

APPENDIX B

Supporting Schedules

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	\$ 198,287,047	(\$9,219,776)	\$189,067,271	(B)
2. Required Cost of Capital	8.32%	-1.10%	7.22%	(C)
3. Required Return	\$16,497,482	(\$2,846,825)	\$13,650,657	
4. Operating Income @ Present Rates	\$ 9,861,823	2,786,319	\$ 12,648,142	(D)
5. Operating Income Deficiency	\$6,635,659	(\$5,633,144)	\$1,002,515	
6. Revenue Multiplier	1.6685		1.5234	(E)
7. Revenue Requirement Increase	<u>\$11,071,868</u>	<u>(\$9,544,658)</u>	<u>\$1,527,210</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 1, Supplemental 6/30/11.

(B) Schedule ACC-9.

(C) Schedule ACC-2.

(D) Schedule ACC-18.

(E) Schedule ACC-41.

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

REQUIRED COST OF CAPITAL

	Capital Structure	Cost Rate		Weighted Cost
	(A)			
1. Common Equity	44.10%	8.92%	(B)	3.93%
2. Long Term Debt	55.90%	5.88%		3.29%
3. Total Cost of Capital	100.00%			7.22%

Sources:

(A) Response to DPA-A-133.

(B) Schedule ACC-3.

(C) Company Filing, Schedule PMA-1, page 1.

Schedule ACC-3

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

RECOMMENDED COST OF EQUITY

1. Discounted Cash Flow Result (A)	9.42%	
2. Discounted Cash Flow Weighting (B)	<u>75.00%</u>	7.07%
3. CAPM Result (C)	7.42%	
4. CAPM Weighting (B)	<u>25.00%</u>	1.85%
5. Recommended Return on Equity		<u>8.92%</u>

Sources:

(A) Schedule ACC-4.

(B) Based on Commission's reliance primarily upon the DCF method.

(C) Schedule ACC-7.

Schedule ACC-4

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

DISCOUNTED CASH FLOW RESULT

1. Dividend Yield	3.32%	(A)
2. Growth in Dividend Yield	0.10%	(B)
3. Growth Rate	<u>6.00%</u>	(C)
4. Total Cost of Equity	<u>9.42%</u>	

Sources:

(A) Derived from Schedule ACC-5.

(B) Line 1 X (50% of Line 3).

(C) Derived from Schedule ACC-6.

ARTESIAN WATER COMPANY**TEST PERIOD ENDING SEPTEMBER 30, 2011****AVERAGE DIVIDEND YIELDS**

Company	Dividend	Closing Price	Current Dividend Yield
1. American States Water Co.	\$1.12	\$34.10	3.28%
2. American Water Works Co.	0.92	28.54	3.22%
3. Aqua America, Inc.	0.66	21.27	3.10%
4. California Water Group	0.62	18.08	3.43%
5. Connecticut Water Service, Inc.	0.95	26.52	3.58%
6. York Water Company	0.52	17.35	3.00%
7. Average Dividend Yield			<u>3.27%</u>

Company	Dividend	60 Day High	60 Day Low	60 Day Average	Dividend Yield
1. American States Water Co.	\$1.12	\$35.75	\$30.53	\$33.14	3.38%
2. American Water Works Co.	0.92	30.22	25.39	27.81	3.31%
3. Aqua America, Inc.	0.66	22.74	19.28	21.01	3.14%
4. California Water Group	0.62	19.37	16.65	18.01	3.44%
5. Connecticut Water Service, Inc.	0.95	28.15	24.76	26.46	3.59%
6. York Water Company	0.52	17.94	16.02	16.98	3.06%
7. Average Dividend Yield					<u>3.32%</u>

Source: Yahoo Finance, August 26, 2011.

