



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

May 26, 2020

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-218, Sub 526 – Application for General Rate Increase

Dear Ms. Campbell:

In connection with the above-referenced dockets, I transmit herewith for filing on behalf of the Public Staff the testimony and exhibit of Lynn L. Feasel, Staff Accountant, Accounting Division.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s/ Megan Jost
Staff Attorney
megan.jost@psncuc.nc.gov

MJ/cla

Attachment(s)

Executive Director (919) 733-2435	Communications (919) 733-5610	Economic Research (919) 733-2267	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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May 26 2020

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 526

In the Matter of
Application by Aqua North Carolina,)
Inc., 202 MacKenan Court, Cary, North)
Carolina 27511, for Authority to Adjust)
and Increase Rates for Water and)
Sewer Utility Service in All Service)
Areas in North Carolina)

TESTIMONY OF
LYNN FEASEL
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

**AQUA NORTH CAROLINA, INC.
DOCKET NO. W-218, SUB 526**

**TESTIMONY OF LYNN FEASEL
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

May 26, 2020

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

3 A. My name is Lynn Feasel and my business address is 430 N.
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 November 6, 2016.

10 **Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND**
11 **EXPERIENCE?**

12 A. I am a graduate of Baldwin Wallace University with a Master of
13 Business Administration degree in Accounting. I am a Certified Public
14 Accountant licensed in the State of North Carolina. Prior to joining
15 the Public Staff, I was employed by Franklin International in
16 Columbus, Ohio until June 2013. Additionally, I worked for ABB, Inc.,

1 from September 2013 until October 2016. I joined the Public Staff as
2 a staff accountant in November 2016. Since joining the Public Staff,
3 I have worked on rate cases involving water and sewer, natural gas,
4 and electric companies, filed testimony and affidavits in various
5 general rate cases, updated earnings reports for Carolina Water
6 Service, Inc. of North Carolina, Aqua North Carolina, Inc. (Aqua, Aqua
7 NC, or Company), and various natural gas companies, calculated
8 refunds to consumers from AH4R and Progress Residential, and
9 reviewed franchise and contiguous filings for multiple water and
10 sewer companies.

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

12 A. I am responsible for analyzing testimony, exhibits, and other data
13 presented by parties before the North Carolina Utilities Commission
14 (Commission). I have the further responsibility of performing the
15 examinations of books and any other data and data request
16 responses provided by public utilities in proceedings before the
17 Commission, and summarizing the results into testimony and
18 exhibits for presentation to the Commission.

19 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
20 **PROCEEDING?**

21 A. On December 31, 2019, Aqua filed an application with the
22 Commission seeking authority to adjust rates and charges for water

1 and sewer service in all of its service areas in North Carolina, approval
2 of a conservation pilot program, deferral accounting, and modification
3 of certain terms and conditions for the provision of water and sewer
4 utility services. My investigation included a review of the application
5 filed by the Company, an examination of the Company's books and records
6 for the test year and post-test year, and a review of any additional
7 documentation provided by the Company in response to written and verbal
8 data requests.

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

11 A. The purpose of my testimony in this proceeding is to present the
12 results of my investigation of the levels of revenue, expenses, and
13 investment filed by Aqua in support of its requested increase in
14 operating revenues for its Aqua uniform water operations (Aqua
15 Uniform Water), Aqua uniform sewer operations (Aqua Uniform
16 Sewer), Brookwood water operations (Brookwood Water), Fairways
17 water operations (Fairways Water), and Fairways sewer operations
18 (Fairways Sewer).

19 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**
20 **YOUR TESTIMONY AND EXHIBITS?**

21 A. Yes. My testimony contains a discussion of each issue resulting from
22 my investigation, and my exhibit consists of schedules showing the

1 calculation of my adjustments to revenues, expenses, and rate base.
2 My schedules also reflect adjustments recommended by other Public
3 Staff witnesses, as follows:

- 4 1) The recommendations of Public Staff witness Boswell
5 regarding protected excess deferred income taxes (EDIT).
- 6 2) The recommendations of Public Staff witness Henry
7 regarding the following items:
 - 8 (a) Unamortized rate case expense;
 - 9 (b) Unamortized repair tax credit; and
 - 10 (c) Net plant in service.

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

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

- 14 (a) Accumulated deferred income tax (ADIT);
- 15 (b) Purchase acquisition adjustment (PAA) and accumulated
16 amortization of PAA;
- 17 (c) Amortization expense - PAA;
- 18 (d) Salaries and wages;
- 19 (e) Miscellaneous expense;
- 20 (f) Employee pension and benefits;
- 21 (g) Insurance;
- 22 (h) Payroll taxes;

- 1 (i) Contract services - other; and
2 (j) Contra-OH allocations.

3 **ACCUMULATED DEFERRED INCOME TAX (ADIT)**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED**
5 **DEFERRED INCOME TAX (ADIT).**

6 A. I have made several adjustments to ADIT. First, I have updated ADIT
7 associated with rate case expense to reflect the unamortized
8 balance recommended by Public Staff witness Henry. Next, I have
9 adjusted ADIT to include the amounts associated with the Public
10 Staff's recommended levels of unamortized repair tax credit costs
11 recommended by Public Staff witness Henry. Next, I have adjusted
12 ADIT to update actual amounts associated with post-test year
13 additions based on calculations provided by the Company. Finally, I
14 have adjusted ADIT to include the flowback of protected EDIT
15 recommended by Public Staff witness Boswell that was inadvertently
16 excluded from the filing. These adjustments result in a decrease of
17 \$513,154 for ADIT.

1 **PURCHASE ACQUISITION ADJUSTMENT (PAA) AND**
2 **ACCUMULATED AMORTIZATION OF PAA**

3 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASE**
4 **ACQUISITION ADJUSTMENT (PAA) AND ACCUMULATED**
5 **AMORTIZATION OF PAA.**

6 A. I removed the post-test year PAA additions and associated
7 accumulated amortization reflected in the application and replaced
8 them with the actual post-test year PAA additions through March 31,
9 2020, and calculated accumulated amortization of the post-test year
10 PAA additions based on the information provided by the Company. I
11 updated the Company's test year accumulated amortization of PAA
12 with the calculated accumulated amortization of PAA within the test
13 year based on the in-service date, amortization rate, and
14 amortization policy of the Company. I also updated the net
15 acquisition incentive adjustment (AIA) for post-test year additions
16 through the cutoff date, March 31, 2020, and updated the
17 accumulated amortization of AIA based on the in-service date,
18 amortization rate, and the amortization policy. These adjustments
19 result in an increase of \$90,781 in PAA and a decrease of \$72,152
20 in accumulated amortization of PAA.

1

PAA AMORTIZATION EXPENSE

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAA**
3 **AMORTIZATION EXPENSE.**

4 A. I have calculated the PAA and AIA amortization expense to reflect
5 my adjustments to PAA and AIA through March 31, 2020. These
6 adjustments result in an increase of \$3,541 in amortization expense.

7

SALARIES AND WAGES

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO SALARIES AND**
9 **WAGES.**

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

- 11 1) Remove capitalized time credit-labor;
- 12 2) Add transportation regular payroll expense;
- 13 3) Update payroll to March 23, 2020;
- 14 4) Remove open positions;
- 15 5) Remove temporary employees;
- 16 6) Adjust overtime pay;
- 17 7) Adjust standby pay;
- 18 8) Adjust leave without paid employees' salary;
- 19 9) Remove bonus allocated to shareholders; and
- 20 10) Remove executive compensation allocated to shareholders.

