



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 19, 2018

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-354, Sub 360 - Petition for General Rate Increase

Dear Ms. Jarvis:

Enclosed for filing in the above-referenced docket is the Partial Joint Settlement Agreement and Stipulation of Carolina Water Service, Inc. of North Carolina, and the Public Staff.

By copy of this letter, I am forwarding a copy to all parties of record.

Yours very truly,

/s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

GCH/cla

Enclosure

Executive Director (919) 733-2435	Communications (919) 733-2810	Economic Research (919) 733-2902	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

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OFFICIAL COPY

Oct 19 2018

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service, Inc. of)
North Carolina, 4044 Parkway Plaza Boulevard,)
Suite 375, Charlotte, North Carolina 28217, for)
Authority to Adjust and Increase Rates for)
Water and Sewer Utility Service in All Service)
Areas in North Carolina, Except Corolla Light)
and Monteray Shores Service Area)

PARTIAL JOINT
SETTLEMENT AGREEMENT
AND STIPULATION

Carolina Water Service of North Carolina, Inc. (CWSNC or Company), and the Public Staff – North Carolina Utilities Commission (Public Staff) (collectively the Stipulating Parties), through counsel and pursuant to N.C. Gen. Stat. § 62-92 and Rule R1-24(c) of the Rules and Regulations of the North Carolina Utilities Commission (Commission), respectfully submit the following Partial Joint Settlement Agreement and Stipulation (Stipulation) for consideration by the Commission in this proceeding. The Stipulating Parties hereby stipulate and agree as follows:

I. BACKGROUND

A. On March 23, 2018, CWSNC gave notice of its intent to file a general rate case.

B. On April 6, 2018, CWSNC filed a procedural motion in this docket and in Docket M-100 Sub 148, proposing that the impact on the Company's rates through the Federal Tax Cut and Jobs Act be addressed and resolved in this rate case docket.

C. On April 27, 2018, CWSNC filed its Application in this proceeding seeking authority to increase its rates for water and sewer utility service in all of its

service areas in North Carolina, excluding the Company's Corolla Light and Monteray Shores service area. Included with this filing were certain information and data required by NCUC Form W-1 (Form W-1).

D. On May 16, 2018, the Company filed an Amendment to its Application to provide a revised Page 4 of 7 to Appendix A-1.

E. On May 22, 2018, the Commission issued its Order Establishing General Rate Case, Suspending Rates, Scheduling Hearings, and Requiring Customer Notice.

F. On May 30, 2018, CWSNC filed its Ongoing Three-Year WSIC/SSIC Plan.

G. On September 24, 2018, CWSNC filed the direct testimony and exhibits of Company witnesses Richard Linneman, Dylan D'Ascendis, and Deborah Clark.

H. On September 24, 2018, the Corolla Light Community Association filed a petition to Intervene and on September 29, 2018, the Attorney General's Office gave notice of intervention. The Commission allowed Corolla Light's intervention on October 11, 2018.

I. On October 3, 2018, the Public Staff filed the direct testimony and exhibits of Public Staff witnesses Gina Y. Casselberry, John R. Hinton, Lynn Feasel and Sonja R. Johnson.

J. Public Staff witness Michelle Boswell filed testimony on October 4, 2018, and on October 5, 2018, Sonja Johnson filed supplemental testimony.

K. On October 11, 2018, the Public Staff filed supplemental testimony of Gina Y. Casselberry, and on October 12, 2018, it filed supplemental testimony of Michelle Boswell, Windley E. Henry, John R. Hinton, and additional supplemental testimony from Sonja Johnson. Henry Revised Supplemental Exhibits were filed on October 12, 2018, as well.

L. Subsequent to the filing of the Company's Application in this docket, the Public Staff engaged in substantial discovery of CWSNC regarding the matters addressed by the Company's Application and further examined the relevant books and records of CWSNC with respect to the Company's Application. The Public Staff conducted field inspections of Fairfield Harbour, Brandywine Bay/Spooner Creek, Hestron Park, Elk River, Sugar Mountain, Hounds Ear, Mt. Carmel, High Vista, Sapphire Valley, Connestee Falls, Fairfield Mountain/Apple Valley, Carolina Trace, and Whispering Pines.

M. Following completion of the Public Staff's investigation of the Company's Application and accompanying documents, review of the results of its examination of the Company's books and records, review of the Company's responses to the Public Staff's Data Requests, and after the Public Staff filed its direct testimony, the Stipulating Parties met and participated in meetings and conference calls to discuss possible settlement.