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

GROWTH IN EARNINGS, DIVIDENDS, BOOK VALUE

	Five Year Historic Earnings	Five Year Historic Dividends	Five Year Historic Bk. Value
1. American States Water Co.	11.50%	2.50%	5.00%
2. American Water Works Co.	NA	NA	NA
3. Aqua America, Inc.	4.50%	8.00%	7.00%
4. California Water Group	6.50%	1.00%	5.50%
5. Connecticut Water Service, Inc.	1.50%	1.50%	3.00%
6. York Water Company	5.00%	5.00%	8.50%
7. Average Dividend Yield	<u>5.80%</u>	<u>3.60%</u>	<u>5.80%</u>

	Ten Year Historic Earnings	Ten Year Historic Dividends	Ten Year Historic Bk. Value
1. American States Water Co.	4.50%	2.00%	5.00%
2. American Water Works Co.	NA	NA	NA
3. Aqua America, Inc.	6.50%	7.50%	9.00%
4. California Water Group	3.00%	1.00%	4.50%
5. Connecticut Water Service, Inc.	NA	NA	NA
6. York Water Company	NA	NA	NA
7. Average Dividend Yield	<u>4.67%</u>	<u>3.50%</u>	<u>6.17%</u>

	Five Year Projected Earnings	Five Year Projected Dividends	Five Year Projected Bk. Value
1. American States Water Co.	5.50%	4.00%	2.00%
2. American Water Works Co.	8.50%	8.00%	-0.50%
3. Aqua America, Inc.	10.50%	5.50%	6.00%
4. California Water Group	6.00%	3.00%	3.50%
5. Connecticut Water Service, Inc.	NA	NA	NA
6. York Water Company	NA	NA	NA
7. Average Dividend Yield	<u>7.63%</u>	<u>5.13%</u>	<u>2.75%</u>

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

CAPITAL ASSET PRICING MODEL RESULT

Risk Free Rate + (Beta X Market Premium)

$$3.51\% (A) + (.71 (B) \times 5.5\% (C)) = \underline{7.42\%}$$

Sources:

(A) Risk Free Rate = 30 Year Constant Maturity Treasury at 9/1/11.

(B) Beta per Schedule ACC-8.

(C) Market Premium per Ibbotson S&P: 2011 Classic Yearbook, Market Results for Stocks, Bonds, Bills, and Inflation, 1926-2010, (Morningstar).

Schedule ACC-8

ARTESIAN WATER COMPANY

TEST PERIOD ENDING SEPTEMBER 30, 2011

COMPANY BETAS

	(A)
1. American States Water Co.	0.75
2. American Water Works Co.	0.65
3. Aqua America, Inc.	0.65
4. California Water Group	0.70
5. Connecticut Water Service, Inc.	0.80
6. York Water Company	0.70
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7. Average Beta	0.71

Sources:

(A) Value Line Investment Survey, July 22, 2011.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

RATE BASE SUMMARY

	Company Claim	Recommended Adjustment		Recommended Position
	(A)			
1. Used and Useful Utility Plant	\$379,467,445	(\$10,006,684)	(B)	\$369,460,761
2. Intangible Assets	140,035	0		140,035
3. Total Utility Plant in Service	\$379,607,480	(\$10,006,684)		\$369,600,796
Less:				
4. Accumulated Depreciation	(75,940,823)	5,270,184	(C)	(70,670,639)
5. Depreciated Utility Plant	\$303,666,657	(\$4,736,500)		\$298,930,157
Less:				
6. Contributions in Aid of Construction	(\$70,687,089)	(\$377,857)	(D)	(\$71,064,946)
7. Customer Advances for Construction	(16,382,732)	(1,101,207)	(E)	(17,483,939)
8. Deferred Income Taxes	(38,796,574)	0		(38,796,574)
9. Deferred ITC	(647,801)	0		(647,801)
Plus:				
10. Accumulated Dep. - CIAC	\$12,986,102	(\$2,861,518)	(F)	\$10,124,584
11. Accumulated Dep. - Advances	2,038,644	(94,152)	(G)	1,944,492
12. Materials and Supplies	1,236,338	13,662	(H)	1,250,000
13. Working Capital	3,096,104	(62,204)	(I)	3,033,900
14. Taxes Paid for CIAC	1,777,398	0		1,777,398
15. Total Rate Base	<u>\$198,287,047</u>	<u>(\$9,219,776)</u>		<u>\$189,067,271</u>

Sources:

- (A) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.
- (B) Schedule ACC-10.
- (C) Schedule ACC-11.
- (D) Schedule ACC-12.
- (E) Schedule ACC-13.
- (F) Schedule ACC-14.
- (G) Schedule ACC-15.
- (H) Schedule ACC-16.
- (I) Schedule ACC-17.

