

**SANFORD LAW OFFICE, PLLC**

Jo Anne Sanford, Attorney at Law

October 8, 2021

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

**Via Electronic Delivery**

Re: Docket No. W-354, Sub 384  
Application by Carolina Water Service, Inc. of North Carolina for  
Authority to Adjust and Increase Rates for Water and Sewer Utility  
Service in All Service Areas in North Carolina  
Updated Filing Information and Supplemental Testimony of Philip  
Drennan

Dear Ms. Dunston:

In compliance with Decretal Paragraph 9 of the *Order Establishing Discovery Guidelines, Scheduling Hearings, and Requiring Customer Notice* entered by the Commission in Docket No. W-354, Sub 384 on October 8, 2021, attached for filing please find CWSNC's updated W1-10, effective as of 9/30/2021, accompanied by the Supplemental Testimony of Philip Drennan.

Additionally, within one business day, as required by Commission Rule R1-28(e)(1), CWSNC will file with the Clerk fifteen (15) paper copies of the attached.

As always, thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

**Electronically Submitted****/s/Jo Anne Sanford**

N.C. State Bar No. 6831

Attorney for Carolina Water Service, Inc.  
of North Carolina

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cc: Parties of Record

**CERTIFICATE OF SERVICE**

I hereby certify that the foregoing filing, captioned **Updated W1-10 and Supplemental Testimony of Philip Drennan**, has been served on the parties of record to Docket No. W-354, Sub 384, in accordance with North Carolina Utilities Commission Rule R1-39, either: by United States mail, first class postage pre-paid; by hand delivery; or by means of electronic delivery upon agreement of the receiving party.

This the 8th day of October, 2021.

**Electronically Submitted**  
**/s/Jo Anne Sanford**  
State Bar No. 6831

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**Attorney for Carolina Water Service,  
Inc. of North Carolina**

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 384

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 FOR WATER  
AND SEWER UTILITY SERVICE IN ALL SERVICE AREAS IN  
NORTH CAROLINA

PREFILED SUPPLEMENTAL TESTIMONY OF

PHILIP J. DRENNAN

ON BEHALF OF

CAROLINA WATER SERVICE, INC.

October 8, 2021

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

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

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

7 **Q. ARE YOU THE SAME PHILIP J. DRENNAN THAT SUBMITTED DIRECT**  
8 **TESTIMONY IN THIS PROCEEDING?**

9 A. Yes, I am.

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

12 A. The purpose of my supplemental testimony is to sponsor the September 30,  
13 2021 filing updates to revenues, expenses, and rate base, as summarized  
14 in the W1-10, and to highlight certain items included in such update.

15 **Q. PLEASE IDENTIFY THE SUPPLEMENTAL EXHIBIT(S) THAT YOU ARE**  
16 **SPONSORING.**

17 A. Please see attached September 30, 2021 W1-10 update.

18 **Q. ARE THERE ANY ITEMS INCLUDED IN THE SEPTEMBER 30, 2021 W1-**  
19 **10 UPDATE THAT YOU WOULD LIKE TO DISCUSS?**

20 A. Yes. A complete list of filing adjustments can be found on the W1-10  
21 summary of adjustments supplied with the filing update. I would like to  
22 highlight and provide context for adjustments to salaries, insurance, pro-

1 forma projects, and the rate base treatment of the Company's recently  
2 implemented Oracle ERP system named Fusion.

3 Effective September 1, 2021, Corix Regulated Utilities made salary  
4 adjustments for certain operational employees, from area managers to field  
5 technicians. The purpose of these salary adjustments was to achieve a  
6 competitive salary for such positions, and to ensure that CWSNC will  
7 continue to provide exceptional, safe service to its customers delivered by  
8 an experienced and proficient operations staff. Salary adjustments were  
9 made for field operations employees only. Senior management positions in  
10 Corix Regulated Utilities and CWSNC were excluded from this market  
11 adjustment. The impact of these salary changes is summarized in the W1-  
12 10 and reflected in the Schedule 15 update.

13 The Company is also making updates for known and measurable  
14 insurance expense increases. Insurance policy renewals for auto  
15 insurance, workers compensation coverage, general liability, and property  
16 and boiler insurance have been submitted to support escalating premiums  
17 and increased asset values. A summary of insurance expense adjustments  
18 is shown on the W1-10 and supported by Schedule 24.

