	\$ 158.64
2"	\$ 82.25	\$ 246.75
3"	\$ 158.63	\$ 475.89
4"	\$ 246.76	\$ 740.28
6"	\$ 481.76	\$ 1,445.28
8"	\$ 752.02	\$ 2,256.06

(b) WATER CONSUMPTION CHARGES:

Quarterly Residential Customers	Rate per Thousand Gallons
0 - 5,000 gallons	\$7.9469
5,001 - 20,000 gallons	\$8.0493
Over 20,000 gallons	\$8.1517

All other general water service customers are charged for consumption at \$8.1519 per thousand gallons registered on the meter.

(c) PUBLIC FIRE HYDRANT CHARGES:

Where fire hydrants are installed, such districts will be termed Fire Hydrant Districts. A service charge of \$15.09 per quarter, or \$5.03 per month, will be added to the regular Facilities Charge on all services in these districts. Apartment houses, hotels, motels and other multiple unit buildings will be charged one such hydrant service charge of \$15.09 per quarter, or \$5.03 per month, for every four units.

2. PRIVATE FIRE SERVICE CHARGES:

- a) Customers with one service line providing both General Water Service and Private Fire Service (not used for General Water Service purposes) are charged a Private Fire Facilities Charge equal to the charge for a meter the same size as the service line, plus a charge for General Water Service based on the size of the meter, plus a Water Usage Charge, plus a Public Fire Hydrant Charge, if applicable. The Private Fire Facilities Charge is as follows:

Size of Meter	Monthly Facilities Charge	Quarterly Facilities Charge
1"	\$ 9.56	\$ 28.67
2"	\$ 33.45	\$ 100.35
4"	\$141.76	\$ 425.28
6"	\$316.97	\$ 950.90
8"	\$563.85	\$ 1,691.55

- b) Customers with a dedicated Private Fire Service line are charged a Private Fire Facilities Charge based on the meter size or, if there is no meter, based on the charge for a meter the same size as the service line, plus a Water Usage Charge, plus a Public Fire Hydrant Charge, if applicable. The Private Fire Facilities Charge is as follows:

Size of Meter	Monthly Facilities Charge	Quarterly Facilities Charge
1"	\$ 9.56	\$ 28.67
2"	\$ 33.45	\$ 100.35
4"	\$141.76	\$ 425.28
6"	\$316.97	\$ 950.90
8"	\$563.85	\$ 1,691.55

- c) Customers applying for one service line based on meter size and who also have Private Fire Service after the meter are charged a General Water Service Charge and a Public Fire Hydrant Charge, if applicable.

In each case, any water available for fire protection, but used for purposes other than fire protection, is to be metered and to be subject to a Water Consumption Charge.