1 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE**
2 **CAPITALIZED TIME CREDIT-LABOR.**

3 A. The salaries and wages amount on the application did not exclude
4 the capitalized time credit for labor; instead the Company combined
5 all capitalized credits and listed them as a separate line item in the
6 application. I removed capitalized time credit for labor cost according
7 to the data from Exhibit B1/B2 to reflect the salaries and wages net
8 of capitalized time credit expense before any additional adjustments.

9 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ADD**
10 **TRANSPORTATION REGULAR PAYROLL EXPENSE.**

11 A. On Exhibit B1/B2, the Company treated transportation regular payroll
12 expense as salaries and wages, but on the application, this expense
13 was not included as salaries and wages. I made the adjustments to
14 include this expense in salaries and wages.

15 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UPDATE SALARIES**
16 **AND WAGES.**

17 A. On April 6, 2020, Aqua provided the Public Staff with an updated
18 calculation of salaries and wages as of March 23, 2020. I adjusted
19 salaries and wages to reflect the Company's updates for current
20 active employees, exclude the allocation of salaries and wages to
21 non-utility operations and other states, and remove the capitalized

1 expense based on the updated salaries and wages and the expense
2 percentage provided by the Company.

3 Aqua's pro forma balance for salaries and wages includes labor
4 costs allocated from 1) corporate service; 2) corporate sundries; and
5 3) Aqua Customer Operations (ACO). After reviewing the Company
6 updates to salaries and wages and responses to the Public Staff's
7 data requests, I recommend the following adjustments:

8 1) Labor cost allocated from corporate service: Aqua included 42
9 terminated employees and a portion of new hired employees'
10 salary in the application. I removed the 42 terminated
11 employees' salary and added in a normalized year of salary
12 for the new hired employees. Based on the Company's
13 response to Data Request 114, Item 1, there were nine
14 employees that were terminated after the end of test year but
15 whose positions were not filled by March 31, 2020. Therefore,
16 I removed the salaries of these nine employees that were
17 allocated to Aqua NC. Bonus allocated from corporate service
18 was also included in the application. Based on the Company's
19 response to Public Staff Data Request 16, Item 1, I removed
20 35% of the short term incentive plan and 50% of the stock
21 options and awards, and allocated it to the shareholder.

1 2) Labor cost allocated from ACO: Aqua included a portion of
2 new hired employees' salaries in the application. I normalized
3 the salaries on the Company's book to a full year for the new
4 hired employees. Based on the Company's response to Data
5 Request 113, Item 1, there were 10 employees that were
6 terminated after the end of test year whose positions were not
7 filled by March 31, 2020. Therefore, I removed the salaries of
8 these 10 employees that were allocated to Aqua NC. There
9 were also two employees that were transferred to Aqua Illinois
10 and Aqua NC after the end of the test year. The one employee
11 transferred to Aqua NC was already included in Aqua NC
12 salaries, so I removed both of their salaries allocated to Aqua
13 NC from ACO. Bonus allocated from ACO was also included
14 in the application. Based on the Company's response to
15 Public Staff Data Request No. 16, Item 1, I removed 35% of
16 the short term incentive plan and 50% of the stock options and
17 awards and allocated it to the shareholder.

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

20 A. Yes. In its application, the Company included estimated salaries for
21 5 open or new positions. On April 6, 2020, the Company provided an
22 updated calculation of labor expense reflecting the March 23, 2020,
23 actual salaries for the 179 active employees and one employee that

1 was hired on April 13, 2020. The Company also included salaries for
2 2 open positions in its update, for a total of 182 positions.

3 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE**
4 **SALARIES FOR OPEN POSITIONS IN RATES?**

5 A. No. The Public Staff has evaluated the test year open employee
6 positions at Aqua NC where one employee left employment at Aqua
7 NC on a date certain, and a period of time elapsed before the date
8 the replacement employee began work. During this period for this
9 vacant position, Aqua NC did not pay wages, payroll taxes, or group
10 medical insurance, nor provide other employee benefits. Aqua NC
11 experiences open positions every year. On May 19, 2020, there are
12 five full time Aqua NC open positions listed on the Aqua America
13 website. Aqua NC should not have nonexistent expenses included in
14 the revenue requirement.

15 During the test year ending September 30, 2019, there were a total
16 of 24 full time employees that left employment at Aqua NC whose
17 positions were later filled by full time replacement employees. Based
18 upon the total number of days the full time employee vacancies
19 existed, the Public Staff is adjusting out the wages, payroll taxes,
20 group medical insurance, and other benefits for 4.82 positions. This
21 adjustment normalizes the open positions over the entire test year.

1 The salaries and benefits calculated for the 4.82 open positions were
2 based on the updates provided by the Company on April 6, 2020.

3 1) I removed salaries and wages for two open positions as of
4 March 23, 2020, listed as Facility Operator I and Facility
5 Operator III.

6 2) I removed salaries and wages for one position that was filled
7 on April 13, 2020, listed as Facility Operator II.

8 3) I removed salaries and wages for one position that was
9 terminated on April 1, 2020, listed as meter reader.

10 4) I used the average salaries and wages of the above four
11 positions to calculate the estimated salaries and wages for the
12 fifth position and removed it from salaries and wages.

13 The update cutoff, including the customer count, utilized by the
14 Public Staff in this proceeding is March 31, 2020. It would not be
15 appropriate to add employees hired after March 31, 2020, for newly
16 approved positions without a matching of revenues, due to added
17 customer growth beyond March 31, 2020.

18 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE**
19 **TEMPORARY EMPLOYEES.**

20 A. In the Company's updated salaries and wages, two temporary
21 employees were included. I removed them because they were not
22 full time or part time employees and the expenses related to them

1 should not be treated as salaries and wages; instead their wages
2 should be treated as contract service expense.

3 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OVERTIME PAY.**

4 A. In its application, Aqua calculated overtime pay by dividing projected
5 salaries and wages as of April 1, 2020, by annual hours to get an
6 annual hourly pay rate by department. This annual hourly rate was
7 then multiplied by 1.5 to get an annual overtime pay rate. The annual
8 overtime pay rate was multiplied by the actual overtime hours to yield
9 overtime cost to include in salaries and wages.

10 The Public Staff disagrees with this methodology of calculating
11 overtime wages for several reasons. First, employees in the same
12 department have different hourly rates. Using an average hourly rate
13 to calculate the overtime cost for all employees in each department
14 does not reflect the actual overtime cost. Second, the Company used
15 projected cost instead of actual salaries and wages at March 31,
16 2020, to calculate the overtime rate. Third, there could be some
17 employees who left the Company during the test year but whose
18 overtime cost was still included.

19 Based on the reasons stated above, I calculated actual overtime pay
20 for each active employee based on the updated payroll as of March
21 23, 2020.

1 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STANDBY PAY.**

2 A. I removed the standby pay for employees terminated during the test
3 year.

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO LEAVE WITHOUT
5 PAY EMPLOYEES SALARY.**

6 A. During the test year period, there were 3 employees on personal
7 leave, 24 employees on FMLA Continuous leave, 3 employees on
8 FMLA Intermittent leave, and 2 employees on short term disability
9 leave for more than 26 weeks. According to the Company's
10 responses to Public Staff Data Request 34, Item 2, and Data
11 Request 23, Item 1, these employees were not paid during the period
12 of time when they left; therefore, I removed the portion of the salary
13 they were not paid during this period.

