

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 400

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service,)
Inc. of North Carolina for Authority to)
Adjust and Increase Rates and Charges)
for Water and Sewer Utility Service in All)
Service Areas in North Carolina and)
Approval of a Three-Year Water and)
Sewer Investment Plan)

DIRECT TESTIMONY OF
PHILIP J. DRENNAN ON
BEHALF OF CAROLINA WATER
SERVICE, INC. OF NORTH
CAROLINA

July 1, 2022

TABLE OF CONTENTS

I. INTRODUCTION 1

II. TEST YEAR REVENUE REQUIREMENTS..... 11

 A. Pro Forma Revenues..... 12

 B. Book and Pro Forma Adjustments 12

 C. Pro Forma Expenses 13

 D. Taxes Other Than Income 19

 E. Capital Structure 20

 F. Income Taxes 21

III. TARIFF CHANGES..... 21

IV. TEST YEAR Revenue ReQUIREMENT..... 22

V. PLAN YEAR 1 REVENUE REQUIREMENTS..... 23

VI. PLAN YEAR 2 REVENUE REQUIREMENTS..... 25

VII. PLAN YEAR 3 REVENUE REQUIREMENTS..... 26

VIII. STATUS OF CERTAIN OTHER REGULATORY MECHANISMS DURING
THREE-YEAR WSIP PERIOD..... 28

IX. WSIP REPORTING REQUIREMENTS..... 28

X. UPDATE ON WATER EFFICIENCY AND FEE-FREE PAYMENT
PROGRAMS..... 29

XI. CONCLUSION 31

1 **I. INTRODUCTION**

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

3 A. My name is Philip J. Drennan and my business address is 4944 Parkway
4 Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

6 A. I am Regional Director of Financial Planning and Analysis for Carolina
7 Water Service, Inc. of North Carolina (“CWSNC” or “Company”).

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

10 A. I have been employed by Corix Group of Companies since June 2016. I
11 graduated from University of Illinois with a Bachelor of Science in Finance,
12 and I also hold the Chartered Financial Analyst (“CFA”) designation. Prior
13 to joining CWSNC and Corix Group of Companies, I was employed by
14 various financial services firms performing equity research, financial
15 modeling, valuation, and capital management duties.

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

17 A. My primary responsibilities include forecasting, budgeting, and financial
18 analysis for the Company. I am also responsible for the oversight of data-
19 gathering and preparation of rate cases, filing applications for rate cases,
20 and providing data request responses for support of rate case filings.

1 **Q. WHAT RELIEF IS THE COMPANY REQUESTING IN THIS**
2 **PROCEEDING?**

3 A. The Company is requesting approval under N.C. Gen. Stat. (“N.C.G.S.”) §
4 62-133.1B and Rule R1-17A of a three-year Water and Sewer Investment
5 Plan (“WSIP”), for the following years:

- 6 • 12 months ending March 31, 2024 (“WSIP Year 1”);
- 7 • 12 months ending March 31, 2025 (“WSIP Year 2”); and
- 8 • 12 months ending March 31, 2026 (“WSIP Year 3”).

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my testimony is to present and support the Company’s
12 revenue requirements for the 12 months ended March 31, 2022 (the “Test
13 Year”) as well as revenue requirements for Plan Years 1, 2, and 3 of the
14 Company’s proposed WSIP.

15 **Q. PLEASE IDENTIFY THE HISTORIC TEST YEAR PERIOD (“TEST**
16 **YEAR”)**

17 A. The historic Test Year is the 12-month period ending March 31, 2022.

18 **Q. IS CWSNC ADJUSTING THE HISTORIC TEST YEAR PERIOD?**

19 A. Yes. CWSNC is normalizing the Test Year period for certain disallowed and
20 non-recurring items. CWSNC is also annualizing certain Test Year items for
21 known and measurable changes. The purpose of these normalizing
22 adjustments is to present an accurate Test Year, representative of

1 CWSNC's regulated operations, in order to forecast Water and Sewer
2 Investment Plan ("WSIP") rate years 1 through 3 consistent with N.C.G.S.
3 § 62-133.1B and Rule R1-17A and. An example of a normalizing adjustment
4 is removing charitable donations from the Test Year to ensure
5 unrecoverable expenses are not projected into the WSIP periods. A
6 complete list of normalizing adjustments is presented on the NCUC Form
7 W1, Item #10 ("W1-10"), which includes references to supporting filing
8 exhibits and work paper schedules. I have included Exhibit PJD-1 with this
9 testimony to summarize the W1-10 adjustments. More discussion about
10 normalizing adjustments will be covered later in this testimony.

11 **Q. PLEASE IDENTIFY THE RATE YEARS IN THE WSIP PERIOD.**

12 A. The three WSIP Rate Years will be referred to as WSIP Year 1, WSIP Year
13 2, and WSIP Year 3. The WSIP Rate Years, consistent with Rules R1-
14 17A(b)(3) and R1-17A(c)(1) are as follows: (1) WSIP 1 will begin April 1,
15 2023, ending 12 months later on March 31, 2024; (2) WSIP 2 will be the 12-
16 month period ending March 31, 2025; and (3) WSIP 3 will be the 12-month
17 period ending March 31, 2026. As a starting point, WSIP Year 1 will include
18 a complete income statement and rate base roll forward, which will include
19 projects anticipated to be placed into service between the end of the Test
20 Year period and the beginning of the first WSIP Rate Year.

1 Q. PLEASE DESCRIBE HOW CWSNC IS PROJECTING REASONABLE
2 AND PRUDENT EXPENSES, CONSISTENT WITH RULE R1-17A,
3 DURING THE WSIP RATE YEARS.

4 A. As previously described, a Test Year normalization process is utilized to
5 create a Base Year that represents the reasonable, prudent, and
6 recoverable operations of CWSNC. CWSNC then makes three adjustments
7 to the Base Year to calculate expense forecasts used to create the WSIP
8 revenue requirements. The three Base Year adjustments are the following:

- 9 (1) Inflation factor adjustments
- 10 (2) Growth factor adjustments
- 11 (3) Driver based forecast adjustments

12 A brief description of each adjustment will be included for this response. A
13 more detailed description of each adjustment will be presented later in this
14 testimony.

15 **Inflation Factor Adjustments:** These adjustments are made
16 consistent with Rule R1-17A(c)(4) and are necessary to forecast
17 reasonable and prudent expense levels throughout the WSIP Rate Year
18 periods. CWSNC is applying inflation factors to Base Year expenses to
19 estimate projected expenses within the WSIP period. An example of a
20 common inflation factor is the Consumer Price Index (“CPI”) which is
21 calculated and reported monthly by the Bureau of Labor Statistics. The

1 inflation factors that CWSNC is applying to the Base Year will be discussed
2 in greater depth later in this testimony.

3 **Growth Factor Adjustments**: This adjustment is a separate subset
4 of the inflation factor adjustment. This adjustment is necessary to account
5 for customer growth within the WSIP period. To the extent that customer
6 growth is projected during the WSIP period, adjustments must be made to
7 both revenues and expenses to accurately forecast reasonable and prudent
8 revenue requirement levels. For example, as customers are added to the
9 system, direct increases in billing costs will be incurred for the additional
10 monthly billing units. This growth factor is separate from the inflation factors
11 which account for the general increase in the price of goods and services.
12 Both growth and inflation factors must be compounded together to
13 accurately forecast the WSIP period revenue requirements.

14 **Driver Base Forecast Adjustments**: These adjustments fall outside
15 the inflation/growth factor adjustments and are necessary to accurately
16 calculate the projected WSIP periods. For example, if the amortization
17 period of a non-recurring deferred maintenance item is scheduled to expire
18 during the WSIP period, an adjustment must be made to remove the
19 amortization expense from future WSIP years to ensure customers are not
20 overcharged. These adjustments are “driven” by unique factors other than
21 inflation and will be discussed in greater detail later in this testimony.

1 **Q. PLEASE DESCRIBE THE INFLATION FACTORS USED BY CWSNC TO**
2 **PROJECT PRICE INCREASES DURING THE WISP PERIOD.**

3 A. CWSNC is using CPI data supplied by the Bureau of Labor Statistics to
4 project inflation for future WSIP years. CWSNC chose CPI as an inflation
5 indicator because it is an accurate, widely followed indicator with readily
6 available forecast data through the entire WSIP period. CPI readings
7 through the first five months of 2022 have average year-over-year increases
8 of 8.16%. CWSNC’s operating and maintenance expenses have increased
9 over 10% for the same period. CPI is a fair and reasonable, albeit
10 conservative, proxy for the general level of price increases experienced by
11 CWSNC.

