

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 399

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

REBUTTAL TESTIMONY OF
MATTHEW P. SCHELLINGER II
ON BEHALF OF CAROLINA
WATER SERVICE, INC. OF
NORTH CAROLINA

March 29, 2023

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Matthew P. Schellinger II. My business address is 5821
3 Fairview Road, Suite 401, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Regional Director of Financial Planning and Analysis, East Region for
6 the Corix Group of Companies (“Corix”). In this capacity, I oversee financial
7 planning and analysis for Carolina Water Service, Inc. of North Carolina
8 (“CWSNC” or “Company”).

9 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND?**

11 A. I have been employed by CWSNC since October 2019. I received a
12 Bachelor of Science Degree with a major in Accounting from the University
13 of South Florida in 2012. I received a Master of Business Administration
14 with a focus in Management and Strategy from Western Governors
15 University in 2016. Prior to joining CWSNC, I was employed as a controller
16 for an insurance agency from 2007 to 2013. In that capacity, I performed
17 general corporate accounting functions on a daily and monthly basis. From
18 2013 to 2019, I was employed by the South Carolina Office of Regulatory
19 Staff, first as an Auditor and starting in 2016 as a Regulatory Analyst. In that
20 capacity I performed regular reviews of water, sewer, natural gas, and
21 electric regulatory filings.

22 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

1 A. My primary responsibilities include forecasting, budgeting, and financial
2 analysis for the Company.

3 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

4 A. The purpose of my testimony is to respond to positions of the Public Staff
5 in its direct testimony filed in this Docket, particularly as it relates to the
6 accounting for fair market value (“FMV”) transactions, depreciation
7 expense, amortization expense, cost of service, fixed and incremental
8 costs, and rate base per customer.

9 **ACCOUNTING FOR FAIR MARKET VALUE TRANSACTIONS**

10 **Q. PLEASE DESCRIBE PUBLIC STAFF’S POSITION ON THE**
11 **ACCOUNTING FOR THE FMV TRANSACTION.**

12 A. The Public Staff does not appear to have outlined a position on how a FMV
13 transaction should be accounted for but has made certain assumptions
14 regarding depreciation and amortization expenses in the Public Staff’s cost
15 of service assumptions.

16 **Q. HOW DOES CWSNC PROPOSE TO ACCOUNT FOR THE FMV**
17 **TRANSACTION ASSOCIATED WITH THE CLOSING OF CARTERET**
18 **COUNTY ACQUISITION?**

19 A. CWSNC proposes to account for the FMV transaction in compliance with,
20 and using guidance from, Generally Accepted Accounting Procedures
21 (“GAAP”) and National Association of Regulatory Utility Commissions
22 (“NARUC”) Uniform System of Accounts (“USOA”).

1 Specific guidance from the NARUC USOA for Class A Water Utilities
 2 that is helpful for determining the accounting for FMV transactions is
 3 Accounting Instructions #17C and #18 (pages 19-20), and Balance Sheet
 4 Account #114 – Utility Plant Acquisition Adjustments (pages 59-60).

5 Utilizing this guidance, CWSNC is under the understanding that the
 6 proper way to account for this transaction on closing is as shown in Table 1
 7 below:

8 **Table 1**

<u>Balance Sheet Account</u>	<u>Debit</u>	<u>Credit</u>	<u>NARUC Account</u>
Plant	12,195,043		101
Accumulated Depreciation		6,992,436 ¹	108
Cash - Purchase		9,500,000	131
Acquisition Project		312,039 ²	101
Goodwill	1,084,000		114
Purchase Acquisition			114
Adjustment	3,525,432		
Total	<u>16,804,475</u>	<u>16,804,475</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Total</u>
Rate Base	15,720,475	6,992,436	8,728,039 ³

¹ Implied Accumulated Depreciation as of 12/31/2022 based on the Water Fund Capital Assets Report dated 06/30/2022.

² Reasonable fees paid to the utility valuation experts, reasonable transaction and closing costs as ordered by the Commission.

³ Reasonable and appropriate fair value of the Carteret County Water system as ordered by the Commission.

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DEPRECIATION RATE AND EXPENSE

Q. PLEASE DESCRIBE PUBLIC STAFF’S POSITION ON DEPRECIATION EXPENSE.

A. The Public Staff has proposed to depreciate and amortize the entirety of the allowed rate base at 4% per year.

Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF’S POSITION ON DEPRECIATION EXPENSE?

A. No. The 4% rate that the Public Staff is proposing is not a reasonable approximation of the remaining useful service lives of the assets of the Carteret County water system. Attached as Rebuttal Exhibit MPS-1 is a capital asset listing provided by Carteret County as of 06/30/2022 which ties to the plant and accumulated depreciation amounts listed in Carteret County audited annual report.

Carteret County has depreciated its assets to date based on a flat 30-year useful service life for all asset categories, except vehicles, without regard for how long those assets generally or usually last, which has resulted in a number of plant categories being over-depreciated as a percent of their remaining useful life. The primary categories of assets in Carteret County Water System are Water Treatment Plant, Distribution Reservoirs and Standpipes, and Transmission and Distribution Mains, for which CWSNC is authorized to depreciate over 50 years, 50 years, and 100 years, respectively.

1 Utilizing CWSNC's current Uniform Water depreciation rates, the
2 going forward composite depreciation rate on Carteret's plant in service
3 would be 1.40% and will fully depreciate over 31 years. Attached as
4 Rebuttal Exhibit MPS-2 is a breakdown of the Carteret County Water plant
5 and accumulated depreciation at CWSNC's service lives, including the
6 NARUC service lives for reference, all of which point to considerably longer
7 service lives for assets than the 30-year life that Carteret County has been
8 using.

9 **Q. WHAT IS CWSNC'S POSITION ON DEPRECIATION EXPENSE?**

10 A. The Company recommends that depreciation rates be set at the current
11 CWSNC Uniform Water depreciation rates. Ultimately, the Commission has
12 complete discretion on this significant portion of the eventual cost of service.