14 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE BONUS
15 TO SHAREHOLDERS.**

16 A. The Company's application included bonuses paid to North Carolina
17 employees and bonus allocated from corporate service and ACO
18 during the test year, including Short-Term Incentive (STI) bonuses,
19 stock options, restricted stock units amortization, and performance
20 share units amortization. According to Aqua NC's most recent
21 policies for the STI Plan, 50% of the metric weight depends on
22 financial while 17.5% of the 50% is directly related to Aqua America's

1 earnings per share. Earnings per share directly benefit the
2 shareholders' value instead of providing a benefit to the ratepayers.
3 Therefore, I have removed 17.5% of the bonuses paid to NC
4 employees from expenses and allocated them to the Company's
5 shareholders. According to Aqua Services, Inc.'s most recent
6 policies for the STI Plan, 50% of the metric weight depends on
7 financial while 35% of the 50% is directly related to Aqua America's
8 earnings per share. Earnings per share directly benefit the
9 shareholders' value instead of providing a benefit to the ratepayers.
10 Therefore, I have removed 35% of the bonus expenses allocated
11 from corporate service and ACO and allocated them to the
12 Company's shareholders. According to Aqua America, Inc.'s most
13 recent policies for the 2009 Omnibus Equity Compensation Plan, the
14 plan will encourage the participants to contribute to the success of
15 the Company, align the economic interests of the participants with
16 those of the shareholders, and provide a means through which the
17 Company can attract and retain officers, other key employees, non-
18 employee directors, and key consultants of significant talent and
19 abilities for the benefit of its shareholders and customers. Therefore,
20 I removed 50% of the stock options, restricted stock units
21 amortization, and performance share units amortization paid to NC
22 employees that were allocated from corporate service and ACO, and
23 allocated them to the Company's shareholders.

1 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO EXECUTIVE**
2 **COMPENSATION.**

3 A. My adjustment to Executive Compensation includes the removal of
4 50% of the total compensation of the top five executives, which is
5 comprised of total annual salary, Short Term Incentive Plan (STIP),
6 Long Term Incentive Plan (LTIP), and Benefits. The Public Staff has
7 identified the top five Aqua America's executives who have charged
8 compensation to Aqua NC. In this case, the top five Aqua America's
9 officers are the Chief Executive Officer and President, Executive
10 Vice President and Chief Financial Officer, Executive Vice President
11 and Chief Operating Officer, Executive Vice President and Chief
12 Strategy and Corporate Development Officer, and Executive Vice
13 President, General Counsel and Secretary. As presented on Public
14 Staff Feasel Exhibit I, Schedule 4, this adjustment is used to reflect
15 the fact that the executives' duties and compensation encompass a
16 substantial amount of activities that are closely linked to shareholder
17 interests.

18 **Q. IS YOUR RECOMMENDATION BASED ON THE PREMISE THAT**
19 **THE COMPENSATION OF THE AQUA AMERICA CEO AND**
20 **OTHER EXECUTIVE OFFICERS YOU HAVE SELECTED ARE**
21 **EXCESSIVE OR SHOULD BE REDUCED?**

22 A. No. This recommendation is based on the Public Staff's belief that it
23 is appropriate and reasonable for the shareholders of the very large

1 water and wastewater utilities to bear some of the cost of
2 compensating those individuals who are most closely linked to
3 furthering shareholder interests, which are not always the same as
4 those of ratepayers.

5 **Q. WHAT IS THE PREMISE FOR REMOVING 50% OF THE TOP**
6 **EXECUTIVES' COMPENSATION?**

7 A. Officers have fiduciary duties of care and loyalty to shareholders, but
8 not to customers. Consequently, the Company's executive officers
9 are obligated to direct their efforts not only to minimizing the costs
10 and maximizing the reliability of Aqua's service to customers, but
11 also to maximizing the Company's earnings and the value of its
12 shares. It is reasonable to expect that management will serve the
13 shareholders as well as the ratepayers; therefore, a portion of
14 management compensation and pension should be borne by the
15 shareholders.

16 The executive compensation for the five Aqua America executives
17 includes Short Term Incentive Annual Cash Incentive (STI)
18 payments which are 50% based upon Aqua America's earnings per
19 share and return on equity. The Long Term Incentive for
20 Performance Share Grants for 2019 was based 26.5% on Aqua
21 America's total shareholder return vs. large investor owned utilities,
22 and 26.5% on Aqua America's total shareholder return vs. the S & P

1 Mid Cap Utilities index. In addition for 2019, the performance based
2 stock options were based on Aqua America's achievement of at least
3 an adjusted return on equity equal to 150 basis points below the
4 return on equity granted by the Pennsylvania Public Utility
5 Commission during Aqua Pennsylvania's (Aqua America's
6 Pennsylvania water subsidiary) last rate proceeding. Aqua America's
7 total shareholder return consists of dividends to shareholders and
8 the increase in the price of Aqua America's common stock. Aqua
9 America reports on page 42 of the Essential 2020 Proxy that its total
10 shareholder's return for 2019 was 40.41%.

11 The compensation objectives for the five named Executive Officers
12 are listed on page 45 Essential 2020 Proxy as follows:

1

Long Term Equity Incentive Awards

<u>Form</u>	<u>Compensation Objective</u>
Restricted Stock Units	Align executive interests with shareholder interests, retain key executives (emphasis added)
Performance Share Units	Align executive interests with shareholder interests, creates a strong financial incentive for achieving or exceeding long-term performance goals (emphasis added)
Performance Based Stock Options	Align executive interests with shareholder interests; through financial performance based nature, provides strong incentives to achieve core Company goals.” (Emphasis added).

2 The fixed base salary of the President and CEO was 24.9% of his
3 total compensation as shown on page 61 of the Essential 2020
4 Proxy. The fixed base salary of the other four executive officers
5 range from 34.2% to 39.1%, as shown on pages 62 and 63 of the
6 Essential 2020 Proxy. The average of the fixed base salary of all five
7 executives is 34.7%.

8 The Board of Directors Compensation Committee during 2019 made
9 key decisions for 2020 compensation plan designs, including as
10 stated on Essential 2020 Proxy on page 50:

1 Revised the balance between base compensation and
2 long term incentives for Mr. Franklin (CEO) to a heavier
3 weighting (53%) on long term incentives in the total
4 compensation package **to further underscore drive**
5 **for long-term value creation for shareholders.**
6 (Emphasis added).

7 The Essential 2020 Proxy on page 50 also stated

8 Similarly, the grant of restricted stock units, when
9 coupled with our stock ownership requirements,
10 **further aligns interests of the management with the**
11 **shareholders by increasing the number of shares**
12 **each member of management hold.** (Emphasis
13 added).

14 The Essential 2020 Proxy further states on page 51

15 Stock Ownership Guidelines - Designed to focus
16 named executive officers on the long-term
17 performance of the Company **and align the interests**
18 **of our executives with our shareholders** by
19 encouraging named executive officers to maintain a
20 significant ownership interest in the Company.
21 (Emphasis added).

22 The Short Term Incentives Award on page 52 of the Essential 2020
23 Proxy has the metric of 50% Financial, broken down to Adjusted
24 Earnings Per Share 35% and Return on Equity 15%. The stated
25 rationale is: "This award measure aligns the executive to results for
26 the shareholders."

27 The total STI Essential 2020 Proxy payments to the five executives
28 as shown on page 64 totaled \$2,161,244, of which 45.5% was based

1 upon Aqua America's earnings per share and 17.05% based upon
2 Aqua America's return on equity, as shown on page 63.

