

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

In the Matter of
Application by Carolina Water Service,)
Inc. of North Carolina, 4944 Parkway)
Plaza Boulevard, Suite 375, Charlotte,)
North Carolina 28217, for Authority to)
Adjust and Increase Rates for Water)
and Sewer Utility Service in All of its)
Service Areas in North Carolina)

TESTIMONY OF
MICHELLE M. BOSWELL
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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**TESTIMONY OF MICHELLE M. BOSWELL
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

NOVEMBER 4, 2019

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

3 A. My name is Michelle M. Boswell. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Staff Accountant with the Accounting Division of the Public Staff –
6 North Carolina Utilities Commission.

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 A. My qualifications and duties are included in Appendix A.

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

11 A. The purpose of my testimony is to present the accounting and
12 ratemaking adjustments I am recommending regarding federal
13 Excess Deferred Income Taxes (EDIT).

1 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION**
2 **INTO THE COMPANY'S FILING.**

3 A. My investigation included a review of the application, testimony,
4 exhibits, and other data filed in this proceeding by Carolina Water
5 Service, Inc. of NC (CWSNC or Company). The Public Staff has also
6 conducted extensive discovery in this matter, including the review of
7 numerous responses provided by the Company in response to data
8 requests.

9 **Q. PLEASE DESCRIBE THE ORGANIZATION OF YOUR EXHIBITS.**

10 A. Boswell Exhibit 1 presents the calculation of federal protected EDIT
11 effects on the Company's rate base and income statement.

12 Boswell Exhibit 2 sets forth the calculation of an annual Federal
13 Unprotected EDIT Rider to be in effect for two years.

14 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

15 A. My adjustments are described below.

16 **FEDERAL EXCESS DEFERRED INCOME TAXES**

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO FEDERAL EXCESS**
18 **DEFERRED INCOME TAXES.**

19 A. In the initial testimony of Company witness DeStefano, the Company
20 stated that its 2017 federal tax return was filed in late 2018, and that
21 certain adjustments to book balances and reserves related to EDIT

1 were recorded to CWSNC's books, adjustments that were not
2 reflected in the Company's most recent rate case. These
3 adjustments affected the balance of both federal protected and
4 unprotected EDIT. Due to the adjustments from the 2017 tax return,
5 the Company proposed two adjustments to federal EDIT in the
6 present case: (1) adjust the federal protected EDIT balance and
7 continue the amortization over the remaining life as calculated
8 utilizing the IRS-approved Reverse South Georgia Method (RSGM)
9 and (2) adjust the federal unprotected EDIT balance and refund the
10 remaining balance to customers through a levelized rider over 2
11 years, instead of the 35 months remaining in the amortization period
12 approved in the last case.

13 The Company indicated, in response to data requests, that the
14 adjustments to the federal protected and unprotected EDIT balances
15 were due, primarily, because 1) the Company took advantage of a
16 late IRS notice stating that regulated utilities were allowed 100%
17 bonus depreciation for those assets placed in service during the
18 period of September 28, 2017 to December 31, 2017, without a
19 binding contract in place before September 28, , and 2) they adjusted
20 amounts utilized in the prior rate case to the actual amounts on their
21 final tax return for 2017.

22 I reviewed the information provided by the Company, and I
23 recommend one adjustment to the calculation of unprotected EDIT.

1 In Company Exhibit W-1-10, Schedule 10, page 1, the Company
2 calculated the unprotected EDIT amortization for the 13 months
3 ended March 31, 2020, treating the adjustment as though it had
4 occurred when the rider began, but calculated the protected EDIT
5 amortization treating the adjustment as becoming effective as of April
6 1, 2020. I have made an adjustment to correct the mismatched
7 calculations and calculated both protected and unprotected EDIT
8 amortizations with the adjustments effective as of April 1, 2020 (thus
9 amortizing the entire amount of each adjustment as being amortized
10 over the remaining amortization period. Boswell Exhibit 2 presents
11 the updated Unprotected EDIT Rider to be in effect for two years.

12 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
13 **REGARDING THE COMPANY'S PROPOSED CHANGE TO THE**
14 **AMORTIZATION PERIOD FOR FEDERAL UNPROTECTED EDIT?**

15 A. The Public Staff does not oppose the Company's request to refund
16 the remaining federal unprotected EDIT balance over 24 months
17 instead of the remaining 35 months as originally ordered by the
18 Commission in Docket No. W-354, Sub 360. The Public Staff
19 believes these adjustments to be reasonable for purposes of this
20 proceeding, but requests that the decisions as to the timing of the
21 recognition of the EDIT adjustments and the decrease in the refund
22 period not be precedent-setting, and that each request for changes

1 to federal EDIT balances and refunds be determined on a case-by-
2 case basis.

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

4 **A.** Yes, it does.

Appendix A

MICHELLE M. BOSWELL

Qualifications and Experience

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

I joined the Public Staff in September 2000. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in DEC's 2010, 2015, and 2017 REPS Cost Recovery Rider; DEP's 2014, 2015, 2017, and 2018 REPS Cost Recovery Rider; the 2014 REPS Cost Recovery Rider for Dominion North Carolina Power (DNCP); the 2008 REPS Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership; four recent Piedmont rate cases, PSNC's 2016 rate case, DNCP's 2012 rate case, DEP's 2013 and 2017 rate case, DEC's 2017 rate case, the 2018 fuel rider for Dominion Energy North

Carolina, , several Piedmont, NUI, and Toccoa annual gas cost reviews; Piedmont and NUI's merger; and Piedmont and NCNG's merger.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.