N. After settlement negotiations, in which concessions from their respective litigation positions were made by both parties, the Stipulating Parties were ultimately able to arrive at a partial joint settlement, the terms of which are

reflected in the following sections of this Stipulation and the schedules and exhibits attached hereto. The Stipulating Parties agree and stipulate as follows:

II. UNRESOLVED ISSUES BETWEEN THE STIPULATING PARTIES

The Stipulating Parties have not reached a compromise on the following issues (Unresolved Issues):

- a. Return on Equity;
- b. Public Staff adjustments to ADIT and EDIT;
- c. Public Staff proposal that CWSNC refund to ratepayers the overcollection of federal taxes related to the decrease in the federal corporate tax rate since January 1, 2018;
- d. Reduction of executive compensation and benefits, and related payroll taxes, by 50%;
- e. Re-allocation of insurance premium expenses, passed to CWSNC from its parent, Utilities, Inc.;
- f. Public Staff use of composite utility plant depreciation rates for calculating CIAC and PAA amortization expense;
- g. Removal of purchased water and purchased sewer treatment expense from the cash working capital calculation;
- h. Implementation of the proposed Consumption Adjustment Mechanism; and
- i. Tariff rate design.

III. REVENUE REQUIREMENT ISSUES RESOLVED BETWEEN THE STIPULATING PARTIES

The Stipulating Parties have reached an agreement regarding certain revenue requirement issues which are identified on Settlement Exhibit 1, which is incorporated herein by reference and attached hereto. The actual amounts of the agreed-upon adjustments may differ due to the effects of the Unresolved Issues and updated information to be provided by the Company. The revenue requirement effects of the agreed-upon issues are shown on Settlement Exhibit 1.¹ The revenue requirement effects of this Stipulation provide sufficient support for the annual revenue required on the issues agreed to in this Stipulation. No Stipulating Party waives any right to assert a position in any future proceeding or docket before the Commission or in any court, as the adjustments agreed to in this Stipulation are strictly for purposes of compromise and are intended to show a rational basis for reaching the agreed-upon revenue requirement adjustments without either party conceding any specific adjustment. The Stipulating Parties agree that settlement on these issues will not be used as a rationale for future arguments on contested issues brought before the Commission. The areas of agreement are as follows:

A. The test period for this rate case is the twelve months ending December 31, 2017, adjusted for certain changes in plant, revenues, and costs that were not known at the time the case was filed but are based upon

¹ The total increase in base rate revenues and the resulting average increase, if any, will not be determined until the Commission rules on the Unresolved Issues.

circumstances occurring or becoming known through the close of the evidentiary hearing.

B. The capital structure appropriate for use in this proceeding is a capital structure consisting of 50.91% common equity and 49.09% long-term debt at a cost of 5.68%

C. The Company accepts the Public Staff's proposed adjustments as identified as "Settled Items" on the attached Settlement Exhibit 1.

D. The Company has agreed to the Public Staff's proposed adjustments to accumulated deferred income taxes (ADIT) regarding unamortized rate case expense. The Stipulating Parties agree to revise ADIT for any updates made to regulatory commission expense.

E. The Company has agreed to the amount of unamortized deferred maintenance and annual deferred maintenance and repair expense as calculated by the Public Staff. The Stipulating Parties disagree as to how these amounts should be recovered from ratepayers.

F. The Stipulating Parties have agreed to a methodology for calculating regulatory commission expense, also known as rate case expense, and will update the number in Settlement Exhibit 1, Line 46, for actual and estimated costs once supporting documentation is provided by the Company. The Stipulating Parties agree to amortize regulatory commission expense for a five-year period.

G. The Stipulating Parties agree that the protected EDIT will be flowed back over a 45-year period using the Reverse South Georgia method, in accordance with tax normalization rules required by IRC Section 203(e).

H. CWSNC agrees to withdraw its request that deferral accounting treatment of costs related to Hurricane Florence be authorized by the Commission in this case and that amortization of such prudently-incurred costs be addressed in the Company's next general rate case. The Company will file its request for deferred accounting for prudently-incurred, hurricane-related costs and lost revenues in a separate docket.

IV. AGREEMENT TO SUPPORT SETTLEMENT; NON-WAIVER.

A. The Stipulating Parties will act in good faith to support the reasonableness of this Stipulation in any hearing before the Commission and any proposed order or brief in this docket. The Stipulating Parties further agree that this Stipulation is in the public interest because it reflects a give-and-take partial settlement of contested issues.