12 To project the CPI inflation rate for future WSIP years, CWSNC
13 obtained CPI forecast data for 2023 through 2026. These forecast data are
14 provided by the Blue Chip Financial Forecast. CWSNC then used actual
15 monthly CPI readings from 2022 to bridge the current year to future year
16 forecasts. Inflation is currently at a 40-year high (8.6%) according to the
17 Bureau of Labor Statistics, but is forecast to decrease below 3% by 2024.
18 Annual CPI forecasts are listed as follows:

19 6.84% annual average in 2022

20 3.20% annual average in 2023

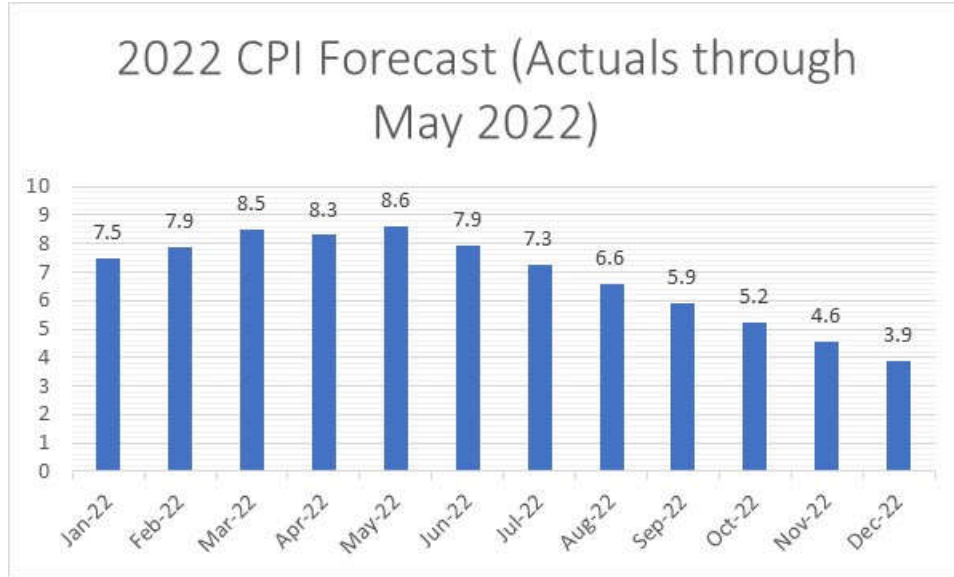
21 2.40% annual average in 2024

22 2.40% annual average in 2025

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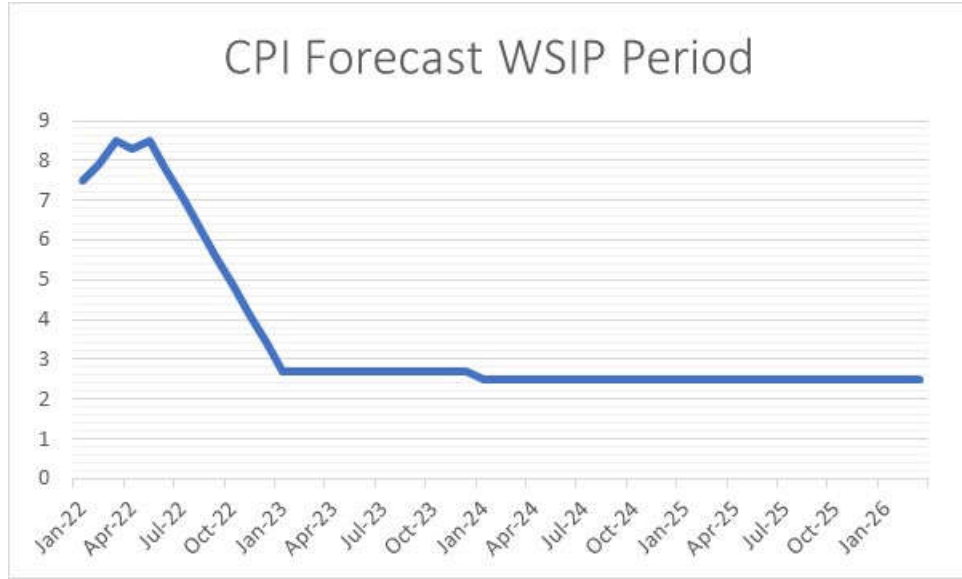
2.40% annual average in 2026

Combining actual current CPI readings with forecasted data yields a 6.84% forecasted CPI increase in 2022. A chart of the 2022 forecast is provided below:



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A chart of actual and forecasted CPI through the entire WSIP period is also provided below:



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To accurately forecast inflation through the entire WSIP period, CWSNC created a forecast for the “bridge period” after the Test Year ending March 31, 2022 through the beginning of WSIP year 1 on April 1, 2023. This forecast uses actual CPI readings from April and May 2022 and will be updated as new CPI data become available.

Bridge period CPI (4/1/22 – 3/31/23):	5.56%
WSIP Year 1 CPI (4/1/23 – 3/31/24):	3.00%
WSIP Year 2 CPI (4/1/24 – 3/31/25):	2.40%
WSIP Year 3 CPI (4/1/25 – 3/31/26):	2.40%

The bridge period average CPI will be compounded with WSIP year 1 average CPI to account for the two years between the end of the Test Year and the end of WSIP year 1. The compounded rate through WSIP year 1 is calculated as follows: $(1 + 5.56\%) * (1 + 3.00\%) - 1 = 8.82\%$

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Q. PLEASE DESCRIBE THE GROWTH FACTORS CWSNC IS APPLYING TO BOTH REVENUE AND OPERATING EXPENSES.

A. To accurately project revenue requirements in the WSIP periods, growth rates must be applied to both revenue and expenses. As CWSNC grows, new customers are charged existing tariff rates, increasing overall revenue. This revenue growth benefits existing customers during the WSIP periods by offsetting the necessary future revenue increases required for the Company to earn its allowed return. However, the same growth assumptions must also be applied to most of the Company's expense accounts. For example, billing units will increase as additional customers are added to the system and mailed monthly invoices. It is important to note that growth percentages must be compounded with inflation percentages to accurately forecast expense levels in the WSIP periods. A table of rate factors used for uniform water and sewer forecasts is provided below for illustration.

Inflation Assumptions	Water	Water	Water	Sewer	Sewer	Sewer
	WSIP Year 1	WSIP Year 2	WSIP Year 3	WSIP Year 1	WSIP Year 2	WSIP Year 3
Growth Inflation	0.46%	0.92%	0.92%	0.09%	0.18%	0.18%
Expense Inflation	8.82%	2.40%	2.40%	8.82%	2.40%	2.40%
Compounded Expense Inflation	9.32%	3.34%	3.34%	8.92%	2.59%	2.59%

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A complete list of inflation factor assumptions applied to each account is shown on Schedule 29 of the W1-10. CWSNC witness Matthew P. Schellinger II discusses revenue growth forecasts in greater depth in his testimony.

1 **Q. PLEASE DESCRIBE OTHER DRIVER BASED ADJUSTMENTS CWSNC**
2 **IS MAKING TO OPERATING EXPENSE PROJECTIONS DURING THE**
3 **WSIP PERIODS.**

4 A. Driver base forecast adjustments are driven by factors other than inflation
5 and customer growth. CWSNC adjusted the deferred maintenance account
6 to normalize the end of the amortization periods for the Nags Head
7 Wastewater Treatment Plant (“WWTP”) and Connestee Falls WWTP
8 deferrals approved in Sub 364. This adjustment removes \$198,669 of
9 deferred amortization expense in WSIP Year 3. The adjustment is
10 presented on Exhibit PJD-1 submitted with this testimony and in the W1-10
11 as Adjustment 13. CWSNC also forecasted property and real estate taxes
12 which are driven by increased property values due to capital investments.
13 Additionally, CWSNC controls employee compensation levels and can
14 determine adjustments independent of market inflation factors. CWSNC
15 has historically increased annual salaries by 3% and will continue to budget
16 and forecast that percentage despite annual inflation readings over 8.0%
17 and projected customer growth above 0.6% in the uniform rate group.
18 CWSNC is not forecasting the need for additional headcount during the
19 WSIP periods for existing operational needs.

20 **Q. WHAT ARE THE DRIVERS OF THE COMPANY’S NEED FOR RATE**
21 **RELIEF OVER THE PERIOD OF THE PROPOSED WSIP?**

1 A. CWSNC's maintenance and general operating expenses have increased by
2 \$2.1 million since the last rate case, Docket No. W-354, Sub 384. This
3 represents a percentage increase of 8.4%. After adjustments for known and
4 measurable increases, CWSNC's maintenance and general operating
5 expenses are expected to increase over \$2.3 million, or 9.3%, since the last
6 approved docket. Inflation is a contributing factor as the Bureau of Labor
7 Statistics recently reported a May CPI reading of 8.6%. CWSNC expects
8 maintenance and general operating expenses to increase an additional
9 \$3.1 million through the end of the WSIP periods, necessitating the need to
10 file for rate relief under Rule R1-17A to recover prudent and reasonable
11 expenses incurred since the Docket No. W-354, Sub 384 rate case.
12 Additionally, CWSNC is scheduled to place over \$95 million of capital
13 investments into service through the end of the WSIP periods. These
14 projects are crucial to ensure that safe, reliable service will continue to be
15 provided to CWSNC's customers. A complete Capital Investment Plan
16 ("CIP") is included with this filing as Appendix 11 to explain the reason for
17 and scope of each of the proposed capital investment projects. The
18 Company's capital plan will meet the requirements for Rule R1-17A(c)(2).