3 The compensation paid to these five executives is heavily based
4 upon Aqua America's earnings per share and Aqua America's total
5 shareholder return. These performance measures heavily benefit
6 Aqua America's shareholders. It is appropriate that 50% of the total
7 compensation (including benefits) to the five executive officers
8 should be allocated to Aqua America's shareholders.

9 Adjusting the compensation of the top five executives is consistent
10 with the positions taken by the Public Staff in past general rate cases
11 involving investor-owned utilities serving North Carolina retail
12 customers. Some of these cases include Duke Energy Progress
13 (DEP) 2018 General Rate Case (Docket No. E-2 Sub 1142), Duke
14 Energy Carolinas' (DEC) 2018 General Rate Case (Docket No. E-7,
15 Sub 1146), Public Service Company of North Carolina's (PSNC)
16 2016 General Rate Case (Docket No. G-9, Sub 565), Piedmont's
17 2013 General Rate Case (Docket No. G-9, Sub 631) and Piedmont's
18 2019 General Rate Case (Docket No. G-9, Sub 743). DEC, DEP, and
19 Dominion Energy North Carolina have all made executive
20 compensation adjustments in their respective general rate cases to
21 remove a portion of their top executives' total compensation. The
22 Public Staff has consistently updated each utility's adjustments to

1 reflect a 50% reduction of the top executives' total compensation in
2 each of the general rate case proceedings.

3 Aqua America is a publically traded large investor-owned utility with
4 a market capitalization on May 19, 2020, of \$9.8 Billion. Aqua
5 America's market capitalization is the second highest of the publicly
6 traded investor-owned water and wastewater utilities. Aqua NC is the
7 largest Commission-regulated water and wastewater utility with more
8 than 100,000 customers, more than double the number of customers
9 of the second largest, and ten times more customers than the third
10 largest Commission-regulated water and wastewater utility. The
11 Public Staff recommends that Aqua NC's executive compensation
12 allocation from Aqua America be allocated 50% to the Aqua America
13 shareholders, the same as the Commission-regulated electric and
14 natural gas utilities.

15 **MISCELLANEOUS EXPENSE**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO MISCELLANEOUS**
17 **EXPENSE.**

18 A. I made the following adjustments to miscellaneous expense:

19 1) Capitalized time credit-other-miscellaneous: I removed
20 capitalized time credit other for miscellaneous cost according to the
21 data from Exhibit B3-s in my adjustment to reflect miscellaneous

1 expense net of capitalized time credit expense before my other
2 adjustments.

3 2) Board of Director (BOD): I made an adjustment to remove
4 50% of the expenses associated with the Aqua America BOD that
5 have been allocated to the Aqua NC jurisdiction, as presented on
6 Public Staff Feasel Exhibit I, Schedule 7. Aqua NC does not have a
7 separate BOD. The expenses allocated to the Aqua NC jurisdiction
8 encompass the BOD's compensation, Directors' and Officers' liability
9 insurance, and other miscellaneous BOD expenses. The Essential
10 Utilities, Inc. Board of Directors Corporate Governance Guidelines
11 revised February 3, 2020, state on page 6:

12 II. RESPONSIBILITIES OF THE BOARD

13 1. It is the responsibility of the Board to
14 provide guidance and direction on the
15 Corporation's general business goals
16 and strategy and to provide general
17 oversight of, and direction to
18 management **so that the affairs of**
19 **the Corporation are conducted in**
20 **the long term interests of all its**
21 **shareholders.** (Emphasis added).

22 In addition, in Responsibilities of the Board, no. 10 (page 8) for
23 director compensation it states “. . . **compensation should align**
24 **the director's interests with the long-term interest of**
25 **shareholders. . . .**“ (Emphasis added).

1 The shareholders vote on the election of directors. The customers
2 do not have a vote. It is clear the BOD is responsible for acting in the
3 best interests of the shareholders.

4 The 2019 compensation to each of the eight Aqua America
5 independent directors was \$90,000 cash, plus stock grants equal to
6 \$90,000 in value, as shown on the Essential 2020 Proxy, page 33.
7 The compensation for each independent director for 2020 increases
8 to \$100,000 cash, plus stock grants equal to \$100,000 in value as
9 shown on the Essential 2020 proxy, page 33. The Aqua America
10 CEO and BOD Chairman does not receive separate director
11 compensation. The test year BOD compensation and expense
12 allocation to Aqua NC was \$190,717. Public Staff Feasel Exhibit 1
13 Schedule 7, Line 3, Line 4, and Line 6 shows the reduction of 50%
14 of the BOD compensation and expenses through the third quarter of
15 2019.

16 The nine Aqua America directors own a total 306,037 shares of Aqua
17 America common stock as shown on the Essential 2020 Proxy, page
18 36. Based upon the May 18, 2020 market close for Essential Utilities
19 of \$41.02 per share, the 306,037 director owned shares have a
20 combined total value of \$12,533,638. This large director stock
21 ownership further aligns the directors' interests with shareholders.

1 The Public Staff believes that it is appropriate and reasonable for the
2 shareholders of the larger water and wastewater utilities to bear a
3 reasonable share of the costs of compensating those individuals who
4 have a fiduciary duty to protect the interests of shareholders, which
5 may differ from the interests of ratepayers. The premise of this
6 adjustment is closely linked to the premise of the adjustment made
7 by the Public Staff related to executive compensation. Furthermore,
8 Directors' and Officers' liability insurance, while a necessary
9 expense for a corporation, is obtained to defend the BOD in lawsuits
10 brought by shareholders for issues such as merger claims and
11 shareholders' derivatives. Therefore, the Public Staff recommends it
12 is appropriate for both ratepayers and shareholders to equally share
13 the cost of BOD expenses.

14 3) Other miscellaneous expenses: I removed miscellaneous
15 expenses allocated to Aqua NC from Corporate Sundries in the
16 amount of \$10,490 that were prior to the test year, one time
17 deduction, and annualize an expense item.

18 **EMPLOYEE PENSIONS AND BENEFITS**

19 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED EMPLOYEE**
20 **PENSIONS AND BENEFITS EXPENSE.**

21 A. I removed capitalized time credit for employee pensions and benefits
22 cost based on data from Exhibit B3-a in my adjustment to reflect the

1 pension and benefits net of capitalized time credit expense before
2 my other adjustments. In addition I am recommending the following
3 adjustments to pensions and benefits:

4 1) Update NC benefits to match the updates to salaries and wages:
5 I made matching adjustments to pensions and benefits related to
6 adjustments made to salaries and wages for updates to March 23,
7 2020.

8 2) Update NC benefits for five positions which were open but
9 were filled with new hired employees: I updated pensions and
10 benefits for the five open positions that were originally included in
11 this application but were replaced with new hired employees.

12 3) Remove four employees who were terminated after
13 September 30, 2019: I removed the pension and benefit for four
14 employees who were terminated after September 30, 2019.

15 4) Remove estimated pensions and benefits for one position: I
16 used the average pensions and benefits to calculate the estimated
17 pensions and benefits expense for the fifth position and removed it
18 from pensions and benefits expense to align with the open position
19 adjustments.

20 5) Remove full time employees who are not qualified for Long-
21 Term Disability (LTD) benefits as of March 31, 2020: According to

1 the Company's insurance policies, there is a 12-month waiting period
2 for LTD. There were 16 employees who have not qualified for all LTD
3 benefits as of March 31, 2020, so I removed their benefits from
4 expenses.