Schedule ACC-10

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

UTILITY PLANT IN SERVICE

1. Tangible Plant @ 5/31/11	\$369,460,761	(A)
2. Company Claim	<u>379,467,445</u>	(B)
3. Recommended Adjustment	<u>(\$10,006,684)</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

Schedule ACC-11

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

ACCUMULATED DEPRECIATION

1. Balance at 5/31/11	(\$70,670,639)	(A)
2. Company Claim	<u>(75,940,823)</u>	(B)
3. Recommended Adjustment	<u>\$5,270,184</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

Schedule ACC-12

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CONTRIBUTIONS IN AID OF CONSTRUCTION

1. Balance at 5/31/11	(\$71,064,946)	(A)
2. Company Claim	<u>(70,687,089)</u>	(B)
3. Recommended Adjustment	<u>(\$377,857)</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CUSTOMER ADVANCES FOR CONSTRUCTION

1. Balance at 5/31/11	(\$17,483,939)	(A)
2. Company Claim	<u>(16,382,732)</u>	(B)
3. Recommended Adjustment	<u>(\$1,101,207)</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

ACCUMULATED DEPRECIATION - CIAC

1. Balance at 5/31/11	\$10,124,584	(A)
2. Company Claim	<u>12,986,102</u>	(B)
3. Recommended Adjustment	<u>(\$2,861,518)</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

ACCUMULATED DEPRECIATION - ADVANCES

1. Balance at 5/31/11	\$1,944,492	(A)
2. Company Claim	<u>2,038,644</u>	(B)
3. Recommended Adjustment	<u>(\$94,152)</u>	

Sources:

(A) Response to DPA-D-23.

(B) Company Filing, DBS Exhibit 1R, Schedule 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

MATERIALS AND SUPPLIES

1. Materials and Supplies Updated 13-Month Average	\$1,250,000	(A)
2. Company Claim	<u>1,236,338</u>	(A)
3. Recommended Adjustment	\$13,662	

Sources:

(A) Updated 13-month average, based on the response to DPA-A-73.

(B) Company Filing, DBS Exhibit 1R, Schedule 2-G, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CUSTOMER AND SERVICE DEPOSITS

1. Customer Deposits Updated 13-Month Average	(\$899,125)	(A)
2. Service Deposits Updated 13-Month Average	<u>(655,975)</u>	(A)
3. Total Customer and Service Deposits	(\$1,555,100)	
4. Company Claim	<u>(1,492,896)</u>	(B)
5. Recommended Adjustment	<u>(\$62,204)</u>	

(A) Updated 13-month average, based on the response to PSC-LA-36.

(B) Company Filing, DBS Exhibit 1R, Schedule 2-E, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

OPERATING INCOME SUMMARY

		Schedule No.
1. Company Claim	\$9,861,823	1
Recommended Adjustments:		
2. Operating Sales Revenue	422,979	19
3. Contract Operations Revenue	19,825	20
4. Rental Revenue	21,839	21
5. Salary and Wage Expense	348,408	22
6. Other Compensation Expense	112,045	23
7. Payroll Tax Expense	35,225	24
8. Pension Expense	106,972	25
9. Worker Compensation Expense	2,722	26
10. Tank Painting Expense	66,000	27
11. Incremental Billing Expense	257,514	28
12. Charitable Contribution Expense	29,110	29
13. Dues and Lobbying Expense	3,677	30
14. Advertising Expense	2,242	31
15. Meals and Entertainment Expense	24,831	32
16. Interest on Customer Deposits	(143)	33
17. Property Tax Expense	34,621	34
18. Depreciation Expense - Rate	844,143	35
19. Depreciation Expense - Plant	141,529	36
20. State Income Tax Expense	390,765	37
21. Consolidated Income Taxes	16,057	38
22. Interest Synchronization	(94,042)	39
23. Net Operating Income	<u>\$12,648,142</u>	