B. The provisions of this Stipulation do not reflect any position asserted by any of the Stipulating Parties but reflect instead the compromise and settlement between the Stipulating Parties as to all of the issues covered hereby. No Stipulating Party waives any right to assert any position in any future proceeding or docket before this or any other Commission and in any court except insofar as the Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not be cited as precedent by any of the Parties regarding any issue in any other proceeding or docket before this Commission or in any court.

C. This Stipulation is a product of negotiation among the Stipulating Parties, and no provision of this Stipulation shall be strictly construed in favor of or

against any Party.

V. Introduction of Testimony and Waiver of Cross-Examination.

A. Except for testimony and exhibits related to the Unresolved Issues, the pre-filed testimony and exhibits of the Stipulating Parties may be received in evidence without objection, and each Party waives all right to cross examine any witness with respect to such pre-filed testimony and exhibits. If, however, questions are asked by any Commissioner, or if questions are asked or positions are taken by any person who is not a Party, then any Party may respond to such questions by presenting testimony or exhibits and cross-examining any witness with respect to such testimony and exhibits.

B. The Stipulating Parties agree that CWSNC's Application and the testimony and exhibits of the Stipulating Parties will provide sufficient support for the annual revenue requirement amounts agreed to in this Stipulation, subject to the revenue requirement effect of the Commission's decisions on the Unresolved Issues.

VI. STIPULATION BINDING ONLY IF ACCEPTED IN ITS ENTIRETY

This Stipulation is the product of negotiation and compromise of a complex set of issues, and no portion of this Stipulation is or will be binding on either of the Stipulating Parties unless the entire Partial Settlement Agreement and Stipulation is accepted by the Commission. If the Commission rejects any part of this Stipulation or approves this Stipulation subject to any change or condition, or if the Commission's approval of this Stipulation is rejected or conditioned by a reviewing court, the Stipulating Parties agree to meet and discuss the applicable Commission

or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, each Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and shall not be bound or prejudiced by the terms and conditions of the Stipulation.

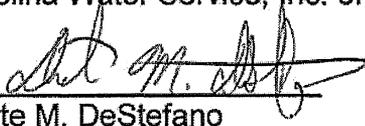
VII. COUNTERPARTS

This Stipulation may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. Execution by facsimile signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed and stipulated to this the 19th day of October 2018.

Carolina Water Service, Inc. of North Carolina

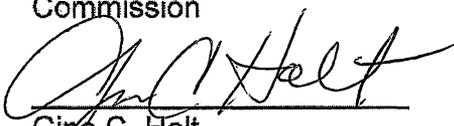
By:



Dante M. DeStefano
Financial Planning & Analysis Manager

Public Staff – North Carolina Utilities
Commission

By:



Gina C. Holt
Staff Attorney

CAROLINA WATER SERVICE, INC. OF NC
Docket No. W-354, Sub 360
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended December 31, 2017

Settlement Exhibit 1

Line No.	Item	CWSNC	CWSNC	BF/FH/TC	BF/FH/TC
		Water	Sewer	Water	Sewer
		(a)	(b)	(c)	(d)
1	Increase/(decrease) in total revenue per Company	\$2,485,612	\$1,022,180	\$511,341	\$386,403
	Settled Items:				
2	Difference in calculation of revenue requirement based on Company amounts	(1)	(2)	(2)	0
3	Adjust capital structure to 49.09% debt and 50.91% equity	(107,329)	(79,687)	(5,105)	(12,930)
4	Adjust debt cost rate to 5.68%	(94,538)	(70,194)	(4,495)	(11,389)
5	Adjustment to uncollectibles	10,049	3,366	3,143	4,694
6	Adjustment to forfeited discounts	(4,379)	(2,002)	(402)	(604)
7	Adjustment to miscellaneous revenues	(20,080)	19,170	(3,530)	3,530
8	Update revenues to 6/30/2017	(27,964)	45,470	0	(11,651)
9	Adjustment to include plant held for future use	(8,514)	(45,866)	0	0
10	Adjustment to remove pro forma estimates	(286,501)	(156,324)	0	(16,159)
11	Adjustment to cost center rate base	(498)	(188)	0	0
12	Adjustment to include cost centers GL additions	20,238	10,167	2,236	1,879
13	Adjustment to update rate base	8,532	3,719	29,016	10,541
14	Adjustment to include actual GL additions	271,905	185,284	4,772	30,665
15	Adjustments to add in capitalized legal fees	0	697	0	0
16	Adjustment to remove AA Riverbend	46	0	0	0
17	Adjustment to customer deposits	(1,659)	(988)	(261)	(271)
18	Adjustment to gain on sale	8,025	4,088	0	0
19	Adjustment to excess book value	(1)	0	0	0
20	Adjustment to average tax accruals	(12,171)	(7,345)	(828)	(890)
21	Adjustment to deferred charges	(29,033)	(70,480)	(9,169)	(1,520)
22	Adjustment to maintenance salaries	(83,856)	(42,168)	(8,563)	(8,913)
23	Adjustment to purchased power	(1,913)	0	0	0
24	Adjustment to maintenance and repair	(366,470)	6,770	(503)	(19,671)
25	Adjustment to maintenance testing	59,523	12,397	3,680	(1,968)
26	Adjustment to meter reading	(96)	0	0	0
27	Adjustment to chemicals	(131,848)	136,058	3,428	(3,427)
28	Adjustment to transportation	(1,464)	(411)	(83)	(87)
29	Adjustment to capitalized time	19,025	12,002	1,847	1,942

