

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of)	SETTLEMENT
Application by Old North State Water)	TESTIMONY OF
Company, LLC., Post Office Box,)	IRIS MORGAN
10127, Birmingham, Alabama, 35202)	PUBLIC STAFF- NORTH
for Authority to Adjust and Increase)	CAROLINA UTILITIES
Rates for Water Utility Service in All of)	COMMISSION
its Service Areas in North Carolina)	

**OLD NORTH STATE WATER COMPANY, LLC
DOCKET NO. W-1300, SUB 60**

**SETTLEMENT TESTIMONY OF IRIS MORGAN
ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION**

MARCH 8, 2022

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

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst in
5 the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding.

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

8 A. The purpose of my settlement testimony is to support the Joint
9 Settlement Agreement and Stipulation (the Stipulation) filed on
10 March 8, 2022, between Old North State Water Company, LLC
11 (ONSWC or the Company) and the Public Staff – North Carolina
12 Utilities Commission (Public Staff) (collectively, the Stipulating
13 Parties).

14 **Q. WHAT REVISIONS HAVE YOU MADE TO SERVICE REVENUES**
15 **REGARDING PRESENT RATES AND COMPANY PROPOSED**
16 **RATES AS A RESULT OF THE STIPULATION?**

1 A. The Stipulation sets forth agreement between the Stipulating Parties
2 regarding revenue requirement and rate issues. I updated service
3 revenues to reflect revised amounts for present rates and Company
4 proposed rates provided by Public Staff witness Charles M. Junis.
5 These revisions result in a total revenue requirement of \$1,353,289,
6 of which \$1,339,234 is attributed to service revenues. Therefore, the
7 Public Staff recommends that water service rates be set to reflect a
8 \$423,518 increase, resulting in an annual level of service revenues
9 of \$1,339,234. A reconciliation of the settlement adjustments to
10 ONSWC's filed rate increase is shown on Morgan Settlement Exhibit
11 II.

12 **Q. HOW DO RATEPAYERS BENEFIT FROM THE STIPULATION?**

13 A. From the Public Staff's perspective, the most important benefits the
14 Stipulation provides are as follows:

- 15 (a) A reduction in the Company's proposed revenue increase in
16 this proceeding.
- 17 (b) Based on the advice of legal counsel, the avoidance of
18 protracted litigation between the Stipulating Parties before the
19 Commission and possibly state appellate courts.

20 Based on these ratepayer benefits and others, as well as the other
21 provisions of the Stipulation, the Public Staff believes the Stipulation
22 is in the public interest and should be approved.

1 **Q. WILL THE PUBLIC STAFF BE PRESENTING ITS CALCULATION**
2 **OF THE FINAL REVENUE REQUIREMENT?**

3 A. Yes. The Public Staff will file schedules supporting the Stipulation's
4 recommended revenue requirement shown on Stipulation Exhibit I
5 and Exhibit II.

6 **DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

7 A. Yes, it does.

INDEX TO MORGAN SETTLEMENT EXHIBIT I

<u>Line No.</u>	<u>Title</u>	<u>Schedule Number</u>
1	RETURN ON ORIGINAL COST RATE BASE	1
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OLD NORTH STATE WATER COMPANY, LLC

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RETURN ON ORIGINAL COST RATE BASE

For The Test Year Ended December 31, 2020

Public Staff

Morgan Settlement Exhibit I

Schedule 1

<u>Line No.</u>	<u>Item</u>	<u>Capitalization Ratio</u> [1] (a)	<u>Original Cost Rate Base</u> (b)	<u>Embedded Cost</u> (c)	<u>Overall Cost Rate</u> [7] (d)	<u>Net Operating Income</u> (e)
<u>Present rates:</u>						
1.	Debt	50.00%	\$833,176 [2]	4.60% [1]	2.30%	\$38,326 [8]
2.	Equity	50.00%	833,176 [2]	-38.56% [6]	-19.28%	(321,288) [9]
3.	Total	<u>100.00%</u>	<u>\$1,666,352</u> [3]		<u>-16.98%</u>	<u>(\$282,962)</u> [10]
<u>Company proposed rates:</u>						
4.	Debt	50.00%	\$833,176 [4]	4.60% [1]	2.30%	\$38,326 [8]
5.	Equity	50.00%	833,176 [4]	17.63% [6]	8.82%	146,859 [11]
6.	Total	<u>100.00%</u>	<u>\$1,666,352</u> [3]		<u>11.12%</u>	<u>\$185,185</u> [12]
<u>Public Staff recommended rates:</u>						
7.	Debt	50.00%	\$833,176 [5]	4.60% [1]	2.30%	\$38,326 [8]
8.	Equity	50.00%	833,176 [5]	9.40% [1]	4.70%	78,319 [8]
9.	Total	<u>100.00%</u>	<u>\$1,666,352</u> [3]		<u>7.00%</u>	<u>\$116,645</u>

[1] Provided by Public Staff Financial Analyst Hinton.