19 I would like to note reductions in rate base which reflect capital  
20 projects that were anticipated to be in service by September 30, 2021, but  
21 have not been placed in service as of yet – specifically, the following  
22 projects:

System	Project
Crestview	Drill New Well - Preliminary Survey
Sugar Mountain	Auger and New Headworks at Sugar WWTP
Fairfield Harbour	Distribution Leak Detection / Repairs
Linville Ridge	Split Rock Booster Station Replacement
Crystal Mountain	Booster Building/ Booster Pack
Apple Valley	Sewer LS Replacement - Change #1 Dry Can to Submersible
Bear Paw	Sewer LS Replacement - LS #3 Dry Can to Submersible

1  
2 The Company reserves the right to further update rate base for projects if  
3 they go into service by the time of the evidentiary hearing in this case, but  
4 does not expect to make further adjustments for these projects.

5 Additionally, CWSNC updated rate base and regulatory asset  
6 accounts to reflect previously-unallocated costs related to the Company's  
7 new Fusion cloud-based ERP system. Fusion is the Company's enterprise  
8 resource planning system. This system is being used to maintain the  
9 Company's accounting, human resource management, accounts  
10 payables/receivables, and fixed asset ledgers, replacing the legacy JDE  
11 system and other applications previously used by Corix Regulated Utilities.  
12 CWSNC is seeking to include the Fusion implementation costs in rate base,  
13 as the project has been placed into service and is fully operational. Invoices  
14 have been submitted to support the known and measurable costs of the  
15 project. Due to the fact that Fusion supports the entire Corix group of  
16 companies and was not allocated in the Test Year, the Company made Tier  
17 1 and Tier 2 allocation adjustments to rate base summarized on the W1-10  
18 and supported on Schedule 25 for corporate allocation items.

1 **Q. IS CWSNC REQUESTING ADDITIONAL REGULATORY TREATMENT**  
2 **OF THE FUSION CLOUD SOFTWARE PROJECT?**

3 A. Yes. In addition to rate base treatment for the capitalized costs of Fusion,  
4 CWSNC is requesting that certain implementation and support costs that  
5 have not been capitalized for the project be given regulatory asset  
6 treatment. FASB ASC 350-40 requires that certain preliminary and post-  
7 implementation costs be accounted for separately from the capitalized costs  
8 of the project. A regulated utility may seek regulatory asset treatment of  
9 these incremental expenses. CWSNC seeks such regulatory asset  
10 treatment and shows both the capitalized costs for Fusion and the  
11 regulatory asset balance on Filing Exhibits B-20a & b, supported by  
12 Schedule 25.

13 **Q. DOES A PRECEDENT EXIST IN NORTH CAROLINA FOR**  
14 **REGULATORY ASSET TREATMENT OF INCREMENTAL OPERATING**  
15 **EXPENSES RELATED TO SOFTWARE IMPLEMENTATION?**

16 A. Yes. In Docket E-7 Sub 1146, Duke Energy was authorized to establish a  
17 regulatory asset to defer and amortize expenses associated with Duke's  
18 Customer Connect project.

19 **Q. HOW DOES THE COMPANY PROPOSE TO TREAT THE ACCOUNTING**  
20 **FOR THE REGULATORY ASSET?**

21 A. CWSNC is requesting generally similar treatment for expenses associated  
22 with Fusion. Unlike Duke, CWSNC is not requesting that AFUDC be

1 calculated and included with the implementation expenses associated with  
2 the regulatory asset portion. However, CWSNC is requesting that the  
3 amortization period begins during the same month that rates from this  
4 proceeding become effective and continues through the amortization period  
5 of the Fusion project. This period will end in 2029, matching the same  
6 amortization life as the Fusion project asset discussed above.

7 **Q. DO THE COMPANY'S UPDATED EXPENSES INCLUDE ANY**  
8 **EXPENSES FOR LOBBYING, POLITICAL OR PROMOTIONAL**  
9 **ADVERTISING, POLITICAL CONTRIBUTIONS, OR CHARITABLE**  
10 **CONTRIBUTIONS?**

11 A. To the best of my knowledge, they do not.

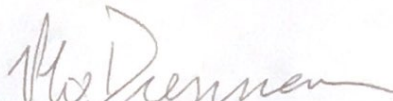
12 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

13 A. Yes, it does.

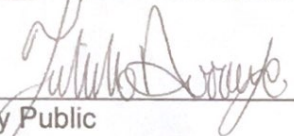


VERIFICATION

Philip J. Drennan, being duly sworn, deposes and says that he is the Regional Director of Financial Planning and Analysis Manager for Carolina Water Service, Inc. of North Carolina; that he is familiar with the facts set out in the attached Update to W1-10, Filing Templates and Supplemental Testimony, filed on October 8, 2021 in W-354 Sub 384; that he has read the referenced filing and knows the contents thereof; and that the same are true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

  
Philip J. Drennan

Sworn to and subscribed before me this the 08 day of October, 2021.

  
Notary Public

My Commission Expires: 02-21-2023

