

WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT

In addition to the net charges provided for in this Tariff, a Water Infrastructure and Conservation Adjustment (“WICA”) surcharge of *TBD*% will apply to all bills issued on or after April 1, 2014.

I. General Description

Purpose: To recover the fixed costs (depreciation, property taxes and pre-tax return) of certain Commission-approved non-revenue producing system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate cases. In addition, WICA provides the Company with the resources to accelerate asset replacement for infrastructure for the purpose of improving or protecting water quality and the reliability of service and to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act.

Eligible Property: The WICA-eligible property will consist of the following:

services (account 333), and hydrants (account 335) installed as in-kind (i.e., same size) replacements for customers;

mains and valves (account 331) installed as replacements for existing facilities that have either reached the end of their useful life, are worn out or are in deteriorated condition,

main cleaning and re-lining projects and relocations that are non-reimbursable (account 331);

replacement of pressure reducing valves (accounts 309, 331);

II. Computation of the WICA

Calculation: The initial charge, effective April 1, 2014, will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between January 1, 2013 and December 31, 2013. Thereafter, the WICA will be updated on an annual basis to reflect eligible plant additions placed in service during the twelve month period ending three months prior to the effective date of each WICA update, which will be on May 1. Thus, changes in the WICA rate will occur as follows:

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Issued by: _____
Donald L. Ware

Effective: June 14, 2013

Title: Chief Operating Officer

Effective Date
Of WICA Change

~~May~~ April 1, 2014

Date To Which WICA Eligible
Plant Additions Reflected

December 31, ~~2013~~

The fixed costs of eligible infrastructure system improvement projects will consist of depreciation, property taxes and pre-tax return, calculated as follows:

Depreciation: The depreciation expense will be calculated by applying the depreciation rates employed in the Company's last base rate case for the plant accounts to the original cost of WICA-eligible property minus the corresponding retirement unit recorded.

Property Taxes: For the first year that a WICA for any particular project is in effect, the property tax expense will reflect an estimate of the tax expense for such projects based on the tax rate then in effect. If such property taxes will be due for only a portion of the calendar year, then the WICA for the first year shall reflect only the property taxes projected to be paid. For the second and subsequent years that a WICA for those projects is in effect, the WICA shall be determined using the taxes due and owing for such projects based on the tax bill for a full tax year. The WICA shall not be adjusted in subsequent years, regardless of any change in the taxes originally assessed.

Pre-tax return: The pre-tax return will be calculated using the state and federal income tax rates. The cost of equity and debt will be the rates approved in the Company's last base rate case, DW 10-091, or a subsequent docket.

WICA Surcharge Amount: The charge will be expressed as a percentage carried to four decimal places and will be applied to the effective portion of the total amount billed to each customer under the Company's otherwise applicable rates and charges.

Formula: The formula for calculation of the WICA surcharge is as follows:

$$\text{WICA} = \frac{(\text{ISI} \times \text{PTRR}) + \text{Dep} + \text{PT}}{\text{BRWR}}$$

Where:

ISI= the original cost to the Company of eligible infrastructure system improvement projects.

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PTRR= the pre-tax return rate applicable to eligible infrastructure system improvement projects.

Dep= annual depreciation expense related to eligible infrastructure system improvement projects.

PT= annual property taxes related to eligible infrastructure system improvement projects.

BRWR= base retail water revenues as approved by the Commission in the Company's last rate proceeding, DW 10-091, or a subsequent docket.

Annual updates: Supporting data for each annual update will be filed with the Commission and the Office of Consumer Advocate sixty (~~9060~~) days prior to the effective date of the update.

III. Safeguards

Cap: The amount of the WICA applied between general rate case filings shall not exceed seven and one-half percent (7.5%) of the Company's annual retail water revenues as approved in its most recent rate filing, and shall not exceed two percent (2%) of such revenues for any twelve-month period.

Audits: The WICA will be subject to audit prior to the determination by the Commission.

New Base Rates: The WICA charge will be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the WICA. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the annual updates of the WICA.

Customer Notice: At least thirty (30) days in advance of a WICA filing, the Company will inform Customers of the filing by including a message on bills. Customers shall be notified of changes in the WICA by including appropriate information on the first bill they receive following any change. ~~An explanatory bill insert shall also be included with the first billing. Before sending, the Company will review the notice with the Commission's Consumer Affairs division.~~

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