[2] Column (a) x Line 3, Column (b).

[3] Morgan Exhibit I, Schedule 2, Line 10, Column (c).

[4] Column (a) x Line 6, Column (b).

[5] Column (a) x Line 9, Column (b).

[6] Column (e) divided by Column (b).

[7] Column (a) x Column (c).

[8] Column (b) x Column (c).

[9] Line 3 - Line 1, Column (e).

[10] Morgan Exhibit I, Schedule 3, Line 30, Column (c).

[11] Line 6 - Line 4, Column (e).

[12] Morgan Exhibit I, Schedule 3, Line 30, Column (e).

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 2

Line No.	Item	Amount Per Update (a)	Public Staff Adjustments [1] (b)	Amount Per Public Staff (c)
1	Plant in service	\$11,729,405	(\$425,924)	\$11,303,481 [2]
2	Accumulated depreciation	(1,246,639)	(1,188,070)	(2,434,709) [2]
3	Contributions in aid of construction	(9,308,078)	1,531,926	(7,776,152) [2]
4	Accumulated amortization of CIAC	723,778	(24,400)	699,378 [2]
5	Customer advances	(303,980)	54,000	(249,980) [2]
6	Net plant in service	1,594,486	(52,468)	1,542,018
7	Customer deposits	0	0	0
8	Cash working capital	148,636	(19,722)	128,914 [3]
9	Average tax accruals	(4,580)	0	(4,580)
10	Original cost rate base	<u>\$1,738,542</u>	<u>(\$72,190)</u>	<u>\$1,666,352</u>

- [1] Column (c) minus Column (a).
[2] Per Oakman Rebuttal Exhibit I, Schedule 2, Column (c).
[3] Calculated at one-eighth of operating expenses.

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3
Page 1 of 2

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Line No.	Item	Present Rates		Company Proposed Rates		Public Staff Recommended Rates		
		Amount Per Company Update (a)	Public Staff Adjustments [1] (b)	Amount Per Public Staff [2] (c)	Net Company Increase [12] (d)	Operations After Rate Increase [13] (e)	Net Public Staff Increase [16] (f)	Operations After Rate Increase [17] (g)
Operating Revenues:								
1	Service revenues	\$966,960	(\$51,244)	\$915,716 [3]	\$512,619	\$1,428,335 [3]	\$423,518	\$1,339,234 [18]
2	Miscellaneous revenues	14,907	0	14,907	0	14,907	0	14,907
3	Uncollectibles	0	(852)	(852) [4]	0	(852)	0	(852)
4	Total operating revenues	981,867	(52,096)	929,771	512,619	1,442,390	423,518	1,353,289
Operating and Maintenance Expenses:								
5	Salaries and wages	195,854	0	195,854	0	195,854	0	195,854
6	Administrative and office expense	314,781	0	314,781	0	314,781	0	314,781
7	Maintenance & repair expense	218,169	(56,034)	162,135 [3]	0	162,135	0	162,135
8	Transportation	28,102	0	28,102	0	28,102	0	28,102
9	Electric power	77,465	(11,378)	66,087 [3]	0	66,087	0	66,087
10	Chemicals	10,870	(556)	10,314 [3]	0	10,314	0	10,314
11	Testing	95,007	0	95,007	0	95,007	0	95,007
12	Permit fees	8,521	0	8,521	0	8,521	0	8,521
13	Purchased water	52,239	(17,064)	35,175 [3]	0	35,175	0	35,175
14	Other expenses - Professional expenses: lawn maintenance	89,130	0	89,130	0	89,130	0	89,130
15	Other expenses - Insurance expense	14,211	(2,488)	11,723 [5]	0	11,723	0	11,723
16	Other expenses - Bad debt expense	852	(852)	0 [4]	0	0	0	0
17	Other expenses - Miscellaneous expense: bond expense	9,908	(3,344)	6,564 [6]	0	6,564	0	6,564
18	Rate case expense	73,974	(30,883)	43,091 [7]	0	43,091	0	43,091
19	Total operating and maintenance expenses	1,189,083	(122,599)	1,066,484	0	1,066,484	0	1,066,484
Depreciation and Taxes:								
20	Depreciation expense	352,723	(995)	351,728 [8]	0	351,728	0	351,728
21	Amortization expense - CIAC	(262,687)	34,817	(227,870) [8]	0	(227,870)	0	(227,870)
22	Property taxes	1,382	0	1,382	0	1,382	0	1,382
23	Payroll taxes	19,447	0	19,447	0	19,447	0	19,447
24	Other taxes	353	0	353	0	353	0	353
25	Regulatory fee	0	0	1,209 [9]	0	1,875 [9]	0	1,759 [9]
26	State income tax	0	0	0 [10]	4,767	4,767 [14]	2,542	2,542 [19]
27	Federal income tax	0	0	0 [11]	39,039	39,039 [15]	20,819	20,819 [20]
28	Total depreciation and taxes	111,218	33,822	146,249	43,806	190,721	23,361	170,160
29	Total operating revenue deductions:	1,300,301	(88,777)	1,212,733	43,806	1,257,205	23,361	1,236,644
30	Net operating income for return	(\$318,434)	\$36,681	(\$282,962)	\$468,813	\$185,185	\$400,157	\$116,645

