



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

March 10, 2023

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-354, Sub 399 – Application by Carolina Water Service, Inc. of North Carolina for a Certificate of Public Convenience and Necessity to Provide Water Utility Service to the Carteret County Water System, and for Approval of Rates

Dear Ms. Dunston:

Attached for filing on behalf of the Public Staff in the above-referenced docket please find the Testimony of Lynn Feasel, Financial Manager, Water, Sewer, and Telecommunications Section, Accounting Division.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely,

Electronically submitted

/s/ Gina C. Holt

Manager, Legal Division, Water, Sewer,
Telephone, & Transportation Sections

gina.holt@psncuc.nc.gov

/s/ William E. H. Creech

Staff Attorney

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Attachments

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

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)

TESTIMONY OF
LYNN FEASEL
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION

MARCH 10, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Lynn Feasel. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Financial Manager of the Water, Sewer, and Telecommunications
6 Sections with the Accounting Division of the Public Staff – North
7 Carolina Utilities Commission (Public Staff).

8 **Q. Briefly state your qualifications and experience.**

9 A. My qualifications and experience are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony in this proceeding is to present the
12 results of my investigation of the Carolina Water Service Inc. of North
13 Carolina's (CWSNC) application in this docket. Specifically, I discuss
14 my calculations of the revenue requirement impact from the Public
15 Staff's estimated operating and maintenance (O&M) expenses to
16 operate the Carteret County Water System after acquisition, and the
17 revenue requirement impact from the Commission's February 10,
18 2023 Order in Docket No. W-354, Sub 398 (Sub 398 Order)
19 approving a fair value of the Carteret County Water System,
20 including transaction and closing costs, as well as \$125,000 tank
21 investment in the first year recommended by witness Junis. The

1 revenue requirement is calculated to reflect the rate impact after the
2 existing Carteret County rates are in place for four years after the
3 acquisition.

4 **Q. Please explain the Public Staff's calculation of original cost rate**
5 **base.**

6 A. The Public Staff's calculation of original cost rate base includes the
7 following components: 1) plant in service; and 2) accumulated
8 depreciation of plant in service.

9 **Plant in Service**

10 Per the Commission's Sub 398 Order, the approved reasonable and
11 appropriate fair value of the Carteret County Water System was
12 determined to be \$8,728,039, to include \$8,416,000 for the fair value
13 of the system and \$312,039 for transaction and closing costs.
14 Additionally, Public Staff witness Junis also recommends an
15 additional \$125,000 tank investment to be included for 2023. I have
16 calculated the plant in service to include all the above items.

17 **Accumulated Depreciation**

18 I calculated accumulated depreciation of the approved fair value of
19 the Carteret County Water System and tank investment through
20 December 31, 2026, as CWSNC proposes to keep the current

1 County rates in effect for four years, assuming the first year starts at
2 the beginning of 2023. (Tr. vol. 3, 171-195. from docket W-354, Sub
3 398).

4 **Q. Please explain the Public Staff's calculation of O&M expense**
5 **and other estimated expenses.**

6 A. The Public Staff calculated projected O&M expenses specifically
7 related to the Carteret County Water System based on two factors:
8 1) total estimated O&M expenses and other expenses in 2027; and
9 2) estimated County customer counts in 2027. Since the new County
10 rates are estimated to take effect at the beginning of 2027, the Rate
11 Year 3 O&M expenses in CWSNC's most recent rate case in Docket
12 No. W-354, Sub 400 reflect the most representative ongoing level
13 O&M expenses, since Rate Year 3 ends March 31, 2026, which is
14 close to the date the new County rates will take effect. For most of
15 the O&M expense items, I utilized the total Rate Year 3 O&M
16 expenses divided by the equivalent residential customer (ERC)
17 count of 29,426 to calculate the average O&M expense per
18 customer, then applied the average O&M expense per customer to
19 the projected 1,366 County customers to calculate the estimated

1 O&M expenses for County customers.¹ In addition, I calculated
2 depreciation expense based on the depreciation rates recommended
3 by Public Staff witness Junis.

4 **Q. Please explain the Public Staff's calculation of return on rate
5 base.**

6 A. The Public Staff utilized 6.95% overall return on rate base with 50/50
7 debt equity capital structure, 4.64% debt rate, and 9.25% return on
8 equity rate to calculate the overall return for rate base. The capital
9 structure, debt rate, and equity rate are identical to the rates
10 recommended by the Public Staff in CWSNC's most recent rate case
11 in Docket No. W-354, Sub 400.

12 **Q. What is the Public Staff's proposed revenue requirement?**

13 A. The Public Staff's recommended revenue requirement based upon
14 the calculations detailed above is \$1,599,162. This amount
15 represents the revenue requirement for the first year, i.e., 2027, after
16 the existing rates last for four years starting from 2023.

