

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of)
Application by Old North State Water)
Company, LLC., Post Office Box,)
10127, Birmingham, Alabama, 35202)
for Authority to Adjust and Increase)
Rates for Water Utility Service in All of)
its Service Areas in North Carolina)

TESTIMONY OF
IRIS MORGAN
PUBLIC STAFF- NORTH
CAROLINA UTILITIES
COMMISSION

**OLD NORTH STATE WATER COMPANY, LLC
DOCKET NO. W-1300, SUB 60**

**TESTIMONY OF IRIS MORGAN
ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION**

FEBRUARY 8, 2022

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

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst in
5 the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding

7 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC**
8 **STAFF?**

9 A. I have been employed by the Public Staff since September 2, 2002.
10 I joined the Public Staff Accounting Division on December 1, 2008.

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

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

13 **Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?**

14 A. I am responsible for analyzing testimony, exhibits, and other data
15 presented by parties before the North Carolina Utilities Commission
16 (Commission). I am also responsible for performing examinations of
17 the books and records of utilities involved in proceedings before the

1 Commission and summarizing the results in testimony and exhibits
2 for the Commission.

3 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
4 **PROCEEDING?**

5 A. On June 29, 2021, Old North State Water Company, LLC (ONSWC
6 or the Company) filed an application with the Commission seeking
7 authority to increase its rates for providing water utility service in all
8 of its service areas located in the following counties in North
9 Carolina: Cumberland, Davidson, Franklin, Guilford, Orange,
10 Randolph, Rockingham and Wake (the Application). On November
11 24, 2021, ONSWC filed updates to its actual revenues, expenses,
12 rate base, and cost of capital through August 31, 2021 (Update
13 Filing). My investigation included a review of the Application and
14 Update Filing, an examination of the Company's books and records
15 for the test year, and a review of additional documentation provided
16 by the Company in response to written data requests.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. The purpose of my testimony in this proceeding is to present the
20 results of my investigation of the levels of revenues, expenses, and
21 investment the Company filed or otherwise asserts in support of its
22 requested increase in operating revenues for water operations.

1 **Q. BRIEFLY DESCRIBE THE PRESENTATION OF YOUR**
2 **TESTIMONY AND EXHIBITS.**

3 A. My testimony addresses each issue identified in my investigation,
4 and my exhibits include schedules showing the calculation of my
5 adjustments to revenues, expenses, and rate base. My schedules
6 also reflect adjustments other Public Staff witnesses have
7 recommended. Schedule 1 of Morgan Exhibit I presents the return
8 on original cost rate base under present rates, the Company's
9 proposed rates, and the Public Staff's recommended rates. Schedule
10 2, along with its supporting schedules, presents the original cost rate
11 base. Schedule 3, along with its supporting schedules, presents the
12 calculation of net operating income for a return under present rates,
13 the Company's proposed rates, and the Public Staff's recommended
14 rates.

15 Schedule 1 of Exhibit II presents the calculation of the gross revenue
16 impact of the Public Staff's adjustments.

17 **Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING THE**
18 **APPLICATION?**

19 A. Based on my investigation, the Company's original cost rate base on
20 December 31, 2020, updated to August 31, 2021, is \$1,596,219 for
21 water operations. The level of operating revenue deductions
22 requiring a return (total operating expenses excluding the

1 Commission regulatory fee and income taxes) is \$1,188,821. As
2 allowed under N.C. Gen. Stat. § 62-133, I used the rate base method
3 to evaluate the Company's proposed revenue requirement.

4 I calculated an increase in the gross revenue requirement using the
5 overall return of 7.00%, the reasonable rate recommended by Public
6 Staff Witness John R. Hinton, the Director of the Economic Research
7 Division of the Public Staff. Use of this rate base return increases the
8 gross water revenue requirement by \$343,641. The resulting total
9 revenue requirement is \$1,324,656, of which \$1,310,601 is attributed
10 to service revenues. Therefore, the Public Staff recommends that
11 water service rates be set to reflect a \$343,641 increase, resulting in
12 an annual level of service revenues of \$1,310,601.