OLD NORTH STATE WATER COMPANY, LLC

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FOOTNOTES TO SCHEDULE 3
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3(a)
Page 2 of 2

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Provided by Public Staff Engineer Junis.
- [4] Amount reclassified from bad debt expense.
- [5] Morgan Exhibit I, Schedule 3-1, Line 4.
- [6] Morgan Exhibit I, Schedule 3-2, Line 3.
- [7] Morgan Exhibit I, Schedule 3-3, Line 8.
- [8] Per Oakman Rebuttal Exhibit I, Schedule 3, Column (a).
- [9] Line 4 multiplied by .13%.
- [10] Morgan Exhibit I, Schedule 3-4, Column (a), Line 12.
- [11] Morgan Exhibit I, Schedule 3-4, Column (a), Line 14.
- [12] Column (e) minus Column (c), unless otherwise footnoted.
- [13] Column (c) plus Column (d), unless otherwise footnoted.
- [14] Morgan Exhibit I, Schedule 3-4, Column (b), Line 12.
- [15] Morgan Exhibit I, Schedule 3-4, Column (b), Line 14.
- [16] Column (g) minus Column (c), unless otherwise footnoted.
- [17] Column (c) plus Column (f), unless otherwise footnoted.
- [18] Revenue requirement as calculated by the Public Staff.
- [19] Morgan Exhibit I, Schedule 3-4, Column (c), Line 12.
- [20] Morgan Exhibit I, Schedule 3-4, Column (c), Line 14.

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO OTHER EXPENSES - INSURANCE EXPENSE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3-1

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1.	Other expenses: insurance expense per revised application	\$14,211
2.	Adjustment to reflect actual property, general liability & excess liability insurance expenses	(1,538) [1]
3.	Adjustment to reflect actual annual premium compensation expenses for new employees	<u>(950) [1]</u>
4.	Other expenses: insurance expense per Public Staff (L1 + L2 + L3)	<u>11,723</u>
5.	Adjustment to Other expenses: Insurance (L4 - L1)	<u><u>(\$2,488)</u></u>

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

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO OTHER EXPENSES: MISCELLANEOUS EXPENSE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3-2

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1.	Other expenses: miscellaneous expense per revised application	\$9,908
2.	Adjustment to reflect actual 12-month bond expense from September 2020 through August 2021.	<u>92</u> [1]
3.	Other expenses: miscellaneous expense per Public Staff (L1 + L2)	<u>10,000</u>
4.	Adjustment to Other expenses: miscellaneous expense (L4 - L1)	<u><u>\$92</u></u>

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

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO RATE CASE EXPENSE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3-3

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Rate case application filing fee	\$250 [1]
2	Legal fees	82,404 [2]
3	Accounting consulting fees	14,850 [2]
4	ONSWC: Rate Case Labor Allocations	28,334 [2]
5	Notices, Printing envelopes, Postage, and Miscellaneous	<u>3,435</u> [2]
6	Total rate case expense (Sum of L1 thru L5)	129,272
7	Amortization Period	<u>3</u>
8	Rate case expense per Public Staff (L6 / L7)	<u>\$43,091</u>

[1] Statutory filing fee for Class C water and sewer companies.
[2] Provided by the Company in response to Public Staff data requests.