17 **Q. How does the recommended revenue requirement impact utility
18 rates per customer?**

¹ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The average monthly rate per customer will be \$97.56 in 2027 for the
2 projected 1,366 Carteret County customers. The existing County
3 monthly rate per customer is \$40.25. The testimony of Public Staff
4 witness Junis further discusses the rate impact of the revenue
5 requirements.

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

7 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas companies, filed testimony and affidavits in various general rate cases, calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc., calculated quarterly earnings for various natural gas companies, calculated refunds to consumers from AH4R and Progress Residential and reviewed franchise and contiguous filings for multiple water and sewer companies.

CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
RETURN ON ORIGINAL COST RATE BASE

Feasel Exhibit I
 Schedule 1

CWSNC WATER OPERATIONS

Line No.	Item	Capitalization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [3] (c)	Overall Cost Rate [4] (d)	Net Operating Income [5] (e)
Present Rates:						
1	Debt	50.00%	\$3,718,276 [2]	4.64% [1]	2.32%	\$172,528 [5]
2	Equity	50.00%	3,718,277 [2]	9.25% [1]	4.63%	343,941 [5]
3	Total	100.00%	\$7,436,553 [3]		6.95%	\$516,469 [6]

[1] Per Public Staff Financial Analyst Hilton.
 [2] Column (a) multiplied by Line 3, Column (b).
 [3] Feasel Exhibit I, Schedule 2, Line 4.
 [4] Column (a) multiplied by Column (c).
 [5] Column (b) multiplied by Column (c).
 [6] Column (e), L2 + L3.

CAROLINA WATER SERVICE, INC., OF NC
Docket No. W-354, Sub 399
ORIGINAL COST RATE BASE

Feasel Exhibit I
Schedule 2

CWSNC WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	<u>Amount Per Public Staff</u>
1	Commission approve fair value	\$ 8,728,039 [1]
2	Tank	125,000
3	Accumulated depreciation	<u>(1,416,486) [2]</u>
4	Net plant in service (L1 + L2)	7,436,553
4	Original cost rate base (L3)	<u>\$7,436,553</u>

- [1] Commission approved fair value of the system per W-354 Sub 398, plus additional investment recomn
[2] Calculated by the Public Staff to depreciate plant in service for four years through December 31, 2026.

CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
NET OPERATING INCOME FOR A RETURN

Feasel Exhibit I
 Schedule 3
 Page 1 of 2

CWSNC WATER OPERATIONS

Line No.	Item	Projected NOI	Public Staff Recommended Rates	
		Amount Per Public Staff [1] (a)	Net Public Staff Increase [6] (b)	Operations After Rate Increase [7] (c)
Operating Revenues:				
1	Service revenues		\$1,588,804	\$1,588,804
2	Miscellaneous revenues		10,358	10,358
3	Uncollectible accounts		0	0
4	Total operating revenues (Sum of L1 thru L3)	<u>0</u>	<u>1,599,162</u>	<u>1,599,162</u> [8]
Maintenance Expenses:				
5	Salaries and wages		0	0
6	Electric power	55,501 [2]	0	55,501 [2]
7	Purchased water		0	0
8	Administrative and office expense	16,064 [2]	0	16,064 [2]
9	Maintenance and repair	59,025 [2]	0	59,025 [2]
10	Testing	9,835 [2]	0	9,835 [2]
11	Chemicals	17,444 [2]	0	17,444 [2]
12	Transportation	13,332 [2]	0	13,332 [2]
13	Operating expenses charged to plant		0	0
14	Outside services - other	234,706 [2]	0	234,706 [2]
15	Total maintenance expenses (Sum of L5 thru L14)	<u>405,907</u>	<u>0</u>	<u>405,907</u>
General Expenses:				
16	Salaries and wages	196,417 [2]	0	196,417 [2]
17	Office supplies and other office expense		0	0
18	Regulatory commission expense		0	0
19	Pension and other benefits		0	0
20	Rent		0	0
21	Insurance		0	0
22	Office utilities		0	0
23	Miscellaneous		0	0
24	Total general expenses (Sum of L16 thru L23)	<u>196,417</u>	<u>0</u>	<u>196,417</u>
Depreciation and Taxes:				
16	Depreciation expense	354,122 [2]	0	354,122 [2]
17	Amortization of CIAC		0	0
18	Amortization of PAA		0	0
19	Amortization of ITC		0	0
20	Franchise and other taxes		0	0
21	Property taxes	6,311 [2]	0	6,311 [2]
22	Payroll taxes	15,108 [2]	0	15,108 [2]
23	Regulatory fee	0 [3]	2,239	2,239 [9]
24	Deferred Income Tax		0	0 [2]
25	State income tax	(28,760) [4]	39,923	11,163 [10]
26	Federal income tax	(235,543) [5]	326,970	91,427 [11]
27	Total depreciation and taxes (Sum of L16 thru L26)	<u>111,238</u>	<u>369,132</u>	<u>480,370</u>
28	Total operating revenue deductions (L15 + L27)	<u>713,562</u>	<u>369,132</u>	<u>1,082,694</u>
29	Net operating income for a return (L4 - L28)	<u>(\$713,562)</u>	<u>\$1,230,030</u>	<u>\$516,468</u>

