

**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 of )  
North Carolina and Approval of a Three- )  
Year Water and Sewer Investment Plan )

TESTIMONY OF MATTHEW P.  
SCHELLINGER II IN SUPPORT  
OF PARTIAL SETTLEMENT ON  
BEHALF OF CAROLINA WATER  
SERVICE, INC. OF NORTH  
CAROLINA

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**SETTLEMENT TESTIMONY OF**

**MATTHEW P. SCHELLINGER II**

**ON BEHALF OF**

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA**

November 22, 2022

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1 **I. INTRODUCTION**

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

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

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

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

8 **Q. ARE YOU THE SAME MATTHEW SCHELLINGER WHO SUBMITTED**  
9 **CASE-IN-CHIEF AND REBUTTAL TESTIMONY ON BEHALF OF**  
10 **CWSNC IN THIS PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

13 A. The purpose of my settlement testimony is to explain how the revenue  
14 requirements for Rate Years 1, 2, and 3 are calculated in the Partial  
15 Settlement Agreement reached between CWSNC and the Public Staff. In  
16 addition, my testimony discusses the Settlement Agreement provisions  
17 related to rate design, along with the provisions relating to annual and  
18 quarterly reporting.

19 **II. WSIP REVENUE REQUIREMENTS**

20 **Q. PLEASE GIVE A BRIEF OVERVIEW OF THE JOINT PARTIAL**  
21 **SETTLEMENT AGREEMENT AS IT RELATES TO REVENUE**

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**REQUIREMENTS DURING THE TERM OF THE AGREED UPON MULTI-YEAR RATE PLAN?**

A. The Joint Partial Settlement Agreement (Settlement Agreement) provides for a 3-year rate plan, with Rate Year 1 beginning April 1, 2023; Rate Year 2 beginning April 1, 2024; and Rate Year 3 beginning April 1, 2025.

To begin, I would note that the Company and the Public Staff have not reached agreement on two issues: (1) return on equity during the term of the Water and Sewer Investment Plan (WSIP); and (2) whether the 5% annual revenue requirement increase should be administered on a company or a rate division basis. As a result, the revenue requirements agreed to and presented in the Settlement Agreement are incomplete, in the sense that the Commission will have to determine the authorized ROE and then apply the resulting authorized rate of return to the agreed upon rate base for each Rate Year. In addition, any impacts of the 5% cap will need to be factored in, depending on the Commission’s decision on that unresolved issue.

Aside from that, the agreed-upon revenue requirements are presented in Public Staff Settlement Exhibit 1. The ultimate starting point for the calculations is the Base Case – the historical 12 months ended March 31, 2022, as presented in the Company’s case-in-chief testimony. The starting point for our settlement discussions and the precise calculations included in Public Staff Settlement Exhibit 1 is the Public Staff’s

1 proposed revenue requirement presented in their October 26, 2022  
2 testimony.<sup>1</sup> From there, the parties agreed upon and made the following  
3 adjustments to the Base Case revenue requirement, which were then  
4 carried through to the revenue requirements for Rate Years 1, 2, and 3:

- 5       ▪ Miscellaneous regulatory commission expense
- 6       ▪ Amortization of Rate Case Expenses over four years
- 7       ▪ Depreciation on Atlantic Region and CWSNC cost centers, and
- 8       reclassification of the Bradfield Farms WWTP electric rehab project
- 9       ▪ Uncollectibles expense (based on a 5-year average calculation
- 10       ▪ Chemicals expense (adjusted upward by \$31,000 for known non-
- 11       Waterguard expenses)
- 12       ▪ Sludge hauling expense (based on a 3-year average calculation)
- 13       ▪ Insurance expense (updated to reflect recent fixed, known and
- 14       measurable increases)
- 15       ▪ Included expenses and revenues associated with Danby

16               The revenue requirement for Rate Year 1 used the modified Base  
17 Case revenue requirement described above, then made further  
18 adjustments as follows:

- 19       ▪ Reduced projected capital investment plan costs by 10% (this 10%
- 20       reduction carries over to Rate Years 2 and 3)
- 21       ▪ Corrected accumulated depreciation to reflect certain plant
- 22       retirements (these adjustments carry over to Rate Years 2 and 3)
- 23       ▪ Escalated Base Case O&M expenses by 3.4%, except for items with
- 24       specific projections or applicable tracking mechanisms (salaries and
- 25       wages, and purchased water and sewer services)
- 26       ▪ Escalated salaries and wages by 3%

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<sup>1</sup> Note that before settlement discussions began, the parties were already in agreement on the following revenue requirement issues, as evidenced by the Public Staff's testimony and the Company's rebuttal testimony: Corrections to Regulatory Commission Expenses, Inclusion of depreciation expense associated with the Atlantic and CWSNC cost centers, accumulated depreciation associated with retirements through the Rate Years, and reclassification of Bradfield Farms WWTP electrical rehab project for depreciation purposes.

- 1           ▪ Purchased water and sewer expenses and rates remain at Base
- 2           Case levels, with any increases (or decreases) to be reflected in
- 3           applicable pass-through mechanisms)
- 4           ▪ Included additional recurring spend for certain asset accounts, net of
- 5           CIAC
- 6           ▪ Included amortization of previously approved deferrals for Nags
- 7           Head and Connestee Falls WWTPs.