13 **Q. DOES MORGAN EXHIBIT I REFLECT ADJUSTMENTS OTHER**
14 **PUBLIC STAFF WITNESSES HAVE SUPPORTED?**

15 A. Yes, Morgan Exhibit I reflects the following adjustments other Public
16 Staff witnesses have supported:

- 17 1. The recommendation of Public Staff Witness Hinton regarding
18 the capital structure, embedded cost of long-term debt and
19 return on common equity; and
- 20 2. The recommendations of Public Staff Witness Junis,
21 regarding the items listed below:

- 1 (a) Service revenues at present rates;
2 (b) Service revenues at Company's proposed rates;
3 (c) Maintenance and repair expense;
4 (d) Chemicals for treatment; and
5 (e) Purchased water.

6 **Q. WHAT ADJUSTMENTS WILL YOU DISCUSS?**

7 A. The accounting and ratemaking adjustments that I will discuss relate
8 to the following items:

- 9 (a) Plant in service;
10 (b) Accumulated depreciation and depreciation expense;
11 (c) Cash working capital;
12 (d) Uncollectibles;
13 (e) Other expenses - insurance expense;
14 (f) Other expenses - miscellaneous expense;
15 (g) Rate case expense;
16 (h) Regulatory fees; and
17 (i) State and Federal income taxes.

18 **PLANT IN SERVICE**

19 **Q. IN WHAT AREAS HAVE YOU MADE ADJUSTMENTS TO PLANT**
20 **IN SERVICE?**

21 A. ONSWC presented the amount of \$11,729,405 for plant in service
22 for water operations in the Update Filing. The Company purchased
23 several new vehicles for its water and sewer operations. Therefore,
24 I made a downward adjustment, totaling \$119,978, to remove vehicle
25 costs associated with its sewer operations. This adjustment resulted

1 in a revised total amount of \$11,609,427 for plant in service, as
2 shown on Schedule 2-1 of Morgan Exhibit I.

3 Furthermore, as addressed in more depth in Public Staff witness
4 Junis' testimony, the Public Staff has concerns with how the
5 Company has recorded utility plant in service (sometimes referred to
6 as UPIS) and contributions in aid of construction (CIAC) and
7 addressed the CIAC income tax gross up requirements set forth by
8 the Commission in its Order Addressing Federal Income Taxes on
9 Contributions in Aid of Construction issued August 26, 2019, in
10 Docket No. W-100, Sub 57. The Public Staff is working with the
11 Company to ensure the correct associated in-service dates,
12 accumulated depreciation, accumulated amortization, and rate base
13 have been used, adopted, or recorded, where applicable. To the
14 extent incorrect information has been used, adopted, or recorded,
15 the Public Staff reserves the right to file supplemental testimony to
16 properly determine rate base, the service revenue requirement, and
17 ultimately rates and propose additional, conforming adjustments.

18 **ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

19 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO ACCUMULATED**
20 **DEPRECIATION AND DEPRECIATION EXPENSE?**

21 A. Based on the information filed by the Company, I made an
22 adjustment to decrease the Company's proposed UPIS balance by

1 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO OTHER EXPENSES:**
2 **INSURANCE EXPENSE?**

3 A. The Company presented the amount of \$14,211 for other expenses:
4 insurance expense on the Update Filing. I made downward
5 adjustments in the amount of \$2,488, which resulted in a total
6 amount of \$11,723, for other expenses: insurance expense, as
7 shown on Schedule 3-1 of Morgan Exhibit I. The decrease is due to
8 two adjustments I made: (1) reduction of the property, general liability
9 & excess liability expenses by \$1,538 to reflect actual cost and (2)
10 reduction of the annual premium compensation expenses for new
11 employees by \$950 to reflect actual cost.

