

**SANFORD LAW OFFICE, PLLC**

Jo Anne Sanford, Attorney at Law

January 31, 2019

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

Via Electronic Delivery

Re: Docket Nos. W-354, Subs 356A and 360  
Carolina Water Service, Inc. of North Carolina  
Application for Approval of Water and Sewer System  
Surcharge Rate Adjustments Pursuant to G.S. 62-133.12

Dear Ms. Jarvis:

Attached for electronic filing, please an Application for Approval of Water and Sewer System Surcharge Rate Adjustments Pursuant to G.S 62-133.12 filed in these dockets by Carolina Water Service, Inc. of North Carolina.

Thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford  
State Bar No. 6831

Attorney for Carolina Water Service,  
Inc. of North Carolina

c: Parties of Record

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-354, SUB 356A  
DOCKET NO. W-354, SUB 360**

In the Matter of  
Application by Carolina Water Service, )  
Inc. of North Carolina, 4944 Parkway )  
Plaza Boulevard, Suite 375, Charlotte, ) **APPLICATION FOR APPROVAL**  
North Carolina 28217, for Authority to ) **OF WATER AND SEWER**  
Implement Water and Sewer System ) **SYSTEM IMPROVEMENT**  
Improvement Surcharge Rate ) **SURCHARGE RATE**  
Adjustments Pursuant to ) **ADJUSTMENTS PURSUANT TO**  
G.S. 62-133.12 ) **G.S. 62-133.12**  
)

**NOW COMES Carolina Water Service, Inc. of North Carolina** (“CWSNC” or “Company”), by and through counsel, and hereby applies to the North Carolina Utilities Commission (“Commission” or “NCUC”) for authority to implement water and sewer system improvement surcharge rate adjustments pursuant to G.S. 62-133.12 and NCUC Rules R7-39 and R10-26.<sup>1</sup>

CWSNC states the following in support of this Application:

1. On June 12, 2013, North Carolina Session Law 2013-106 (“House Bill 10”), *An Act to Permit Water Utilities to Adjust Rates for Changes in Costs Based on Third-Party Rates and to Authorize the Utilities Commission to*

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<sup>1</sup> CWSNC filed this Application in both Docket Nos. W-354, Subs 356A and Sub 360 for the following reasons. The Sub 356 docket was the most-recently decided rate case for CWSNC and the rates approved in that case are the rates currently being charged by the Company. CWSNC filed its currently pending general rate case with the Commission in Docket No. W-354, Sub 360 on April 27, 2018. The case has been heard, proposed orders have been filed, and the matter is pending decision by the Commission. A final order in the case is expected to be issued no later than February 22, 2019. The Company recognizes that, once a final order is issued by the Commission in the Sub 360 rate case, certain minor updates will likely need to be made to this Application to reflect updated factors such as the Company’s newly-approved rates and the Commission-approved ratemaking capital structure and allowed returns on long-term debt and common equity.

*Approve a Rate Adjustment Mechanism for Water and Sewer Utilities to Recover Costs for Water and Sewer System Improvements*, was signed into law, having previously been ratified by the North Carolina General Assembly. In this legislation, the General Assembly, in pertinent part, enacted G.S. 62-133.12 to authorize the Commission in a general rate proceeding to approve a rate adjustment mechanism to allow water and sewer utilities to recover reasonable and prudently-incurred investments in eligible water and sewer system improvements. Session Law 2013-106 became effective on June 12, 2013. Prior to enactment of this legislation, the Commission did not have specific statutory authority to establish these rate adjustment mechanisms for water and sewer utilities.

2. G.S. 62-133.12 provides for Commission approval of a water system improvement charge ("WSIC") and a sewer system improvement charge ("SSIC"), upon finding that WSIC/SSIC rate adjustment mechanisms are in the public interest. G.S. 62-133.12(a) provides:

"The frequency and manner of the rate adjustments under the mechanism shall be as prescribed by the Commission."

3. On August 21, 2013, the Public Staff filed a Petition for Order Establishing Rulemaking Proceeding in Docket No. W-100, Sub 54. In the Petition, the Public Staff requested that the Commission establish a rulemaking to implement G.S. 62-133.12, and adopt the proposed rules that the Public Staff had attached to the Petition with such modifications as may be appropriate in light of any comments that might be presented during the rulemaking proceeding. The

draft rules established procedures for determining and implementing the rate adjustment mechanisms contemplated in the provisions in G.S. 62-133.12; i.e., a WSIC<sup>2</sup> and a SSIC<sup>3</sup>.

