

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 400

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Carolina Water Service, Inc.)	
of North Carolina for Authority to Adjust and)	DIRECT TESTIMONY OF
Increase Rates and Charges for Water and)	MATTHEW P. SCHELLINGER II
Sewer Utility Service in All Service Areas of)	ON BEHALF OF CAROLINA
North Carolina and Approval of a Three-)	WATER SERVICE, INC. OF
Year Water and Sewer Investment Plan)	NORTH CAROLINA

July 1, 2022

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Matthew P. Schellinger II. My business address is 4944
3 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Manager of Financial Planning and Analysis for Carolina Water
6 Service, Inc. of North Carolina (“CWSNC” or “Company”).

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND?**

9 A. I have been employed by CWSNC since October 2019. I received a
10 Bachelor of Science Degree with a major in Accounting from the University
11 of South Florida in 2012. I received a Master of Business Administration
12 with a focus in Management and Strategy from Western Governors
13 University in 2016. Prior to joining CWSNC, I was employed as a controller
14 for an insurance agency from 2007 to 2013. In that capacity, I performed
15 general corporate accounting functions on a daily and monthly basis. From
16 2013 to 2019, I was employed by the South Carolina Office of Regulatory
17 Staff, first as an Auditor and starting in 2016 as a Regulatory Analyst. In that
18 capacity I performed regular reviews of water, sewer, natural gas, and
19 electric regulatory filings.

20 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

21 A. My primary responsibilities include forecasting, budgeting, and financial
22 analysis for the Company.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to address certain financial and regulatory
4 aspects of the case including, but not limited to: (1) the Company's pro
5 forma revenues and billing analysis; (2) the Company's revenue
6 requirements for the Water & Sewer Investment Plan ("WSIP") years; (3)
7 Growth and Consumption assumptions through the WSIP rate years; and
8 (4) the Company's proposed rate design for water and sewer.

9 **PRO FORMA REVENUES**

10 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THE COMPANY HAS MADE**
11 **TO TEST YEAR ACTUAL REVENUES IN COMPUTING PRO FORMA**
12 **PRESENT RATE REVENUES.**

13 A. The Company completed a bill analysis to compile the base rate billing
14 activity for the Test Year. The active customer count as of the end of the
15 Test Year, March 31, 2022, was identified to determine total active
16 customers. The Test Year's actual customer consumption was utilized for
17 the Test Year total consumption. The Company applied the rates for the
18 applicable tariff Rate Divisions as approved in Docket No. W-354, Sub 384¹
19 to the billing determinants to price out pro forma present rate revenues at
20 base rates.

¹ The Commission's Order in the Company's last rate case was issued on April 8, 2022, in Docket No. W-354, Sub 384.

1 The Company further added pro forma revenues associated with the
2 acquisition of Echota and Seven Devils, which the Company has requested
3 inclusion of Uniform Rates for in Docket No. W-354, Sub 396. In the event
4 that this acquisition is not included at the Uniform Rate level, the Company
5 respectfully requests that the associated revenues and expenses be
6 modified to the appropriate levels.

7 **Q. WHAT ARE THE PRESENT RATE SERVICE REVENUES FOR EACH**
8 **RATE DIVISION?**

9 A. As a result of the calculation described above, the present rate service
10 revenues in this proceeding are as follows for the Company's Rate
11 Divisions: \$22,829,960 for Uniform Water, \$17,545,162 for Uniform Sewer,
12 \$1,881,112 for Bradfield Farms / Fairfield Harbour / Treasure Cove
13 ("BF/FH/TC") Water, and \$2,633,654 for BF/FH/TC Sewer. Please see
14 Appendix 3 to the NCUC Form Application, Schedule B-1a and B-1b,
15 Column C.