12 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO OTHER EXPENSES:**
13 **MISCELLANEOUS EXPENSE?**

14 A. The Company presented the amount of \$9,908 for other expenses:
15 miscellaneous expenses in the Update Filing. I made an upward
16 adjustment of \$92 to reflect actual costs for a 12-month bond
17 expense for water operations. This adjustment resulted in a total
18 amount of \$10,000 for other expenses: miscellaneous expense, as
19 shown on Schedule 3-2 of Morgan Exhibit I.

20 **RATE CASE EXPENSE**

21 **Q. HOW DID YOU CALCULATE RATE CASE EXPENSE?**

1 A. On the Update Filing, the Company included \$73,974 for rate case
2 expense. I made an adjustment to rate case expense to include the
3 filing fee of \$250; legal fees of \$82,404; accounting fees of \$14,850;
4 rate case labor allocations from Integra Water totaling \$28,334; and
5 administrative fees and office supplies of \$3,435, for a total amount
6 of \$129,272 in rate case expense. Next, I amortized the total rate
7 case expense over the standard three year period, approved by the
8 Commission in Docket No. W-1226, Sub 3, Docket No. W-1075,
9 Sub12 and several other dockets. These adjustments resulted in a
10 total amount of \$43,091 for rate case expense, as shown on
11 Schedule 3-3 of the Morgan Exhibit I.

12 **REGULATORY FEE**

13 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REGULATORY FEE.**

14 A. I adjusted the regulatory fee to reflect the statutory rate of .13%
15 applied to revenues under present rates, the Company's proposed
16 rates, and the Public Staff's recommended rates.

17 **STATE AND FEDERAL INCOME TAXES**

18 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO STATE AND**
19 **FEDERAL INCOME TAXES?**

20 A. The levels of state and federal income tax are based on the statutory
21 corporate rates for the level of income presented after all Public Staff

1 adjustments. The calculation of state and federal income taxes is
2 shown on Schedule 3-4 of Morgan Exhibit I.

3 **MISCELLANEOUS**

4 **Q. WHAT ACCOUNTING RECOMMENDATIONS DO YOU SUGGEST**
5 **FOR THE COMPANY?**

6 A. I recommend the Company integrate the Uniform System of
7 Accounts into its utility operations for financial reporting purposes.

8 **Q. WILL THERE BE SUPPLEMENTAL TESTIMONY FOR THIS**
9 **GENERAL RATE CASE PROCEEDING?**

10 A. Yes. As discussed earlier in my testimony, and addressed in more
11 depth in Public Staff witness Junis' testimony, ONSWC will likely
12 need to make corrections to the in-service dates, accumulated
13 depreciation, accumulated amortization, rate base, and associated
14 income tax gross-up implications. Given the timing and nature of
15 such corrections, if corrections are in fact needed, it will be necessary
16 for the Public Staff to file supplemental testimony to properly
17 establish rate base, the service revenue requirement, and
18 recommended rates upon completion of its review of the Company's
19 updated, supplemental documentation. The Public Staff therefore
20 reserves the right to file such supplemental testimony and make the
21 necessary, conforming adjustments.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

IRIS MORGAN

1 I graduated from North Carolina Wesleyan College with a Bachelor of
2 Science Degree in Accounting and Business Administration in 2007. Also, I
3 graduated from Keller Graduate School of Management with a Master of
4 Accounting and Financial Management (2011), a Master of Business
5 Administration (2013), and a Master of Public Administration (2014).

6 Prior to joining the Public Staff, I was employed by WorldCom, Inc., as a
7 CORE Analyst. My duties included providing customer service support and
8 addressing customer billing and reporting requirements.

9 I joined the Public Staff in September 2002 as an Administrative Assistant.
10 In 2006, I was promoted to a Consumer Services Complaint Analyst where
11 I resolved numerous consumer complaints and performed utility reporting
12 analysis. After completion of my Accounting degree, I was promoted to a
13 Public Staff Accountant in December of 2008.

