

NORTH CAROLINA UTILITIES COMMISSION

RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF:

APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC FOR
AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING WATER
UTILITY SERVICE IN ALL ITS SERVICE AREAS IN NORTH CAROLINA

PRE-FILED REBUTTAL TESTIMONY OF

OF

LAURIE OAKMAN

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

February 22, 2022

Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH OLD NORTH STATE WATER COMPANY, LLC, AND YOUR BUSINESS ADDRESS.

A. My name is Laurie Oakman, and I am the Accounting Manager of Integra Water, LLC (Integra). I oversee accounting for Old North State Water Company, LLC (ONSWC or Company) because Integra has an operating agreement whereby it provides support services to ONSWC. My business address is 3212 6th Avenue South, Suite 200, Birmingham, AL 35222.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes, I filed direct testimony on June 29, 2021.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the following issues raised in Public Staff testimony: (1) purchased water expense; (2) maintenance and repair expense; (3) electric power for pumping; (4) chemicals for water treatment; (5) depreciation expense for the Carriage Cove system; (6) removal of vehicle costs associated with sewer operations; (7) accumulated depreciation and depreciation expense for vehicles; (8) cash working capital; (9) bad debt expense; (10) insurance expense; (11) miscellaneous expense; (12) rate case expense; (13) regulatory fee; (14) state and federal income taxes; (15) use of the Uniform System of Accounts; (16) in-service dates for utility plant; (17) adjustment to service revenues.

Q. DO YOU HAVE ANY REBUTTAL EXHIBITS?

A. Yes. Oakman Rebuttal Exhibit 1 reflects changes to the Update Exhibit filed by ONSWC on November 24, 2021. The changes are the result of my review of the Public Staff's

1 prefiled direct testimony, discovery requests on that testimony, and discussions with the
2 Public Staff after they filed their direct testimony. Oakman Rebuttal Exhibit 2 reflects
3 corrections to consumption data, associated service revenues changes, and updated
4 requested rate design.

5 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
6 **PURCHASED WATER EXPENSE?**

7 **A.** Witness Junis at pages 20-21 of his direct testimony recommends for the Rocklyn System,
8 an annual purchased water expense amount of \$31,947 for the updated test year
9 consumption at the City of Winston-Salem's current rates. ONSWC agrees to accept this
10 amount for the Rocklyn System.

11 With regard to the Blawell System witness Junis recommends an annual purchased water
12 expense amount of \$3,228 after applying a system specific growth factor of 2.71% to
13 annualize consumption and the current usage charge for the Town of Stedman. ONSWC
14 has some concerns regarding this amount because the consumption readings from the Town
15 of Stedman are unreliable. The consumption shown by the Town of Stedman is 1,047,430
16 for the period of August 21, 2020, through August 20, 2021. ONSWC sold 1,785,152
17 gallons to customers during the same period. It is impossible to sell more water to
18 customers than you purchased for the customers. The Town of Stedman bills are very
19 inconsistent during and after the test period. ONSWC personnel are confident in the
20 accuracy of ONSWC customer meters and we have found no inaccuracies. ONSWC has
21 consistently reached out to the Town of Stedman to determine the inaccuracies in their
22 billings to ONSWC with no resolution as of the date of writing this rebuttal testimony.

1 Witness Junis proposes to use the amount that ONSWC purchased from the Town of
2 Stedman as the current ongoing level for this system. That approach would seem very
3 reasonable on the surface; however, given that ONSWC meter readings for the Blawell
4 system show a higher consumption, the purchased water expense from the Town of
5 Stedman should be corrected to reflect actual consumption on the system. The Town of
6 Steadman has been alerted to the problem with its readings and it stands to reason they will
7 correct their error and ONSWC will be charged purchased water expense that, going
8 forward, that reflects the consumption shown on customer meters. Moreover, the most
9 recent bill from the Town shows it is moving closer to the proper level of sales to ONSWC
10 customers than past bills.

11 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
12 **MAINTENANCE AND REPAIR EXPENSE?**

13 **A.** Witness Junis on page 17 recommends removal of the maintenance and repair expense for
14 Carriage Cove on the grounds that this system presently has no customers and contract
15 operations of systems that are now being handled by salaried employees or other contract
16 operators. ONSWC accepts the removal of Carriage Cove expenses adjustment in the
17 amount of \$4,262 as recommended by witness Junis. Witness Junis also removes a portion
18 of maintenance and repair expenses in the amount of \$16,807 related to Pace Analytical
19 and Research and Analytical Labs to adjust these contract operations to the current ongoing
20 rates. ONSWC accepts the removal of a portion of the maintenance and repair expenses
21 for Pace Analytical and Research Analytics to reflect an ongoing level for these

1 contractors. ONSWC also agrees with witness Junis' adjustment to remove \$35,566 of
2 maintenance and repair expenses for invoices that ONSWC paid to previous contractors.