8           The revenue requirement for Rate Year 2 used the modified Base

9           Case revenue requirement described above, as modified for Rate Year 1,

10          then made further adjustments as follows:

- 11           ▪ Escalated Base Case O&M expenses by 2.4%, except for items with
- 12           specific projections or applicable tracking mechanisms (salaries and
- 13           wages, and purchased water and sewer services)
- 14           ▪ Escalated salaries and wages by 3%
- 15           ▪ Purchased water and sewer expenses remain at Base Case levels,
- 16           with any increases (or decreases) to be reflected in applicable pass-
- 17           through mechanisms)
- 18           ▪ Included additional recurring spend for certain asset accounts, net of
- 19           CIAC

20          The revenue requirement for Rate Year 3 used the modified Base

21          Case revenue requirement described above, as modified for Rate Years 1

22          and 2, then made further adjustments as follows:

- 23           ▪ Escalated Base Case O&M expenses by 2.4%, except for items with
- 24           specific projections or applicable tracking mechanisms (salaries and
- 25           wages, and purchased water and sewer services)
- 26           ▪ Escalated salaries and wages by 3%
- 27           ▪ Purchased water and sewer expenses remain at Base Case levels,
- 28           with any increases (or decreases) to be reflected in applicable pass-
- 29           through mechanisms)
- 30           ▪ Included additional recurring spend for certain asset accounts, net of
- 31           CIAC

32          **Q.    WHAT IS THE AGREED UPON BASE CASE REGULATORY**

33          **COMMISSION EXPENSE BASED UPON?**

1 A. The regulatory commission expense is based upon actual known and  
2 measurable expenses incurred through November 19, 2022, unamortized  
3 rate case expenses, and a 4-year amortization period for such expenses.  
4 Further adjustments to the known and measurable expenses should be  
5 made through the close of proposed orders with reasonable estimates  
6 through final noticing of the rate case order.

7 **Q. WHAT IS THE AGREED UPON BASE CASE CHEMICALS EXPENSE**  
8 **BASED UPON?**

9 A. The chemicals expense is based on inclusion of fixed, known, and  
10 measurable changes in the expense level from the Waterguard vendor,  
11 along with other chemicals vendors.

12 **Q. WHAT IS THE AGREED UPON BASE CASE SLUDGE HAULING**  
13 **EXPENSE BASED UPON?**

14 A. The sludge hauling expense is based upon the Company's current fixed,  
15 known, and measurable sludge hauling expense averaged with the  
16 previous sludge hauling expenses as approved in prior dockets and further  
17 detailed in Rebuttal Exhibit MPS-3.

18 **Q. HOW WERE THE ECHOTA AND SEVEN DEVILS SYSTEMS HANDLED**  
19 **IN THE REVENUE REQUIREMENTS?**

20 A. These systems, for which transfer has not yet been approved and  
21 completed, are not reflected in the WSIP revenue requirements.

1 **Q. HOW ARE THE DANBY CUSTOMERS AND PLANT HANDLED IN THE**  
2 **REVENUE REQUIREMENTS?**

3 A. The Danby customers and plant located in South Carolina are reflected in  
4 the WSIP revenue requirements as proposed by the Company, but the  
5 Settlement Agreement provides that the Company and the Public Staff will  
6 work toward the resolution of this issue.

7 **Q. HOW IS INSURANCE EXPENSE HANDLED IN THE REVENUE**  
8 **REQUIREMENTS?**

9 A. The insurance expense is reflective of the most recent policy renewals as  
10 of November 18, 2022.

11 **Q. WHAT ARE THE ANNUAL ESCALATION FACTORS AGREED TO**  
12 **BASED UPON?**

13 A. The annual escalation factors for Rate Years 1, 2, and 3 are based upon  
14 the escalation factors propose by the Public Staff in their October 26, 2022  
15 testimony.

16 **III. RATE DESIGN**

17 **Q. WHAT DOES THE SETTLEMENT AGREEMENT PROVIDE WITH**  
18 **RESPECT TO RATE DESIGN?**

19 A. The Settlement Agreement provides that the fixed and volumetric rate  
20 recovery proportions approved in Sub 384 by the Commission on April 8,  
21 2022 will remain in place during the term of the WSIP – i.e., a 40%/60%



1 fixed/volume ratio for the uniform water rate division and BF/FH/TC water  
2 rate division, and a 60%/40% fixed/volume ratio for the uniform sewer rate  
3 division, as well as maintain the existing ratios for the BF/FH/TC sewer rate  
4 division.

5 **IV. REPORTING REQUIREMENTS**

6 **Q. WHAT REPORTING REQUIREMENTS ARE REQUIRED BY THE**  
7 **SETTLEMENT AGREEMENT?**

8 A. The Settlement Agreement provides that CWSNC will provide the quarterly  
9 and annual reports outlined in the WSIP Statute and the WSIP Rules.

10 **V. REVENUE REQUIREMENTS**

11 **Q. IN YOUR OPINION, ARE THE REVENUE REQUIREMENTS AND**  
12 **RESULTING RATES FOR THE TERM OF THE WSIP AS AGREED TO IN**  
13 **THE SETTLEMENT AGREEMENT JUST AND REASONABLE?**

14 A. Yes, they are. The Settlement Agreement's revenue requirement and rate  
15 provisions, as adjusted by the Commission's final determinations on Return  
16 on Equity and application of rate caps, will result in the establishment of  
17 rates that are fair both to the customer and to the water or sewer utility,  
18 while reasonably ensuring the continuation of safe and reliable utility  
19 services by CWSNC to its customers. Further, the Settlement Agreement  
20 WSIP will not result in sudden substantial rate increases to customers

1           annually or over the term of the plan and is representative of the utility's  
2           operations over the plan term.

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

5   A.    Yes, it is.

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

7   A.    Yes, it does.