14 I have performed audits and filed testimony and exhibits in several water
15 rate cases, and assisted in investigations addressing a wide range of topics
16 and issues related to the water, electric and gas industries.

INDEX TO MORGAN EXHIBIT I

<u>Line No.</u>	<u>Title</u>	<u>Schedule Number</u>
1	RETURN ON ORIGINAL COST RATE BASE	1
2	ORIGINAL COST RATE BASE	2
3	CALCULATION OF PLANT IN SERVICE, ACCUMULATED	
4	DEPRECIATION AND DEPRECIATION EXPENSE	2-1
5	NET OPERATING INCOME FOR A RETURN	3
6	FOOTNOTES TO SCHEDULE 3	3(a)
7	ADJUSTMENT TO OTHER EXPENSES: INSURANCE EXPENSE	3-1
8	ADJUSTMENT TO OTHER EXPENSES: MISCELLANEOUS EXPENSE	3-2
9	CALCULATION OF RATE CASE EXPENSE	3-3
10	CALCULATION OF INCOME TAXES	3-4
11		

OLD NORTH STATE WATER COMPANY, LLC

Docket No. W-1300, Sub 60

RETURN ON ORIGINAL COST RATE BASE

For The Test Year Ended December 31, 2020

Public Staff

Morgan Exhibit I

Schedule 1

Line No.	Item	Capitalization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [3] (c)	Overall Cost Rate [7] (d)	Net Operating Income [8] (e)
<u>Present rates:</u>						
1.	Debt	50.00%	\$798,110 [2]	4.60% [1]	2.30%	\$36,713 [8]
2.	Equity	50.00%	798,109 [2]	-30.80% [6]	-15.40%	(245,794) [9]
3.	Total	<u>100.00%</u>	<u>\$1,596,219 [3]</u>		<u>-13.10%</u>	<u>(\$209,081) [10]</u>
<u>Company proposed rates:</u>						
4.	Debt	50.00%	\$798,110 [4]	4.60% [1]	2.30%	\$36,713 [8]
5.	Equity	50.00%	798,109 [4]	25.69% [6]	12.85%	205,008 [11]
6.	Total	<u>100.00%</u>	<u>\$1,596,219 [3]</u>		<u>15.15%</u>	<u>\$241,721 [12]</u>
<u>Public Staff recommended rates:</u>						
7.	Debt	50.00%	\$798,110 [5]	4.60% [1]	2.30%	\$36,713 [8]
8.	Equity	50.00%	798,109 [5]	9.40% [1]	4.70%	75,022 [8]
9.	Total	<u>100.00%</u>	<u>\$1,596,219 [3]</u>		<u>7.00%</u>	<u>\$111,735</u>

[1] Provided by Public Staff Financial Analyst Hinton.

[2] Column (a) x Line 3, Column (b).

[3] Morgan Exhibit I, Schedule 2, Line 10, Column (c).

[4] Column (a) x Line 6, Column (b).

[5] Column (a) x Line 9, Column (b).

[6] Column (e) divided by Column (b).

[7] Column (a) x Column (c).

[8] Column (b) x Column (c).

[9] Line 3 - Line 1, Column (e).

[10] Morgan Exhibit I, Schedule 3, Line 30, Column (c).

[11] Line 6 - Line 4, Column (e).

[12] Morgan Exhibit I, Schedule 3, Line 30, Column (e).

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 2

Line No.	Item	Amount Per Update (a)	Public Staff Adjustments [1] (b)	Amount Per Public Staff (c)
1	Plant in service	\$11,729,405	(\$119,978)	\$11,609,427 [2]
2	Accumulated depreciation	(1,246,639)	(3,567)	(1,250,206) [3]
3	Contributions in aid of construction	(9,308,078)	0	(9,308,078)
4	Accumulated amortization of CIAC	723,778	0	723,778
5	Customer advances	(303,980)	0	(303,980)
6	Net plant in service	1,594,486	(123,545)	1,470,941
7	Customer deposits	0	0	0
8	Cash working capital	148,636	(18,778)	129,858 [4]
9	Average tax accruals	(4,580)	0	(4,580)
10	Original cost rate base	\$1,738,542	(\$142,323)	\$1,596,219

[1] Column (c) minus Column (a).

