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June 9, 2023

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

Via Electronic Delivery

Re: Application by Carolina Water Service, Inc. of North Carolina for
Certificate of Public Convenience and Necessity to Serve Carteret
County Water System
NCUC Docket No. W-354, Sub 399
---CWSNC Testimony: Matthew P. Schellinger II

Dear Ms. Dunston:

Please accept for filing the attached revisions, offered by Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”) to Schellinger Rebuttal Exhibits MPS-3 and MPS-4, which were filed as part of Mr. Schellinger’s Rebuttal testimony in this docket on March 29, 2023. Revised Rebuttal Exhibit MPS-3 is an “Addendum to the Application” and Revised Rebuttal Exhibit MPS-4 is captioned “Cost of Service Calculations.”

These revised Exhibits simply update various projections and other calculations to incorporate the impact of the Commission’s recent orders in Docket No. W-354 Sub 400, which have changed certain rates and charges for CWSNC. This filing does not constitute a concession by CWSNC that the Sub 400 rates are relevant to the Commission’s decision in this docket.

I hereby certify that this filing has today been served on the parties to this docket.

Thank you and your staff for your assistance; please feel free to contact me if there are questions or if additional information is required.

Electronically Submitted

/s/Jo Anne Sanford

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Projected Income Statement - Water Operations

| Line No. | Item | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------|---|-------------|-------------|-------------|-------------|-------------|
| <u>Operating revenue</u> | | | | | | |
| 1 | Metered service revenue | \$1,006,942 | \$1,014,561 | \$1,029,036 | \$1,044,274 | \$1,335,037 |
| 2 | Flat rate service revenue | - | - | - | - | - |
| 3 | EPA testing surcharge | - | - | - | - | - |
| 4 | Re-connect fees | - | - | - | - | - |
| 5 | Return check charge | - | - | - | - | - |
| 6 | Late payment charges | - | - | - | - | - |
| 7 | Other operating revenue | 8,545 | 8,608 | 8,726 | 8,852 | 8,977 |
| 8 | Total operating revenue (Sum of Line 1 thru Line 7) | 1,015,487 | 1,023,169 | 1,037,762 | 1,053,126 | 1,344,014 |
| <u>Operating expenses</u> | | | | | | |
| 9 | Total salaries and wages (employees only) | 196,273 | 197,711 | 200,443 | 203,319 | 206,195 |
| 10 | Outside labor expense (non-employees) | - | - | - | - | - |
| 11 | Administrative and office expense | 16,052 | 16,170 | 16,393 | 16,629 | 16,864 |
| 12 | Maintenance and repair expense | 58,982 | 59,414 | 60,235 | 61,099 | 61,963 |
| 13 | Purchased water | - | - | - | - | - |
| 14 | Purchased sewage treatment | - | - | - | - | - |
| 15 | Electric power expense (exclude office) | 55,460 | 55,866 | 56,638 | 57,451 | 58,263 |
| 16 | Chemicals expense | 17,431 | 17,559 | 17,801 | 18,057 | 18,312 |
| 17 | Testing fees | 9,828 | 9,900 | 10,037 | 10,181 | 10,325 |
| 18 | Transportation expense | 13,322 | 13,420 | 13,605 | 13,801 | 13,996 |
| 19 | Other operating expenses | 234,534 | 236,253 | 239,517 | 242,953 | 246,390 |
| 20 | Total operation and maintenance expenses (Sum of Lines 9 thru 19) | 601,882 | 606,293 | 614,669 | 623,490 | 632,308 |
| 21 | Annual depreciation/amortization expense | 279,193 | 280,943 | 280,943 | 280,943 | 280,943 |
| 22 | Property taxes paid on utility property | 6,306 | 6,353 | 6,440 | 6,533 | 6,625 |
| 23 | Payroll taxes | 15,097 | 15,208 | 15,418 | 15,639 | 15,860 |
| 24 | Franchise (gross receipts) tax | - | - | - | - | - |
| 25 | Annual NCUC regulatory fee | 1,422 | 1,432 | 1,453 | 1,474 | 1,882 |
| 26 | Total operating expenses (Sum of Line 20 thru Line 25) | 903,900 | 910,229 | 918,923 | 928,079 | 937,618 |
| <u>Income taxes</u> | | | | | | |
| 27 | State income taxes | (2,168) | (2,036) | (1,716) | (1,389) | 5,817 |
| 28 | Federal income taxes | (17,758) | (16,674) | (14,057) | (11,376) | 47,639 |
| 29 | Total income taxes (Line 27 + Line 28) | (19,926) | (18,710) | (15,773) | (12,765) | 53,456 |
| 30 | Net operating income (loss) (Line 8 - Line 26 - Line 29) | \$131,513 | \$131,650 | \$134,612 | \$137,812 | \$352,940 |
| 31 | Interest expense | 198,317 | 194,375 | 187,491 | 180,609 | 173,726 |
| 32 | Net income (loss) (Line 30 - Line 31) | (\$66,804) | (\$62,725) | (\$52,879) | (\$42,797) | \$179,214 |