4. On August 23, 2013, Utilities, Inc. (“UI”), the parent corporation of CWSNC and five other regulated public utility subsidiaries in North Carolina, filed a Petition to Intervene in Docket No. W-100, Sub 54. In support of its Petition, UI noted that CWSNC had filed a general rate case in Docket No. W-354, Sub 336 on June 28, 2013, and that, pursuant to the authority granted in the newly-enacted G.S. 62-133.12, the Company had requested that the Commission approve a rate adjustment mechanism in that rate proceeding to allow it to recover reasonable and prudent investments in eligible water and sewer system improvements.

5. On August 28, 2013, the Commission entered an Order Establishing Rulemaking in Docket No. W-100, Sub 54 and, in pertinent part, granted UI’s petition to intervene.

6. On March 10, 2014, the Commission entered an Order Granting Partial Rate Increase, Approving Rate Adjustment Mechanism, and Requiring Customer Notice (“2014 Rate Case Order”) in Docket No. W-354, Sub 336, CWSNC’s 2014 general rate case.

7. Decretal Paragraph 13 of the 2014 Rate Case Order provided that: “CWSNC’s request to utilize a WSIC/SSIC mechanism pursuant to G.S. 62-133.12 to recover certain incremental costs related to eligible investment in water and

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<sup>2</sup> The Public Staff proposed Rule R7-39 to address the WSIC.

<sup>3</sup> The Public Staff proposed Rule R10-26 to address the SSIC.

sewer infrastructure projects completed and placed in service between general rate case proceedings is in the public interest and is hereby approved.”

8. Decretal Paragraph 14 of the 2014 Rate Case Order provided that: “CWSNC shall utilize the alternative procedures set forth in Appendices C and D, attached hereto, and shall make the requisite filings in order to qualify for implementation of the WSIC/SSIC without having to make an additional rate filing subsequent to the adoption of final rules in Docket No. W-100, Sub 54.”

9. On June 6, 2014, the Commission entered an Order Adopting Rules to Implement G.S. 62-133.12 in Docket No. W-100, Sub 54. Rule R7-39, entitled “Water System Improvement Charge Mechanism,” and Rule R10-26, entitled “Sewer System Improvement Charge Mechanism,” were adopted effective as of the date of the rulemaking order.

10. Rules R7-39(f) and R10-26(f) provide that once WSIC and SSIC mechanisms are approved and eligible water and sewer system improvements are in service, the utility (in this case, CWSNC) may file a request with the Commission for authority to impose water and sewer system improvement charges pursuant to the mechanisms, to be effective no less than 60 days after filing the request.

11. By the 2014 Rate Case Order entered in Docket No. W-354, Sub 336, the Commission specifically found that it was in the public interest to approve and authorize CWSNC to implement WSIC and SSIC mechanisms. Therefore, on January 30, 2015, CWSNC filed an application in Docket No. W-354, Sub 336A for authority to implement WSIC and SSIC rate surcharge adjustments effective April 1, 2015. On March 24, 2015, the Commission entered an Order

approving the Company's application to implement WSIC and SSIC rate surcharges effective April 1, 2015. The proposed rate surcharges were approved on a provisional basis. The WSIC/SSIC surcharges continued in effect until December 7, 2015, when the Commission entered an Order in Docket No. W-354, Sub 344 ("2015 Rate Case Order"), the Company's 2015 rate case. Pursuant to Commission Rules R7-39(k) and R10-26(k), CWSNC's WSIC/SSIC was reset to zero effective December 7, 2015.

12. By Commission Order in CWSNC's following base rate case, the Sub 356 docket, the existing WSIC and SSIC rates were reset to zero effective November 8, 2017.

13. By Application filed in the Sub 356A docket on May 30, 2018, CWSNC filed its third annual report and EMF calculations. The Public Staff issued a review report on the filing accepting the EMF rate change, which was implemented for the Uniform Water and Uniform Sewer tariff groups, and Fairfield Harbour service area effective October 1, 2018.

14. CWSNC filed its currently pending general rate case with the Commission in Docket No. W-354, Sub 360 on April 27, 2018. The case has been heard, proposed orders have been filed, and the matter is pending decision by the Commission. A final order in the case is expected to be issued no later than February 22, 2019. That action by the Commission will occur prior to the April 1, 2019 effective date of the Company's proposed WSIC/SSIC surcharges in this filing.

15. Pursuant to Rules R7-39(b)(7) and R10-26(b)(7), the WSIC and SSIC Period for CWSNC is the 12-month period ended March 31 each year. For purposes of this Application, the applicable WSIC/SSIC Period is the 12-month period ended March 31, 2020.