13 **AMORTIZATION RATE AND EXPENSE**

14 **Q. PLEASE DESCRIBE PUBLIC STAFF'S POSITION ON AMORTIZATION**
15 **EXPENSE.**

16 A. The Public Staff has proposed to depreciate and amortize the entirety of the
17 allowed rate base at 4% per year without distinction for the portion of rate
18 base that will be amortized.

19 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
20 **AMORTIZATION RATE AND EXPENSE?**

21 A. No. The rate at which CWSNC amortizes the Purchased Acquisition
22 Adjustment ("PAA") associated with the Carteret County Water system is a

1 rate that is wholly within the discretion of the Commission to set, and as
2 such is a significant portion of the eventual cost to serve that as of yet has
3 not been determined. CWSNC is proposing to amortize the PAA over the
4 composite remaining useful life of the acquired assets, or 3.22%, as shown
5 in Rebuttal Exhibit MPS-2.

6 Currently, CWSNC has a number of past Purchase Acquisition
7 Adjustments amortizing on its books. It has been the Public Staff's position
8 that this PAA rate changes in each rate case in order to amortize over the
9 remaining useful life of CWSNC's plant. The PAA amortization rate was
10 recently reset in the Sub 384 rate case to 2.73% for the Uniform Water rate
11 division and due to resetting, the amortization rate is no longer correlated
12 with any particular original underlying acquisition.

13 **Q. PLEASE DESCRIBE CWSNC'S POSITION ON AMORTIZATION RATE**
14 **AND EXPENSE.**

15 A. The Company recommends that the PAA amortization rate for the Carteret
16 Water system be set at the remaining useful life of the underlying plant, or
17 3.22%. This would have the effect of syncing the entire FMV of the
18 acquisition – and the depreciation of the acquired assets and the PAA – to
19 the same timeline.

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COST OF SERVICE, ECONOMIES OF SCALE, AND INCREMENTAL COSTS

Q. DOES CWSNC AGREE WITH THE COST TO SERVE AS OUTLINED IN PUBLIC STAFF TESTIMONY?

A. Generally, CWSNC does not disagree with the Cost to Serve calculations presented by the Public Staff except as outlined above regarding depreciation and amortization expense and detailed below.

Q. ARE THERE ADDITIONAL CONSIDERATIONS TO THE COST OF SERVICE BEYOND DEPRECIATION AND AMORTIZATION EXPENSES?

A. Yes. There is additional consideration to the cost of service numbers presented by the Public Staff beyond looking at a simple calculation. Embedded within the cost of service numbers are several fixed costs that are currently being incurred and are part of the cost to serve current Uniform Water customers. As these costs are fixed and will generally not vary with the inclusion of the Carteret customers, these costs to serve will be allocated to future Carteret County Water customers and thus do not produce incremental costs incurred due to the acquisition of Carteret. Some examples of these fixed costs are noted below in Table 2:

Table 2

Expense Category	\$/ERC per Sub 400 – RY3	Total Expense (\$/ERC* 1,434 ERC)
Rent	\$7.80	\$11,185
Office Utilities	\$6.66	\$9,550
Office Supplies	\$1.71	\$2,447
Corporate Allocations	\$102.73	\$147,315
Non-Operational Salaries	\$67.96	\$97,451
Total Fixed Costs		\$267,949

There are other, less easily identified costs that are not also incrementally incurred by the Carteret acquisition. Ultimately, these costs are already being incurred by current customers and directly represent the economies of scale and benefit to having additional customers contribute to the whole of CWSNC's costs to serve its customers.

RATE BASE PER CUSTOMER

Q. PLEASE DESCRIBE PUBLIC STAFF'S CALCULATION OF RATE BASE PER CUSTOMER.

A. The Public Staff in the testimony of witness Charles Junis on page 31 and 32 provide summaries of the rate base per customer of the current CWSNC Uniform Water rate division in Sub 384 (\$2,337 per customer) and compare that to the Carteret acquisition rate base (\$6,835 per customer). The Public Staff's position is that these numbers should inform the Commission decision by comparison.

Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON RATE BASE PER CUSTOMER?

1 A. No. CWSNC believes that the comparison of rate base per customer is of
2 limited merit and value in the determination of acquisitions. CWSNC
3 Uniform Water rate division is comprised of many systems with individual
4 rate bases above and below rate division’s level, as well as costs to serve
5 above and below that level. In addition, rate base is merely one component
6 the revenue requirement calculation when considering all costs to serve
7 customers.

8 Further, to the extent that the Commission finds that the rate base
9 per customer is a useful metric, CWSNC does not believe that the Public
10 Staff has presented an accurate comparison point for rate base per
11 customer. First, the 29,317 value used by Public Staff in the calculation of
12 Uniform Water is an Equivalent Residential Connections (“ERC”) number,
13 not a customer number. The ERC number has been adjusted for availability
14 customers and for meter size. Similar adjustments would be necessary for
15 Carteret ERC count due to having a number of meters larger than a
16 standard 5/8” meter.

17 Similar to the Public Staff’s utilization of a Sub 400 Rate Year 3
18 expense update, a Sub 400 Rate Year (“RY”) 3 rate base per ERC and
19 Carteret County rate base per ERC at year 4 is provided below in Table 3,
20 which would be a more useful comparison metric.

Table 3

Rate Division	Rate Base	ERC Count	Rate Base Per ERC
CWSNC Uniform Water – Sub 400 RY 3	\$90,406,776 ⁴	29,426	\$3,072
Carteret County – Year 4	\$7,488,178 ⁵	1,444 ⁶	\$5,185

CWSNC's water systems are currently in a period of continued investment. As has been shown in the FMV hearing from the appraisers and from the engineering report, the Carteret water system is relatively new and in good condition so will not need considerable investment in the near term.