5 6) Remove full time employees who are not qualified for AD&D
6 & Life (Life) benefits as of March 31, 2020: According to the
7 Company's insurance policies, there is a 1st day of the month after
8 30 days waiting period for life benefits. There were two employees
9 who had not qualified for all life benefits as of March 31, 2020, so I
10 removed their benefits from expenses.

11 7) Remove full time employees who are not qualified for Dental,
12 Medical, and Vision benefits as of March 31, 2020: According to the
13 Company's insurance policies, there is a 1st day of the month after
14 30 days waiting period for Dental, Medical, and Vision benefits.
15 There were two employees who had not qualified for Dental, Medical,
16 and Vision benefits as of March 31, 2020, so I removed their benefits
17 from expenses.

18 8) Remove unqualified employee benefit expense allocated from
19 Corporate Sundries: I removed \$17,834 of employee benefit
20 expenses allocated to Aqua NC from Corporate Sundries that were
21 outside of the test year, for employee personal accessories, or for
22 one-time retirement dinners.

1 **INSURANCE EXPENSE**

2 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED INSURANCE**
3 **EXPENSE.**

4 A. First, I adjusted the insurance premiums to reflect the current
5 premiums for Aqua America, Inc., the parent company of Aqua North
6 Carolina, Inc., provided by the Company, and allocated them to Aqua
7 using the following factors:

8 (a) The amounts of premiums paid by the Company for workers'
9 compensation, general liability insurance, Marsh fees, and executive
10 risk insurance are based on payroll. Therefore, I have allocated
11 premiums for these policies to North Carolina based on payroll
12 information provided by the Company. Ohio had a separate workers'
13 compensation policy and was not included in the total workers'
14 compensation policy for Aqua America. Therefore, I excluded Ohio
15 payroll in my calculation of payroll factor allocation percentage for
16 the workers' compensation premium.

17 (b) I allocated the automobile premium based on the number of
18 automobiles for North Carolina as a percentage of the total number
19 of automobiles for all states.

1 (c) I allocated property insurance and cyber security insurance to
2 North Carolina based on the values of the property covered by the
3 current policy;

4 (d) The pollution control liability insurance premium is based on
5 revenues, and I allocated this premium to North Carolina based on
6 the revenues used to calculate the premium;

7 (e) I allocated umbrella premium and claims handling expense to
8 North Carolina based on the weighted average allocation factors
9 including payroll, customer counts, and property values for Aqua NC.
10 The reason is that umbrella insurance and claims handling expense
11 is related to employee benefits, customer, and property. Therefore,
12 it is more appropriate to take into consideration all three factors.

13 Next, I adjusted claims for workers' compensation, general liability,
14 and automobile insurance to reflect the average of claims paid for
15 North Carolina for the last five years. The Company changed the
16 methodology used to summarize the claims paid in the past years.
17 Instead of using the claims incurred in each year, Aqua NC used the
18 claims actually paid in each year. The change of this methodology
19 caused a duplicated reporting of claims incurred in one year but paid
20 in future years. After reviewing the data provided by the Company, I
21 removed the duplicated reported claims to reflect an accurate
22 amount of claims paid in the past five years. This is a one-time

1 adjustment. In the future rate cases, there is no need to remove
2 duplicated claims reported as long as the Company uses the same
3 methodology used in this rate case.

4 I also included surety bonds for North Carolina based on information
5 provided by the Company.

6 I then allocated my adjusted levels of workers' compensation
7 premium, workers' compensation claims, automobile premium, and
8 automobile claims between capital, non-utility operations, and water
9 and sewer expense based on the expense percentage provided by
10 the Company. These adjustments resulted in a total insurance cost
11 for North Carolina of \$622,323.

12 I allocated all insurance items to the five North Carolina entities
13 based on the same allocation factors used to allocate insurance
14 premiums and claims from Aqua America to Aqua NC. These
15 adjustments resulted in a decrease in insurance expense of
16 \$203,813.

17 **PAYROLL TAXES**

18 **Q. WHY DID YOU ADJUST PAYROLL TAXES?**

19 A. I made an adjustment to reflect payroll taxes based on the Public
20 Staff's recommended level of salaries at the current payroll tax rates.

21 This adjustment results in a decrease of \$207,673 in payroll tax

1 expense. Unlike salaries and wages, pension and benefits, and
2 miscellaneous expenses, for which I removed the capitalized time
3 credits to reach the net expenses before any other adjustments, I did
4 not remove the capitalized time credit for payroll tax expenses in my
5 adjustments to reach payroll taxes net of capitalized credit expense.
6 Instead, I directly compared my calculated payroll tax net of
7 capitalized time credit expense with the Company's payroll tax in the
8 application to calculate my adjustment. The reason was that there
9 were three types of payroll taxes, including Federal Insurance
10 Contributions Act (FICA), Federal Unemployment Tax Act (FUTA),
11 and State Unemployment Tax Act (SUTA). I had the total capitalized
12 time credit for payroll taxes for each rate division but I did not have it
13 broken down by the three types of payroll taxes. Therefore, I was not
14 able to compare my final payroll tax net of capitalized credit
15 expenses to that of the Company by these three categories.

16 **CONTRACT SERVICE OTHER**

17 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED CONTRACT SERVICE**
18 **OTHER.**

19 **A.** I made an adjustment to remove \$67,776 of contract service other
20 expense allocated to Aqua NC from Corporate Sundries that were
21 outside of the test year and expenses beneficial to the shareholders.

1

CONTRA-OH ALLOCATIONS

2 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED CONTRA-OH**
3 **ALLOCATIONS.**

4 A. I made an adjustment to remove capitalized labor, capitalized
5 benefit, capitalized payroll tax, capitalized insurance, and capitalized
6 miscellaneous from contra-OH allocation to avoid removing the
7 overhead allocation twice from expenses.

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

9 A. Yes, it does.

INDEX TO FEASEL EXHIBIT I

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AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 1

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	ADIT per application	<u>(\$7,472,043)</u>	<u>(\$15,202,768)</u>	<u>(\$3,366,677)</u>	<u>(\$1,233,642)</u>	<u>(\$374,842)</u>
2	Adjustment for unamortized rate case expense	19,943 [1]	7,564 [1]	97 [1]	3,088 [1]	(3,870) [1]
3	Adjustment to remove post test year additions in the application	643,192 [2]	726,484 [2]	430,644 [2]	73,462 [2]	13,552 [2]
4	Adjustment to add in updated post test year additions through March 31, 2020	(456,301) [3]	(813,286) [3]	(153,062) [3]	(69,279) [3]	(20,283) [3]
5	Adjustment for unamortized repair tax credit	(4,406) [4]	(13,773) [4]	(2,186) [4]	(382) [4]	(347) [4]
6	Adjustment for excess deferred income tax	19,888 [5]	75,322 [5]	16,651 [5]	3,662 [5]	5,748 [5]
7	Adjustment to ADIT (Sum of L2 thru L6)	<u>222,316</u>	<u>(17,689)</u>	<u>292,144</u>	<u>10,551</u>	<u>(5,200)</u>
8	ADIT per Public Staff (L1 + L7)	<u>(\$7,249,727)</u>	<u>(\$15,220,457)</u>	<u>(\$3,074,533)</u>	<u>(\$1,223,091)</u>	<u>(\$380,042)</u>

[1] Unamortized rate case expense amount provided by Public Staff Accountant Henry.
[2] W-1 Item 13, NC Rate Case - Item 13 Taxes 093019 Updated for PTY Adds.
[3] Company's response to data request 74 ADIT Follow-up, NC Rate Case - Item 13 Taxes 093019 with Support revised 04.20.2020.
[4] Net of tax amount provided by Public Staff Accountant Henry.
[5] Company's revised response to data request 59, item 3.

AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
**ADJUSTMENT TO PLANT ACQUISITION ADJUSTMENT (PAA),
NET ACQUISITION INCENTIVE ADJUSTMENTS (AIA)
AND ACCUMULATED AMORTIZATION OF PAA**
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 2

Line No.	Item	Aqua Sewer [1] (a)	Aqua Water [1] (b)	Brookwood Water [1] (c)	Fairways Sewer [1] (d)	Fairways Water [1] (e)
1	Plant Acquisition Adjustment (PAA) per application	(\$4,002,510)	\$6,102,179	(\$31,426)	\$0	\$0
2	Adjustment to remove post test year PAA additions per application		(5,850)			
3	Adjustment to reflect AIA through March 31, 2020		58,831			
4	Adjustment for post test year PAA additions through March 31, 2020		37,800			
5	Adjustment to PAA (Sum of L2 thru L4)	0	90,781	0	0	0
6	Plant Acquisition Adjustment (PAA) per Public Staff (L1 + L5)	(\$4,002,510)	\$6,192,960	(\$31,426)	\$0	\$0
7	Accumulated Amortization of PAA per application	\$3,072,970	(\$2,374,213)	\$29,053	\$0	\$0
8	Adjustment to remove post test year accumulated ammortization of PAA per application		176			
9	Adjustment to remove accumulated amortization proforma per application	(3,072,969)	2,374,037	(29,053)		
10	Adjustment for post test year accumulated amortization of PAA per Public Staff		(253)			
11	Adjustment to add accumulated amortization calculated per Public Staff	3,059,731	(2,432,816)	28,995		
12	Adjustment to accumulated amortization of PAA (Sum of L8 thru L11)	(13,238)	(58,856)	(58)	0	0
13	Accumulated Amortization of PAA per Public Staff (L7 + L12)	\$3,059,732	(\$2,433,069)	\$28,995	\$0	\$0

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

AQUA NORTH CAROLINA, INC.

Docket No. W-218 Sub 526

**ADJUSTMENT TO AMORTIZATION OF PLANT ACQUISITION ADJUSTMENT (PAA)
AND ACQUISITION INCENTIVE ADJUSTMENT (AIA)**

For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 3

Line No.	Item	Aqua Sewer [1] (a)	Aqua Water [1] (b)	Brookwood Water [1] (c)	Fairways Sewer [1] (d)	Fairways Water [1] (e)
1	Amortization of Plant Acquisition Adjustment (PAA) and Acquisition Incentive Adjustment (AIA) for account 406000 per application	<u>\$ (95,151)</u>	<u>\$ 255,592</u>	<u>\$229</u>	<u>\$0</u>	<u>\$0</u>
2	Adjustment to reflect amortization expense of PAA and AIA through March 31, 2020	<u>-</u>	<u>3,541</u>	<u>-</u>	<u>-</u>	<u>-</u>
3	Adjustment to amortization of PAA and AIA for account 406000 (L3)	<u>0</u>	<u>3,541</u>	<u>0</u>	<u>0</u>	<u>0</u>
4	Amortization of Plant Acquisition Adjustment (PAA) and Acquisition Incentive Adjustment (AIA) for account 406000 per Public Staff (L1 + L3)	<u>\$ (95,151)</u>	<u>\$ 259,133</u>	<u>\$229</u>	<u>\$0</u>	<u>\$0</u>

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

AQUA NORTH CAROLINA, INC.

Docket No. W-218 Sub 526

ADJUSTMENT TO SALARIES AND WAGES

For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 4

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Salaries and wages per application	<u>\$2,556,286</u>	<u>\$7,594,193</u>	<u>\$899,877</u>	<u>\$250,681</u>	<u>\$287,090</u>
2	Less capitalized time credit-labor	(53,048) [1]	(215,603) [1]	(18,216) [1]	(2,799) [1]	(2,625) [1]
3	Add transportation regular payroll expense		584 [1]	131 [1]		44 [1]
4	Adjustment to update salaries and wages through March 31, 2020	(61,565) [2]	(167,673) [2]	(15,047) [2]	(4,788) [2]	(4,837) [2]
5	Adjustment to remove leave without pay	(52,684) [3]	(143,484) [3]	(12,876) [3]	(4,098) [3]	(4,139) [3]
6	Adjustment to reflect actual standby pay for active employees		(1,580) [4]	(580) [4]		
7	Adjustment to reflect actual OT pay for active employees	220,400 [4]	(248,220) [4]	1,542 [4]	123 [4]	335 [4]
8	Adjustment to remove bonuses related to earnings per share that benefit shareholders	(23,946) [5]	(79,233) [5]	(13,654) [5]	(3,295) [5]	(4,530) [5]
9	Adjustment to allocate executive compensation to shareholders	(60,897) [6]	(231,744) [6]	(52,254) [6]	(11,105) [6]	(17,388) [6]
10	Adjustment to reflect allocation from Corporate Service for the active employees	43,275 [6]	(181,064) [6]	(159,003) [6]	(25,696) [6]	(53,997) [6]
11	Adjustment to reflect allocation from Aqua Customer Operation (ACO) for the active employees	<u>57,000</u> [7]	<u>(9,379)</u> [7]	<u>(67,219)</u> [7]	<u>(4,757)</u> [7]	<u>(17,099)</u> [7]
12	Adjustment to salaries and wages (Sum of L2 thru L11)	<u>68,535</u>	<u>(1,277,396)</u>	<u>(337,176)</u>	<u>(56,415)</u>	<u>(104,236)</u>
13	Salaries and wages per Public Staff (L1 + L12)	<u>\$2,624,821</u>	<u>\$6,316,797</u>	<u>\$562,701</u>	<u>\$194,266</u>	<u>\$182,854</u>

[1] Exhibit B1/B2 labor expense-summary by rate division and GL account.

[2] Calculated by the Public Staff based on Company's responses to data request 25, item 4.

[3] Calculated by the Public Staff based on Company's responses to data request 11, item 2.

[4] Calculated by the Public Staff based on Company's responses to data request 11, item 1.

[5] Calculated by the Public Staff based on Company's responses to data request 16, item 1.

[6] Calculated by the Public Staff based on Company's responses to data request 25, item 2.

[7] Calculated by the Public Staff based on Company's responses to data request 25, item 3.

AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
ADJUSTMENT TO EMPLOYEE PENSIONS AND BENEFITS
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 5

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Employee pensions and benefits per application	<u>\$863,123</u>	<u>\$2,659,692</u>	<u>\$318,251</u>	<u>\$84,255</u>	<u>\$94,306</u>
2	Less capitalized time credit-benefits	(132,232) [1]	(525,699) [1]	(46,264) [1]	(7,461) [1]	(6,539) [1]
3	Adjustment to update pensions and benefits through 3/31/2020	(78,422) [2]	(213,867) [2]	(18,458) [2]	(6,433) [2]	(6,077) [2]
4	Adjustment to reflect allocation from Corporate Service for the active employees	26,560 [3]	4,612 [3]	(32,924) [3]	(4,178) [3]	(11,086) [3]
5	Adjustment to remove unqualified benefit from Corporate Sundries	(4,815) [4]	(11,235) [4]	(1,070) [4]	(357) [4]	(357) [4]
6	Adjustment to pensions and benefits (Sum of L2 thru L5)	<u>(188,909)</u>	<u>(746,189)</u>	<u>(98,716)</u>	<u>(18,429)</u>	<u>(24,059)</u>
7	Employee Pension and benefits per Public Staff (L1 + L6)	<u>\$674,214</u>	<u>\$1,913,503</u>	<u>\$219,535</u>	<u>\$65,826</u>	<u>\$70,247</u>

[1] Exhibit B3-a benefit expense-summary by rate division/GL account.