16. By this Application, CWSNC requests authority to recover the incremental depreciation expense and capital costs associated with the Company's investment in various eligible water and sewer system improvements, completed and in service as of December 31, 2018, as defined in G.S. 62-133.12(c) and (d) and as detailed in Appendix A to this Application. CWSNC asserts that these new water and sewer system improvements are necessary to enable the Company to provide safe, reliable, and efficient service to its customers in accordance with applicable water quality and effluent standards and requests that the Commission, upon review of this Application, so find.

17. CWSNC has not proposed any secondary water quality system improvement projects in this Application, pursuant to G.S. 62-133.12(c)(2) and (c)(4), designed to allow the Company to comply with secondary drinking water standards. CWSNC has now filed three semi-annual reports and three annual reports regarding secondary water quality in the Sub 336A, Sub 344A, and Sub 356A dockets. The most recent report was filed on November 30, 2018, in the Sub 356A docket. In that report, which covered the twelve-month period from July 1, 2017 to June 30, 2018, CWSNC found that all its systems were below the complaint action threshold established by the Commission and that the Company had not identified any systems that need solutions to comply with secondary

drinking water standards. The Company reported those same conclusions in the three previous semi-annual reports and two annual reports which cumulatively covered the period from January 1, 2014 through June 30, 2017.

18. For purposes of this Application, CWSNC has invested \$682,851 in WSIC improvements and \$386,772 in SSIC improvements, resulting in a total WSIC/SSIC investment of \$1,069,623. These totals include \$635,175 for Uniform Water, \$364,509 for Uniform Sewer, \$47,676 for Bradfield Farms/Fairfield Harbour/Treasure Cove (“BF/FH/TC”) Water, and \$22,263 for Bradfield Farms/Fairfield Harbour (“BF/FH”) Sewer.

19. Rules R7-39(b)(2) and R10-26(b)(2) define the term “depreciation expense” to mean the annual depreciation accrual rates employed in CWSNC’s most recent general rate case for the plant accounts in which the cost of each eligible water and sewer system improvement is recorded applied to the cost of eligible water and sewer system improvements. Accordingly, CWSNC has developed its request for WSIC and SSIC cost recovery of its incremental depreciation expense utilizing the annual depreciation accrual rates employed in Docket No. W-354, Sub 360, the Company’s pending general rate case. These annual depreciation accrual rates are the same rates used in the Company’s Sub 356 rate case.

20. Rules R7-39(b)(1) and R10-26(b)(1) define the term “capital costs” to mean the pretax return on costs permitted to be capitalized pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts, net of accumulated depreciation and accumulated deferred

income taxes, using the current federal and state income tax rates and the utility's capital structure, cost of long-term debt, and return on equity approved in the utility's most recent general rate case. Accordingly, CWSNC has developed its request for WSIC and SSIC cost recovery of its capital costs utilizing the current effective federal and state corporate income tax rates (21% and 2.5%, respectively) and the utility's capital structure, cost of long-term debt, and return on equity approved in Docket No. W-354, Sub 356, the Company's most recently-completed general rate case<sup>5</sup>.

21. Rules R7-39(b)(4) and R10-26(b)(4) define the term "incremental depreciation expense and capital costs" to mean depreciation expense and capital costs that have been incurred since the utility's most recent rate case and have not been included in the utility's cost of service for ratemaking purposes. Accordingly, CWSNC's request for WSIC and SSIC cost recovery of its incremental depreciation expense and capital costs includes only costs incurred since the Company's most recently-decided general rate case in Docket No. W-354, Sub 356, and which were not included for cost recovery in the Company's pending rate case in the Sub 360 docket. CWSNC further states that such costs have not been and are not currently included in the Company's cost of service for ratemaking purposes, and will not be included in the resulting order in the Sub 360 docket.

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<sup>5</sup> The Company recognizes that the approved capital structure, cost of long-term debt, and return on equity included in this filing will be updated before rates are effective April 1, 2019 to align with the final rate order in the Sub 360 docket.

22. Rules R7-39(b)(6) and R10-26(b)(6) define the terms “WSIC Revenue Requirement” and “SSIC Revenue Requirement” to mean the annual revenue required to allow a utility to recover the annual incremental depreciation expense and capital costs of eligible water and sewer system improvements. Accordingly, CWSNC has developed its Application and calculated its request to recover the WSIC and SSIC Revenue Requirements consistent with the methodology set forth in subsection (g) of the referenced rules. CWSNC’s total WSIC/SSIC Revenue Requirement for purposes of this Application is \$125,315, consisting of \$68,700 for Uniform Water, \$48,955 for Uniform Sewer, \$5,198 for BF/FH/TC Water, and \$2,462 for BF/FH Sewer.