Statement of Cash Flows - Water Operations

| Line No. | Item | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---------------|---------------|---------------|---------------|---------------|
| <u>Cash Flows From Operating Activities</u> | | | | | | |
| 1 | Pre-tax operating income (loss): | | | | | |
| 2 | Total operating revenue | \$1,015,487 | \$1,023,169 | \$1,037,762 | \$1,053,126 | \$1,344,014 |
| 3 | Less: Operation and maintenance expenses | 601,882 | 606,293 | 614,669 | 623,490 | 632,308 |
| 4 | Less: Taxes other than income | 22,825 | 22,993 | 23,311 | 23,646 | 24,367 |
| 5 | Pre-tax operating income (loss) | 390,780 | 393,883 | 399,782 | 405,990 | 687,339 |
| 6 | Income tax calculation: | | | | | |
| 7 | Pre-tax operating income (loss) | 390,780 | 393,883 | 399,782 | 405,990 | 687,339 |
| 8 | Plus: Contributions in aid of construction | - | - | - | - | - |
| 9 | Less: Tax depreciation | 174,561 | 351,622 | 354,122 | 354,122 | 354,122 |
| 10 | Less: Interest expense | 198,317 | 194,375 | 187,491 | 180,609 | 173,726 |
| 11 | Taxable income (loss) | 17,902 | (152,114) | (141,831) | (128,741) | 159,491 |
| 12 | State income tax | 448 | (3,803) | (3,546) | (3,219) | 3,987 |
| 13 | Federal income tax | 3,665 | (31,145) | (29,040) | (26,360) | 32,656 |
| 14 | Total income taxes to be paid | 4,113 | (34,948) | (32,586) | (29,578) | 36,643 |
| 15 | Net cash provided by (used in) operating activities | \$386,667 | \$428,831 | \$432,368 | \$435,568 | \$650,696 |
| <u>Cash Flows From Investing Activities</u> | | | | | | |
| 16 | Purchases of utility plant | \$8,728,039 | 125,000 | - | - | - |
| 17 | Plus: Cash bonds posted | - | - | - | - | - |
| 18 | Less: Contributions in aid of construction | - | - | - | - | - |
| 19 | Less: Proceeds from disposal of utility plant | - | - | - | - | - |
| 20 | Net cash used (provided) by investing activities | 8,728,039 | 125,000.00 | - | - | - |
| <u>Cash Flows From Financing Activities</u> | | | | | | |
| 21 | Proceeds from issuing short term debt | - | - | - | - | - |
| 22 | Less: Principal repayment of short term debt | - | - | - | - | - |
| 23 | Plus: Proceeds from issuing long term debt | - | - | - | - | - |
| 24 | Less: Principal repayment of long term debt | - | - | - | - | - |
| 25 | Less: Interest payment for short and long term debt | - | - | - | - | - |
| 26 | Plus: Proceeds from issuing stock | - | - | - | - | - |
| 27 | Less: Dividends paid | - | - | - | - | - |
| 28 | Plus: Funds provided by owner | - | - | - | - | - |
| 29 | Net cash provided (used) by financing activities | - | - | - | - | - |
| 30 | Net increase (decrease) in cash | (\$8,341,372) | \$303,831 | \$432,368 | \$435,568 | \$650,696 |
| 31 | Cash balance at beginning of year | - | (\$8,341,372) | (\$8,037,541) | (\$7,605,173) | (\$7,169,605) |
| 32 | Cash balance at end of year | (\$8,341,372) | (\$8,037,541) | (\$7,605,173) | (\$7,169,605) | (\$6,518,909) |

Updated 05/19/23

Sub 399 - Carteret CPCN Addendum Assumptions

Assumptions:

Revenue:

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

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

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

Expense:

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

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

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

Examples:

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

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

Assumptions:

Sub 399 - Carteret CPCN Addendum Assumptions

Manually Calculated Examples:

Depreciation Expense

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

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

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

Purchase Acquisition Adjustment Expense

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

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

Fallout / Calculated Examples:

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

Cash Flows:

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

Revised Rebuttal Exhibit MPS-4
W-354, Sub 399 - Carteret CPCN
Cost of Service Calculations

Cost of Service Comparisons

| Line No. | Item | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Notes |
|----------|---|-------------------|--------------------|--------------------|--------------------|-------------------|--------------------------|
| | Rate Base - Example | 12/31/2023 | 12/31/2024 | 12/31/2025 | 12/31/2026 | 12/31/2027 | |
| 1 | Plant | 12,195,043 | 12,320,043 | 12,320,043 | 12,320,043 | 12,320,043 | |
| 2 | A/D | (7,160,206) | (7,327,975) | (7,497,494) | (7,667,013) | (7,836,533) | |
| 3 | PAA | 3,525,432 | 3,525,432 | 3,525,432 | 3,525,432 | 3,525,432 | |
| 4 | AA of PAA | (111,424) | (222,848) | (334,271) | (445,695) | (557,119) | |
| 5 | ADIT (Line 16) | 24,065 | 7,809 | (9,022) | (25,853) | (42,684) | |
| 6 | Working Capital (O&M Expenses / 8) | 75,235 | 75,787 | 76,834 | 77,936 | 79,039 | |
| 7 | Rate Base (Sum Line 1 through 6) | \$ 8,548,147 | \$ 8,378,249 | \$ 8,081,522 | \$ 7,784,850 | \$ 7,488,178 | |
| | ADIT Calculations | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | |
| 8 | Depreciation and Amortization Expense | (279,193) | (280,943) | (280,943) | (280,943) | (280,943) | |
| 9 | MACRS Depreciation (4%) | (174,561) | (351,622) | (354,122) | (354,122) | (354,122) | |
| 10 | Tax Rate | 23% | 23% | 23% | 23% | 23% | |
| 11 | ADIT | \$ 24,065 | \$ (16,256) | \$ (16,831) | \$ (16,831) | \$ (16,831) | |
| 12 | Regulatory Rate Base | 8,448,846 | 8,294,653 | 8,013,710 | 7,732,767 | 7,451,824 | |
| 13 | Tax Rate Base | 8,553,478 | 8,328,606 | 7,974,484 | 7,620,362 | 7,266,240 | |
| 14 | Timing Differences (Line 13 - Line 12) | \$ 104,632 | \$ 33,953 | \$ (39,226) | \$ (112,405) | \$ (185,584) | |
| 15 | Tax Rate (Composite 21% Federal, 2.5% State) | 23% | 23% | 23% | 23% | 23% | |
| 16 | Cumulative ADIT (Line 14 * Line 15) | \$ 24,065 | \$ 7,809 | \$ (9,022) | \$ (25,853) | \$ (42,684) | |
| | Capital Structure | | | | | | |
| 17 | Debt - Hypothetical from Sub 400 | 50% | 50% | 50% | 50% | 50% | |
| 18 | Equity - Hypothetical from Sub 400 | 50% | 50% | 50% | 50% | 50% | |
| | Return on Capital - Post Tax | | | | | | |
| 19 | Debt | 4.64% | 4.64% | 4.64% | 4.64% | 4.64% | |
| 20 | Equity - Sub 400 | 9.80% | 9.80% | 9.80% | 9.80% | 9.80% | |
| | Cost of Capital - Pre Tax | | | | | | Retention Factors |
| 21 | Debt - 4.64% rate from Sub 400 (Line 7 * 17 * 19 / 0.9986) | 198,595 | 194,648 | 187,754 | 180,862 | 173,969 | 0.9986 |
| 22 | Equity - Sub 400 - Authorized - (Line 7 * 18 * 20 / 0.769172) | 544,559 | 533,735 | 514,832 | 495,933 | 477,033 | 0.769172 |