Finally, this rate base per ERC metric does not contemplate the eventual inflection point as the Carteret system continues to amortize and depreciate through the future while CWSNC continues to invest in its existing aging systems and infrastructure.

RATE IMPACTS

Q. HAS THE COMPANY ESTIMATED THE BILL IMPACT FOR THE CARTERET COUNTY WATER CUSTOMERS, BOTH FOR COMPLETING AND FOR NOT COMPLETING THE ACQUISITION?

A. Yes. Attached as Rebuttal Exhibit MPS-3 is an update to the Addendum included with the CPCN application. The income statement and cash flow sections have been updated using the expense figures as proposed by

⁴ From Sub 400 Proposed Orders for Rate Year 3.

⁵ Estimated Rate Base after 4 years of depreciation/amortization at CWSNC proposed rates.

⁶ 1,366 estimated customers per Public Staff Junis Exhibit 1 adjusted for 2.5 ERC for 1" meters, 8 ERC for 2" meters, 25 ERC for 4" meters.

1 Public Staff, modified for the above described changes for depreciation and
2 amortization expense.

3 The Company notes the Rebuttal Testimony of Denise Meshaw,
4 which states that, without the Company's acquisition and if the Water Tax
5 subsidization is removed, the Carteret County Water customers can expect
6 a 40% rate increase. The Company calculates that this would result in the
7 average monthly bill increasing from \$61.47 to \$86.06. Assuming
8 subsequent annual increases consistent with the Inflation Factor in the
9 Company's and the Public Staff's Proposed Orders of 2.4% for Rate Years
10 2 and 3 in Sub 400, the result would be a monthly bill of \$92.40 by the time
11 the Company's next MYRP case is effective. The Company compared this
12 rate projection to alternative scenarios of 1) a CWSNC acquisition, but a
13 separate rate division established for Carteret in the next MYRP case, and
14 2) a CWSNC acquisition, but consolidating Carteret with the Uniform Water
15 rate division in the next MYRP case. The results of this comparison are
16 shown in Rebuttal Exhibit MPS-4, lines 40-42. The Company concludes
17 from these calculations that the Carteret customers would have lower bills
18 by virtue of a CWSNC acquisition, and lower still if included in the Uniform
19 Water rate division. Both of these scenarios also would result in lower
20 Carteret bills in the intervening years due to the agreed-upon rate freeze.

1 **Q. HAS THE COMPANY ESTIMATED THE BILL IMPACT FOR THE**
2 **UNIFORM WATER CUSTOMERS, BOTH FOR COMPLETING AND FOR**
3 **NOT COMPLETING THE ACQUISITION?**

4 A. Yes. The Company also presents in Rebuttal Exhibit MPS-4 the Uniform
5 Water rate division average monthly customer bill in three scenarios: 1) the
6 Sub 400 monthly bill, consistent with the Company's Proposed Order, 2) the
7 Sub 400 monthly bill, with the Carteret acquisition, but a separate rate
8 division established for Carteret in the next MYRP case, and 3) the Sub 400
9 monthly bill, with the Carteret acquisition, but consolidating Carteret with the
10 Uniform Water rate division in the next MYRP case.

11 The results of this comparison are shown in Rebuttal Exhibit MPS-4,
12 lines 48-50. The Company concludes from these calculations that the
13 Uniform Water customers would benefit from the acquisition of Carteret,
14 whether the Carteret customers are included in the Uniform Water rate
15 division in the next MYRP case or not. However, the best outcome for all
16 customers – which would generate savings for all customers - is to include
17 Carteret customers in the Uniform Water rate division in the next rate case,
18 as that provides savings to existing customers, while providing the best rate
19 outcome for the Carteret customers.

1 **Q. WHAT ARE THE DRIVERS OF THE RATE IMPACTS THE COMPANY**
2 **CITED ABOVE?**

3 A. The drivers for the Carteret monthly bill results show that lower O&M costs,
4 from both a more cost efficient operation of Carteret by CWSNC and larger
5 scale afforded by the acquisition, outpace the higher rate base per customer
6 of Carteret as a stand-alone system. In addition, the Uniform Water
7 customers benefit from the added customers, which spreads fixed costs
8 across a larger customer base. Although not yet calculated by CWSNC, the
9 Company believes non-Uniform Water rate division customers would also
10 benefit from the acquisition of Carteret, due to the Carteret customers
11 absorbing a portion of overall CWSNC fixed costs.

12 **CONCLUSION**

13 **Q. WHAT IS CWSNC'S RECOMMENDATION IN THIS DOCKET?**

14 A. CWSNC recommends that the Commission approve the Carteret County
15 CPCN.

16 CWSNC requests the Commission order the going forward
17 depreciation rates be equal to that of the CWSNC Uniform Water rate
18 division as a more reasonable approximation of the remaining service lives
19 of the utility assets of Carteret County.

20 CWSNC requests that the Commission set the amortization of the
21 due diligence and transaction costs at 2.5% and place them into the
22 Organization plant account, similar to that of the Public Staff's

1 recommendation for Riverbend and Silverton acquisitions, and consistent
2 with the Uniform Water rate division's rate.

3 CWSNC requests that the Commission order the Purchase
4 Acquisition Adjustment amortization rate consistent with the expected
5 remaining useful lives of the acquired assets, and therefore be consistent
6 with a composite of the Company's applicable Uniform Water depreciation
7 rates.

8 Finally, CWSNC recommends that the eventual inclusion of Carteret,
9 like the Echota and Seven Devils acquisition, into the Uniform Rate division
10 will help drive rate pressures down over the life of the Carteret system due
11 to the staggering of systems of different lives (and therefore the timing of
12 needed capital investment), the coverage of CWSNC fixed costs, and the
13 costs to run and operate the Carteret system. CWSNC, based on the above
14 and the evidence in the record, further recommends that the Commission
15 determine the acquisition is in the public interest.