3 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
4 **ELECTRIC POWER FOR PUMPING?**

5 **A.** Witness Junis on pages 17-18 does not recommend any adjustment to the Company's
6 expense for electric power for pumping as shown in the ONSWC Revised Exhibit 1. There
7 was no adjustment indicated for the removal of this expense for Carriage Cove. For
8 consistency, ONSWC has removed \$613 of expense from electric power for pumping
9 expense.

10 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
11 **CHEMICALS EXPENSE?**

12 **A.** Witness Junis on pages 18-19 adjusts chemicals expense. ONSWC accepts the Public
13 Staff's adjustment for the removal of \$143 for Chemicals Expense, but we do not agree
14 with the adjustment for the growth factor adjustment for Chemicals in the amount of \$614.
15 We requested clarification of the \$614 amount in a data request. The response received
16 from Public Staff did not clarify the issue. Witness Junis identifies in testimony the annual
17 amount for Chemicals Expense should be \$10,314 after his recommended adjustments.
18 However, the numbers provided in his testimony of \$143 actual chemical expenses and a
19 growth factor adjustment amount of \$614 do not yield the \$556 adjustment presented in
20 Witness Morgan's Exhibit I, Schedule 3. ONSWC disputes any amount of a growth factor
21 adjustment due to the fact the actual growth factor of zero for Carriage Cove was applied
22 to the "\$1,027 of Company adjustments" referenced in witness Junis' testimony. The

Public Staff was provided a detailed supporting file as response to Public Staff's Data Request Number 55, Rate Case Rev-Exp Update Pro Forma – WITH LINKS.xlsx, showing the system specific customer growth adjustments made. As noted, there are no customers currently in Carriage Cove, therefore no customer growth factor was added to the company's pro forma adjustments. Furthermore, no additional customer growth factor adjustments are available to be disallowed for Carriage Cove. The removal of the actual chemicals expenses results in an annual level of \$10,727.

Q. WHAT IS YOUR RESPONSE TO THE PUBLIC STAFF POSITION ON DEPRECIATION EXPENSE FOR CARRIAGE COVE?

A. ONSWC agrees with the removal of Depreciation Expense for Carriage Cove system since there are no customers in the subdivision.

Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON VEHICLE COSTS AND RELATED ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE?

A. Witness Morgan, at pages 6-8 of her direct testimony, made an adjustment to reduce plant in service due to removal of vehicle costs for sewer operations, and associated accumulated depreciation and depreciation expense. I accept these adjustments.

Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON CASH WORKING CAPITAL?

A. Witness Morgan calculates cash working capital as 1/8 of total operations and maintenance expense. This is the same approach used by ONSWC. Any dollar difference is the result of different recommendations for operations and maintenance expense.

1 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
2 **UNCOLLECTIBLES?**

3 **A.** Witness Morgan reclassified \$852 of bad debt expense as uncollectibles expense. I have
4 no objection to this change, as it has no impact on the revenue requirement.

5 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
6 **INSURANCE EXPENSE?**

7 **A.** Witness Morgan on page 9 removed \$2,488 of insurance expense. I agree with this
8 adjustment.

9 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
10 **MISCELLANEOUS EXPENSE?**

11 **A.** For purposes of the present case ONSWC does not challenge witness Morgan's adjustment
12 for miscellaneous expense.

13 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
14 **RATE CASE EXPENSE?**

15 **A.** Witness Morgan, on page 10 of her testimony, adjusted the amount of annual expense for
16 rate case expense by amortizing the expenses for the present rate case over three years, in
17 contrast to the Company's amortization over two years. In my opinion, the amortization
18 period should be a reasonable estimate of the amount of time until the utility will seek
19 another rate case. ONSWC expects to file another rate case for its North Carolina water
20 systems within two years, so we believe two years would be an appropriate amortization
21 period for this expense item.

1 In addition, the Company requests to be allowed to update its rate case expense by filing
2 at the close of the evidentiary hearing its actual costs to that date and its estimated costs for
3 preparing and filing a proposed order. Otherwise, the amount of rate case expense used to
4 set rates will fall short of the actual expense to be incurred. Whatever amortization period
5 is approved by the Commission, ONSWC requests that the Company be allowed receive
6 any unamortized balance of this rate case expense in expenses in its next rate case.

