

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 360**

**TESTIMONY OF SONJA R. JOHNSON
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

October 3, 2018

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS,**
2 **AND PRESENT POSITION.**

3 A. My name is Sonja R. Johnson and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant
5 with the Accounting Division of the Public Staff – North Carolina
6 Utilities Commission, and represent the using and consuming public.

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

9 A. I have been employed by the Public Staff since January 1, 2006.

10 **Q. PLEASE BRIEFLY DISCUSS YOUR EDUCATION AND**
11 **EXPERIENCE.**

12 A. I am a graduate of North Carolina State University with a Bachelor of
13 Science and Master of Science degree in Accounting. I was initially
14 an employee of the Public Staff from December 2002 until May 2004,
15 and rejoined the Public Staff in January 2006. Since initially joining
16 the Public Staff in December 2002, I have filed testimony or affidavits
17 in several water and sewer general rate cases. I have also filed

1 testimony in applications for certificates of public convenience and
2 necessity of existing systems. My experience also includes filing
3 affidavits in several fuel rate cases of Duke Energy Carolinas, LLC.

4 **Q. WHAT ARE YOUR DUTIES?**

5 A. I am responsible for analyzing testimony, exhibits, and other data
6 presented by parties before this Commission. I have the further
7 responsibility of performing the examinations of books and records
8 of utilities involved in proceedings before the Commission, and
9 summarizing the results into testimony and exhibits for presentation
10 to the Commission.

11 **Q. MS. JOHNSON, WHAT IS THE NATURE OF THE APPLICATION**
12 **IN THIS PROCEEDING?**

13 A. On April 27, 2018, Carolina Water Service, Inc. of North Carolina
14 (CWSNC or Company) filed an application with the Commission
15 seeking authority to increase rates for all of its water and sewer
16 service areas in North Carolina.

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

19 A. The purpose of my testimony is to present the results of my
20 investigation of the following aspects of the Company's application
21 and my recommendations regarding them: (1) salaries and wages;
22 (2) benefits; and (3) payroll taxes.

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

3 A. My investigation included a review of the Company's application for
4 rate increase for its CWSNC Uniform water, CWSNC Uniform sewer,
5 Bradfield Farms/Fairfield Harbour water, Bradfield Farms/Fairfield
6 Harbour sewer operations and other data filed by the Company, an
7 examination of the books and records for the test year ended
8 December 31, 2017, and a review of the Company's accounting,
9 end-of-period, and after period adjustments to test year rate base
10 and expenses.

11 Q. MS. JOHNSON, BASED ON YOUR INVESTIGATION, WHAT
12 ADJUSTMENTS TO THE COMPANY'S RATE BASE AND
13 EXPENSES DO YOU RECOMMEND?

14 A. Based on my investigation, I recommend adjustments for the
15 following items:

- 16 1) Salaries and wages;
- 17 2) Employee benefits; and
- 18 3) Payroll taxes.

19 **SALARIES AND WAGES**

20 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO SALARIES AND
21 WAGES?

22 A. I have made the following adjustments to salaries and wages:

- 23 1) Correct UA allocation error;
- 24 2) Remove open positions;

- 1 3) Add new positions;
2 4) Remove bonus related to earnings per share that benefit
3 shareholders; and
4 5) Allocate executive compensation to shareholders.

5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CORRECT AN UA**
6 **ALLOCATION ERROR.**

7 A. In its application, the Company utilized an allocation percentage
8 which included the Riverbend Estates subdivision. Since CWSNC is
9 the emergency operator for this system, expenses related to
10 operating this system should not be included in a general rate case.

11 **Q. HAS THE COMPANY INCLUDED OPEN POSITIONS IN ITS**
12 **CALCULATION OF SALARIES AND WAGES FOR THIS CASE?**

13 A. Yes. While some of the positions that were open as of June 30,
14 2018, have been filled since then, there also have been other
15 positions that have become open due to employees leaving the
16 Company. After my update through June 30, 2018, of the 17 open
17 positions, there were 12 positions filled. According to updated salary
18 information provided by the Company as described above, there are
19 5 open positions as of June 30, 2018.

20 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE**
21 **SALARIES FOR OPEN POSITIONS IN RATES OR FOR**
22 **EMPLOYEES HIRED TO FILL OPEN POSITIONS BETWEEN**
23 **NOW AND THE HEARING DATE?**

1 A. No. The salaries related to open positions should not be included in
2 expenses, for several reasons. First, if and when these positions will
3 be filled, and how much the new employees will be paid if the
4 positions are filled, is not known at this time. Second, CWSNC has
5 historically experienced some turnover in employees, and, therefore,
6 will always have some level of open positions on an ongoing basis.
7 Even if the open positions are eventually filled, other employees may
8 have left the Company during the interim period. To allow the
9 Company to make an adjustment to reflect the salaries of employees
10 potentially hired to fill open positions, without recognizing the
11 decrease in salaries due to employees who may potentially leave, is
12 inappropriate. Such an adjustment overstates the ongoing level of
13 salaries and wages, since it includes salaries as if all positions are
14 filled, which will not occur on an ongoing basis due to turnover. The
15 same reasoning applies to the salaries of employees hired between
16 the date of this testimony and the hearing date.