19 **II. TEST YEAR REVENUE REQUIREMENTS**

20 **Q. PLEASE DESCRIBE THE COMPANY'S TEST YEAR AND PRO FORMA**
21 **ADJUSTMENT PROCESS IN THIS PROCEEDING.**

1 A. CWSNC is utilizing a Test Year in this proceeding of the 12 months ended
2 March 31, 2022. The Company has incorporated various pro forma
3 adjustments based on known and measurable changes in operating costs
4 beyond the Test Year. These adjustments are detailed and supported within
5 the NCUC Form W-1 Report provided with the Company's application.

6 **A. Pro Forma Revenues**

7 **Q. DID THE COMPANY MAKE ADJUSTMENTS TO TEST YEAR ACTUAL**
8 **REVENUES IN COMPUTING PRO FORMA PRESENT RATE**
9 **REVENUES?**

10 A. Yes. The Company's Test Year bill analysis and adjustments made to Test
11 Year revenues are described in the testimony of witness Matthew P.
12 Schellinger II.

13 **B. Book and Pro Forma Adjustments**

14 **Q. HAS THE COMPANY PROPOSED BOOK AND PRO FORMA**
15 **ADJUSTMENTS TO CALCULATE ITS TEST YEAR REVENUE**
16 **REQUIREMENT?**

17 A. Yes. The Company has calculated various adjustments to components of
18 its revenue requirement as adjustments to the Test Year balances and
19 activity. These pro forma adjustments are summarized in Exhibit PJD-1 and
20 included with this testimony. In addition, please see the NCUC Form W-1
21 Report, Item #10 ("W1-10") and supplemental Schedules 1 through 29,

1 included with the application. CWSNC included W1-10 adjustments for both
2 the Base Year and the WSIP Periods.

3 **C. Pro Forma Expenses**

4 **Q. PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT**
5 **METHODOLOGY FOR TEST YEAR SALARIES AND WAGES.**

6 A. CWSNC made pro forma salary adjustments, consistent with the methods
7 accepted in the last rate case, Docket No. W-354, Sub 384, for known and
8 measurable salary and wage expenses incurred by CWSNC. Employees
9 were organized into three groups to calculate pro forma salary and wage
10 expenses. The three employee groups are titled NC Operations (Direct),
11 Atlantic Region (North Carolina & South Carolina), and East Region (North
12 Carolina, South Carolina, and 2.9% of Florida). Employees were placed
13 into groups based on the percentage of their time spent on job functions
14 directly related to CWSNC. NC Operations employees spend 100% of their
15 time working for CWSNC exclusively, and 100% of their salary and wages
16 are charged to CWSNC. Atlantic Region employees are allocated between
17 the states of North Carolina and South Carolina, which make up the Atlantic
18 Region, using an Equivalent Residential Connection ("ERC") factor. An
19 ERC is a base unit measurement used to convert average daily flows
20 ("ADF") of different meter sizes to the equivalent number of single-family
21 residential connections. East Region salary expenses are allocated by
22 ERCs between North Carolina, South Carolina, and Florida. Employees in

1 the East Region spend 90% of their time on Atlantic Region job duties and
2 10% of their work time (four hours per week) on East Region activities which
3 includes operations in the state of Florida. A Senior Vice President (“SVP”)
4 cost center was established to allocate the 10% of expenses between North
5 Carolina, South Carolina, and Florida. This same allocation method was
6 accepted in the last rate case, Docket No. W-354, Sub 384. The East
7 Region SVP organizational structure was created to streamline direct
8 reporting functions within the Company, to increase the sharing of best
9 practices across business units, and to provide additional support to
10 business units after Vice President of Operations positions were eliminated
11 across the Company, among other considerations. The Vice President of
12 Operations position was eliminated from all Corix Regulated Utilities
13 (“CRU”) business units in early 2021. This headcount has been removed
14 from CWSNC’s pro forma salary adjustment.

15 **Q. IS CWSNC MAKING OTHER ADJUSTMENTS TO SALARY AND WAGES**
16 **EXPENSES? IF SO, PLEASE DESCRIBE THESE ADJUSTMENTS.**

17 A. Yes. CWSNC is a making a pro forma adjustment to annualize the impact
18 for a change in the Company’s on-call pay structure for field operations staff.
19 CWSNC increased on-call pay benefits in February 2022. This increase was
20 made across all CRU business units and was necessary to ensure a
21 competitive pay structure within the marketplace. CRU’s (and CWSNC’s)
22 previous on-call rate was a flat \$15 per day. Employees are typically on-call

1 for a full week and were previously paid \$105 for that period. During a typical
2 on-call week, field staff are prepared to be called out for emergency work
3 during all hours, including night and weekend hours. The low per diem on-
4 call rate was a frequent topic of objection made by field employees. In an
5 effort to retain skilled and valued employees, CRU increased daily on-call
6 compensation to an amount based on an employee's overtime rate. Under
7 the new on-call pay structure, field employees are paid their overtime rate
8 for each weekday and twice their overtime rate for each weekend day. For
9 example, an employee with a \$30 overtime rate is now paid \$150 for five
10 weekdays and \$120 for two weekend days, for a total weekly on-call rate of
11 \$270, which is a \$165 increase over the old rate. CWSNC calculates the
12 annual impact for the change in on-call pay to be approximately \$117,000
13 more than requested in the previous filing.

14 **Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED TEST YEAR**
15 **SALARY AND WAGE EXPENSES FOR DIRECT PRO FORMA**
16 **ALLOCATIONS.**

17 A. To prepare pro forma adjustments for Test Year salaries and wages in this
18 docket, the Company began with payroll and employee data for all active
19 employees as of the May 21, 2022 pay period. A vacancy rate is implied
20 using this method since only active employees are included in the
21 adjustment, and unfilled positions that do not have signed offer letters are
22 excluded. Overtime and holiday pay for hourly employees were updated for

1 current May 21, 2022 data. On-call pay was annualized after February 2022
2 when the Company's new on-call pay structure was implemented. Deferred
3 compensation paid in May of 2022 was included for salary and wage
4 calculations for this proceeding. The sum of the new base salary, overtime,
5 on-call, holiday pay, and deferred compensation was used to arrive at the
6 annual salaries and wages amount per employee. Payroll and
7 unemployment taxes were also calculated to reflect pro forma salaries and
8 wage adjustments.

9 **Q. ARE CORPORATE SUPPORT SERVICE ALLOCATIONS INCLUDED IN**
10 **THE TEST YEAR PRO FORMA SALARIES AND WAGES**
11 **ADJUSTMENT?**

12 A. No. As explained in the Docket No. W-354, Sub 384 rate case, Corix
13 support service groups that performed similar functions were merged to
14 deliver more efficient and streamlined support to the entire Corix
15 organization. Due to this organizational change, support service salaries
16 are allocated through the tier 1 and tier 2 allocation process as explained in
17 the 2021 Cost Allocation Manual previously filed in Sub 384. Since no
18 changes have been made to the corporate allocation policy, the 2021 Cost
19 Allocation Manual did not require updating and is considered the most
20 recent version.

21 **Q. PLEASE EXPLAIN THE COMPANY'S TEST YEAR ADJUSTMENTS FOR**
22 **COSTS INCURRED FROM CORIX SUPPORT SERVICES.**

1 A. CWSNC removed \$11,124 of advertising and donation expenses from the
2 Corporate Allocation adjustment. This entry was made to the Corporate
3 Allocation account and presented as Adjustment 27 on the W1-10.

4 **Q. HAS CWSNC MADE ADJUSTMENTS TO REMOVE LOBBYING**
5 **RELATED AND OTHER NONRECOVERABLE EXPENSES FROM THE**
6 **TEST YEAR AND WSIP PERIODS?**

7 A. Yes. CWSNC removed \$97,190 from the Test Year for lobbying and other
8 expenses related to legislative efforts. These expenses have been removed
9 from the Base Year and are not being projected into the WSIP periods.
10 CWSNC also removed \$6,893 of advertising and other nonrecoverable
11 expenses from the Test Year and WSIP projection periods. These
12 adjustments were made to the Outside Services and other corresponding
13 accounts and presented as Adjustment 20 on the W1-10.