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

OPERATING SALES REVENUE

1. Recommended Pro Forma Consumption (Tgs)		53.28	(A)
2. Company Claim (Tgs)		<u>51.91</u>	(B)
3. Recommended Adjustment (Tgs / Customer)		1.37	
4. Pro Forma Customers		<u>73,892</u>	(C)
5. Recommended Adjustment (Tgs)		101,123.08	
6. Consumption Rate		<u>\$6.372</u>	(D)
7. Annual Revenue Increase		\$644,356	
8. Revenue Assessments	0.54%	<u>3,480</u>	(E)
9. Net Incremental Revenue		\$640,877	
10. Income Taxes @	34.00%	<u>217,898</u>	
11. Operating Income Impact		<u>\$422,979</u>	

Sources:

- (A) Three Year Average per Company Filing, DBS Exhibit 1, Schedule 3-A, page 4 and response to DPA-A-4.
- (B) Derived from Company Filing, DBS Exhibit 1, Schedule 3-A, page 4 and response to DPA-A-4.
- (C) Response to DPA-A-4.
- (D) Reflects current rate in second rate block.
- (E) Assessment rates per Schedule ACC-40.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CONTRACT OPERATION REVENUE

1. Test Year Contract Operation Revenue	\$277,611	(A)
2. Company Claim	<u>247,573</u>	(A)
3. Recommended Adjustment	\$30,038	
4. Income Taxes @ 34.00%	<u>10,213</u>	
5. Operating Income Impact	<u>\$19,825</u>	

Sources:
(A) Company Filing, DBS Exhibit 1R, Schedule 3-A, page 1, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

RENTAL REVENUE

1. Test Year Rental Income		\$389,071	(A)
2. Company Claim		<u>355,982</u>	(A)
3. Recommended Adjustment		\$33,089	
4. Income Taxes @	34.00%	<u>11,250</u>	
5. Operating Income Impact		<u>\$21,839</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 3-A, page 1, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

SALARY AND WAGE EXPENSE

1. Recommended Expense Adjustment-Replacement	\$562,364	(A)
2. Allocated to AWC	<u>93.87%</u>	(B)
3. Recommended Expense Adjustment	\$527,891	
4. Income Taxes @ 34.00%	<u>179,483</u>	
5 Operating Income Impact	<u>\$348,408</u>	

Sources:

(A) Response to PSC-LA-2, pages 664 and 665.

(B) Derived from Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11.

Reflects percentage of expensed costs (net of capitalized costs) that are allocated to AWC.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

OTHER COMPENSATION EXPENSE

1. Recommended Adjustment-Total Costs		\$213,923	(A)
2. Allocated to AWC		<u>79.36%</u>	(B)
3. Recommended Expense Adjustment		\$169,765	
4. Income Taxes @	34.00%	<u>57,720</u>	
5 Operating Income Impact		<u>\$112,045</u>	

Sources:

(A) Response to PSC-LA-2, pages 664 and 665.

(B) Derived from Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental, 6/30/11

Reflects percentage of total costs that are expensed by AWC.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

PAYROLL TAX EXPENSE

1. Payroll and Other Compensation Adjustments		\$697,656	(A)
2. Payroll Tax Rate		<u>7.65%</u>	(B)
3. Recommended Adjustment		\$53,371	
4. Income Taxes @	34.00%	<u>18,146</u>	
5. Operating Income Impact		<u>\$35,225</u>	

Sources:

(A) Schedules ACC-22 and ACC-23.

(B) Reflects statutory tax rates.

ARTESIAN WATER COMPANY, INC.**TEST PERIOD ENDING SEPTEMBER 30, 2011****PENSION EXPENSE**

1. Test Year Total Payroll Cost	\$15,748,765	(A)
2. Test Year Total Pension cost	<u>886,721</u>	(A)
3. Test Year Pension Rate	5.63%	
4. Pro Forma Total Payroll Cost	<u>\$16,135,471</u>	(B)
5. Pro Forma Pension Expense	\$908,494	
6. Company Claim	<u>1,112,732</u>	(A)
7. Recommended Adjustments	\$204,238	
8. Expense Allocated to AWC	<u>78.30%</u>	(C)
9. Recommended Expense Adjustment	\$162,079	
10. Income Taxes @	34.00%	<u>55,107</u>
11. Operating Income Impact	<u>\$106,972</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11.

(B) \$16,717,862 per Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11, less total payroll costs for replacement positions of \$582,391 per the response to PSC-LA-2, pages 664 and 665.