16 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
17 **KNOWLEDGE, INFORMATION, AND BELIEF?**

18 A. Yes.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does. However, I reserve the right to update or amend this testimony
21 upon receipt of additional relevant data or other information that may
22 become available.

Avenu Capital Assets
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CA By Class & Description

CARTERET CO FIXED ASSETS
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Report parameters

Category _____ to _____ Class _____ to _____
 Tag _____ to _____
 Master tag _____ to _____ Tracked Capital Assets I I/X/O
 Items with master tags I I/X/O Items flagged as components I I/X/O
 Item description contains _____ Search extended Y Y/N
 Acquisition I I/X/O Deprec. I I/X/O Disposal X I/X/O Narrative I I/X/O
 Allow Depreciation I I/X/O Declared surplus X I/X/O
 Department _____ SrlNbr Contains _____
 Manufacturer contains _____ Model year 0000 to 0000
 Item type _____ to _____ Site _____ to _____ Building _____ to _____
 Room _____ to _____ SECT _____ to _____ Condition _____ to _____
 Own. fund _____ to _____ Pur. fund _____ to _____ Source fnd _____ to _____
 Acq. type _____ to _____ Disp.type _____ to _____ Dispos. rea _____ to _____
 Depreciation methods _____ Parcel# _____
 Optional A _____ to _____ Optional B _____ to _____
 Optional C _____ to _____ Optional D _____ to _____
 Maint.review _____ to _____ Warranty exp _____ to _____
 Acquis. date _____ to _____ Disposal dt. _____ to _____
 Last depreciation date _____ to _____
 Last date changed _____ to _____
 Estimated life _____ 0 to _____ 0
 Acquisition cost _____ to _____
 Current depreciation _____ to _____
 Depreciation YTD _____ to _____
 Accumulated depreciation _____ to _____
 Quantity disposed _____ to _____
 Active I I/X/O Complete I I/X/O
 Owning fund: Government X I/X/O Enterprise I I/X/O MtchAsset I I/X/O
 Specific contract ID _____
 Subtotals only N (Y/N) Subtotal page break N (Y/N)
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CA By Class & Description

CARTERET CO FIXED ASSETS
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Class	Description	Tag	Department	Type	Master Tag	Comp	Quantity	Book Value
Condition	Serial Number	Manufacturer	Model	Vehicle ID	License #	Original Cost	Acqu Date	
0200	TRUCKS							
0200	FORD F250 - 2014		9472 7110	FA		N 1.000		.00
N	1FDBF2A62EEA74385	FORD	F250 2014	217	2014	22,856.55	11/15/2013	
0200	FORD RANGER 4X2 SPORT		9181 7110	FA		N 1.000		.00
N	1TYR14U17PA81006	FORD	RANGER 4X2 SPO	219	2007	14,374.49	4/30/2007	
0200	2017 FORD 350 REGULAR CAB		9659 7110	FA		N 1.000		3,789.81
N	1FDRF3B6XHEF21147	FORD	F350		2017	37,897.92	12/20/2017	
TRUCKS						Subtotal	75,128.96	3,789.81
0900	MISC EQUIPMENT							
0900	ALUM FEED SYSTEM		9279 7110	FA		N 1.000		.00
N						17,500.00	5/21/2009	
0900	EASY LOCATOR IXM GROUND		9264 7110	FA		N 1.000		.00
N	26527	MALA GEOSCIENC	IXM			17,480.00	8/27/2008	
0900	EXCAVATOR 3.5 TON MINI 9'-12'		9503 7110	FA		N 1.000		.00
U	WM002248	IHI	35N-2			18,500.00	9/12/2014	
0900	HANDHELD DEVICE DRIVE-BY		9470 7110	FA		N 1.000		.00
N	SPSAR5500HD	SENSUS	SAR 5500HHD			9,856.80	3/05/2014	
0900	MAGNUM GENERATOR MOBILE		9425 7110	FA		N 1.000		.00
N		MAGNUM	MMG35FH			21,576.00	6/15/2013	
0900	MAGNUM MOBILE GENERATOR		9149 7110	FA		N 1.000		.00
N	63923	MAGNUM	MMG35			15,000.00	9/26/2006	
0900	MOBILE GENERATOR MMG35FH		9304 7110	FA		N 1.000		.00
N		BITTING ELEC	MMG35FH			19,190.76	4/08/2011	
0900	RADIO READ HANDHELD SP-SAR5002		9263 7110	FA		N 1.000		.00
N	KCHAR5002	SENSUS	SAR5002			7,400.00	4/03/2009	
0900	SENSUS DRIVE RADIO UNIT/LAPTOP		9705 7110	FA		N 1.000		.00
1	SP-SVGBDRIVEBYUNIT					25,500.00	8/01/2018	
0900	TRIMBLE W/FLOODLIGHT		9471 7110	FA		N 1.000		.00
N		TRIMBLE	GEOXT 6000			7,475.00	3/17/2014	
MISC EQUIPMENT						Subtotal	159,478.56	.00
7000	BUILDING/MOBILE HOMES							
7000	WATER PLANT - LAUREL ROAD		9041 7110	FA		N 1.000		800,610.92
						2,119,263.81	11/03/2003	
BUILDING/MOBILE HOMES						Subtotal	2,119,263.81	800,610.92
8000	IMPROVMENTS							
8000	BOOSTER PUMP #1 3510 HWY 101		9428 7110	FA		N 1.000		118,126.02
N						174,283.94	11/26/2012	
8000	BOOSTER PUMP #2 142 SHELL LAND		9429 7110	FA		N 1.000		171,553.00
N						253,111.44	11/26/2012	
8000	BOOSTER PUMP #3 - 1109 HWY 101		9430 7110	FA		N 1.000		171,553.01
N						253,111.45	11/26/2012	
8000	BRIDGE WATER AT WARE CREEK		9183 7110	FA		N 1.000		18,141.70
N	WATER LINES	T A LOVING				37,970.08	11/29/2006	