14 **Q. IS CWSNC MAKING UNIQUE ADJUSTMENTS FOR PURCHASED**
15 **WATER AND SEWER EXPENSES? IF SO, PLEASE DESCRIBE THESE**
16 **ADJUSTMENTS.**

17 A. Yes. CWSNC is annualizing certain purchased water and sewer expenses
18 for known and measurable price changes. This adjustment is necessary to
19 calculate an accurate Base Year cost of service. However, CWSNC is not
20 applying an inflation factor for increased purchased service costs during the
21 WSIP periods. Instead, CWSNC intends to use the Commission authorized
22 pass-through mechanism in N.C.G.S. § 62-133.11 to recover increases for

1 purchased water and sewer costs incurred during the WSIP Rate Years.
2 CWSNC believes utilizing the pass-through mechanism will most accurately
3 reflect future changes in purchased service costs. If CWSNC applies an
4 inflation factor to Base Year purchased service costs, in addition to the
5 pass-through increases, these expenses will be double counted during the
6 WSIP Rate Years. However, CWSNC may apply a customer growth factor,
7 which aligns with corresponding revenue growth assumptions, to the
8 relevant purchased water and sewer systems. It is necessary to apply a
9 consistent growth factor to both revenue and expenses to properly match
10 revenue and expenses during the WSIP periods.

11 **Q. PLEASE EXPLAIN THE BENEFITS CWSNC CUSTOMERS RECEIVE**
12 **FROM THE COMPANY'S CORPORATE SUPPORT SERVICE**
13 **STRUCTURE.**

14 A. Corix's corporate support services are provided through the same structure
15 that was approved in Docket No. W-354, Sub 384. Benefits provided by this
16 corporate support service structure include human resources, payroll,
17 billing, accounts payable, treasury, legal, and other services that are
18 necessary for the operation of any business. CWSNC customers receive
19 these services on a shared basis, without having to bear the sole, full costs
20 of the services including critical and often expensive investments in
21 technology, security, safety, and environmental compliance. The parent
22 company also has experts across a range of essential areas such as

1 construction, engineering operations, accounting, data processing, billing,
2 regulation, and customer service that provide services to CWSNC and its
3 customers.

4 CWSNC customers benefit by having access to investment capital
5 to meet crucial funding needs. With increasingly more stringent health,
6 safety, and environmental standards, ready access to capital is vital to
7 continued quality service in the capital-intensive water and sewer utility
8 business. In addition, the Corix Group of Companies realize national
9 purchasing power to take advantage of economies of scale which result in
10 lower costs to ratepayers.

11 **D. Taxes Other Than Income**

12 **Q. HAS THE COMPANY PROPOSED ANY ADJUSTMENTS TO THE TEST**
13 **YEAR EXPENSES FOR PERSONAL OR REAL ESTATE PROPERTY**
14 **TAXES?**

15 **A.** The Company's Application does not include adjustments to the Test Year
16 actuals for personal or real estate property taxes. However, municipalities
17 are required in North Carolina to reassess property at least every eight
18 years. Assessments are currently being finalized and resulting tax rates are
19 soon to be approved and effective; therefore, the Company will provide
20 updates to its property and real estate taxes as new information becomes
21 available.

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E. Capital Structure

Q. WHAT IS THE COMPANY'S PROPOSED TEST YEAR CAPITAL STRUCTURE?

A. The Company is proposing an equity ratio of 50% and a debt ratio of 50% for the Test Year and three WSIP periods. The proposed 50% equity ratio is lower than the 50.20% equity ratio approved in Docket No. W-354, Sub 384. Although the Company's equity and debt ratios may fluctuate slightly from 50% due to the timing of equity infusions and debt issuances, the Company targets a 50% ratio over the long-term. The proposed cost of long-term debt is 4.64% for the Base Year and WSIP periods. CWSNC's parent company, CRU, has been able to issue debt at lower interest rates, reducing the CWSNC's weighted cost of debt from 4.85% approved in Docket No. W-345, Sub 384 to 4.64% proposed in this rate case proceeding. CWSNC's capital ratios and costs are consistent with the target capital structure values of the Company's parent, CRU. When including the proposed cost of equity rate of 10.45%, which is the mid-point of Company expert witness Dylan D'Ascendis' Return on Equity ("ROE") range, the resulting proposed overall rate of return is 7.62% for the Base Year period. Mr. D'Ascendis projects an increased range for the cost of equity during the WSIP periods. CWSNC proposes to use a cost of equity of 10.70% during the three WSIP periods, which results in a projected rate of return of 7.67% during WSIP periods 1, 2, and 3. Return on Equity of 10.70% is the average of the WSIP period

1 ROE ranges proposed by Mr. D'Ascendis. The rationale for the WSIP period
2 ROE ranges is supported in the testimony of Mr. D'Ascendis.

3 **F. Income Taxes**

4 **Q. WHAT INCOME TAX RATES HAS THE COMPANY UTILIZED IN THIS**
5 **PROCEEDING?**

6 A. The Company's Test Year revenue requirement calculations utilize the
7 current state income tax rate of 2.5% and federal income tax rate of 21%,
8 for a blended tax rate of 22.98%.

9 **III. TARIFF CHANGES**

10 **Q. WHAT CHANGES TO THE COMPANY'S TARIFF FEES, OUTSIDE OF**
11 **BASE RATES, ARE PROPOSED IN THIS APPLICATION?**

12 A. None have been proposed at this time. In addition, the Company has no
13 tariff changes for purchased water and sewer rate adjustments made by
14 third-party providers. The Company has not experienced rate increases
15 from purchased water and sewer providers since the Test Year ending
16 March 31, 2022. However, the Company will make updates for increases in
17 purchased water and sewer systems if they become known and measurable
18 during the discovery and update period. If any purchase water and sewer
19 providers increase rates that have not been recognized in a pass-through
20 request before the time of this hearing, CWSNC will request tariff

1 modifications for the pass-through expenses, and the Company will
 2 annualize the price increases in the filing exhibits.

3 **IV. TEST YEAR REVENUE REQUIREMENT**

4 **Q. PLEASE SUMMARIZE THE COMPANY'S TEST YEAR REVENUE**
 5 **REQUIREMENTS.**

6 A. Please see the following tables for Base Case revenue requirements and
 7 service revenues.

Uniform Rate Group Revenue Requirement			
Base Year	Water	Sewer	Total
	CWS - NC Uniform	CWS - NC Uniform	CWS - NC Uniform
Rate Base	71,568,627	67,505,888	139,074,514
Operating revenue deductions:			
Maintenance expenses	4,619,870	4,229,170	8,849,040
General expenses	9,711,948	5,732,780	15,444,728
Depreciation expense	3,849,218	3,390,408	7,239,627
Amortization of CIAC	(733,774)	(626,987)	(1,360,761)
Amortization of PAA	(117,511)	(17,455)	(134,966)
Amortization of ITC	(265)	(254)	(520)
TOII	495,316	333,540	828,856
Total operating revenue deductions	17,824,802	13,041,202	30,866,004
Net operating income for a return:			
Debt service return	1,662,553	1,568,175	3,230,728
Equity return	4,861,190	4,585,235	9,446,425
Revenue requirement	\$24,348,545	\$19,194,612	\$43,543,157
Misc. Revenues	(90,390)	(73,544)	(163,935)
Bad Debt	239,320	188,639	427,960
Total Service Revenues	\$24,497,475	\$19,309,707	\$43,807,182

BF/FH/TC Rate Group Revenue Requirement			
Base Year	Water	Sewer	Total
	BF/FH/TC	BF/FH/TC	BF/FH/TC
Rate Base	3,727,180	10,714,675	14,441,856
Operating revenue deductions:			
Maintenance expenses	404,564	440,363	844,927
General expenses	1,129,847	1,156,481	2,286,328
Depreciation expense	216,499	483,242	699,741
Amortization of CIAC	(56,857)	(150,831)	(207,688)
Amortization of PAA	15,875	43,907	59,782
Amortization of ITC	-	-	-
TOII	42,791	45,628	88,419
Total operating revenue deductions	1,752,719	2,018,790	3,771,508
Net operating income for a return:			
Debt service return	86,583	248,904	335,487
Equity return	253,163	727,778	980,941
Revenue requirement	\$2,092,465	\$2,995,472	5,087,936
Misc. Revenues	(7,861)	(12,471)	(20,332)
Bad Debt	\$33,258	\$47,590	80,848
Total Service Revenues	\$2,117,862	\$3,030,591	\$5,148,452

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- V. PLAN YEAR 1 REVENUE REQUIREMENTS**
- Q. STARTING FROM THE TEST YEAR REVENUE REQUIREMENTS, PLEASE SUMMARIZE THE ADJUSTMENTS YOU MADE TO THE TEST YEAR REVENUE REQUIREMENTS TO DEVELOP PLAN YEAR 1 REVENUE REQUIREMENTS.**
- A.** Please see NCUC Form W1-10 and W1-10 WSIP Periods and supporting W1-10 Schedules 1 through 29 for a complete list and support for adjustments made to the Test Year and Plan Year revenue requirements.
- Q. PLEASE SUMMARIZE THE PLAN YEAR 1 REVENUE REQUIREMENTS.**
- A.** Please see the following tables for WSIP Year 1 revenue requirements and service revenues.