16 **Q. HOW DID YOU CALCULATE SERVICE REVENUE INCREASES FOR**
17 **EACH RATE DIVISION FOR THE THREE YEARS OF THE PROPOSED**
18 **WSIP?**

19 A. The Company developed revenue requirements in each of the three years
20 of the proposed WSIP period, including capital plan assumptions and
21 expense assumptions. These assumptions and revenue requirement builds
22 are provided in detail in Appendix 2, 3, and 5 - Schedules A, B, and D

1 provided in support of the NCUC Form Application. Further detail on the
2 expense assumptions is provided in CWSNC witness Drennan's testimony.

3 The full revenue requirement generated as a result of the Company's
4 capital improvement plan and expense increase assumptions would result
5 in a greater than 5% revenue increase in WSIP Rate Year 2; as a result of
6 this, the Company has reduced the requested revenue requirement in WSIP
7 Rate Year 2.

8 **Q. WHAT WOULD THE SERVICE REVENUE INCREASE BE FOR EACH**
9 **RATE DIVISION FOR RATE YEARS 1, 2, AND 3 OF THE WSIP?**

10 A. Based on the Test Year revenues, as adjusted, the resulting increases to
11 present rate service revenues for WSIP Year 1 would be as follows:
12 \$3,672,513 for Uniform Water, \$3,920,924 for Uniform Sewer, \$613,607 for
13 BF/FH/TC Water, \$640,211 for BF/FH/TC Sewer; and \$8,847,255 or
14 19.709% for the Company in total.

15 Based on the WSIP Year 1 revenues, as adjusted, the resulting
16 increases to WSIP Year 1 revenues for WSIP Year 2 would be as follows:
17 \$1,056,012 for Uniform Water, \$1,230,833 for Uniform Sewer, \$142,391 for
18 BF/FH/TC Water, \$253,099 for BF/FH/TC Sewer, and \$2,682,335 or
19 4.992% for the Company in total.

20 Based on the WSIP Year 2 revenues, as adjusted, the resulting
21 increases to WSIP Year 2 revenues for WSIP Year 3 would be as follows:
22 \$1,052,076 for Uniform Water, \$1,329,317 for Uniform Sewer, \$103,315 for

BF/FH/TC Water, \$135,324 for BF/FH/TC Sewer, and \$2,620,032 or 4.644% for the Company in total.

A summary of these numbers and requested increases is provided below; detailed revenue and rate builds are provided in Appendix 6 – Schedule E provided as an attachment to the NCUC Form Application.

Total CWSNC		Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
Service Revenue Requirement				48,955,635	53,734,457	56,602,428	59,035,791
Service Revenue Request Increase		43,584,248	44,889,887	48,959,296	53,737,142	56,419,477	59,039,509
% Increase				4,069,409	8,847,255	2,682,335	2,620,032
				9.065%	19.709%	4.992%	4.644%

CWSNC Revenue - Water	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
CWSNC Water - Fixed	40%	8,714,065	9,009,368	9,797,875	10,598,911	11,025,291	11,449,256
CWSNC Water - Volumetric	60%	13,071,670	13,820,592	14,700,941	15,903,563	16,533,194	17,161,305
Service Revenue Request Increase	100%	21,785,735	22,829,960	24,498,816	26,502,473	27,558,485	28,610,561
				1,668,856	3,672,513	1,056,012	1,052,076

CWSNC Revenue - Sewer	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
CWSNC Sewer - Fixed	60%	10,409,637	10,762,555	11,588,952	12,879,692	13,619,037	14,416,804
CWSNC Sewer - Volumetric	40%	6,941,692	6,782,607	7,722,701	8,586,393	9,077,881	9,609,432
Service Revenue Request Increase	100%	17,351,329	17,545,162	19,311,653	21,466,085	22,696,918	24,026,236
				1,766,491	3,920,924	1,230,833	1,329,317

BFFHTC Revenue - Water	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
BFFHTC Water - Fixed	40%	737,512	745,057	847,454	997,087	1,054,845	1,096,535
BFFHTC Water - Volumetric	60%	1,105,110	1,136,055	1,270,409	1,497,632	1,582,265	1,643,889
Service Revenue Request Increase	100%	1,842,622	1,881,112	2,117,863	2,494,719	2,637,110	2,740,424
				236,751	613,607	142,391	103,315