[2] Calculated by the Public Staff based on Company's responses to data request 23, item 10 and item 11.

[3] Calculated by the Public Staff based on Company's responses to data request 25, item 2.

[4] Calculated by the Public Staff based on Company's responses to data request 78, item 2.

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
ADJUSTMENT TO INSURANCE EXPENSE
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 6

Line No.	<u>Item</u>	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)	Total [6] (f)
1	Workers' compensation premium	\$9,454 [1]	\$22,483 [1]	\$2,107 [1]	\$716 [1]	\$688 [1]	\$35,447
2	Automobile premium	3,552 [2]	13,451 [2]	2,973 [2]	654 [2]	1,026 [2]	21,656
3	General liability premium	10,678 [1]	25,395 [1]	2,381 [1]	808 [1]	777 [1]	40,039
4	Property insurance	36,163 [2]	79,832 [2]	15,319 [2]	6,334 [2]	1,978 [2]	139,626
5	Umbrella premium	37,228 [3]	98,625 [3]	16,543 [3]	5,168 [3]	4,371 [3]	161,935
6	Marsh fees	7,405 [1]	17,611 [1]	1,651 [1]	561 [1]	539 [1]	27,766
7	Executive risk	12,125 [1]	28,837 [1]	2,703 [1]	918 [1]	882 [1]	45,465
8	Pollution insurance	4,751 [4]	11,241 [4]	1,801 [4]	645 [4]	426 [4]	18,864
9	Cyber security	7,539 [2]	16,643 [2]	3,193 [2]	1,320 [2]	412 [2]	29,108
10	Claims handling expense	1,696 [3]	4,492 [3]	753 [3]	235 [3]	199 [3]	7,376
11	Total allocated costs (Sum of L1 thru L10)	<u>130,591</u>	<u>318,610</u>	<u>49,424</u>	<u>17,359</u>	<u>11,298</u>	<u>527,282</u>
12	Directly assigned costs:						
13	Workers' compensation claims	8,247 [1]	19,614 [1]	1,839 [1]	624 [1]	600 [1]	30,924
14	Automobile claims	6,210 [2]	23,519 [2]	5,199 [2]	1,144 [2]	1,795 [2]	37,866
15	General liability claims	6,654 [1]	15,825 [1]	1,483 [1]	504 [1]	484 [1]	24,951
16	Surety bonds	347 [1]	825 [1]	77 [1]	26 [1]	25 [1]	1,300
17	Total insurance per Public Staff (Sum of L11 thru L16)	<u>152,049</u>	<u>378,393</u>	<u>58,022</u>	<u>19,657</u>	<u>14,202</u>	<u>622,323</u>
18	Insurance amount per application	<u>151,449</u>	<u>526,560</u>	<u>95,236</u>	<u>21,827</u>	<u>31,064</u>	<u>826,136</u>
19	Adjustment to insurance expense (L17 - L18)	<u>\$600</u>	<u>(\$148,167)</u>	<u>(\$37,214)</u>	<u>(\$2,170)</u>	<u>(\$16,862)</u>	<u>(\$203,813)</u>

[1] Column (f) times Aqua NC salaries expensed percentages for each rate division.

[2] Column (f) times Aqua NC net plant in service ratios for each rate division.

[3] Column (f) times weighted average of three allocation factors--property, wage, and customer for each rate division.

[4] Column (f) times Aqua NC revenue ratios for each rate division.

[5] Exhibit B3-q insurance expense-summary by GL account.

[6] Feasel Exhibit I, Schedule 6-1, Column (e).

Agua North Carolina, Inc.
Docket No. W-218, Sub 526
CALCULATION OF INSURANCE
EXPENSE FOR NORTH CAROLINA
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 6-1

Line No.	Item	Total To Be Allocated [1] (a)	Percentage To NC (b)	Amount To NC [8] (c)	Percentage to Expenses In This Case (d)	Insurance Expense per Public Staff [13] (e)
1	Workers' compensation premium	\$541,224	8.45% [2]	\$45,733	77.51% [12]	\$35,447
2	Automobile premium	169,032	16.53% [3]	27,941	77.51% [12]	21,656
3	General liability premium	525,444	7.62% [4]	40,039	100.00%	40,039
4	Property insurance	1,463,589	9.54% [5]	139,626	100.00%	139,626
5	Umbrella premium	1,805,292	8.97% [6]	161,935	100.00%	161,935
6	Marsh fees	364,380	7.62% [4]	27,766	100.00%	27,766
7	Executive risk	596,658	7.62% [4]	45,465	100.00%	45,465
8	Pollution insurance-PARLL	286,686	6.58% [7]	18,864	100.00%	18,864
9	Pollution insurance-CEL	31,263	0.00% [1]	0	100.00%	0
10	Cyber security	305,115	9.54% [5]	29,108	100.00%	29,108
11	Claims handling expense	82,225	8.97% [6]	7,376	100.00%	7,376
12	Total allocated costs (Sum of L1 thru L11)			543,853		527,282
13	Directly assigned costs:					
14	Workers' compensation claims			39,898 [9]	77.51% [12]	30,924
15	Automobile claims			48,855 [10]	77.51% [12]	37,866
16	General liability claims			24,951 [11]	100.00%	24,951
17	Surety bonds			1,300 [1]	100.00%	1,300
18	Total insurance per Public Staff (Sum of L12 thru L17)			<u>\$658,857</u>		<u>\$622,323</u>

[1] Based on current insurance policies and information provided by Company.

[2] Feasel Exhibit I, Schedule 6-1(a), Line 9, Column (a).

[3] Feasel Exhibit I, Schedule 6-1(a), Line 11, Column (a).

[4] Feasel Exhibit I, Schedule 6-1(a), Line 5, Column (a).

[5] Feasel Exhibit I, Schedule 6-1(a), Line 13, Column (a).

[6] weighted average of three allocation factors--property, wage, and customer: 1/3 x 9.75%+1/3 x 7.43%+1/3 x 9.54%.

[7] Feasel Exhibit I, Schedule 6-1(a), Line 15, Column (a).

[8] Column (a) times Column (b)., unless otherwise stated.

[9] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (a).

[10] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (b).

[11] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (c).

[12] Capitalization rate as shown on NCUC Form W-1, Item 10, Exhibit B1/B2-7, Line 28, Column (n).

[13] Column (c) times Column (d).