17 **Q. WHAT ADJUSTMENTS HAVE YOU MADE FOR OPEN AND NEW**
18 **POSITIONS?**

19 A. Consistent with the previous discussion, I have removed the salaries
20 for the five open positions that have not been filled and included the
21 salaries for the five new positions that have been created.

1 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO BONUSES.**

2 A. The Company filed the actual bonuses paid to North Carolina
3 employees during the test year. After examining their bonus policies,
4 I removed the bonus paid to one North Carolina employee. According
5 to CWSNC's most recent policies regarding its Executive Long Term
6 Performance Plan (ELTP), the Company provides "certain key
7 executives with an additional incentive to further the growth and
8 development of the Company with a view to maximizing long-term
9 shareholder value." In the Public Staff's opinion, maximizing long-
10 term shareholder value benefits shareholders instead of ratepayers.
11 It is the Public Staff's opinion that it is inappropriate to include this
12 portion of the bonuses in this rate case. Therefore, I reduced final
13 salaries and wages by the amount of the bonus.

14 **EMPLOYEE PENSIONS AND BENEFITS**

15 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PENSIONS AND**
16 **BENEFITS.**

17 A. Based on the information provided by the Company, it is the opinion
18 of the Public Staff that no adjustment be made at this time. Once
19 more information is received from the Company, the Public Staff will
20 file supplemental testimony as necessary.

1

PAYROLL TAXES

2

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.

3

A. I have adjusted payroll taxes for CWSNC employees to reflect my
adjusted level of salary and current payroll tax rates. These
adjustments resulted in a decrease in payroll taxes.

4

5

Q. DOES THIS COMPLETE YOUR TESTIMONY?

6

A. Yes, it does.

7

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

Docket No. W-354, Sub 360

ADJUSTMENT TO SALARIES AND WAGES

For the Test Year Ended December 31, 2017

Public Staff
Johnson Exhibit I
Schedule 1

<u>Line No.</u>	<u>Item</u>	<u>CWSNC Water</u> (a)	<u>CWSNC Sewer</u> (b)	<u>BF/FH Water</u> (c)	<u>BF/FH Sewer</u> (d)	
<u>Maintenance:</u>						
1.	Operator and supervisor salaries	\$ 2,587,126 [1]	\$ 1,540,179 [1]	\$ 312,749 [1]	\$ 325,582 [1]	\$ 4,765,636
2.	Maintenance salaries per application	<u>2,670,865</u>	<u>1,582,288</u>	<u>321,300</u>	<u>334,483</u>	<u>4,908,937</u>
3.	Adjustment to maintenance salaries (L1 - L2)	<u>\$ (83,740)</u>	<u>\$ (42,109)</u>	<u>\$ (8,551)</u>	<u>\$ (8,902)</u>	<u>\$ (143,301)</u>
<u>General:</u>						
4.	Customer service salaries	\$ 1,004,028 [1]	\$ 597,723 [1]	\$ 121,374 [1]	\$ 126,354 [1]	\$ 1,849,478
5.	General salaries per application	<u>1,149,101</u>	<u>680,757</u>	<u>138,235</u>	<u>143,907</u>	<u>2,111,999</u>
6.	Adjustment to general salaries (L4 - L5)	<u>\$ (145,073)</u>	<u>\$ (83,034)</u>	<u>\$ (16,861)</u>	<u>\$ (17,553)</u>	<u>\$ (262,521)</u>

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

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Docket No. W-354, Sub 360

ADJUSTMENT TO PAYROLL TAXES

For the Test Year Ended December 31, 2017

Public Staff
Johnson Exhibit I
Schedule 2

<u>Line No.</u>	<u>Item</u>	<u>CWSNC Water (a)</u>	<u>CWSNC Sewer (b)</u>	<u>BF/FH Water (c)</u>	<u>BF/FH Sewer (d)</u>	
1.	Payroll taxes per Public Staff	\$ 280,813 [1]	\$ 167,175 [1]	\$ 33,947 [1]	\$ 35,339 [1]	\$ 517,274
2.	Payroll taxes per application	293,160	173,676	35,267	36,714	538,816
3.	Adjustment to payroll taxes (L1 - L2)	<u>\$ (12,347)</u>	<u>\$ (6,501)</u>	<u>\$ (1,320)</u>	<u>\$ (1,374)</u>	<u>\$ (21,543)</u>

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