BFFHTC Revenue - Sewer	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
BFFHTC Sewer - Fixed	99.847%	2,601,186	2,629,629	3,026,333	3,268,823	3,521,588	3,656,684
BFFHTC Sewer - Volumetric	0.153%	3,376	4,024	4,632	5,042	5,376	5,604
Service Revenue Request Increase	100.000%	2,604,562	2,633,654	3,030,965	3,273,865	3,526,964	3,662,288
				397,311	640,211	253,099	135,324

Q. IN THE EVENT THE WSIP PLAN IS NOT APPROVED, WHAT ARE THE REVENUES THE COMPANY REQUESTS AS PART OF A BASE CASE INCREASE?

1 A. Based on the Test Year revenues, as adjusted, the resulting increases to
2 present rate service revenues would be as follows: \$1,668,856 or 7.31% for
3 Uniform Water, \$1,766,491 or 10.068% for Uniform Sewer, \$236,751 or
4 12.586% for BF/FH/TC Water, and \$397,311 or 15.086% for BF/FH/TC
5 Sewer. Please see Appendix 3 to the NCUC Form Application, Schedule B-
6 1a and B-1b, Column D.

7 **Q. HOW DOES THE COMPANY PROPOSE TO APPLY THE**
8 **RECOMMENDED RATE INCREASES TO EACH RATE DIVISION?**

9 A. CWSNC proposes to maintain the 40/60 ratio of fixed/volumetric revenues
10 for its water rate divisions as approved by the NCUC in Docket No. W-354,
11 Sub 384, the Company's most recent general rate case. The Company also
12 proposes to maintain the existing fixed/volume ratios for its sewer tariffs
13 (60/40 ratio fixed/volumetric). As reflected on W1-10, Schedule 18, the
14 Company has included adjustments to its purchased water and purchased
15 sewer treatment-driven volumetric rates to flow through recent rate changes
16 from its vendors.

17 **Q. HAVE YOU PREPARED A PROOF OF REVENUES FOR THIS CASE?**

18 A. Yes. Please see Appendix 6 to the NCUC Form Application, Schedule E,
19 for the detailed proof of revenues for both present and proposed rate service
20 revenues – WSIP Rate Years 1, 2, and 3 as well as the alternative base
21 case based on the Test Year results.

1 **Q. WHAT FURTHER RATE DESIGN CONSIDERATIONS HAS THE**
2 **COMPANY INCLUDED IN ITS APPLICATION?**

3 A. The Company made growth assumptions for all rate divisions based on the
4 equivalent residential connection (“ERC”) changes realized from the Docket
5 No. W-354, Sub 364, Sub 384, and the current Sub 400 residential
6 connections. These data points provide a reasonable trend in ERC growth
7 as well as availability customer reductions over a four-year period.

8 These growth trends were projected out over the three WSIP periods
9 in order to account for base line growth. The Company assumed a mid-point
10 average of end of period and beginning of period customers in order to
11 determine rates based on the previously calculated revenue requirements.

12 A table providing detailed growth assumptions is provided in
13 response to W1-28(a).

14 As discussed previously, the Company further added ERCs
15 associated with the acquisition of Echota and Seven Devils systems at the
16 Uniform Rate.

17 The Company did not make any consumption adjustments through
18 the WSIP periods in this case. As a result of the Docket No. W-354, Sub
19 384 testimony, settlement, and resulting order, there will likely be average
20 consumption reductions through the WSIP rate years.

21 Through the WSIP plan periods, the Company is not proposing or
22 estimating purchased water or sewer treatment adjustments. The Company

1 intends to continue to utilize the purchased water and sewer pass through
2 adjustment mechanisms through the WSIP which will allow adjustments to
3 revenue and expenses that match through those periods.

4 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
5 **KNOWLEDGE, INFORMATION, AND BELIEF?**

6 A. Yes.

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

8 A. Yes, it does. However, I reserve the right to update or amend this testimony
9 upon receipt of additional relevant data or other information that may
10 become available.