1

Uniform Rate Group Revenue Requirement			
WSIP Year 1	Water	Sewer	Total
	CWS - NC Uniform	CWS - NC Uniform	CWS - NC Uniform
Rate Base	79,541,443	78,979,857	158,521,300
Operating revenue deductions:			
Maintenance expenses	4,868,969	4,515,460	9,384,429
General expenses	10,333,527	6,092,280	16,425,808
Depreciation expense	4,082,969	3,684,453	7,767,422
Amortization of CIAC	(733,774)	(626,987)	(1,360,761)
Amortization of PAA	(117,511)	(17,455)	(134,966)
Amortization of ITC	(265)	(254)	(520)
TOII	519,115	353,686	872,801
Total operating revenue deductions	18,953,030	14,001,183	32,954,214
Net operating income for a return:			
Debt service return	1,847,764	1,834,718	3,682,482
Equity return	5,531,983	5,492,926	11,024,909
Revenue requirement	\$26,332,777	\$21,328,827	\$47,661,604
Misc. Revenues	(90,390)	(73,544)	(163,935)
Bad Debt	258,895	209,695	468,591
Total Service Revenues	\$26,501,282	\$21,464,978	\$47,966,260

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BF/FH/TC Rate Group Revenue Requirement			
WSIP Year 1	Water	Sewer	Total
	BF/FH/TC	BF/FH/TC	BF/FH/TC
Rate Base	5,871,812	11,563,630	17,435,442
Operating revenue deductions:			
Maintenance expenses	452,594	483,392	935,987
General expenses	1,210,768	1,230,998	2,441,766
Depreciation expense	249,901	507,304	757,205
Amortization of CIAC	(56,857)	(150,831)	(207,688)
Amortization of PAA	15,875	43,907	59,782
Amortization of ITC	-	-	-
TOII	46,101	47,162	93,262
Total operating revenue deductions	1,918,382	2,161,932	4,080,314
Net operating income for a return:			
Debt service return	136,403	268,625	405,028
Equity return	408,375	804,232	1,212,607
Revenue requirement	\$2,463,160	\$3,234,789	5,697,949
Misc. Revenues	(7,861)	(12,471)	(20,332)
Bad Debt	\$39,172	\$51,408	90,580
Total Service Revenues	\$2,494,471	\$3,273,726	\$5,768,197

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- VI. PLAN YEAR 2 REVENUE REQUIREMENTS**
- Q. STARTING FROM THE PLAN YEAR 1 REVENUE REQUIREMENTS, PLEASE SUMMARIZE THE ADJUSTMENTS YOU MADE TO DEVELOP PLAN YEAR 2 REVENUE REQUIREMENTS.**
- A. Please see NCUC Form W1-10 and W1-10 WSIP Periods and supporting W1-10 Schedules 1 through 29 for a complete list and support for adjustments made to the Test Year and Plan Year revenue requirements.
- Q. PLEASE SUMMARIZE THE PLAN YEAR 2 REVENUE REQUIREMENTS.**
- A. Please see the following tables for WSIP Year 2 revenue requirements and service revenues.

Uniform Rate Group Revenue Requirement	Water	Sewer	Total
WSIP Year 2	CWS - NC Uniform	CWS - NC Uniform	CWS - NC Uniform
Rate Base	84,610,980	88,461,236	173,072,216
Operating revenue deductions:			
Maintenance expenses	4,961,272	4,597,269	9,558,541
General expenses	10,659,275	6,267,489	16,926,764
Depreciation expense	4,220,890	3,935,105	8,155,995
Amortization of CIAC	(733,774)	(626,987)	(1,360,761)
Amortization of PAA	(117,511)	(17,455)	(134,966)
Amortization of ITC	(265)	(254)	(520)
TOII	537,731	369,955	907,686
Total operating revenue deductions	19,527,617	14,525,122	34,052,739
Net operating income for a return:			
Debt service return	1,965,530	2,054,972	4,020,502
Equity return	5,884,562	6,152,341	12,036,903
Revenue requirement	\$27,377,709	\$22,732,435	\$50,110,144
Misc. Revenues	(90,390)	(73,544)	(163,935)
Bad Debt	\$269,204	\$223,542	492,747
Total Service Revenues	\$27,556,523	\$22,882,433	\$50,438,956

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BF/FH/TC Rate Group Revenue Requirement WSIP Year 2	Water BF/FH/TC	Sewer BF/FH/TC	Total BF/FH/TC
Rate Base	6,626,942	13,130,885	19,757,828
Operating revenue deductions:			
Maintenance expenses	462,652	502,033	964,686
General expenses	1,249,931	1,274,999	2,524,930
Depreciation expense	269,018	546,134	815,152
Amortization of CIAC	(56,857)	(150,831)	(207,688)
Amortization of PAA	15,875	43,907	59,782
Amortization of ITC	-	-	-
TOTI	47,907	49,144	97,051
Total operating revenue deductions	1,988,525	2,265,386	4,253,911
Net operating income for a return:			
Debt service return	153,945	305,033	458,978
Equity return	460,894	913,233	1,374,127
Revenue requirement	\$2,603,364	\$3,483,652	6,087,016
Misc. Revenues	(7,861)	(12,471)	(20,332)
Bad Debt	\$41,409	\$55,379	96,788
Total Service Revenues	\$2,636,912	\$3,526,560	\$6,163,472

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VII. PLAN YEAR 3 REVENUE REQUIREMENTS

Q. STARTING FROM THE PLAN YEAR 2 REVENUE REQUIREMENTS, PLEASE SUMMARIZE THE ADJUSTMENTS YOU MADE TO DEVELOP PLAN YEAR 3 REVENUE REQUIREMENTS.

A. Please see NCUC Form W1-10 and W1-10 WSIP Periods and supporting W1-10 Schedules 1 through 29 for a complete list and support for adjustments made to the Test Year and Plan Year revenue requirements.

Q. PLEASE SUMMARIZE THE PLAN YEAR 3 REVENUE REQUIREMENTS.

A. Please see the following table for WSIP Year 3 revenue requirements and service revenues.

1

Uniform Rate Group Revenue Requirement			
WSIP Year 3	Water	Sewer	Total
	CWS - NC Uniform	CWS - NC Uniform	CWS - NC Uniform
Rate Base	89,475,536	97,015,506	186,491,042
Operating revenue deductions:			
Maintenance expenses	5,054,470	4,479,457	9,533,927
General expenses	10,995,328	6,446,164	17,441,493
Depreciation expense	4,363,117	4,195,875	8,558,992
Amortization of CIAC	(733,774)	(626,987)	(1,360,761)
Amortization of PAA	(117,511)	(17,455)	(134,966)
Amortization of ITC	(265)	(254)	(520)
TOII	556,898	385,957	942,855
Total operating revenue deductions	20,118,263	14,862,756	34,981,019
Net operating income for a return:			
Debt service return	2,078,535	2,253,690	4,332,225
Equity return	6,222,884	6,747,277	12,970,161
Revenue requirement	\$28,419,682	\$23,863,723	\$52,283,405
Misc. Revenues	(90,390)	(73,544)	(163,935)
Bad Debt	\$279,484	\$234,703	514,188
Total Service Revenues	\$28,608,776	\$24,024,882	\$52,633,658

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BF/FH/TC Rate Group Revenue Requirement			
WSIP Year 3	Water	Sewer	Total
	BF/FH/TC	BF/FH/TC	BF/FH/TC
Rate Base	7,039,948	13,687,340	20,727,289
Operating revenue deductions:			
Maintenance expenses	474,366	521,419	995,785
General expenses	1,289,123	1,318,684	2,607,807
Depreciation expense	279,762	563,141	842,904
Amortization of CIAC	(56,857)	(150,831)	(207,688)
Amortization of PAA	15,875	43,907	59,782
Amortization of ITC	-	-	-
TOII	49,540	50,751	100,291
Total operating revenue deductions	2,051,809	2,347,071	4,398,880
Net operating income for a return:			
Debt service return	163,539	317,960	481,499
Equity return	489,617	951,933	1,441,550
Revenue requirement	\$2,704,965	\$3,616,964	6,321,929
Misc. Revenues	(7,861)	(12,471)	(20,332)
Bad Debt	\$43,030	\$57,506	100,536
Total Service Revenues	\$2,740,134	\$3,661,999	\$6,402,133

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VIII. STATUS OF CERTAIN OTHER REGULATORY MECHANISMS DURING THREE-YEAR WSIP PERIOD

Q. ARE ANY OF THE COMPANY’S CURRENT RATE MECHANISMS ALTERED BY THE APPROVAL AND IMPLEMENTATION OF A WSIP?

A. Yes. The WSIC/SSIC is authorized by N.C.G.S. § 62-113.12, and the customer usage tracking rate adjustment mechanisms for water and wastewater rates is authorized by N.C.G.S. § 62-113.12A. Both types of mechanisms must be discontinued during the pendency of a WSIP, per the terms of N.C.G.S. § 133.1B(d):

Any rate adjustment mechanism authorized pursuant to G.S. 62-133.12 or G.S. 62-133.12A shall be discontinued during the term of any Water and Sewer Investment Plan. The utility may file for a rate adjustment mechanism authorized pursuant to G.S. 62-133.12, which shall not become effective before the end of the Water and Sewer Investment Plan.