(C) Derived from Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental, 6/30/11. Reflects percentage of total pension costs that are expensed by AWC.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

WORKERS COMPENSATION EXPENSE

1. Pro Forma Total Payroll Costs	\$16,135,471	(A)
2. Workers Compensation Rate	<u>1.18%</u>	(B)
3. Pro Forma Workers Compensation Costs	\$190,565	
4. Company Claim	<u>197,443</u>	(C)
5. Recommended Adjustment	\$6,878	
6. Expense Allocated to AWC	<u>59.96%</u>	(D)
7. Recommended Expense Adjustment	\$4,124	
8. Income Taxes @	34.00% <u>1,402</u>	
9. Operating Income Impact	<u>\$2,722</u>	

Sources:

(A) \$16,717,862 per Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11, less total payroll costs for replacement positions of \$582,391 per the response to PSC-LA-2, pages 664 and 665.

(B) Rate derived from Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11.

(C) Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental 6/30/11.

(D) Derived from Company Filing, DBS Exhibit 1R, Schedule 3-C, Supplemental, 6/30/11. Reflects percentage of total workers compensation costs that are expensed by AWC.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

TANK PAINTING EXPENSE

1. Recommended Adjustments		\$100,000	(A)
2. Income Taxes @	34.00%	<u>34,000</u>	
3. Operating Income Impact		<u>\$66,000</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 3-B, page 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

INCREMENTAL BILLING EXPENSE

1. Incremental Lock Box Fees	\$124,162	(A)
2. Incremental Materials and Postage Costs	<u>266,011</u>	(A)
3. Total Incremental Costs	\$390,173	
4. Income Taxes @	34.00% <u>132,659</u>	
5. Operating Income Impact	<u>\$257,514</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 3-B, page 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CHARITABLE CONTRIBUTIONS EXPENSE

1. Company Claim		\$	44,106	(A)
2. Income Taxes @	34.00%		<u>14,996</u>	
3. Operating Income Impact		\$	<u>29,110</u>	

Sources:

(A) DBS Exhibit 1R, Schedule 3-B, page 1, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

DUES AND LOBBYING EXPENSE

1. Lobbying and Other Dues Adjustments	\$	5,571	(A)
2. Income Taxes @	34.00%	<u>1,894</u>	
3. Increase in Operating Income	\$	<u>3,677</u>	

Sources:

(A) Derived from the response to DBS Exhibit 1R, Schedule 3-G, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

ADVERTISING EXPENSE

1. Recommended Adjustments		\$	3,397	(A)
2. Income Taxes @	34.00%		<u>1,155</u>	
3. Increase in Operating Income		\$	<u>2,242</u>	

Sources:

(A) Print Media Advertising (excluding DOT sign permits), per the response to PSC-LA-77.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

MEALS AND ENTERTAINMENT EXPENSE

1. Internal Revenue Service Disallowance		\$37,623	(A)
2. Income Taxes @	34.00%	<u>12,792</u>	
3. Increase in Operating Income		<u>\$ 24,831</u>	

Sources:

(A) Response to DPA-A-50.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

INTEREST ON CUTOMER DEPOSITS

1. Updated Customer Deposits @ 5/31/11	\$899,125	(A)
2. Company Claim	<u>812,619</u>	(B)
3. Increase in Customer Deposits	\$86,506	
4. Interest Rate on Customer Deposits	<u>0.25%</u>	(C)
5. Recommended Adjustment	\$216	
6. Income Taxes @	34.00% <u>74</u>	
7. Operating Income Impact	<u>\$143</u>	

Sources:

(A) Schedule ACC-17.

(B) Company Filing, DBS Exhibit 1R, Schedule 2-E, Supplemental 6/30/11.

(C) Rate per Company Filing, DBS Exhibit 1R, Schedule 3-B, page 1, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.**TEST PERIOD ENDING SEPTEMBER 30, 2011****PROPERTY TAX EXPENSE**

1. Recommended Decrease in Plant		\$10,006,684	(A)
2. Company Claimed Net Additions		<u>12,078,559</u>	(B)
3. Percentage Decrease		82.85%	
4. Company Claimed Increase - Incremental Plant		<u>63,317</u>	(C)
5. Recommended Adjustment		\$52,456	
6. Income Taxes @	34.00%	<u>17,835</u>	
7. Increase in Operating Income		<u>\$ 34,621</u>	

Sources:

(A) Schedule ACC-10.