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
CALCULATION OF INCOME TAXES
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit I
Schedule 3-4

Line No.	Item	Present Rates [1] (a)	Company Proposed Rates [3] (b)	Public Staff Recommended Rates [5] (c)
1	Operating revenue	\$929,771	\$1,442,390	\$1,353,289
	Operating revenue deductions:			
2	Total O&M expenses	1,066,484	1,066,484	1,066,484
3	Depreciation expense	351,728	351,728	351,728
4	Amortization expense	(227,870)	(227,870)	(227,870)
5	Property taxes	1,382	1,382	1,382
6	Payroll taxes	19,447	19,447	19,447
7	Other taxes	353	353	353
8	Regulatory fee	1,209	1,875	1,759
9	Interest expense	38,326 [2]	38,326 [4]	38,326 [6]
10	Total deductions (Sum of L2 thru L9)	<u>1,251,059</u>	<u>1,251,725</u>	<u>1,251,609</u>
11	Taxable income (L1 - L10)	<u>(321,288)</u>	<u>190,665</u>	<u>101,680</u>
12	State income tax (L11 x 2.50%)	<u>0</u>	<u>4,767</u>	<u>2,542</u>
13	Federal taxable income (L11 - L12)	<u>(321,288)</u>	<u>185,898</u>	<u>99,138</u>
14	Federal income tax (L13 x 21.00%)	<u>0</u>	<u>39,039</u>	<u>20,819</u>
15	Net amount (L13 - L14)	<u>(321,288)</u>	<u>146,859</u>	<u>78,319</u>
16	Add: interest expense	<u>38,326 [2]</u>	<u>38,326 [4]</u>	<u>38,326 [6]</u>
17	Net income for return (L15 + L16)	<u><u>(\$282,962)</u></u>	<u><u>\$185,185</u></u>	<u><u>\$116,645</u></u>

- [1] Morgan Exhibit I, Schedule 3, Column (c), unless footnoted otherwise.
[2] Morgan Exhibit I, Schedule 1, Line 1, Column (e).
[3] Morgan Exhibit I, Schedule 3, Column (e), unless footnoted otherwise.
[4] Morgan Exhibit I, Schedule 1, Line 4, Column (e).
[5] Morgan Exhibit I, Schedule 3, Column (g), unless footnoted otherwise.
[6] Morgan Exhibit I, Schedule 1, Line 7, Column (e).

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended December 31, 2020

Public Staff
Morgan Settlement Exhibit II
Schedule 1

<u>Line No.</u>	<u>Item</u>	<u>ONSWC Water</u> [1]
1	Increase / (decrease) in total revenues per Company	<u>\$463,642</u>
2	<u>Difference in calculation of revenue requirement based on Company amounts:</u>	
3	Adjust capital structure to 50% debt and 50% equity	30,552
4	Adjust debt cost rate to 4.60%	(23,849)
5	Adjust return on equity to 9.40%	(3,956)
6	Adjustment to reclassify uncollectibles	852
7	Adjustment to plant in service	(35,833)
8	Adjustment to accumulated depreciation	(99,951)
9	Adjustment to contributions in aid of construction	128,879
10	Adjustment to accumulated amortization of CIAC	(2,053)
11	Adjustment to customer advances	4,543
12	Adjustment to service revenues	51,244
13	Adjustment to maintenance and repair	(56,107)
14	Adjustment to electric power	(11,393)
15	Adjustment to chemicals	(557)
16	Adjustment to other expenses: insurance expense	(2,491)
17	Adjustment to other expenses: miscellaneous expense	(3,348)
18	Adjustment to cash working capital	(1,659)
19	Adjustment to reclassify bad debt expense	(853)
20	Adjustment to rate case expense	(30,923)
21	Adjustment to purchased water	(17,086)
22	Adjustment to depreciation expense	(996)
23	Adjustment to amortization expense - CIAC	34,862
24	Rounding difference	<u>(2)</u>
25	Revenue impact of Public Staff adjustments	<u>(40,125)</u>
26	Increase / (decrease) per Public Staff	<u><u>\$423,517</u></u>

[1] Calculated by the Public Staff.