IX. WSIP REPORTING REQUIREMENTS

Q. WHAT IS YOUR UNDERSTANDING OF THE REPORTING REQUIREMENTS CONTAINED IN THE WSIP STATUTE AND RULES?

A. Rule R1-17A(g)(1), addressing the Annual Review, sets forth specific reporting requirements in sub-sections a -- f. The Public Staff will review the utility’s report and must file its own report detailing findings and recommendations no later than four months after the end of each Rate Year of the Plan. The utility may respond to the Public Staff’s report within 15 days after such filing. *See Rule R1-17A(g)(2)*

1 Additionally, Rule R1-17A(j) contains the following reporting
2 requirements:

3 The utility shall make filings addressing each three month
4 period within the Plan period. The first filing shall be made no
5 later than 45 days after the first three-month period, and
6 subsequent reports shall be made every three months
7 thereafter.

8 Each filing shall contain: (1) an earnings report; (2) a status report; and (3)
9 the number of utility customers disconnected for nonpayment for the three-
10 month period and cumulative rate-year to date. CWSNC is mindful of the
11 obligation of the Commission and the Public Staff to exercise meaningful
12 oversight of the Plan and understands that adherence to the reporting
13 requirements is an essential component of this process.

14 **Q. HOW DOES CWSNC PLAN TO COMPLY WITH THESE REPORTING**
15 **REQUIREMENTS?**

16 A. If the Commission approves CWSNC's WSIP application, the Company
17 plans to follow all reporting requirements stated in Rule R1-17A and file
18 timely reports consistent with the annual review requirements in Rule R1-
19 17A(g) and the reporting requirements in Rule R1-17A(j).

20 **X. UPDATE ON WATER EFFICIENCY AND FEE-FREE PAYMENT**
21 **PROGRAMS**

22 **Q. PLEASE UPDATE THE COMMISSION ON THE STATUS OF THE**
23 **WATER EFFICIENCY REBATE PROGRAM APPROVED IN THE**
24 **COMPANY'S LAST RATE CASE?**

1 A. CWSNC requests to continue implementing the efficiency rebate pilot
2 program under the terms approved in Docket No. W-354, Sub 384. CWSNC
3 customers can now download the efficiency rebate application from the
4 CWSNC website and MyUtilityConnect portal. Customers can either email
5 rebate applications directly to CWSNC by using
6 Waterefficiency@carolinawaterservicenc.com or mail applications to the
7 CWSNC office address shown on the application form. CWSNC will
8 continue its customer outreach and communication program to explain how
9 customers can take advantage of the rebate pilot. Since customer noticing
10 costs were not incurred within the Test Year, CWSNC is requesting
11 recovery for the estimated \$2,000 annual noticing costs to promote the
12 program. This pro forma adjustment is made to the Customer Service
13 Printing account and presented as Adjustment 23 on the W1-10. The
14 program was slowed by the necessity to create rebate credit codes in our
15 billing system but is now fully operational. CWSNC will approve applications
16 retroactive to April 8, 2022 when the Commission authorized the rebate
17 program. At the time of this testimony, no applications have been received.
18 However, the Company is expecting greater participation as our outreach
19 efforts continue.

20 **Q. PLEASE UPDATE THE COMMISSION ON THE STATUS OF FEE-FREE**
21 **PAYMENT PROGRAM APPROVED IN THE COMPANY'S LAST RATE**
22 **CASE.**

1 A. After CWSNC received approval to implement the fee-free electronic
2 payment program for retail customers, the Company met with its third-party
3 payment vendor, First Billing Services (“FBS”), to implement the new
4 payment process. FBS indicated it would take approximately 90 days to
5 reconfigure the electronic payment options for retail customers. Additional
6 back-end work was required to update CWSNC’s MyUilityConnect portal to
7 accommodate removing the electronic convenience fees charged at the
8 point of payment. The fee-free payment program is scheduled to be fully
9 operational by mid-July consistent with FPS’s initial timeline. CWSNC has
10 reflected \$274,886 of estimated third-party transaction fees as a pro forma
11 adjustment consistent with the approved adjustment in Docket No. W-354,
12 Sub 384. This entry is presented as Adjustment 23 on the W1-10.

13 **XI. CONCLUSION**

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

16 A. Yes.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

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

Carolina Water Service, Inc. of North Carolina
W - 354, Sub 400
Summary of Rate Case Adjustments
Test Year: March 31, 2022
WSIP Period: April 1, 2023 - March 31, 2026

Exhibit PJD-1
Drennan Testimony

Table of Contents - Summary of Book and Pro-Forma Adjustments - Base Case

Adjustment #	Description	Adjustment Type	Filing Exhibit Schedule	Support Schedule	Adjustment Amount				Total Adjustment
					Uniform Water	Uniform Sewer	BF/FH/TC Water	BF/FH/TC Sewer	
1	Allocation Adjustment - re-allocate Plant In-Service, A/D, ADIT based on 25% ratio for Availability ERC's:								
	Plant In-Service	Book	A-1a, A-1b	Schedule 1	(218,683.26)	(130,467.71)	(26,274.20)	(26,894.29)	(402,319.47)
	Accumulated Depreciation	Book	A-2a, A-2b	Schedule 1	175,230.43	104,543.50	21,053.46	21,550.34	322,377.72
	Accumulated Deferred Income Taxes	Book	A-6a, A-6b	Schedule 1	(1,269.44)	(757.36)	(152.52)	(156.12)	(2,335.44)
2	Plant Additions and Retirements / Accumulated Depreciation Retirements and Depreciation								
	PIS - Pro-Forma Additions through 09/30/22	Pro-Forma	A-1a, A-1b	Schedule 2	4,325,136.50	3,725,662.06	304,337.03	809,925.90	9,165,061.48
	PIS - Pro-Forma Retirements through 09/30/22	Pro-Forma	A-1a, A-1b	Schedule 2	(697,386.80)	(489,941.19)	(50,699.65)	(73,515.42)	(1,311,543.07)
	A/D - Pro-Forma Retirements through 09/30/22	Pro-Forma	A-2a, A-2b	Schedule 2	697,386.80	489,941.19	50,699.65	73,515.42	1,311,543.07
	A/D - Pro-Forma Accumulated Depreciation through 09/30/22	Pro-Forma	A-2a, A-2b	Schedule 2	(1,892,550.10)	(1,668,920.39)	(100,617.69)	(238,864.62)	(3,900,952.79)
	Annualize Depreciation Expense through 09/30/22	Pro-Forma	B-21a, B-21b	B-21a, B-21b	331,173.14	355,818.52	50,638.83	66,250.65	803,881.14
3	Adjust cash working capital for changes in maintenance and general expenses:								
	Book Adjustment	Book	A-3a, A-3b	A-3a, A-3b	1,455,210.38	1,065,935.55	172,414.58	177,483.49	2,871,044.00
	Pro-Forma Adjustment	Pro-Forma	A-3a, A-3b	A-3a, A-3b	116,030.39	41,581.54	17,742.00	20,511.88	195,865.81
4	Contributions in Aid of Construction - Additions and Amortization								
	Pro-Forma Additions and Amortization through 09/30/22	Pro-Forma	A-4a, A-4b	A-4a, A-4b	366,410.14	313,085.91	28,391.55	75,317.57	783,205.17
	Annualize Amortization Expense through 09/30/22	Pro-Forma	B-23a, B-23b	B-23a, B-23b	(28,254.91)	2,101.52	(16,322.54)	(5,638.83)	(48,114.76)
5	Adjust Accumulated Deferred Income Taxes - Prior Commission Orders and Unamortized Balances:								
	State	Book & Pro-Forma	A-6a, A-6b	Schedule 5	(276,061.71)	(178,240.84)	(36,571.52)	(46,070.94)	(536,945.01)
	Federal	Book & Pro-Forma	A-6a, A-6b	Schedule 5	227,901.12	(498,443.08)	203,014.78	121,502.66	53,975.48
6	Include Gain on Sale as approved in W-354, Sub 364	Book	A-9a	Schedule 6	(196,947.00)	(92,681.00)	-	-	(289,628.00)
7	Purchase Acquisition Adjustment - Amortization								
	Pro-Forma Amortization through 09/30/22	Pro-Forma	A-10a, A-10b	A-10a, A-10b	58,678.98	8,716.27	(7,926.99)	(21,925.00)	37,543.26
	Annualize Amortization Expense through 09/30/22	Pro-Forma	B-22a, B-22b	B-22a, B-22b	(14,528.95)	18,437.97	4,174.68	13,629.22	21,712.92
8	Include Cost Free Capital as approved in W-354, Sub 266	Book	A-12a	Schedule 8	(121,791.00)	(139,708.00)	-	-	(261,499.00)
9	Avg. Tax Accruals								
	Adjust Property Taxes for 1/2 of property tax expense	Pro-Forma	A-13a, A-13b	A-13a, A-13b	67,984.51	52,814.62	3,873.02	4,876.76	129,548.91
	Adjust Regulatory fee for current Service Revenues * 0.13% at 1/5 accrual.	Pro-Forma	A-13a, A-13b	A-13a, A-13b	5,935.79	4,561.74	489.09	684.75	11,671.37
10	Include unamortized balance of Federal Protected EDIT:								
	Unamortized Federal Protected EDIT reserve	Pro-Forma	A-14a, A-14b	Schedule 10	(1,949,905.00)	(1,163,325.00)	(276,179.00)	(282,697.00)	(3,672,106.00)
	Amortization of Federal Protected EDIT	Pro-Forma	B-20a, B-20b	Schedule 10	(36,704.00)	(21,898.00)	(5,199.00)	(5,321.00)	(69,122.00)
	Unamortized NC State Tax reserve	Pro-Forma	A-14a, A-14b	Schedule 10	(717,341.00)	(427,970.00)	(86,187.00)	(88,221.00)	(1,319,719.00)
	Amortization of NC State Tax EDIT (3% to 2.5%) - 3 Year Amortization	Pro-Forma	B-20a, B-20b	Schedule 10	(28,178.00)	(16,811.00)	(3,386.00)	(3,465.00)	(51,840.00)
	Adjust Deferred Charges and Amortization of Rate Case Expenses:								
11	Remove all Test Year cost in Deferred Charges & Rate Case Expense balances	Book	A-15a, A-15b	A-15a, A-15b	(1,335,683.77)	(2,212,377.83)	(143,157.15)	(101,824.55)	(3,793,043.30)
12	To adjust annual rate case amortization expense	Pro-Forma	B-15a, B-15b	Schedule 12	198,781.36	118,594.39	21,925.20	22,442.56	361,743.51
13	To adjust non-rate case expense deferred charges to reflect unamortized balances as of 4/1/2023	Pro-Forma	A-15a, A-15b	Schedule 13	358,704.88	523,044.11	40,469.16	-	922,218.15
13	To adjust non-rate case expense deferred charges to reflect annual amortization expense	Pro-Forma	B-6a, B-6b	Schedule 13	(49,182.44)	(164,849.75)	(1,702.75)	17,065.88	(198,669.06)
14	Adjust Service Revenues to pro-forma present rate levels	Book	B-1a, B-1b	Schedule E	2,867,248.55	1,255,781.53	448,710.54	353,560.35	4,925,300.96
	Adjust Miscellaneous Revenues for pro-forma present rate levels:								
15	Adjust Uncollectible Accounts	Book	B-1a, B-1b	B-2a, B-2b	114,837.22	(155,115.81)	19,605.01	(32,203.39)	(52,876.98)
16	Adjust Late Payment Charges	Book	B-1a, B-1b	B-3a, B-3b	242.95	197.68	30.18	47.87	518.68
17	Adjust Power Expense for vendor price changes since start of Test Year	Pro-Forma	B-4a, B-4b	Schedule 17	-	-	-	-	-