Avenu Capital Assets
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CA By Class & Description

CARTERET CO FIXED ASSETS
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Class	Description	Tag	Department	Type	Master Tag	Comp	Quantity	Book Value
Condition	Serial Number	Manufacturer	Model	Vehicle ID	License #	Original	Acqu Date	
8000	CDBG WATER SYSTEM		5825 7110	FA		N 1.000	1,337,172.18 6/30/1991	.00
8000	CHADWICK SHORES PLANTATION		9265 7110	FA		N 1.000	167,657.00 11/05/2008	91,280.14
8000	EDA INDUSTRIAL PK WATER LINES		8771 7110	FA		N 1.000	128,701.68 6/30/2001	20,163.23
8000	FIRE HYDRANTS & LINE EXTENSION		9433 7110	FA		N 1.000	1,058,177.59 11/26/2012	717,209.51
8000	JARRETT BAY CDBG WATER LINES		8770 7110	FA		N 1.000	96,581.00 6/30/2001	15,130.94
8000	JOANS HAVEN DRIVE LOTS		9184 7110	FA		N 1.000	15,199.27 9/30/2006	7,177.47
8000	MILL LANDING SUBDIVISION		9185 7110	FA		N 1.000	14,204.93 5/31/2007	7,023.21
8000	PHASE II WATER PROJECT		9141 7110	FA		N 1.000	2,906,676.24 6/30/2006	1,348,374.94
8000	TRACEY GROVE SUBDIVISION		9182 7110	FA		N 1.000	55,209.00 5/04/2007	27,297.48
8000	TRACEY GROVE SUBDIVISION		9232 7110	FA		N 1.000	15,703.51 3/24/2008	8,200.87
8000	WATER LINES		9042 7110	FA		N 1.000	1,475,968.61 12/08/2003	561,688.35
8000	WATER SYSTEM IMPROVEMENTS		9434 7110	FA		N 1.000	15,954.56 11/28/2012	10,813.44
8000	WATER TANK #2 104 MAYFLOWER DR		9431 7110	FA		N 1.000	689,091.16 11/26/2012	467,050.92
8000	WATER TANK #3 209 TAYLOR FM RD		9432 7110	FA		N 1.000	765,261.67 11/26/2012	518,676.99
8000	WATER TREATMENT RENOVATIONS		9305 7110	FA		N 1.000	158,528.98 8/17/2010	95,557.50
IMPROVMENTS				Subtotal			9,618,564.29	4,375,018.72
9000	PROPERTY							
9000	BOOSTER PUMP STATION #1		9301 7110	FA		N 1.000	17,798.25 6/25/2010	17,798.25
9000	BOOSTER PUMP STATION #2		9308 7110	FA		N 1.000	59,120.95 2/25/2011	59,120.95
9000	BOOSTER PUMP STATION #3		9306 7110	FA		N 1.000	42,086.10 9/30/2010	42,086.10
9000	WATER PLANT - 534 LAUREL ROAD		8758 7110	FA		N 1.000	52,500.00 1/31/2001	52,500.00
9000	WATER TANK - ELEVATED #3		9307 7110	FA		N 1.000	51,102.50 10/06/2010	51,102.50
PROPERTY				Subtotal			222,607.80	222,607.80

Avenu Capital Assets
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CA By Class & Description

CARTERET CO FIXED ASSETS
RA600R002 04.26 Pg 4

Class	Description	Tag	Department	Type Master	Tag	Comp	Quantity	Book Value
Condition	Serial Number	Manufacturer	Model	MdlYr	License #	Vehicle ID	Original Cost	Acqu Date
Grand Total							12,195,043.42	5,402,027.25

Rebuttal Exhibit MPS-2
W-354, Sub 399 - Carteret CPCN
Page 1 of 1

NARUC	Account	Description	Plant	per report date			Carteret			Implied			CWSNC					
				6/30/2022	Life	Dep Rate	Annual Rate	12/31/2022	Age	Implied PIS	Dep 1st Month	NARUC Life	CWSNC Rates	CWSNC Life	CWSNC Dep Exp	Rate Base		
303.3	141103	Land and Rights Water	222,608	-	-	-	-	-	-	-	-	-	-	-	-	-	-	222,608
304.3	141205	Struct and Improv Water Treat Plt	2,119,264	(1,318,653)	30.00	3.33%	70,642	(1,353,974)	19.17	4/30/2003	4/30/2003	32	2.00%	50	42,385	765,290		
304.4	141206	Struct and Improv Trans Dist Plt	680,507	(219,275)	30.00	3.33%	22,684	(230,617)	10.17	4/29/2012	4/30/2012	32	2.00%	50	13,610	449,890		
307.2	141223	Wells and Springs	-	-	-	0.00%	-	-	-	N/A	N/A	30	2.00%	50	-	-		
310.2	141226	Power Generation Equipment	55,767	(55,767)	-	Fully Depr	-	(55,767)	-	N/A	N/A	20	10.00%	10	-	-		
320.3	141230	Water Treatment Equipment	158,529	(62,971)	30.00	3.33%	5,284	(65,614)	12.42	1/28/2010	1/31/2010	22	2.50%	40	3,963	92,915		
330.4	141231	Dist Resv and Standpipes	2,001,534	(810,577)	30.00	3.33%	66,718	(843,936)	12.65	11/4/2009	11/30/2009	37	2.00%	50	40,031	1,157,597		
331.4	141232	Trans and Distr Mains	6,777,995	(4,150,722)	30.00	3.33%	225,933	(4,263,688)	18.87	8/16/2003	8/31/2003	43	1.00%	100	67,780	2,514,306		
333.4	141233	Service Lines	-	-	-	0.00%	-	-	-	N/A	N/A	40	2.00%	50	-	-		
334.4	141234	Meters	-	-	-	0.00%	-	-	-	N/A	N/A	20	3.33%	30	-	-		
335.4	141236	Hydrants	-	-	-	0.00%	-	-	-	N/A	N/A	45	2.50%	40	-	-		
343.5	141308	Tool Shop Equipment	85,212	(85,212)	-	Fully Depr	-	(85,212)	-	N/A	N/A	16	5.00%	20	-	-		
346.5	141310	Communications Equipment	-	-	-	0.00%	-	-	-	N/A	N/A	10	10.00%	10	-	-		
341.5	141401	Vehicles	93,629	(89,839)	5.00	20.00%	18,726	(93,629)	5.00	6/29/2017	6/30/2017	6	20.00%	5	-	-		
			12,195,043	(6,793,016)			409,987	(6,992,436)							167,769	5,202,607		
		Purchase Acquisition Adjustment	3,213,393										3.22%		103,623	3,213,393		
		Transaction and Closing Costs	312,039										2.50%		7,801	312,039		
			3,525,432	-				-							111,424	3,525,432		
			15,720,475	(6,793,016)				(6,992,436)							279,193	8,728,039		