Revised Rebuttal Exhibit MPS-4
W-354, Sub 399 - Carteret CPCN
Cost of Service Calculations

| Revenue Requirement - Total | | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | |
|--|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|
| 23 | Total operation and maintenance expenses (From Addendum) | 601,882 | 606,293 | 614,669 | 623,490 | 632,308 | |
| 24 | Annual depreciation expense | 279,193 | 280,943 | 280,943 | 280,943 | 280,943 | |
| 25 | Property taxes paid on utility property | 6,306 | 6,353 | 6,440 | 6,533 | 6,625 | |
| 26 | Payroll taxes | 15,097 | 15,208 | 15,418 | 15,639 | 15,860 | |
| 27 | Annual NCUC regulatory fee | 1,422 | 1,432 | 1,453 | 1,474 | 1,882 | |
| 28 | Debt (Line 21) | 198,595 | 194,648 | 187,754 | 180,862 | 173,969 | |
| 29 | Equity (Line 22) | 544,559 | 533,735 | 514,832 | 495,933 | 477,033 | |
| 30 | Revenue Requirement - Standalone (Sum Lines 23 through 29) | \$ 1,647,054 | \$ 1,638,612 | \$ 1,621,509 | \$ 1,604,874 | \$ 1,588,621 | |
| Non Incremental Expenses (ERC * \$/ERC) | | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | \$/ERC |
| 31 | Rent | 10,647 | 10,725 | 10,873 | 11,029 | 11,185 | 7.80 |
| 32 | Office Utilities | 9,091 | 9,158 | 9,284 | 9,417 | 9,550 | 6.66 |
| 33 | Office Supplies | 2,329 | 2,346 | 2,378 | 2,412 | 2,447 | 1.71 |
| 34 | Corporate Allocations | 140,226 | 141,254 | 143,206 | 145,260 | 147,315 | 102.73 |
| 35 | CWSNC Total Salaries and Benefits, including allocations | 235,763 | 237,490 | 240,772 | 244,226 | 247,680 | 172.72 |
| 36 | Direct Salary Additions | (143,000) | (144,048) | (146,038) | (148,133) | (150,229) | (104.76) |
| 37 | Total Non Incremental Expenses (Sum Lines 31 through 36) | \$ 255,056 | \$ 256,925 | \$ 260,475 | \$ 264,212 | \$ 267,949 | |
| 38 | Revenue Requirement - Uniform Rates (Line 30 - Line 37) | \$ 1,391,998 | \$ 1,381,688 | \$ 1,361,035 | \$ 1,340,662 | \$ 1,320,672 | |
| Rates from Carteret Perspective | | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | |
| 39 | ERC - Carteret | 1,365 | 1,375 | 1,394 | 1,414 | 1,434 | |
| 40 | Average Monthly Bill - Current, then put into Uniform Rates | \$ 61.47 | \$ 61.47 | \$ 61.47 | \$ 61.47 | \$ 77.58 | |
| 41 | Average Monthly Bill - Standalone Rates (Line 30 / Line 39 / 12) | | | | | \$ 92.32 | |
| 42 | Average Monthly Bill - Carteret, no CWSNC ownership | \$ 61.47 | \$ 86.06 | \$ 88.12 | \$ 90.24 | \$ 92.40 | 40% yr 1, 2.4% continuing |
| Rates from Uniform Water Perspective | | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | Notes |
| 43 | Uniform Water Revenue Requirement W/O Carteret (Sub 400 Final Order) | \$ 21,822,021 | \$ 24,961,455 | \$ 26,337,089 | \$ 26,875,972 | \$ 28,219,771 | Sub 400 + 5% |
| 44 | Revenue Requirement - Carteret Standalone (Line 43 - Line 37) | \$ 21,822,021 | \$ 24,961,455 | \$ 26,337,089 | \$ 26,875,972 | \$ 27,951,822 | |
| 45 | Revenue Requirement w/ Carteret (Line 43 + Line 38) | \$ 21,822,021 | \$ 24,961,455 | \$ 26,337,089 | \$ 26,875,972 | \$ 29,540,442 | |
| 46 | ERC w/o Carteret (Sub 400 ERC) | 29,426 | 29,426 | 29,716 | 30,006 | 30,296 | |
| 47 | ERC w/ Carteret (Line 46 + Line 39) | 30,791 | 30,801 | 31,110 | 31,420 | 31,730 | |
| | | Sub 384 | Sub 400 RY1 | Sub 400 RY2 | Sub 400 RY3 | MYRP 2.0 | |
| 48 | Average Monthly Bill - CWSNC Uniform Water Rates - Sub 400 | \$ 61.80 | \$ 70.69 | \$ 73.86 | \$ 74.64 | \$ 77.62 | |
| 49 | Average Monthly Bill - CWSNC Uniform Water Rates - Carteret Standalone | \$ 61.80 | \$ 70.69 | \$ 73.86 | \$ 74.64 | \$ 76.89 | |
| 50 | Average Monthly Bill - CWSNC Uniform Water Rates - incl. Carteret | \$ 61.80 | \$ 70.69 | \$ 73.86 | \$ 74.64 | \$ 77.58 | |