7 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN**
8 **ON REGULATORY FEE?**

9 **A.** Witness Morgan adjusted the regulatory fee to reflect the statutory rate. I agree with this
10 adjustment. The dollar impact will depend on the amount of revenues approved by the
11 Commission for rate case purposes.

12 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
13 **INCOME TAXES?**

14 **A.** Witness Morgan adjusts the amount of state and federal income tax according to the
15 amount of recommended taxable income. I agree with this adjustment, and the dollar
16 impact will depend on the amount of taxable income approved by the Commission for rate
17 case purposes.

18 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION OF WITNESS**
19 **MORGAN THAT ONSWC INTEGRATE THE UNIFORM SYSTEM OF**
20 **ACCOUNTS INTO ITS UTILITY OPERATIONS?**

1 **A.** ONSWC already incorporates the Uniform System of Accounts into its utility operations.
2 The Company uses a prefix to the account number to identify each of the 43 specific
3 systems and a suffix to the account number for more specific financial reporting.

4 **Q.** **ARE THERE OTHER ISSUES YOU WOULD LIKE TO ADDRESS?**

5 **A.** Yes. On pp. 21-25, witness Junis addresses concerns related to how ONSWC has recorded
6 UPiS and CIAC. I will address his enumerated paragraphs 5, 6 and 7. Prior to the Public
7 Staff filing its direct testimony, ONSWC:

8 (1) provided the Public Staff with a list of systems and the dates that could be considered
9 for use as in-service dates, including the dates of DEQ approval, CPCN issuance, and
10 builder application for water service;

11 (2) discussed with the Public Staff the failure to collect gross-up on CIAC for three
12 systems;

13 (3) discussed the identification of a formula error in the Company's Excel-based CIAC
14 amortization schedule; and

15 (4) discussed an issue regarding the Company's use of a composite amortization rate for
16 CIAC instead of breaking out each different plant item and showing its individual
17 amortization rate which coincides with the particular plant category.

18 With regard to items (1), (3) and (4) above, after the Public Staff filed its direct testimony
19 in this case, the Company and the Public Staff convened a virtual meeting to discuss the
20 issues identified above. On February 17, 2022, the Company provided the Public Staff
21 with the corrections to in-service dates, as well as a file correcting the error identified in
22 the CIAC amortization spreadsheet and, an Excel file breaking out each contributed plant

1 item by identifying the system plant account and its associated amortization rate as opposed
2 to using a composite amortization rate for the contributed plant.

3 With regard to (1) above related to the in-service dates for Vernon Place, Kanata Mills,
4 Ashcroft Park and Meadow Lake, ONSWC disagrees in principle with the date used by the
5 Public Staff; however, we will accept the Public Staff's recommendation for purposes of
6 this case.

7 With regard to (2) above, ONSWC has not asked for rate recovery of the gross-up amount
8 that it did not collect from the developer, and ONSWC plans to absorb any taxes due. The
9 Public Staff said it would provide further information to ONSWC regarding any associated
10 impacts on ratepayers, including examples, and we are waiting on that.

11 With regard to (3) and (4) above, we have provided the information to the Public Staff as
12 requested. We concede the calculation error in (3) and have provided a correction.

13 We expect the Public Staff will address these potential issues in their supplemental
14 testimony. To the extent we are unable to reach agreement with them on any of these
15 issues, ONSWC asks that it be allowed a reasonable amount of time to file rebuttal
16 testimony on the Public Staff's supplemental testimony.

17 **Q. ARE THERE OTHER ADJUSTMENTS YOU WOULD LIKE TO ADDRESS?**

18 **A.** On February 21, 2022, I discovered an error in the water consumption data that ONSWC
19 provided to the Public Staff. Water consumption for the Bella Vista system was
20 significantly overstated. The data included an erroneous meter reading entry of 8,997,200
21 gallons for a single residential customer. I sent the corrected consumption data and
22 supporting documentation from our customer service department to witness Junis on

1 February 21. As a result, the service revenues and proposed rates should be adjusted to
2 reflect the correct consumption level. We have included the necessary correction in the
3 adjustments to service revenues in Oakman Rebuttal Exhibit 1 as well as the recalculation
4 of requested rates identified in Oakman Rebuttal Exhibit 2.

5 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

6 **A.** Yes, it does.
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