Projected Income Statement - Water Operations

Line No.	Item	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Operating revenue</u>						
1	Metered service revenue	\$1,006,942	\$1,014,561	\$1,029,036	\$1,044,274	\$1,359,960
2	Flat rate service revenue	-	-	-	-	-
3	EPA testing surcharge	-	-	-	-	-
4	Re-connect fees	-	-	-	-	-
5	Return check charge	-	-	-	-	-
6	Late payment charges	-	-	-	-	-
7	Other operating revenue	8,545	8,608	8,726	8,852	8,977
8	Total operating revenue (Sum of Line 1 thru Line 7)	1,015,487	1,023,169	1,037,762	1,053,126	1,368,937
<u>Operating expenses</u>						
9	Total salaries and wages (employees only)	196,273	197,711	200,443	203,319	206,195
10	Outside labor expense (non-employees)	-	-	-	-	-
11	Administrative and office expense	16,052	16,170	16,393	16,629	16,864
12	Maintenance and repair expense	58,982	59,414	60,235	61,099	61,963
13	Purchased water	-	-	-	-	-
14	Purchased sewage treatment	-	-	-	-	-
15	Electric power expense (exclude office)	55,460	55,866	56,638	57,451	58,263
16	Chemicals expense	17,431	17,559	17,801	18,057	18,312
17	Testing fees	9,828	9,900	10,037	10,181	10,325
18	Transportation expense	13,322	13,420	13,605	13,801	13,996
19	Other operating expenses	234,534	236,253	239,517	242,953	246,390
20	Total operation and maintenance expenses (Sum of Lines 9 thru 19)	601,882	606,293	614,669	623,490	632,308
21	Annual depreciation/amortization expense	279,193	280,943	280,943	280,943	280,943
22	Property taxes paid on utility property	6,306	6,353	6,440	6,533	6,625
23	Payroll taxes	15,097	15,208	15,418	15,639	15,860
24	Franchise (gross receipts) tax	-	-	-	-	-
25	Annual NCUC regulatory fee	1,422	1,432	1,453	1,474	1,917
26	Total operating expenses (Sum of Line 20 thru Line 25)	903,900	910,229	918,923	928,079	937,653
<u>Income taxes</u>						
27	State income taxes	(2,168)	(2,036)	(1,716)	(1,389)	6,439
28	Federal income taxes	(17,758)	(16,674)	(14,057)	(11,376)	52,735
29	Total income taxes (Line 27 + Line 28)	(19,926)	(18,710)	(15,773)	(12,765)	59,174
30	Net operating income (loss) (Line 8 - Line 26 - Line 29)	\$131,513	\$131,650	\$134,612	\$137,812	\$372,110
31	Interest expense	198,317	194,375	187,491	180,609	173,726
32	Net income (loss) (Line 30 - Line 31)	(\$66,804)	(\$62,725)	(\$52,879)	(\$42,797)	\$198,384

Statement of Cash Flows - Water Operations

Line No.	Item	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Cash Flows From Operating Activities</u>						
1	Pre-tax operating income (loss):					
2	Total operating revenue	\$1,015,487	\$1,023,169	\$1,037,762	\$1,053,126	\$1,368,937
3	Less: Operation and maintenance expenses	601,882	606,293	614,669	623,490	632,308
4	Less: Taxes other than income	22,825	22,993	23,311	23,646	24,402
5	Pre-tax operating income (loss)	390,780	393,883	399,782	405,990	712,227
6	Income tax calculation:					
7	Pre-tax operating income (loss)	390,780	393,883	399,782	405,990	712,227
8	Plus: Contributions in aid of construction	-	-	-	-	-
9	Less: Tax depreciation	174,561	351,622	354,122	354,122	354,122
10	Less: Interest expense	198,317	194,375	187,491	180,609	173,726
11	Taxable income (loss)	17,902	(152,114)	(141,831)	(128,741)	184,379
12	State income tax	448	(3,803)	(3,546)	(3,219)	4,609
13	Federal income tax	3,665	(31,145)	(29,040)	(26,360)	37,752
14	Total income taxes to be paid	4,113	(34,948)	(32,586)	(29,578)	42,361
15	Net cash provided by (used in) operating activities	\$386,667	\$428,831	\$432,368	\$435,568	\$669,866
<u>Cash Flows From Investing Activities</u>						
16	Purchases of utility plant	\$8,728,039	125,000	-	-	-
17	Plus: Cash bonds posted	-	-	-	-	-
18	Less: Contributions in aid of construction	-	-	-	-	-
19	Less: Proceeds from disposal of utility plant	-	-	-	-	-
20	Net cash used (provided) by investing activities	8,728,039	125,000.00	-	-	-
<u>Cash Flows From Financing Activities</u>						
21	Proceeds from issuing short term debt	-	-	-	-	-
22	Less: Principal repayment of short term debt	-	-	-	-	-
23	Plus: Proceeds from issuing long term debt	-	-	-	-	-
24	Less: Principal repayment of long term debt	-	-	-	-	-
25	Less: Interest payment for short and long term debt	-	-	-	-	-
26	Plus: Proceeds from issuing stock	-	-	-	-	-
27	Less: Dividends paid	-	-	-	-	-
28	Plus: Funds provided by owner	-	-	-	-	-
29	Net cash provided (used) by financing activities	-	-	-	-	-
30	Net increase (decrease) in cash	(\$8,341,372)	\$303,831	\$432,368	\$435,568	\$669,866
31	Cash balance at beginning of year	-	(\$8,341,372)	(\$8,037,541)	(\$7,605,173)	(\$7,169,605)
32	Cash balance at end of year	(\$8,341,372)	(\$8,037,541)	(\$7,605,173)	(\$7,169,605)	(\$6,499,739)