23. Rules R7-39(h) and R10-26(h) specify how the water and sewer system charges are to be calculated. Subsection (h)(1) of the rules specify that the WSIC and SSIC shall be expressed as a percentage carried to two decimal places and shall be applied to the total utility bill of each customer under the utility’s applicable service rates and charges. By this application, CWSNC seeks authority to implement the following net/incremental change to its existing WSIC EMF surcharge: CWSNC Uniform Rate Water - 0.39%. This incremental WSIC change will be added to the currently-authorized WSIC EMF surcredit of (0.05%), which became effective on October 1, 2018, resulting in a cumulative WSIC surcharge of 0.34% for CWSNC Uniform Rate Water. CWSNC also seeks authority to implement the following incremental change to its existing SSIC EMF surcharge: CWSNC Uniform Rate Sewer - 0.42%. This incremental SSIC change will be added to the currently-authorized SSIC EMF surcharge of 0.02%, which became

effective on October 1, 2018, resulting in a cumulative SSIC surcharge for CWSNC Uniform Rate Sewer of 0.44%. CWSNC also seeks authority to implement the following WSIC surcharge: CWSNC BF/FH/TC Water - 0.53%. CWSNC additionally seeks authority to implement the following SSIC surcharge: BF/FH Sewer - 0.14%. This incremental SSIC change will be added to the currently-authorized SSIC EMF surcredit of (0.07%) applicable only to the Fairfield Harbour sewer service area, which became effective on October 1, 2018, resulting in a cumulative SSIC surcharge of 0.07% for Fairfield Harbour sewer customers. If approved by the Commission, these surcharges will be applied to the total utility bill of each customer under the Company's applicable water and sewer service rates and charges effective for service rendered on and after April 1, 2019.

24. Subsection (h)(2) of the rules specifies that the WSIC and SSIC shall be computed by dividing the annual WSIC and SSIC Revenue Requirements by the projected revenues of the utility during the 12-month period following implementation of the charges. By this Application, CWSNC has made the required computations consistent with the rule by utilizing the Company's WSIC and SSIC Revenue Requirements and the following projected revenues during the 12-month period subsequent to implementation of the charges: CWSNC Uniform Water - \$17,415,028; CWSNC Uniform Sewer - \$11,520,831; BF/FH/TC Water - \$979,776; BF/FH Sewer - \$1,730,885. The Company adjusted the CWSNC Uniform Sewer revenue requirement authorized in the Sub 356 docket by \$1,157,973 to remove revenues related to the Corolla Light/Monteray Shores sewer service area.

25. Rules R7-39(i) and R10-26(i) authorize CWSNC to request semiannual WSIC and SSIC rate adjustments. By this Application, CWSNC notifies the Commission that the Company is applying for semiannual WSIC and SSIC rate adjustments. Subsections (i)(2) of the rules specify that the cumulative WSIC and SSIC Revenue Requirement may not exceed five percent of the total annual service revenues approved in the utility's last general rate proceeding. For purposes of this Application, CWSNC states that the five percent limitations as set forth below have been calculated based upon the total annual service revenues approved in the Company's W-354, Sub 356 rate proceeding: CWSNC Water - \$870,751; CWSNC Sewer - \$631,361; BF/FH Water - \$47,538; BF/FH Sewer - \$86,666.

26. CWSNC's proposed WSIC and SSIC adjustments would increase monthly residential average customer bills (based upon the Sub 356 rates currently in effect; not the new rates pending approval in the Sub 360 docket) as follows:

**CWSNC Uniform Water - Metered Rates** (average customer usage: 3,980 gallons per month) – The average monthly bill would increase by 0.39%, or 21 cents per month, from \$55.06 to \$55.27.

**CWSNC Uniform Water - Flat Rates** - The average monthly bill would increase by 0.39%, or 18 cents per month, from \$47.43 to \$47.61.

**CWSNC Uniform Sewer - Metered Rates** (average customer usage: 3,417 gallons per month) – The average monthly bill would increase by 0.42%, or 24 cents per month, from \$56.61 to \$56.85.

**CWSNC Uniform Sewer - Flat Rates** – The average monthly bill would increase by 0.42%, or 24 cents per month, from \$56.58 to \$56.82.

