

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 360

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|---|---|----------------------|
| In the Matter of |) | |
| Application by Carolina Water Service, |) | SUPPLEMENTAL |
| Inc. of North Carolina, 4944 Parkway |) | TESTIMONY OF |
| Plaza Boulevard, Suite 375, Charlotte, |) | WINDLEY E. HENRY |
| North Carolina 28217, for Authority to |) | PUBLIC STAFF – NORTH |
| Adjust and Increase Rates for Water |) | CAROLINA UTILITIES |
| and Sewer Utility Service in All of Its |) | COMMISSION |
| Service Areas in North Carolina, Except |) | |
| Corolla Light and Monteray Shores |) | |
| Service Area |) | |

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 360**

**SUPPLEMENTAL TESTIMONY OF WINDLEY E. HENRY
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

October 12, 2018

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **PRESENT POSITION.**

3 A. My name is Windley E. Henry and my business address is 430 N.
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting
5 Manager of the Water/Communications Section of the Public Staff –
6 Accounting Division, and represent the using and consuming
7 public.

8 **Q. DID YOU PREFILE DIRECT TESTIMONY AND EXHIBITS IN THIS**
9 **DOCKET ON OCTOBER 3, 2018?**

10 A. No.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my supplemental testimony is to present the
14 accounting and ratemaking adjustments I have updated from Public
15 Staff witness Feasel's original testimony and exhibit as a result of
16 information provided by the Company subsequent to the filing of
17 her direct testimony, as well as updates and corrections

1 recommended by other Public Staff witnesses. I am adopting
2 Public Staff witness Feasel's testimony and exhibit as my own and
3 using her schedules to reflect my proposed updates to rate base
4 and expenses.

5 **Q. MR. HENRY, WHAT UPDATED OR CORRECTED**
6 **ADJUSTMENTS TO THE COMPANY'S COST OF SERVICE DO**
7 **YOU RECOMMEND?**

8 A. I recommend updated, corrected, or new adjustments in the
9 following areas:

- 10 1) Plant in service;
- 11 2) Accumulated depreciation and depreciation expense;
- 12 3) Accumulated deferred income taxes;
- 13 4) State excess deferred income taxes;
- 14 5) Rent; and
- 15 6) Miscellaneous.

16 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**
17 **STAFF WITNESSES DOES YOUR EXHIBIT INCORPORATE?**

18 A. My exhibit reflects the following adjustments recommended by
19 other Public Staff witnesses:

- 20 1) The recommendations of Public Staff witness Boswell
21 regarding federal excess deferred income taxes (EDIT).
- 22 2) The recommendations of Public Staff witness Johnson
23 regarding salaries and wages, pensions and benefits, and
24 payroll taxes.

1 **ACCUMULATED DEFERRED INCOME TAXES (ADIT)**

2 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO ADIT.**

3 A. I adjusted ADIT to include the amount of federal protected and
4 unprotected EDIT recommended by Public Staff witness Boswell in
5 her testimony. The result of this adjustment is a reduction of
6 \$1,050,165 in ADIT.

7 **STATE EXCESS DEFERRED INCOME TAXES**

8 **Q. HOW HAVE YOU ADJUSTED STATE EXCESS DEFERRED**
9 **INCOME TAXES?**

10 A. After reviewing additional information provided by the Company, I
11 added back to rate base, the unamortized portion of state EDIT that
12 was approved in the prior rate case proceeding, Docket No. W-354,
13 Sub 356. The Company proposed in its rate case application to
14 continue amortizing the state EDIT liability over its remaining life.
15 The Public Staff removed the Company's proposed state EDIT
16 liability from rate base until it had sufficient data to evaluate both
17 state and federal EDIT. Based on its review of EDIT for the
18 proceeding, the Public Staff has determined that the Company's
19 proposal to return state EDIT liability to customers is reasonable.

1 RENT

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO RENT.**

3 A. I have adjusted rent to include the 2018 annual lease agreement for
4 the Morehead City office based on the Company's response to
5 Public Staff data requests.

6 MISCELLANEOUS EXPENSE

7 **Q. WHY DID YOU ADJUST MISCELLANEOUS EXPENSE?**

8 A. Miscellaneous expense has been adjusted to include the annual
9 amortization expense of state EDIT that was reclassified from
10 depreciation expense. This treatment of state EDIT is consistent
11 with the treatment in prior rate cases.