CAROLINA WATER SERVICE, INC., OF NC

**Docket No. W-354, Sub 399
FOOTNOTES TO SCHEDULE 3**

Feasel Exhibit I
Schedule 3
Page 2 of 2

CWSNC WATER OPERATIONS

- [1] Column (a) plus Column (b), unless otherwise footnoted.
- [2] Based on the Public Staff calculation.
- [3] Line 4 Column (c) multiplied by 0.14%.
- [4] Feasel Exhibit I, Schedule 3-2, Column (a), Line 16.
- [5] Feasel Exhibit I, Schedule 3-2, Column (a), Line 18.
- [7] Column (e) minus Column (c), unless otherwise footnoted.
- [9] Column (c) plus Column (d), unless otherwise footnoted.
- [8] Revenue requirement calculated by the Public Staff.
- [9] Line 4 Column (e) multiplied by 0.14%.
- [10] Feasel Exhibit I, Schedule 3-2, Column (b), Line 16.
- [11] Feasel Exhibit I, Schedule 3-2, Column (b), Line 18.

CAROLINA WATER SERVICE, INC., OF NC

Docket No. W-354, Sub 399

CALCULATION OF INCOME TAXES

Feasel Exhibit I

Schedule 3-2

CWSNC WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	Projected NOI [1] <u>(a)</u>	Public Staff Recommended Rates [3] <u>(b)</u>
1	Operating revenue	<u>\$0</u>	<u>\$1,599,162</u>
	Operating revenue deductions:		
2	Maintenance expenses	405,907	405,907
3	General expenses	196,417	196,417
4	Depreciation expense	354,122	354,122
5	Amortization of CIAC	0	0
6	Amortization of PAA	0	0
7	Amortization of ITC	0	0
8	Franchise and other taxes	0	0
9	Property taxes	6,311	6,311
10	Payroll taxes	15,108	15,108
11	Regulatory fee	0	2,239
12	Gross receipts tax	0	0
13	Interest expense	172,528 [2]	172,528 [2]
14	Total deductions (Sum of L2 thru L13)	<u>1,150,393</u>	<u>1,152,632</u>
15	Taxable income (L1 - L14)	<u>(1,150,393)</u>	<u>446,530</u>
16	State income tax (L15 x 2.5%)	<u>(28,760)</u>	<u>11,163</u>
17	Federal taxable income after state income tax (L15 - L16)	<u>(1,121,633)</u>	<u>435,367</u>
18	Federal income tax (L17 x 21%)	<u>(235,543)</u>	<u>91,427</u>
19	Excess deferred income tax amortization	<u>0</u>	<u>0</u>
20	Net amount (L15 - L16 - L18 - L19)	<u>(886,090)</u>	<u>343,940</u>
21	Add: Interest expense	<u>172,528 [2]</u>	<u>172,528 [2]</u>
22	Net income for a return (L20 + L21)	<u><u>(\$713,562)</u></u>	<u><u>\$516,468</u></u>

[1] Feasel Exhibit I, Schedule 3, Column (a).

[2] Feasel Exhibit I, Schedule 1, Column (e), Line 1.

[3] Feasel Exhibit I, Schedule 3, Column (c).

CAROLINA WATER SERVICE, INC., OF NC

Docket No. W-354, Sub 399

CALCULATION OF REVENUE REQUIREMENT

Feasel Exhibit I

Schedule 4

CWSNC WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	<u>Amount</u> (a)	<u>Retention Factor</u> (b)	<u>Revenue Requirement</u> (c)
	Operating revenue deductions:			
1.	Maintenance expenses	405,907	0.998600	406,476
2.	General expenses	196,417	0.998600	196,692
3.	Depreciation expense	354,122	0.998600	354,618
4.	Amortization of CIAC	0	0.998600	0
5.	Amortization of PAA	0	0.998600	0
6.	Amortization of ITC	0	0.998600	0
7.	Franchise and other taxes	0	0.998600	0
8.	Property taxes	6,311	0.998600	6,320
9.	Payroll taxes	15,108	0.998600	15,129
10.	Total operating revenue deductions	<u>\$977,865</u>	0.998600	979,235
	Net operating income for a return:			
11.	Debt service return	172,528	0.998600	172,770
12.	Equity return	343,941	0.769172	447,157
13.	Adjustment for excess deferred income tax	0	0.769172	0
14.	Adjustment for revenues not subject to GRT	0	0.998600	0
15.	Revenue requirement			<u>\$1,599,162</u>