(B) Company Filing, DBS Exhibit 1R, Schedule 2-A, Supplemental 6/30/11,
(Expenditures Less Retirements).

(C) Response PSC-LA-02, page 270.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

DEPRECIATION EXPENSE - RATE

1. Pro Forma Depreciation Expense	\$8,998,515	(A)
2. Depreciation on CIAC and Advances	<u>862,058</u>	(B)
3. Pro Forma Net Depreciation Expense	\$8,136,457	
4. Company Claim	<u>9,415,462</u>	(C)
5. Recommended Adjustment	\$1,279,005	
6. Income Taxes @	34.00% <u>434,862</u>	
7. Increase in Operating Income	<u>\$844,143</u>	

Sources:

(A) Testimony of Mr. Majoros, page 4.

(B) Assumes 9.58% of depreciation expense relates to CIAC and advances.
Derived from Company Filing, DBS Exhibit 1R, Schedule 3-B, page 3,
Supplemental 6/30/11 (\$997,621 / \$10,413,083).(C) Company Filing, DBS Exhibit 1R, Schedule 3-B, page 3, Supplemental 6/30/11,
excluding \$457,874 of depreciation relating to taxes paid on CIAC.

ARTESIAN WATER COMPANY, INC.**TEST PERIOD ENDING SEPTEMBER 30, 2011****DEPRECIATION EXPENSE - PLANT**

1. Recommended Decrease in Plant	\$10,006,684	(A)
2. Pro Forma Composite Depreciation Rate	<u>2.37%</u>	(B)
3. Recommended Decrease in Expense	\$237,158	
4. Adjustment for CIAC/Advances	<u>22,720</u>	(C)
5. Depreciation Expense Adjustment	\$214,439	
6. Income Taxes @ 34.00%	<u>72,909</u>	
7. Increase in Operating Income	<u>\$141,529</u>	

Sources:

(A) Schedule ACC-10.

(B) Derived from Testimony of Mr. Majoros (\$8,998,515 / \$379,449,450).

(C) Assumes 9.58% of depreciation expense relates to CIAC and advances.

Derived from Company Filing, DBS Exhibit 1R, Schedule 3-B, page 3,
Supplemental 6/30/11 (\$997,621 / \$10,413,083).

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

STATE INCOME TAX EXPENSE

1. State Income Tax Claim		\$592,068	(A)
2. Federal Taxes at	34.00%	<u>201,303</u>	
3. Increase in Operating Income		<u>\$390,765</u>	

Sources:

(A) Company Filing, DBS Exhibit 1R, Schedule 3-J, page 1 of 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

CONSOLIDATED INCOME TAXES

1. Tax Losses Allocated to AWC		\$47,226	(A)
2. Income Taxes @	34.00%	<u>\$16,057</u>	

Sources:

(A) Derived from the response to PSC-LA-68.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

INTEREST SYNCHRONIZATION

1. Pro Forma Rate Base	\$189,067,271	(A)
2. Weighted Cost of Debt	<u>3.00%</u>	(B)
3. Pro Forma Interest Expense	\$5,672,018	
4. Company Claim	<u>5,948,611</u>	(C)
5. Increase in Taxable Income	\$276,593	
6. Increase in Income Tax: 34.00%	<u>\$94,042</u>	

Sources:

(A) Schedule ACC-9.

(B) Schedule ACC-2.

(C) Company Filing, DBS Exhibit 1R, Schedule 3-J, page 2, Supplemental 6/30/11.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

INCOME TAX FACTOR

1. Revenue	100.00%	
2. State Income Tax Rate	<u>0.00%</u>	(A)
3. Federal Taxable Income	100.00%	
4. Income Taxes @ 34%	<u>34.00%</u>	(A)
5. Operating Income	66.00%	
6. Total Tax Rate	<u><u>34.00%</u></u>	(B)

Sources:

(A) Federal income tax rate per Company Filing, DBS Exhibit 1R,
Schedule 5, Supplemental 6/30/11.