**BF/FH/TC Water- Metered Rates** (average customer usage: 3,980 gallons per month) – The average monthly bill would increase by 0.53%, or 13 cents per month, from \$24.81 to \$24.94.

**BF/FH Sewer - Flat Rates** – The average monthly bill for the Bradfield Farms service area would increase by 0.14%, or 6 cents per month, from \$41.40 to \$41.46. The average monthly bill for the Fairfield Harbour service area would increase by 0.14%, or 6 cents per month, from \$41.37 to \$41.43.

27. CWSNC's proposed WSIC/SSIC tariff/rate schedule is attached hereto as Appendix B. This tariff/rate schedule is proposed to become effective for service rendered on and after April 1, 2019. This tariff does not apply to sewer customers served by CWSNC in its Corolla Light/Monteray Shores service area, but does apply to all of the Company's other water and sewer customers

28. The attorney for CWSNC, on whom all pleadings and notices should be served, is:

Jo Anne Sanford  
Sanford Law Office, PLLC  
Post Office Box 28085  
Raleigh, North Carolina 27611-8085  
Telephone: 919.210.4900  
sanford@sanfordlawoffice.com

**WHEREUPON**, CWSNC hereby requests that the Commission approve implementation of the proposed new WSIC and SSIC tariff/rate schedule set forth in Appendix B, including the percentage surcharges specified therein, effective for service rendered on and after April 1, 2019.

Respectfully submitted this 31st day of January, 2019.

**SANFORD LAW OFFICE, PLLC**

**Electronically Submitted**

**/s/Jo Anne Sanford**

North Carolina Bar No. 6831

P.O. Box 28085

Raleigh, North Carolina 27611-8085

Phone: 919-210-4900

Fax: 919-829-8139

E-mail: [sanford@sanfordlawoffice.com](mailto:sanford@sanfordlawoffice.com)

**Robert H. Bennink, Jr.**

Bennink Law Office

North Carolina State Bar No. 6502

130 Murphy Drive

Cary, North Carolina 27513

Telephone: 919-760-3185

Email: [BenninkLawOffice@aol.com](mailto:BenninkLawOffice@aol.com)

**Attorneys for Carolina Water Service, Inc. of  
North Carolina**

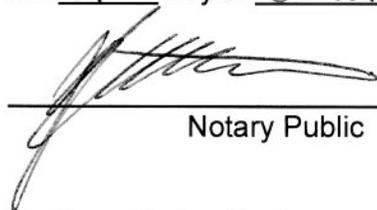
VERIFICATION

Dante DeStefano, being duly sworn, deposes and says: that he is the Manager of Financial Planning & Analysis for Carolina Water Service, Inc. of North Carolina; that he is familiar with the facts set out in this **Application for Approval of Water and Sewer System Improvement Surcharge Rate Adjustments Pursuant to G.S. 62-133.12** filed in Docket Nos. W-354, Subs 356A and 360; that he has read the foregoing Application and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

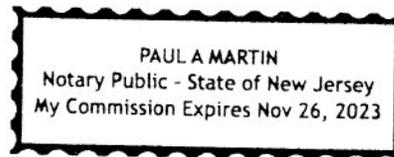


Dante DeStefano

Sworn to and subscribed before me this the 31<sup>st</sup> day of January 2019.



Notary Public



My Commission Expires: 11/26/23

**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 356A & Sub 360  
Calculation of WSIC & SSIC Revenue Requirement  
WSIC & SSIC Period 1 - Six Months Ended 9/30/19