[2] Morgan Exhibit I, Schedule 2-1, Line 3, Column (a).

[3] Morgan Exhibit I, Schedule 2-1, Line 3, Column (b).

[4] Calculated at one-eighth of operating expenses.

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OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
**CALCULATION OF PLANT IN SERVICE,
ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 2-1

<u>Line No.</u>	<u>Item</u>	<u>Plant in Service (a)</u>	<u>Accumulated Depreciation (b)</u>	<u>Depreciation Expense (c)</u>
1.	Plan in service per revised application	\$11,729,405	(\$1,246,639)	\$352,723
2.	Adjustment to remove vehicle costs for sewer operations	<u>(119,978)</u> [1]	<u>(3,567)</u> [1]	<u>\$3,567</u> [1]
3.	Total amounts per Public Staff (L1 + L2)	<u>\$11,609,427</u>	<u>(\$1,250,206)</u>	<u>\$356,290</u>

[1] Public Staff based on information provided by the Company.

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OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 3
Page 1 of 2

		Present Rates			Company Proposed Rates			Public Staff Recommended Rates		
Line No.	Item	Amount Per Company Update	Public Staff Adjustments [1]	Amount Per Public Staff [2]	Net Company Increase [12]	Operations After Rate Increase [13]	Net Public Staff Increase [16]	Operations After Rate Increase [17]		
		(a)	(b)	(c)	(d)	(e)	(f)	(g)		
<u>Operating Revenues:</u>										
1	Service revenues	\$966,960	\$0	\$966,960 [3]	\$512,619	\$1,479,579 [3]	\$343,641	\$1,310,601 [18]		
2	Miscellaneous revenues	14,907	0	14,907	0	14,907	0	14,907		
3	Uncollectibles	0	(852)	(852) [4]	0	(852)	0	(852)		
4	Total operating revenues	981,867	(852)	981,015	512,619	1,493,634	343,641	1,324,656		
<u>Operating and Maintenance Expenses:</u>										
5	Salaries and wages	195,854	0	195,854	0	195,854	0	195,854		
6	Administrative and office expense	314,781	0	314,781	0	314,781	0	314,781		
7	Maintenance & repair expense	218,169	(56,034)	162,135 [3]	0	162,135	0	162,135		
8	Transportation	28,102	0	28,102	0	28,102	0	28,102		
9	Electric power	77,465	(7,262)	70,203 [3]	0	70,203	0	70,203		
10	Chemicals	10,870	(556)	10,314 [3]	0	10,314	0	10,314		
11	Testing	95,007	0	95,007	0	95,007	0	95,007		
12	Permit fees	8,521	0	8,521	0	8,521	0	8,521		
13	Purchased water	52,239	(17,064)	35,175 [3]	0	35,175	0	35,175		
14	Other expenses - Professional expenses: lawn maintenance	89,130	0	89,130	0	89,130	0	89,130		
15	Other expenses - Insurance expense	14,211	(2,488)	11,723 [5]	0	11,723	0	11,723		
16	Other expenses - Bad debt expense	852	(852)	0 [4]	0	0	0	0		
17	Other expenses - Miscellaneous expense: bond expense	9,908	92	10,000 [6]	0	10,000	0	10,000		
18	Rate case expense	73,974	(30,883)	43,091 [7]	0	43,091	0	43,091		
19	Total operating and maintenance expenses	1,189,083	(115,047)	1,074,036	0	1,074,036	0	1,074,036		
<u>Depreciation and Taxes:</u>										
20	Depreciation expense	352,723	3,567	356,290 [8]	0	356,290	0	356,290		
21	Amortization expense - CIAC	(262,687)	0	(262,687)	0	(262,687)	0	(262,687)		
22	Property taxes	1,382	0	1,382	0	1,382	0	1,382		
23	Payroll taxes	19,447	0	19,447	0	19,447	0	19,447		
24	Other taxes	353	0	353	0	353	0	353		
25	Regulatory fee	0	0	1,275 [9]	0	1,942 [9]	0	1,722 [9]		
26	State income tax	0	0	0 [10]	6,654	6,654 [14]	2,435	2,435 [19]		
27	Federal income tax	0	0	0 [11]	54,496	54,496 [15]	19,943	19,943 [20]		
28	Total depreciation and taxes	111,218	3,567	116,060	61,150	177,877	22,378	138,885		
29	Total operating revenue deductions:	1,300,301	(111,480)	1,190,096	61,150	1,251,913	22,378	1,212,921		
30	Net operating income for return	(\$318,434)	\$110,628	(\$209,081)	\$451,469	\$241,721	\$321,263	\$111,735		