12 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

13 A. Yes, it does.

CAROLINA WATER SERVICE, INC., OF NC

Docket No. W-354, Sub 360

**CALCULATION OF DEPRECIATION AND
AMORTIZATION EXPENSE**

For The Test Year Ended December 31, 2017

Public Staff

Henry Supp. Exhibit I
Schedule 3-15

| Line No. | | CWSNC Water (a) | CWSNC Sewer (b) | BF/FH/TC Water (c) | BF/FH/TC Sewer (d) |
|----------|--|-----------------------|-----------------------|--------------------------|--------------------------|
| 1 | Depreciation on direct plant | \$2,764,881 [1] | \$2,220,708 [8] | \$110,497 [13] | \$324,927 [17] |
| 2 | Depreciation on allocated plant | 125,066 [2] | 69,068 [2] | 17,106 [2] | 15,053 [2] |
| 3 | Gain on sale | 0 | 0 | 0 | 0 |
| 4 | Excess book value | (11,970) [3] | (17,954) [9] | 0 | 0 |
| 5 | Total depreciation expense (Sum of L1 thru L4) | <u>\$2,877,977</u> | <u>\$2,271,822</u> | <u>\$127,603</u> | <u>\$339,980</u> |
| 6 | Contributions in aid of construction | (\$28,597,029) [4] | (\$28,157,914) [10] | (\$2,227,276) [14] | (\$7,088,979) [18] |
| 7 | Advances in aid of construction | (23,760) [5] | (9,180) [5] | 0 | 0 |
| 8 | Depreciable CIAC and AIA (L6 + L7) | (28,620,789) | (28,167,094) | (2,227,276) | (7,088,979) |
| 9 | Amortization rate | 2.70% [6] | 2.75% [11] | 2.15% [15] | 2.56% [19] |
| 10 | CIAC and AIA amortization expense (L8 x L9) | <u>(\$772,761)</u> | <u>(\$774,595)</u> | <u>(\$47,886)</u> | <u>(\$181,478)</u> |
| 11 | Purchase acquisition adjustment | (\$4,278,312) [7] | (\$627,070) [12] | \$603,123 [16] | \$1,658,577 [20] |
| 12 | Amortization rate | 2.70% [6] | 2.75% [11] | 2.15% [15] | 2.56% [19] |
| 13 | PAA amortization expense (L11 x L12) | <u>(\$115,514)</u> | <u>(\$17,244)</u> | <u>\$12,967</u> | <u>\$42,460</u> |

[1] Henry Exhibit I, Schedule 3-15(a), Column (c), Line 46.

[2] Calculated by the Public Staff based on information provided by the Company.

[3] Henry Exhibit I, Schedule 2-9, Column (b), Line 7.

[4] Henry Exhibit I, Schedule 2-4, Column (a), Line 6.

[5] Per examination of Company's financial records.

[6] Henry Exhibit I, Schedule 3-15(a), Column (d), Line 46.

[7] Henry Exhibit I, Schedule 2-8, Column (a), Line 5.

[8] Henry Exhibit I, Schedule 3-15(b), Column (c), Line 58.

[9] Henry Exhibit I, Schedule 2-9, Column (b), Line 12.

[10] Henry Exhibit I, Schedule 2-4, Column (d), Line 6.

[11] Henry Exhibit I, Schedule 3-15(b), Column (d), Line 58.

[12] Henry Exhibit I, Schedule 2-8, Column (d), Line 5.

[13] Henry Exhibit I, Schedule 3-15(c), Column (c), Line 46.

[14] Henry Exhibit I, Schedule 2-4, Column (g), Line 6.

[15] Henry Exhibit I, Schedule 3-15(c), Column (d), Line 46.

[16] Henry Exhibit I, Schedule 2-8, Column (g), Line 5.

[17] Henry Exhibit I, Schedule 3-15(d), Column (c), Line 58.

[18] Henry Exhibit I, Schedule 2-4, Column (j), Line 6.

[19] Henry Exhibit I, Schedule 3-15(d), Column (d), Line 58.

[20] Henry Exhibit I, Schedule 2-8, Column (j), Line 5.