Carteret
ADDENDUM TO APPLICATION FOR TRANSFER OF PUBLIC UTILITY FRANCHISE AND FOR APPROVAL OF RATES

Updated 03/27/2023

Assumptions:

Sub 399 - Carteret CPCN Addendum Assumptions

Revenue:

Year 1 Revenue is at Carteret County current rates with customer counts and usage as of 06/30/22, per Sub 398 Junis Testimony Attachment 3a.

Year 2-5 Revenue is growth adjusted by an increase in ERC count of 1.5%. Compounded annual growth rates from 2019-2022 is approximately 2.09%. Further the growth assumption assumes average period customers in the given year.

Year 5 Revenue is adjusted to a \$/erc level equivalent to the expected MYRP RY 3 revenues + 5%, to account for an assumed effective date and impacts of the first rate case after acquisition.

Expense:

The basis for all expense assumptions start at a Sub 400 final Net Operating Income (NOI) for Uniform Water customers divided by total ERC count for that same period for each expense category. Projected customer growth accounts for projected expense growth.

Certain NOI line items are not included on a \$/ERC basis as not applicable to inclusion of new customers (such as Purchased Water and Regulatory Commission Expenses), additionally certain \$/ERC calculations are included in determining the cost to serve and revenue requirements but are not incremental to the acquisitions.

NOI Line items that are included but are not incremental to the acquisition represent costs that are currently included in the cost to serve but will not increase as a result of the acquisition. The addition of new customer base picking up these allocated costs reduces the total burden on a \$/ERC basis and represent economies of scale related to the acquisition.

Examples:

- Rent (Charlotte Office, Warehouse, etc.)
- Office Utilities
- Office Supplies
- Corporate Allocations
- Regional Salaries

Carteret
ADDENDUM TO APPLICATION FOR TRANSFER OF PUBLIC UTILITY FRANCHISE AND FOR APPROVAL OF RATES

Assumptions:

Sub 399 - Carteret CPCN Addendum Assumptions

Additional NOI line items are calculated based on inputs from other schedules or as a fallout/calculated adjustment related to the revenues and expenses.

Manually Calculated Examples:

Depreciation Expense

Calculated based on Carteret County Books PIS costs of \$12,195,043 and accumulated depreciation of \$6,793,016 as of 06/30/22. Imputed A/D through 12/31/22 of 6,992,436.

Assets were placed into categories based on type of asset (IE: mains, services, water plant) and assumed depreciation rates equivalent to current CWSNC Uniform depreciation rates on a going forward basis. Results in a going forward depreciation rate of 1.40% on the original 12,195,043 PIS costs.

Annual depreciation expense of \$167,769 divided by the Net Book Value of plant of \$5,202,607 yields a 3.22% rate for Purchase Acquisition Adjustment amortization in order to have PIS and PAA finish depreciating and amortizing at the same time.

Purchase Acquisition Adjustment Expense

Purchase Acquisition Adjustment (PAA) is assumed to be the difference between the NBV of plant on the date of close or \$5,202,607 in this model and the Commission Ordered Fair Market Value of \$8,416,000 results in \$3,213,393 in PAA. The amortization rate for this PAA is assumed to be 3.22% in order for PAA to finish amortizing with the depreciable assets.

Further approved acquisition costs of \$312,039 are also assumed to be amortized in the Organization account (2.5%) the same as the Riverbend and Silverton acquisitions.

Fallout / Calculated Examples:

- NCUC Regulatory Fee - 0.14%
- Interest Expense - 50% debt, 4.64% debt rate - from Sub 384
- State Income Taxes - 2.5%
- Federal Income Taxes - 21.0%

Cash Flows:

Cash Flow assumptions assume the total purchase price + acquisition costs of \$8,728,039 are incurred in year 1 and year 2 costs of \$125,000 for tank work is incurred.