OLD NORTH STATE WATER COMPANY, LLC

Docket No. W-1300, Sub 60
FOOTNOTES TO SCHEDULE 3
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 3(a)
Page 2 of 2

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Provided by Public Staff Engineer Junis.
- [4] Amount reclassified from bad debt expense.
- [5] Morgan Exhibit I, Schedule 3-1, Line 4.
- [6] Morgan Exhibit I, Schedule 3-2, Line 3.
- [7] Morgan Exhibit I, Schedule 3-3, Line 8.
- [8] Morgan Exhibit I, Schedule 2-1, Column (c), Line 3.
- [9] Line 4 multiplied by .13%.
- [10] Morgan Exhibit I, Schedule 3-4, Column (a), Line 12.
- [11] Morgan Exhibit I, Schedule 3-4, Column (a), Line 14.
- [12] Column (e) minus Column (c), unless otherwise footnoted.
- [13] Column (c) plus Column (d), unless otherwise footnoted.
- [14] Morgan Exhibit I, Schedule 3-4, Column (b), Line 12.
- [15] Morgan Exhibit I, Schedule 3-4, Column (b), Line 14.
- [16] Column (g) minus Column (c), unless otherwise footnoted.
- [17] Column (c) plus Column (f), unless otherwise footnoted.
- [18] Revenue requirement as calculated by the Public Staff.
- [19] Morgan Exhibit I, Schedule 3-4, Column (c), Line 12.
- [20] Morgan Exhibit I, Schedule 3-4, Column (c), Line 14.

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO OTHER EXPENSES - INSURANCE EXPENSE
For The Test Year Ended December 31, 2020

Morgan Exhibit I
Schedule 3-1

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1.	Other expenses: insurance expense per revised application	\$14,211
2.	Adjustment to reflect actual property, general liability & excess liability insurance expenses	(1,538) [1]
3.	Adjustment to reflect actual annual premium compensation expenses for new employees	(950) [1]
4.	Other expenses: insurance expense per Public Staff (L1 + L2 + L3)	11,723
5.	Adjustment to Other expenses: Insurance (L4 - L1)	(\$2,488)

[1] Calculated by the Public Staff based on information provided by the Company.

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OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO OTHER EXPENSES: MISCELLANEOUS EXPENSE
For The Test Year Ended December 31, 2020

Morgan Exhibit I
Schedule 3-2

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1.	Other expenses: miscellaneous expense per revised application	\$9,908
2.	Adjustment to reflect actual 12-month bond expense from September 2020 through August 2021.	<u>92</u> [1]
3.	Other expenses: miscellaneous expense per Public Staff (L1 + L2)	<u>10,000</u>
4.	Adjustment to Other expenses: miscellaneous expense (L4 - L1)	<u><u>\$92</u></u>

[1] Calculated by the Public Staff based on information provided by the Company.