Appendix A  
Page 1 of 5

Line No.	Item	Year 1 (4/1/19-3/31/20) (a)
1	<b><u>UNIFORM WATER OPERATIONS</u></b>	
2	Plant in service	635,175
3	Accumulated depreciation	(11,486)
4	ADIT	<u>(4,658)</u>
5	Net plant investment (L2 + L3 + L4)	619,031
6	Pre-tax rate of return	<u>9.33%</u>
7	Capital costs (L5 x L6)	57,756
8	Depreciation expense	<u>10,847</u>
9	Subtotal, excluding regulatory fee (L7 + L8)	68,603
10	Regulatory fee gross-up factor	<u>0.99860</u>
11	Annual WSIC revenue requirement (L9 / L10)	68,700
12	Projected 12-month revenues	<u>17,486,892</u>
13	WSIC charge (L11 / L12)	<u><u>0.39%</u></u>
14		
15	<b><u>UNIFORM SEWER OPERATIONS</u></b>	
16	Plant in service	\$364,509
17	Accumulated depreciation	(16,799)
18	ADIT	<u>(328)</u>
19	Net plant investment (L16 + L17 + L18)	347,382
20	Pre-tax rate of return	<u>9.33%</u>
21	Capital costs (L19 x L20)	32,411
22	Depreciation expense	<u>16,475</u>
23	Subtotal, excluding regulatory fee (L21 + L22)	48,886
24	Regulatory fee gross-up factor	<u>0.99860</u>
25	Annual SSIC revenue requirement (L23 / L24)	48,955
26	Projected 12-month revenues	<u>11,520,831</u>
27	SSIC charge (L25 / L26)	<u><u>0.42%</u></u>
28		
29	<b><u>BF/FH/TC WATER OPERATIONS</u></b>	
30	Plant in service	\$47,676
31	Accumulated depreciation	(878)
32	ADIT	<u>(346)</u>
33	Net plant investment (L30 + L31 + L32)	46,452
34	Pre-tax rate of return	<u>9.33%</u>
35	Capital costs (L33 x L34)	4,334
36	Depreciation expense	<u>856</u>
37	Subtotal, excluding regulatory fee (L35 + L36)	5,190
38	Regulatory fee gross-up factor	<u>0.99860</u>
39	Annual WSIC revenue requirement (L37 / L38)	5,198
40	Projected 12-month revenues	<u>979,776</u>
41	WSIC charge (L39 / L40)	<u><u>0.53%</u></u>
42		
43	<b><u>BF/FH/TC SEWER OPERATIONS</u></b>	
44	Plant in service	\$22,263
45	Accumulated depreciation	(476)
46	ADIT	<u>(146)</u>
47	Net plant investment (L44 + L45 + L46)	21,641
48	Pre-tax rate of return	<u>9.33%</u>
49	Capital costs (L47 x L48)	2,019
50	Depreciation expense	<u>439</u>
51	Subtotal, excluding regulatory fee (L49 + L50)	2,458
52	Regulatory fee gross-up factor	<u>0.99860</u>
53	Annual SSIC revenue requirement (L51 / L52)	2,462
54	Projected 12-month revenues	<u>1,730,885</u>
55	SSIC charge (L54 / L55)	<u><u>0.14%</u></u>

Carolina Water Service, Inc. of NC  
Docket No. W-354, Sub 356A & Sub 360  
Plant and Depreciation Expense for the  
WSIC & SSIC Period 1 - Six Months Ended 9/30/19  
Based on Plant Additions Through 12/31/18

Appendix A  
Page 2 of 5

Line No.	Item	Depr. Rate (a)	WSIC & SSIC Plant Additions							Annual Depr. Expense 4/1/2019-3/31/20 (k)	Accum. Depr. as of 4/1/19 (l)	Annual Depr. Expense for this Period Additions	Accum. Depr. For this Period Additions	
			Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Total 7/11-12/31/2018 Additions					Total Plant in Service (j)
1	<b>UNIFORM WATER OPERATIONS</b>													
2	1105 - Electric Pum Equip WTP	3.33%												
3	1125 - T&D Mains	1.00%	35,624	54,486	56,514	36,969	26,949	22,879	233,423	233,423	2,334	1,333	2,334	1,333
4	1130 - Service Lines	2.00%	70,100	69,498	49,345	74,147	56,741	38,957	358,788	358,788	7,176	4,028	7,176	4,028
5	1135 - Meters	3.33%	3,136	4,893	4,598	4,094	4,502	6,593	27,817	27,817	926	480	926	480
6	1140 - Meter Installations	3.33%				750	2,850	300	3,900	3,900	130	55	130	55
7	1145 - Hydrants	2.50%	625	2,846	4,383	3,392			11,247	11,247	281	165	281	165
8	Total Uniform Water		109,485	131,724	114,841	119,352	91,043	68,730	635,175	635,175	10,847	6,062	10,847	6,062
9														
10	<b>UNIFORM SEWER OPERATIONS</b>													
11	1345 - Sewer Force Main	1.33%		867	2,762	1,850	850	1,434	7,763	7,763	103	52	103	52
12	1350 - Sewer Gravity Main	1.00%		17,455	8,911	39,625	94,181	2,850	163,022	163,022	1,630	768	1,630	768
13	1360 - Services to Customers	1.33%	13,564	5,098	11,161	8,773	11,354	6,497	56,447	56,447	751	417	751	417
14	1380 - Pumping Equipment Pump	14.29%	9,819	20,628	8,008	14,229	22,567	14,310	89,561	89,561	12,798	6,727	12,798	6,727
15	1400 - Treat/Disp Equip Trt Pl	2.50%	-	-	-	47,715	-	-	47,715	47,715	1,193	596	1,193	596
16	Total Uniform Sewer		23,383	44,047	30,842	112,192	128,953	25,091	364,509	364,509	16,475	8,562	16,475	8,562
17														
18	<b>BF/FH/TC WATER OPERATIONS</b>													
19	1125 - T&D Mains	1.00%	2,727	480				6,500	9,707	9,707	97	45	97	45
20	1130 - Service Lines	2.00%	7,998	4,400	1,348	11,303	6,762	6,158	37,969	37,969	759	405	759	405
21	Total BF/FH/TC Water		10,725	4,880	1,348	11,303	6,762	12,658	47,676	47,676	856	450	856	450
22														
23	<b>BF/FH/TC SEWER OPERATIONS</b>													
24	1350 - Sewer Gravity Main	1.00%	2,750			9,700			12,450	12,450	125	69	125	69
25	1360 - Services to Customers	1.33%			6,988		1,403		8,391	8,391	112	62	112	62
26	1380 - Pumping Equipment Pump	14.29%		550	873				1,423	1,423	203	125	203	125
27	Total BF/FH/TC Sewer		2,750	550	7,860	9,700	1,403	0	22,263	22,263	439	256	439	256
28														