Carolina Water Service, Inc. of North Carolina
W - 354, Sub 400
Summary of Rate Case Adjustments
Test Year: March 31, 2022
WSIP Period: April 1, 2023 - March 31, 2026

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Drennan Testimony

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Adjustment #	Description	Adjustment Type	Filing Exhibit Schedule	Support Schedule	Adjustment Amount				Total Adjustment
					Uniform Water	Uniform Sewer	BE/FH/TC Water	BE/FH/TC Sewer	
18	<u>Adjust Purchased Water/Purchased Sewer Expense for vendor price changes since start of Test Year</u>	Pro-Forma	B-5a	Schedule 18	25,316.90	5,104.42	-	-	30,421.32
19	<u>Adjust Chemicals Expense for vendor price changes since start of Test Year</u>	Pro-Forma	B-9a, B-9b	Schedule 19	64,925.85	174,029.56	23,274.50	14,213.95	276,443.86
20	<u>Remove Unrecoverable Expenses:</u>								
	Outside Services & Internal Time	Pro-Forma	B-20a, B-20b	Schedule 20	(45,933.98)	(27,404.48)	(5,518.84)	(5,649.09)	(84,506.39)
	Advertising	Pro-Forma	B-20a, B-20b	Schedule 20	(486.58)	(290.30)	(6.64)	(6.80)	(790.32)
	Charitable Donations	Pro-Forma	B-20a, B-20b	Schedule 20	(5,337.53)	(3,184.40)	(737.85)	(755.26)	(10,015.04)
	Penalties/Fines	Pro-Forma	B-20a, B-20b	Schedule 20	(472.84)	(5,629.85)	-	-	(6,102.69)
	Memberships and Dues (NAWC)	Pro-Forma	B-20a, B-20b	Schedule 20	(1,450.30)	(865.26)	(174.25)	(178.36)	(2,668.17)
21	<u>Update Salaries & Wages to reflect new going level rates and head count:</u>								
	Adjustment to reflect going level pay rates and headcount	Pro-Forma	B-13a, B-13b	Schedule 21	393,880.81	234,991.59	160,227.64	164,009.11	953,109.15
	Adjustment to reflect updated payroll taxes based on going level salary and wages update	Pro-Forma	B-25a, B-25b	Schedule 21	41,400.32	23,699.68	13,717.10	14,040.84	92,857.94
22	<u>Adjust Captive for Salaries Adjustment</u>	Pro-Forma	B-11a, B-11b	Schedule 22	89,856.77	53,608.59	10,796.51	11,051.05	165,312.92
23	<u>To Include Payment Processing Fees and Water Efficiency Program Noticing Cost</u>	Pro-Forma	B-14a, B-14b	Schedule 23	150,503.05	89,791.00	18,082.53	18,509.29	276,885.87
24	<u>Adjust rent expense for going level rates</u>	Pro-Forma	B-17a, B-17b	Schedule 24	100,148.09	59,749.40	13,166.23	13,477.42	186,541.14
25	<u>Adjust Insurance Expense to annualize current policy premiums</u>								
	General Liability Insurance	Pro-Forma	B-18a, B-18b	Schedule 25	100,869.13	60,179.11	9,848.60	10,081.03	180,977.88
	Property Insurance	Pro-Forma	B-18a, B-18b	Schedule 25	40,017.09	23,874.43	722.22	739.26	65,353.00
	Vehicle Insurance	Pro-Forma	B-18a, B-18b	Schedule 25	1,863.95	1,112.05	(943.92)	(966.20)	1,065.87
	Uninsured Losses	Pro-Forma	B-18a, B-18b	Schedule 25	(40,036.73)	(23,886.14)	(275.86)	(282.37)	(64,481.09)
	Other Insurance	Pro-Forma	B-18a, B-18b	Schedule 25	(40,300.97)	(24,043.80)	(6,185.17)	(6,331.14)	(76,861.07)
26	<u>Adjust for expenses associated with the Echota and Seven Devils acquisition</u>	Pro-Forma	B-20a	Schedule 26	243,811.00	65,171.00	-	-	308,982.00
	<u>To reflect pro-forma Corix Shared Service Cost to North Carolina</u>								
27a	Fusion ERP Rate Base	Pro-Forma	A-15a, A-15b	Schedule 27	700,139.71	417,707.44	84,119.89	86,105.18	1,288,072.21
27b	Corporate Cost	Pro-Forma	B-20a, B-20b	Schedule 27	(64,326.35)	(38,377.48)	(53,428.33)	(54,689.27)	(210,821.43)
27b	Regional Cost	Pro-Forma	B-20a, B-20b	Schedule 27	(7,166.75)	(4,275.72)	(6,399.67)	(6,550.70)	(24,392.84)
27b	Regulatory Expense Amortization	Pro-Forma	B-15a, B-15b	Schedule 27	13,981.11	8,341.21	1,679.79	1,719.44	25,721.55
28	<u>Adjust Regulatory Fee (Utility/Commission Tax) for proposed revenues</u>								
	Remove test year amount	Pro-Forma	B-25a, B-25b	B-25a, B-25b	(28,483.23)	(23,174.84)	-	-	(51,658.07)
	Include annualized amount to reflect going level based on proposed revenues	Pro-Forma	B-25a, B-25b	B-25a, B-25b	31,846.71	25,102.62	2,753.22	3,939.77	63,642.32

Carolina Water Service, Inc. of North Carolina
W - 354, Sub 400
Summary of Rate Case Adjustments
Test Year: March 31, 2022
WSIP Period: April 1, 2023 - March 31, 2026

Exhibit PJD-1
Drennan Testimony
WSIP Periods

Summary of WSIP Period Adjustments

Description	Adjustment Type	Filing Exhibit Schedule	Support Schedule	Adjustment Amount				Total Adjustment
				Uniform Water	Uniform Sewer	BF/FH/TC Water	BF/FH/TC Sewer	
Plant Additions and Retirements								
PIS - Additions/Retirements (13 Mo Average - 04/01/23-03/31/24)	WSIP Rate Year 1	A-1a, A-1b	Schedule 2	8,984,935.61	11,465,466.70	2,229,135.71	975,466.40	23,655,004.42
PIS - Additions/Retirements (13 Mo Average - 04/01/24-03/31/25)	WSIP Rate Year 2	A-1a, A-1b	Schedule 2	6,845,197.55	10,264,077.79	695,080.55	1,587,265.43	19,391,621.33
PIS - Additions/Retirements (13 Mo Average - 04/01/25-03/31/26)	WSIP Rate Year 3	A-1a, A-1b	Schedule 2	7,036,950.68	9,749,574.18	499,307.65	860,172.31	18,146,004.82

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived through inclusion of additions and retirements from Schedule 2 through each month of the rate year. Monthly balances are provided in the excel filing exhibits. This portion of the revenue requirement is set by using a 13 month average of the accumulated depreciation balances. Monthly ending balances are provided in columns AY through CU in the rate filing template excel on the Plant in Service tab.