Cost of Service Comparisons

Line No.	Item	Year 1	Year 2	Year 3	Year 4	Year 5	Notes
	Rate Base - Example	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	
1	Plant	12,195,043	12,320,043	12,320,043	12,320,043	12,320,043	
2	A/D	(7,160,206)	(7,327,975)	(7,497,494)	(7,667,013)	(7,836,533)	
3	PAA	3,525,432	3,525,432	3,525,432	3,525,432	3,525,432	
4	AA of PAA	(111,424)	(222,848)	(334,271)	(445,695)	(557,119)	
5	ADIT (Line 16)	24,065	7,809	(9,022)	(25,853)	(42,684)	
6	Working Capital (O&M Expenses / 8)	75,235	75,787	76,834	77,936	79,039	
7	Rate Base (Sum Line 1 through 6)	\$ 8,548,147	\$ 8,378,249	\$ 8,081,522	\$ 7,784,850	\$ 7,488,178	
	ADIT Calculations	Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	
8	Depreciation and Amortization Expense	(279,193)	(280,943)	(280,943)	(280,943)	(280,943)	
9	MACRS Depreciation (4%)	(174,561)	(351,622)	(354,122)	(354,122)	(354,122)	
10	Tax Rate	23%	23%	23%	23%	23%	
11	ADIT	\$ 24,065	\$ (16,256)	\$ (16,831)	\$ (16,831)	\$ (16,831)	
12	Regulatory Rate Base	8,448,846	8,294,653	8,013,710	7,732,767	7,451,824	
13	Tax Rate Base	8,553,478	8,328,606	7,974,484	7,620,362	7,266,240	
14	Timing Differences (Line 13 - Line 12)	\$ 104,632	\$ 33,953	\$ (39,226)	\$ (112,405)	\$ (185,584)	
15	Tax Rate (Composite 21% Federal, 2.5% State)	23%	23%	23%	23%	23%	
16	Cumulative ADIT (Line 14 * Line 15)	\$ 24,065	\$ 7,809	\$ (9,022)	\$ (25,853)	\$ (42,684)	
	Capital Structure						
17	Debt - Hypothetical from Sub 400	50%	50%	50%	50%	50%	
18	Equity - Hypothetical from Sub 400	50%	50%	50%	50%	50%	
	Return on Capital - Post Tax						
19	Debt	4.64%	4.64%	4.64%	4.64%	4.64%	
20	Equity - Sub 384	9.40%	9.40%	9.40%	9.40%	9.40%	
	Cost of Capital - Pre Tax						Retention Factors
21	Debt - 4.64% rate from Sub 400 (Line 7 * 17 * 19 / 0.9987)	198,575	194,628	187,735	180,844	173,952	0.9987
22	Equity - Sub 384 - Authorized - (Line 7 * 18 * 20 / 0.769248)	522,280	511,900	493,770	475,644	457,517	0.769248

Revenue Requirement - Total		Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	
23	Total operation and maintenance expenses (From Addendum)	601,882	606,293	614,669	623,490	632,308	
24	Annual depreciation expense	279,193	280,943	280,943	280,943	280,943	
25	Property taxes paid on utility property	6,306	6,353	6,440	6,533	6,625	
26	Payroll taxes	15,097	15,208	15,418	15,639	15,860	
27	Annual NCUC regulatory fee	1,422	1,432	1,453	1,474	1,917	
28	Debt (Line 21)	198,575	194,628	187,735	180,844	173,952	
29	Equity (Line 22)	522,280	511,900	493,770	475,644	457,517	
30	Revenue Requirement - Standalone (Sum Lines 23 through 29)	\$ 1,624,755	\$ 1,616,757	\$ 1,600,428	\$ 1,584,566	\$ 1,569,122	
Non Incremental Expenses (ERC * \$/ERC)		Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	\$/ERC
31	Rent	10,647	10,725	10,873	11,029	11,185	7.80
32	Office Utilities	9,091	9,158	9,284	9,417	9,550	6.66
33	Office Supplies	2,329	2,346	2,378	2,412	2,447	1.71
34	Corporate Allocations	140,226	141,254	143,206	145,260	147,315	102.73
35	CWSNC Total Salaries and Benefits, including allocations	235,763	237,490	240,772	244,226	247,680	172.72
36	Direct Salary Additions	(143,000)	(144,048)	(146,038)	(148,133)	(150,229)	(104.76)
37	Total Non Incremental Expenses (Sum Lines 31 through 36)	\$ 255,056	\$ 256,925	\$ 260,475	\$ 264,212	\$ 267,949	
38	Revenue Requirement - Uniform Rates (Line 30 - Line 37)	\$ 1,369,699	\$ 1,359,832	\$ 1,339,954	\$ 1,320,354	\$ 1,301,173	
Rates from Carteret Perspective		Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	
39	ERC - Carteret	1,365	1,375	1,394	1,414	1,434	
40	Average Monthly Bill - Current, then put into Uniform Rates	\$ 61.47	\$ 61.47	\$ 61.47	\$ 61.47	\$ 79.03	
41	Average Monthly Bill - Standalone Rates (Line 30 / Line 39 / 12)					\$ 91.19	
42	Average Monthly Bill - Carteret, no CWSNC ownership	\$ 61.47	\$ 86.06	\$ 88.12	\$ 90.24	\$ 92.40	40% yr 1, 2.4% continuing
Rates from Uniform Water Perspective		Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	Notes
43	Uniform Water Revenue Requirement W/O Carteret (From CWSNC PO)	\$ 21,822,021	\$ 25,488,156	\$ 26,867,134	\$ 27,419,699	\$ 28,790,684	Sub 400 + 5%
44	Revenue Requirement - Carteret Standalone (Line 43 - Line 37)	\$ 21,822,021	\$ 25,488,156	\$ 26,867,134	\$ 27,419,699	\$ 28,522,735	
45	Revenue Requirement w/ Carteret (Line 43 + Line 38)	\$ 21,822,021	\$ 25,488,156	\$ 26,867,134	\$ 27,419,699	\$ 30,091,857	
46	ERC w/o Carteret (Sub 400 ERC)	29,426	29,426	29,716	30,006	30,296	
47	ERC w/ Carteret (Line 46 + Line 39)	30,791	30,801	31,110	31,420	31,730	
		Sub 384	Sub 400 RY1	Sub 400 RY2	Sub 400 RY3	MYRP 2.0	
48	Average Monthly Bill - CWSNC Uniform Water Rates - Sub 400	\$ 61.80	\$ 72.18	\$ 75.34	\$ 76.15	\$ 79.19	
49	Average Monthly Bill - CWSNC Uniform Water Rates - Carteret Standalone	\$ 61.80	\$ 72.18	\$ 75.34	\$ 76.15	\$ 78.46	
50	Average Monthly Bill - CWSNC Uniform Water Rates - incl. Carteret	\$ 61.80	\$ 72.18	\$ 75.34	\$ 76.15	\$ 79.03	