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OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
ADJUSTMENT TO RATE CASE EXPENSE
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 3-3

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Rate case application filing fee	\$250 [1]
2	Legal fees	82,404 [2]
3	Accounting consulting fees	14,850 [2]
4	ONSWC: Rate Case Labor Allocations	28,334 [2]
5	Notices, Printing envelopes, Postage, and Miscellaneous	<u>3,435</u> [2]
6	Total rate case expense (Sum of L1 thru L5)	129,272
7	Amortization Period	<u>3</u>
8	Rate case expense per Public Staff (L6 / L7)	<u><u>\$43,091</u></u>

[1] Statutory filing fee for Class C water and sewer companies.

[2] Provided by the Company in response to Public Staff data requests.

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OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
CALCULATION OF INCOME TAXES
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit I
Schedule 3-4

Line No.	Item	Present Rates [1] (a)	Company Proposed Rates [3] (b)	Public Staff Recommended Rates [5] (c)
1	Operating revenue	\$981,015	\$1,493,634	\$1,324,656
	Operating revenue deductions:			
2	Total O&M expenses	1,074,036	1,074,036	1,074,036
3	Depreciation expense	356,290	356,290	356,290
4	Amortization expense	(262,687)	(262,687)	(262,687)
5	Property taxes	1,382	1,382	1,382
6	Payroll taxes	19,447	19,447	19,447
7	Other taxes	353	353	353
8	Regulatory fee	1,275	1,942	1,722
9	Interest expense	36,713 [2]	36,713 [4]	36,713 [6]
10	Total deductions (Sum of L2 thru L9)	1,226,809	1,227,476	1,227,256
11	Taxable income (L1 - L10)	(245,794)	266,158	97,400
12	State income tax (L11 x 2.50%)	0	6,654	2,435
13	Federal taxable income (L11 - L12)	(245,794)	259,504	94,965
14	Federal income tax (L13 x 21.00%)	0	54,496	19,943
15	Net amount (L13 - L14)	(245,794)	205,008	75,022
16	Add: interest expense	36,713 [2]	36,713 [4]	36,713 [6]
17	Net income for return (L15 + L16)	(\$209,081)	\$241,721	\$111,735

- [1] Morgan Exhibit I, Schedule 3, Column (c), unless footnoted otherwise.
[2] Morgan Exhibit I, Schedule 1, Line 1, Column (e).
[3] Morgan Exhibit I, Schedule 3, Column (e), unless footnoted otherwise.
[4] Morgan Exhibit I, Schedule 1, Line 4, Column (e).
[5] Morgan Exhibit I, Schedule 3, Column (g), unless footnoted otherwise.
[6] Morgan Exhibit I, Schedule 1, Line 7, Column (e).

OLD NORTH STATE WATER COMPANY, LLC
Docket No. W-1300, Sub 60
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended December 31, 2020

Public Staff
Morgan Exhibit II
Schedule 1

Line No.	Item	ONSWC Water [1]
1	Increase / (decrease) in total revenues per Company	<u>\$463,642</u>
2	<u>Difference in calculation of revenue requirement based on Company amounts:</u>	
3	Adjust capital structure to 50% debt and 50% equity	30,552
4	Adjust debt cost rate to 4.60%	(23,849)
5	Adjust return on equity to 9.40%	(3,956)
6	Adjustment to reclassify uncollectibles	852
7	Adjustment to allocate vehicle to sewer operations	(6,822)
8	Adjustment to maintenance and repair	(56,107)
9	Adjustment to electric power	(7,271)
10	Adjustment to chemicals	(557)
11	Adjustment to other expenses: insurance expense	(2,491)
12	Adjustment to other expenses: miscellaneous expense	92
13	Adjustment to cash working capital	(1,580)
14	Adjustment to reclassify bad debt expense	(853)
15	Adjustment to rate case expense	(30,923)
16	Adjustment to purchased water	(17,086)
17	Rounding difference	<u>(2)</u>
18	Revenue impact of Public Staff adjustments	<u>(120,001)</u>
19	Increase / (decrease) per Public Staff	<u><u>\$343,641</u></u>

[1] Calculated by the Public Staff.

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Feb 08 2022