CAROLINA WATER SERVICE, INC. OF NC
 Docket No. W-354, Sub 360
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
 For The Test Year Ended December 31, 2017

Settlement Exhibit 1

Line No.	Item	CWSNC	CWSNC	BF/FH/TC	BF/FH/TC
		Water	Sewer	Water	Sewer
		(a)	(b)	(c)	(d)
30	Adjustment to outside services - other	(18,560)	(8,499)	(84)	(88)
31	Adjustment to office supplies and other office exp.	(2,646)	(617)	(124)	(130)
32	Adjustment to rent	(3,993)	(1,843)	(374)	(390)
33	Adjustment to office utility	(1,396)	(355)	(72)	(75)
34	Adjustment to miscellaneous	(103,860)	(61,385)	(13,310)	(13,857)
35	Adjustment to depreciation expense	(13,823)	87,203	(222,703)	217,394
36	Adjustment to franchise tax	(2)	0	0	0
37	Adjustment to property tax	524	(162)	(32)	(34)
38	Rounding	0	(1)	1	1
39	Total Settled Items	<u>(924,728)</u>	<u>(22,125)</u>	<u>(221,516)</u>	<u>166,592</u>
	Unsettled Items:				
40	Adjust return on equity to 9.2%	(919,584)	(682,785)	(43,727)	(110,782)
41	Adjustment to cash working capital	(10,986)	(1,699)	(665)	(1,058)
42	Adjustment to ADIT	111,373	(10,090)	27,026	(17,178)
43	Adjustment for excess deferred taxes	(46,359)	(51,711)	1,627	(12,766)
44	Adjustment to purchased water/sewer	(125,068)	(1,988)	31,359	0
45	Adjustment to general salaries and wages	(78,669)	(43,498)	(8,833)	(9,196)
46	Adjustment to regulatory commission expense	(178,163)	(105,713)	(20,044)	(21,779)
47	Adjustment to pension and benefits	(21,435)	(12,761)	(2,592)	(2,698)
48	Adjustment to insurance	(71,667)	(42,694)	(14,135)	(14,715)
49	Adjustment to amortization expense - CIAC	(91,880)	(158,721)	(8,739)	(36,886)
50	Adjustment to amortization expense - PAA	(11,563)	7,750	1,397	(35,771)
51	Adjustment to payroll tax	(7,470)	(3,597)	(731)	(761)
52	Total Unsettled Items	<u>(1,451,471)</u>	<u>(1,107,507)</u>	<u>(38,057)</u>	<u>(263,590)</u>
53	Revenue impact of Public Staff adjustments	<u>(2,376,199)</u>	<u>(1,129,632)</u>	<u>(259,573)</u>	<u>(96,998)</u>
54	Increase/(decrease) per Public Staff	<u>\$109,413</u>	<u>(\$107,452)</u>	<u>\$251,767</u>	<u>\$289,405</u>
55	Public Staff recommended increase(decrease) (L54)	109,413	(107,452)	251,767	289,405
56	Federal Unprotected EDIT Rider	(150,920)	(168,341)	5,297	(41,561)
57	Public Staff Rrecommended change in revenue requirement (L55 + L56)	<u>(\$41,507)</u>	<u>(\$275,793)</u>	<u>\$257,064</u>	<u>\$247,844</u>