**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 356A & Sub 360  
Calculation of Accumulated Depreciation and ADIT  
WSIC & SSIC Period 1 - Six Months Ended 9/30/19

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Line No.	Item	Year 1 (4/1/19 - 3/31/20) (a)
1	<b>UNIFORM WATER OPERATIONS</b>	
2	Accumulated depreciation beginning balance	(\$6,062)
3	WSIC & SSIC depreciation expense	(10,847)
4	Ending balance (L2 + L3)	(16,910)
5	Average accumulated depreciation for year ((L2 + L4) / 2)	(\$11,486)
6	Tax depreciation reserve beginning balance	(\$19,055)
7	WSIC & SSIC tax depreciation expense	(25,407)
8	Ending balance (L6 + L7)	(44,462)
9	Average tax depreciation reserve for year ((L6 + L8) / 2)	(31,758)
10	Average book depreciation reserve for year (L5)	(11,486)
11	Difference between tax and book reserves (L9 - L10)	(20,272)
12	Composite tax rate	22.98%
13	Average ADIT (L11 x L12)	(\$4,658)
14	<b>UNIFORM SEWER OPERATIONS</b>	
15	Accumulated depreciation beginning balance	(8,562)
16	WSIC & SSIC depreciation expense	(16,475)
17	Ending balance (L15 + L16)	(25,037)
18	Average accumulated depreciation for year ((L15 + L17) / 2)	(\$16,799)
19	Tax depreciation reserve beginning balance	(\$10,935)
20	WSIC & SSIC tax depreciation expense	(14,580)
21	Ending balance (L19 + L20)	(25,515)
22	Average tax depreciation reserve for year ((L19 + L21) / 2)	(18,225)
23	Average book depreciation reserve for year (L18)	(16,799)
24	Difference between tax and book reserves (L22 - L23)	(1,426)
25	Composite tax rate	22.98%
26	Average ADIT (L24 x L25)	(\$328)
27	<b>BF/FH/TC WATER OPERATIONS</b>	
28	Accumulated depreciation beginning balance	(\$450)
29	WSIC & SSIC depreciation expense	(856)
30	Ending balance (L28 + L29)	(1,307)
31	Average accumulated depreciation for year ((L28 + L30) / 2)	(\$878)
32	Tax depreciation reserve beginning balance	(\$1,431)
33	WSIC & SSIC tax depreciation expense	(1,907)
34	Ending balance (L32 + L33)	(3,338)
35	Average tax depreciation reserve for year ((L32 + L34) / 2)	(2,384)
36	Average book depreciation reserve for year (L31)	(878)
37	Difference between tax and book reserves (L35 - L36)	(1,506)
38	Composite tax rate	22.98%
39	Average ADIT (L37 x L38)	(\$346)
40	<b>BF/FH/TC SEWER OPERATIONS</b>	
41	Accumulated depreciation beginning balance	(\$256)
42	WSIC & SSIC depreciation expense	(439)
43	Ending balance (L41 + L42)	(696)
44	Average accumulated depreciation for year ((L41 + L43) / 2)	(\$476)
45	Tax depreciation reserve beginning balance	(\$668)
46	WSIC & SSIC tax depreciation expense	(891)
47	Ending balance (L45 + L46)	(1,558)
48	Average tax depreciation reserve for year ((L45 + L47) / 2)	(1,113)
49	Average book depreciation reserve for year (L44)	(476)
50	Difference between tax and book reserves (L48 - L49)	(637)
51	Composite tax rate	22.98%
52	Average ADIT (L50 x L51)	(\$146)