(B) Line 2 + Line 4.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

REVENUE MULTIPLIER

1. Revenue		100.00	
2. Finance Charge @	0.28%	0.28	(A)
3. Bad Debt Expense @	0.52%	(0.52)	(A)
4. PSC Assessment @	0.30%	<u>(0.30)</u>	(A)
5. State Taxable Income		99.46	
6. State Income Taxes @	0.00%	<u>0.00</u>	(B)
7. Federal Taxable Income		99.46	
8. Federal Income Taxes @	34.00%	<u>(33.82)</u>	(A)
9. Operating Income Impact		65.64	
10. Revenue / Income		<u><u>1.523378</u></u>	(C)

Sources:

(A) Rates per Company Filing, DBS Exhibit 1R, Schedule 5, Supplemental 6/30/11.

(B) Recommendation of Ms. Crane.

(C) Line 1 / Line 9.

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS

1. Rate of Return	(\$3,322,726)
2. Used and Useful Utility Plant	(1,100,614)
3. Accumulated Depreciation	579,656
4. Contributions in Aid of Construction	(41,560)
5. Customer Advances for Construction	(121,119)
6. Accumulated Dep. - CIAC	(314,732)
7. Accumulated Dep. - Advances	(10,356)
8. Working Capital	(6,842)
9. Materials and Supplies	1,503
10. Operating Sales Revenue	(644,356)
11. Contract Operations Revenue	(30,201)
12. Rental Revenue	(33,269)
13. Salary and Wage Expense	(530,757)
14. Other Compensation Expense	(170,686)
15. Payroll Tax Expense	(53,660)
16. Pension Expense	(162,959)
17. Worker Compensation Expense	(4,146)
18. Tank Painting Expense	(100,543)
19. Incremental Billing Expense	(392,291)
20. Charitable Contribution Expense	(44,345)
21. Dues and Lobbying Expense	(5,601)
22. Advertising Expense	(3,415)
23. Meals and Entertainment Expense	(37,827)
24. Interest on Customer Deposits	217
25. Property Tax Expense	(52,741)
26. Depreciation Expense - Rate	(1,285,949)
27. Depreciation Expense - Plant	(215,603)
28. State Income Tax Expense	(595,283)
29. Consolidated Income Taxes	(24,461)
30. Interest Synchronization	143,261
31. Revenue Multiplier	<u>(963,253)</u>
32. Total Recommended Adjustment	(\$9,544,658)
33. Company Claim	<u>11,071,868</u>
34. Recommended Increase	<u>\$1,527,210</u>

ARTESIAN WATER COMPANY, INC.

TEST PERIOD ENDING SEPTEMBER 30, 2011

INCOME STATEMENT

	Company Claim Present Rates	Recommended Adjustments	Pro Forma Present Rates	Recommended Increase	Pro Forma Proposed Rates
1. Water Sales	\$56,163,760	\$644,356	\$56,808,116	\$1,527,210	\$58,335,326
2. Finance Charge Revenues	157,259		157,259		157,259
3. Miscellaneous Revenues	1,244,133	63,127	1,307,260		1,307,260
4. Total Operating Revenues	\$57,565,152	\$707,483	\$58,272,635	\$1,527,210	\$59,799,845
5. Operation and Maintenance Expense	\$31,935,619	(\$1,441,032)	\$30,494,587	\$8,247	\$30,502,834
6. Depreciation	9,473,336	(1,493,443)	7,979,893		7,979,893
7. Taxes Other Than Income	3,591,226	(105,827)	3,485,399		3,485,399
8. Total Operation and Maintenance Expense	\$45,000,181	(\$3,040,302)	\$41,959,879	\$8,247	\$41,968,126
9. Interest Expense	5,948,611	(276,593)	5,672,018	0	5,672,018
10. Taxable Income	\$6,616,360	\$4,024,378	\$10,640,738	\$1,518,963	\$12,159,701
11. Income Taxes	2,703,147	961,467	3,664,614	516,447	4,181,061
12. Operating Income	<u>\$9,861,824</u>	<u>\$2,786,318</u>	<u>\$12,648,142</u>	<u>\$1,002,515</u>	<u>\$13,650,658</u>
13. Rate Base	<u>\$198,287,047</u>		<u>\$189,067,271</u>		<u>\$189,067,271</u>
14. Overall Rate of Return	<u>4.97%</u>		<u>6.69%</u>		<u>7.22%</u>