Accumulated Depreciation

A/D - Retirements/Depreciation (13 Mo Average - 04/01/23-03/31/24)	WSIP Rate Year 1	A-2a, A-2b	Schedule 2	(2,154,592.18)	(697,595.57)	(144,999.72)	(292,719.66)	(3,289,907.13)
A/D - Retirements/Depreciation (13 Mo Average - 04/01/24-03/31/25)	WSIP Rate Year 2	A-2a, A-2b	Schedule 2	(2,851,763.91)	(1,418,752.56)	6,669.29	(172,753.40)	(4,436,600.59)
A/D - Retirements/Depreciation (13 Mo Average - 04/01/25-03/31/26)	WSIP Rate Year 3	A-2a, A-2b	Schedule 2	(3,134,429.33)	(1,818,445.81)	(123,982.80)	(405,081.99)	(5,481,939.93)

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived through inclusion of retirements from Schedule 2 through each month of the rate year, and adding on monthly amortization. Monthly balances are provided in the excel filing exhibits. This portion of the revenue requirement is set by using a 13 month average of the accumulated depreciation balances. Monthly ending balances are provided in columns AX through CT in the rate filing template excel on the Accum Depr tab.

Cash Working Capital

CWC (Annual Expenses - 04/01/23-03/31/24)	WSIP Rate Year 1	A-3a, A-3b	A-3a, A-3b	169,229.32	80,618.85	6,553.31	14,674.16	271,075.64
CWC (Annual Expenses - 04/01/24-03/31/25)	WSIP Rate Year 2	A-3a, A-3b	A-3a, A-3b	47,287.23	32,085.43	5,830.50	7,820.17	93,023.33
CWC (Annual Expenses - 04/01/25-03/31/26)	WSIP Rate Year 3	A-3a, A-3b	A-3a, A-3b	48,521.78	7,597.95	6,030.80	7,873.53	70,024.05

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived by calculating all of the expenses for the revenue requirement in the WSIP period, removing Purchased Water and Sewer treatment expenses and multiplying the remaining expenses by 1/8th for working capital.

Contributions in Aid of Construction

CIAC - Amortization (13 Mo Average - 04/01/23-03/31/24)	WSIP Rate Year 1	A-4a, A-4b	A-4a, A-4b	732,820.28	626,171.81	56,783.10	150,635.14	1,566,410.33
CIAC - Amortization (13 Mo Average - 04/01/24-03/31/25)	WSIP Rate Year 2	A-4a, A-4b	A-4a, A-4b	732,820.28	626,171.81	56,783.10	150,635.14	1,566,410.33
CIAC - Amortization (13 Mo Average - 04/01/25-03/31/26)	WSIP Rate Year 3	A-4a, A-4b	A-4a, A-4b	732,820.28	626,171.81	56,783.10	150,635.14	1,566,410.33

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived through calculating amortization each month of the rate year. Monthly balances are provided in the excel filing exhibits. This portion of the revenue requirement is set by using a 13 month average of the CIAC and Accumulated CIAC balances. Monthly ending balances are provided in columns AQ through CM in the rate filing template excel on the CIAC tab.

Purchase Acquisition Adjustment

PAA - Amortization (13 Mo Average - 04/01/23-03/31/24)	WSIP Rate Year 1	A-10a, A-10b	A-10a, A-10b	117,357.96	17,432.54	(15,853.98)	(43,850.00)	75,086.52
PAA - Amortization (13 Mo Average - 04/01/24-03/31/25)	WSIP Rate Year 2	A-10a, A-10b	A-10a, A-10b	117,357.96	17,432.54	(15,853.98)	(43,850.00)	75,086.52
PAA - Amortization (13 Mo Average - 04/01/25-03/31/26)	WSIP Rate Year 3	A-10a, A-10b	A-10a, A-10b	117,357.96	17,432.54	(15,853.98)	(43,850.00)	75,086.52

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived through calculating amortization each month of the rate year. Monthly balances are provided in the excel filing exhibits. This portion of the revenue requirement is set by using a 13 month average of the PAA and Accumulated PAA balances. Monthly ending balances are provided in columns AK through CG in the rate filing template excel on the PAA tab.

Carolina Water Service, Inc. of North Carolina
W - 354, Sub 400
Summary of Rate Case Adjustments
Test Year: March 31, 2022
WSIP Period: April 1, 2023 - March 31, 2026

Exhibit PJD-1
Drennan Testimony
WSIP Periods

Summary of WSIP Period Adjustments

Description	Adjustment Type	Filing Exhibit Schedule	Support Schedule	Adjustment Amount				Total Adjustment
				Uniform Water	Uniform Sewer	BF/FH/TC Water	BF/FH/TC Sewer	
Average Tax Accruals								
Average Tax Accrual (Annual Expense - 04/01/23-03/31/24)	WSIP Rate Year 1	A-13a, A-13b	A-13a, A-13b	5,672.90	6,240.84	1,328.71	439.60	13,682.05
Average Tax Accrual (Annual Expense - 04/01/24-03/31/25)	WSIP Rate Year 2	A-13a, A-13b	A-13a, A-13b	3,869.05	5,043.08	401.62	510.25	9,824.01
Average Tax Accrual (Annual Expense - 04/01/25-03/31/26)	WSIP Rate Year 3	A-13a, A-13b	A-13a, A-13b	3,968.98	4,737.26	288.74	276.10	9,271.08

Description: This is the resulting adjustment through each of the rate years in the WSIP period. The totals are derived by calculating all of the expenses for the revenue requirement in the WSIP period. Property taxes are accrued to rate base at 1/2 of the expense, regulatory fees are accrued to rate base at 1/5 of the expense.

Excess Deferred Income Taxes								
EDIT (Manual Build - 04/01/23-03/31/24)	WSIP Rate Year 1	A-14a, A-14b	Schedule 10	23,828.00	14,216.00	3,375.00	3,454.00	44,873.00
EDIT (Manual Build - 04/01/24-03/31/25)	WSIP Rate Year 2	A-14a, A-14b	Schedule 10	47,655.00	28,432.00	6,749.00	6,909.00	89,745.00
EDIT (Manual Build - 04/01/25-03/31/26)	WSIP Rate Year 3	A-14a, A-14b	Schedule 10	47,656.00	28,431.00	6,750.00	6,909.00	89,746.00

Description: A full build for excess deferred income taxes through each of the WSIP rate years is provided in Schedule 10.

Deferred Charges								
Deferred Charges (Manual Build - 04/01/23-03/31/24)	WSIP Rate Year 1	A-15a, A-15b	Schedule 13	93,998.09	(38,122.81)	8,370.51	40,958.40	105,204.19
Deferred Charges (Manual Build - 04/01/24-03/31/25)	WSIP Rate Year 2	A-15a, A-15b	Schedule 13	127,113.53	(73,111.27)	(529.21)	30,718.80	84,191.85
Deferred Charges (Manual Build - 04/01/25-03/31/26)	WSIP Rate Year 3	A-15a, A-15b	Schedule 13	11,709.91	(61,229.03)	(16,317.50)	(20,479.20)	(86,315.82)

Description: A full build for deferred charges through each of the WSIP rate years is provided in Schedule 13.

Expense Adjustments								
Expense Adjustments (04/01/23-03/31/24)	WSIP Rate Year 1	B	Schedule 29	1,700,593.68	1,603,236.74	262,835.17	269,785.03	3,836,450.61
Expense Adjustments (04/01/23-03/31/24)	WSIP Rate Year 2	B	Schedule 29	656,108.17	676,399.96	82,286.83	128,658.29	1,543,453.26
Expense Adjustments (04/01/23-03/31/24)	WSIP Rate Year 3	B	Schedule 29	668,871.38	475,185.82	69,926.20	90,633.75	1,304,617.16

Description: See attached schedule 29 for specific expense inflators used through each of the WSIP periods. Areas that do not get a generic inflationary adjustment either get no inflationary adjustment or have a manual build of expenses. Examples of accounts with specific expense builds in the WSIP periods include deferred charges, and rent.