Carolina Water Service, Inc. of NC
Docket No. W-354, Sub 364
ADJUSTMENT TO FLOWBACK PROTECTED EDIT DUE
TO TAX CUTS AND JOBS ACT
For the Test Year Ended March 31, 2019

Boswell Exhibit 1

Line No.	Item	Amount
1	<u>Income statement</u>	
2	Regulatory liability for federal tax change related to protected EDIT - NC retail	\$3,941,344 ^{1/}
3	RSGM life of asset	<u>43.92 ^{2/}</u>
4	Annual amortization of protected EDIT - NC retail (L2 / L3)	89,746
5	Income tax impact	<u>(20,619) ^{3/}</u>
6	Annual amortization of protected EDIT - NC retail, net of tax (L4 + L5)	<u><u>\$69,127</u></u>
7	<u>Rate base</u>	
8	Adjustment to regulatory assets and liabilities (L4)	(\$89,746)
9	Composite income tax rate	<u>22.9750%</u>
10	Impact to accumulated deferred income taxes (L8 x L9)	<u>20,619</u>
11	Adjustment to rate base (L8 + L10)	<u><u>(\$69,127)</u></u>

- 1/ Per Company Schedule W1-10, Schedule 10, Total Column, Line 13.
- 2/ Per Company Schedule W1-10, Schedule 10, Line 14.
- 3/ Line 4 times composite income tax rate on Line 9.

Carolina Water Service, Inc. of NC
Docket No. W-354, Sub 364
CALCULATION OF ANNUITY FACTOR FOR EDIT
LIABILITY RIDER
For the Test Year Ended March 31, 2019

Boswell Exhibit I
Schedule 2(a)

Line No.	Item	Amount
<u>Annuity Factor</u>		
1	Number of years	2 ^{1/}
2	Payment per period	1
3	After tax rate of return (L9)	6.519%
4	Present value of 1 dollar over number of years with with 1 payment per year	1.8201
5	1 plus (interest rate divided by two)	<u>1.0326</u>
6	Annuity factor (L4 x L5)	<u><u>1.8794</u></u>

	<u>Capital Structure</u> (a)	<u>Cost Rates</u> (b)	<u>Overall Rate of Return</u> ^{6/} (c)	<u>Net of Tax Rate</u> (d)
<u>After Tax Rate of Return</u>				
7	50.90% ^{2/}	5.36% ^{4/}	2.73%	2.10% ^{7/}
8	49.10% ^{3/}	9.00% ^{5/}	<u>4.42%</u>	<u>4.419% ^{8/}</u>
9	<u>100.00%</u>		<u>7.15%</u>	<u>6.519%</u>

- 1/ Rider period requested by the Company.
- 2/ Feasel Exhibit I, Schedule 1(a), Column (a), Line 7.
- 3/ Feasel Exhibit I, Schedule 1(a), Column (a), Line 8.
- 4/ Feasel Exhibit I, Schedule 1(a), Column (c), Line 7.
- 5/ Feasel Exhibit I, Schedule 1(a), Column (c), Line 8.
- 6/ Column (a) times Column (b).
- 7/ Column (c) times 1 minus the combined income tax rate of 22.975%.
- 8/ Amount from Column (c).

Carolina Water Service, Inc. of NC
Docket No. W-354 Sub 364
**CALCULATION OF LEVELIZED FEDERAL
UNPROTECTED EDIT RIDER CREDIT**
For the Test Year Ended March 31, 2019

Boswell Exhibit 2

Line No.	Item	Year 1 Revenue Requirement (a)	Year 2 Revenue Requirement (b)	Total Revenue Requirement (c)
	<u>Annuity Factor</u>			
1	Number of years	2 ^{1/}		
2	Payment per period	1		
3	After tax rate of return	6.519% ^{2/}		
4	Present value of 1 dollar over number of years with			
5	with 1 payment per year	1.8201		
6	1 plus (interest rate divided by two)	1.0326		
7	Annuity factor (L4 x L5)	<u>1.8794</u>		
8	Total NC retail regulatory liability to be amortized	\$693,114 ^{3/}	\$693,114 ^{3/}	
9	Annuity factor (L7)	<u>1.8794</u>	<u>1.8794</u>	
10	Levelized rider federal EDIT regulatory liability (L8 / L9)	368,796	368,796	737,592 ^{6/}
11	One minus composite income tax rate	<u>77.03% ^{4/}</u>	<u>77.03% ^{4/}</u>	<u>77.03% ^{4/}</u>
12	Net operating income effect (L10 x L11)	284,065	284,065	568,130
13	Retention factor	<u>0.769248 ^{5/}</u>	<u>0.769248 ^{5/}</u>	<u>0.769248 ^{5/}</u>
14	Levelized rider federal EDIT credit (L5 / L6)	<u>\$369,276</u>	<u>\$369,276</u>	<u>\$738,552</u>

- 1/ Rider period recommended by Public Staff.
- 2/ Boswell Exhibit 1, Schedule 2(a), Line 3.
- 3/ Per Company Workpaper W1-10, Schedule 10, Page 1, Column Total, Line 21, updated for calculation error.
- 4/ One minus the composite income tax rate of 22.975%.
- 5/ Net Income retention factor.
- 6/ Sum of Columns (a) through Column (b).