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
CALCULATION OF AQUA NC
ALLOCATION FACTORS FOR INSURANCE
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 6-1(a)

Line No.	Item	Aqua NC (a)	Other (b)	Total Aqua America (c)
Payroll factors				
1	Non Aqua Service Payroll amounts	\$8,456,638 [1]	\$97,566,281 [3]	\$106,022,919 [1]
2	Corporate Service and Sundries payroll	1,389,376 [1]	23,308,860 [3]	24,698,236 [1]
3	Corporate ACO payroll	673,433 [1]	6,594,653 [3]	7,268,086 [1]
4	Total payroll (L1 + L2 + L3)	<u>\$10,519,447</u>	<u>\$127,469,794</u>	<u>\$137,989,241</u>
5	Payroll factor for general liability	<u>7.62%</u> [2]	<u>92.38%</u> [2]	<u>100.00%</u> [4]
6	Total payroll (L4)	\$10,519,447	\$127,469,794	\$137,989,241
7	Less: Ohio payroll	0 [1]	13,458,496 [3]	13,458,496 [1]
8	Total payroll excluding Ohio (L6 - L7)	<u>\$10,519,447</u>	<u>\$114,011,298</u>	<u>\$124,530,745</u>
9	Payroll factor for workers' compensation	<u>8.45%</u> [2]	<u>91.55%</u> [2]	<u>100.00%</u> [4]
Automobile factor				
10	Number of automobiles	181 [1]	914 [3]	1,095 [1]
11	Automobile factor	<u>16.53%</u> [2]	<u>83.47%</u> [2]	<u>100.00%</u> [4]
Property factor				
12	Property values	\$287,599,046 [1]	\$2,725,808,108 [3]	\$3,013,407,154 [1]
13	Property factor	<u>9.54%</u> [2]	<u>90.46%</u> [2]	<u>100.00%</u> [4]
Pollution control factor				
14	Revenues used to calculate premium	\$54,415,454 [1]	\$772,744,535 [3]	\$827,159,989 [1]
15	Pollution control factor	<u>6.58%</u> [2]	<u>93.42%</u> [2]	<u>100.00%</u> [4]

[1] Based on information provided by Company.

[2] Allocation percentage calculated based on amounts for Aqua America in Column (c).

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

[4] Column (a) plus Column (b).

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
**CALCULATION OF AVERAGE CLAIMS
PAID FOR AQUA NC**
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 6-1(b)

<u>Line No.</u>	<u>Item</u>	<u>Workers' Compensation</u> (a)	<u>Automobile</u> (b)	<u>General Liability</u> (c)
1	Claims paid in 2015	\$23,189 [1]	\$76,124 [1]	\$26,866 [1]
2	Claims paid in 2016	34,178 [1]	44,468 [1]	38,499 [1]
3	Claims paid in 2017	56,032 [1]	52,310 [1]	53 [1]
4	Claims paid in 2018	60,798 [1]	39,825 [1]	34,217 [1]
5	Claims paid in 2019	25,294 [1]	31,550 [1]	25,121 [1]
6	Total claims paid for 2015 thru 2019 (Sum of L1 thru L5)	199,491	244,277	124,756
7	Number of years	5	5	5
8	Five year average of claims paid (L6 / L7)	<u>\$39,898</u>	<u>\$48,855</u>	<u>\$24,951</u>

[1] Based on information provided by Company.

AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
ADJUSTMENT TO MISCELLANEOUS EXPENSE
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 7

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Miscellaneous expense per application	<u>\$422,149</u>	<u>\$1,122,849</u>	<u>\$194,721</u>	<u>\$54,868</u>	<u>\$63,048</u>
2	Less capitalized time credit-other-miscellaneous	(4,176) [1]	(8,519) [1]	(943) [1]	(287) [1]	(642) [1]
3	Adjustment to remove 50% BOD compensation from test year	(15,064) [2]	(40,913) [2]	(3,657) [2]	(1,178) [2]	(1,178) [2]
4	Adjustment to remove 50% BOD expenses from test year	(6,059) [2]	(16,458) [2]	(1,471) [2]	(474) [2]	(474) [2]
5	Adjustment to add BOD 3rd quarter 2019 retainer fees	2,766 [3]	10,474 [3]	2,315 [3]	510 [3]	800 [3]
6	Adjustment to remove 50% BOD 3rd quarter 2019 retainer fees (-50% * L5)	(1,383)	(5,237)	(1,158)	(255)	(400)
7	Adjustment to remove unqualified other expenses from Corporate Sundries	(1,720) [4]	(6,515) [4]	(1,440) [4]	(317) [4]	(497) [4]
8	Adjustment to miscellaneous expense (Sum of L2 thru L7)	<u>(25,636)</u>	<u>(67,168)</u>	<u>(6,354)</u>	<u>(2,000)</u>	<u>(2,391)</u>
9	Miscellaneous expense per Public Staff (L1 + L8)	<u>\$396,513</u>	<u>\$1,055,681</u>	<u>\$188,367</u>	<u>\$52,868</u>	<u>\$60,657</u>

[1] Exhibit B3-s miscellaneous expense-summary by rate division and GL account.
[2] Calculated by the Public Staff based on Company's responses to data request 14, item 1 and item 2.
[3] Information provided by the Company for the updated board of directors retainer fees in quarter 3 2019.
[4] Calculated by the Public Staff based on Company's responses to data request 78, item 2.

AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
ADJUSTMENT TO PAYROLL TAXES
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 8

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Payroll taxes per application	<u>\$210,118</u>	<u>\$639,090</u>	<u>\$68,724</u>	<u>\$18,895</u>	<u>\$25,014</u>
2	Adjustment to federal withholding taxes - FICA	(12,105) [1]	(157,838) [1]	(24,963) [1]	(4,055) [1]	(10,710) [1]
3	Adjustment to federal unemployment tax - FUTA	152 [1]	(904) [1]	(141) [1]	(20) [1]	(69) [1]
4	Adjustment to state unemployment tax - SUTA	<u>2,037 [1]</u>	<u>1,877 [1]</u>	<u>(661) [1]</u>	<u>2 [1]</u>	<u>(275) [1]</u>
5	Adjustment to payroll taxes (Sum of L2 thru L4)	<u>(9,916)</u>	<u>(156,865)</u>	<u>(25,765)</u>	<u>(4,073)</u>	<u>(11,054)</u>
6	Payroll taxes per Public Staff (L1 + L5)	<u>\$200,202</u>	<u>\$482,225</u>	<u>\$42,959</u>	<u>\$14,822</u>	<u>\$13,960</u>

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

AQUA NORTH CAROLINA, INC.
Docket No. W-218 Sub 526
ADJUSTMENT TO CONTRA-OH ALLOCATIONS
For the Test Year Ended September 30, 2019

Public Staff
Feasel Exhibit I
Schedule 9

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Contra-OH Allocations per application	(\$279,899)	(\$1,107,115)	(\$96,993)	(\$15,643)	(\$14,189)
2	Adjustment to remove the Cap-OH-Credit-Labor	53,048 [1]	215,603 [1]	18,216 [1]	2,799 [1]	2,625 [1]
3	Adjustment to remove the Cap-OH-Credit-Benefits	132,232 [1]	525,699 [1]	46,264 [1]	7,461 [1]	6,539 [1]
4	Adjustment to remove the Cap-OH-Credit-PR Tax	29,454 [1]	114,979 [1]	10,141 [1]	1,706 [1]	1,395 [1]
5	Adjustment to remove the Cap-OH-Credit-Other-Insurance	10,465 [1]	41,406 [1]	3,529 [1]	583 [1]	449 [1]
6	Adjustment to remove the Cap-OH-Credit-Other-Miscellaneous	4,176 [1]	8,519 [1]	943 [1]	287 [1]	642 [1]
7	Adjustment to Cap-OH-Credit (Sum of L2 thru L6)	229,375	906,206	79,093	12,836	11,650
8	Contra-OH Allocations per Public Staff (L1 + L7)	(50,524)	(200,909)	(17,900)	(2,807)	(2,539)

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