**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 356A & Sub 360  
Calculation of Tax Reserve Balance  
WSIC & SSIC Period 1 - Six Months Ended 9/30/19

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Line No.	<u>Item</u>	<u>Uniform Water</u>	<u>Uniform Sewer</u>	<u>BF/FH/TC Water</u>	<u>BF/FH/TC Sewer</u>
1					
2	<u>Tax Reserve Balance on 2018 Additions</u>				
3	2018 Additions (July - Dec 2018)	635,175	\$364,509	47,676	\$22,263
4	Bonus Depreciation - not applicable	0	0	0	0
5	Remaining balance to be depreciated (L3 - L4)	635,175	364,509	47,676	22,263
6	Tax depreciation rate in Year 1	2.00%	2.00%	2.00%	2.00%
7	Tax depreciation on 2018 additions (L5 x L6)	12,703	7,290	954	445
8	Bonus Depreciation - not applicable	0	0	0	0
9	Total Tax depreciation for 2018 (L7 + L8)	12,703	7,290	954	445
10	Tax Depreciation for 3 months of 2019 (L5*4%*25%)	6,352	3,645	477	223
11	Tax reserve balance as of 3/31/19 (-L9 - L10)	<u>(19,055)</u>	<u>(10,935)</u>	<u>(1,431)</u>	<u>(668)</u>
12					
13	Total Tax Depreciation Expense for 4/1/19 through 3/31/20 (L5*4%)	<u>25,407</u>	<u>14,580</u>	<u>1,907</u>	<u>891</u>
14					
15	Tax Reserve Balance as of 3/31/20 (L11 + L13)	<u>(44,462)</u>	<u>(25,515)</u>	<u>(3,338)</u>	<u>(1,558)</u>
16					
17	Cumulative Tax Reserve Balance @ 3/31/19 (L11)	(19,055)	(10,935)	(1,431)	(668)
18					
19	Cumulative Tax Reserve Balance @ 3/31/20 (L13)	(44,462)	(25,515)	(3,338)	(1,558)

[1] Tax depreciation rate is based on a 25 year straight line method with half year in first year.

**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 356A & Sub 360  
Calculation of Pre-Tax Return for  
WSIC & SSIC Period 1 - Six Months Ended 9/30/19

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Line No.	Item	Capital Structure From Sub 356 (a)	Cost Rates From Sub 356 (b)	Overall Rate of Return (c)	Pre Tax Rate of Return (d)
1	Debt	48.00%	5.93%	2.85%	2.85%
2	Equity	52.00%	9.60%	4.99%	6.48%
3	Total	<u>100.00%</u>		<u>7.84%</u>	<u>9.33%</u>
4	State income tax rate for 2019	2.50%			
5	Federal income tax rate for 2019	<u>21.00%</u>			
6	Composite income tax rate	<u>22.98%</u>			

**Carolina Water Service, Inc. of North Carolina (“CWSNC”)  
Water and Sewer System Improvement Charge  
Rate Mechanisms  
Tariff/Rate Schedule  
Docket No. W-354, Sub 356A  
Docket No. W-354, Sub 360**

By Order entered in Docket No. W-354, Sub 336 on March 10, 2014, the North Carolina Utilities Commission (“NCUC” or “Commission”) approved CWSNC’s request, pursuant to G.S. 62-133.12, for authority to implement semiannual water and sewer system improvement charge (WSIC/SSIC) adjustment mechanisms designed to recover the incremental costs associated with eligible investments in certain water and sewer infrastructure improvement projects completed and placed in service between general rate case proceedings. The WSIC/SSIC mechanisms are subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanisms may not exceed 5% of the total annual service revenues approved by the Commission in the Company's last general rate case. Rules R7-39(h) and R10-26(h) specify how the water and sewer system improvement charges are to be calculated. Subsection (h)(1) of the rules specifies that the WSIC and SSIC shall be expressed as a percentage carried to two decimal places and shall be applied to the total utility bill of each customer under the utility's applicable service rates and charges.

**WSIC/SSIC Percentage Surcharges  
(Effective for Service Rendered On and After April 1, 2019)**

Pursuant to G.S. 62-133.12 and Rules R7-39 and R10-26, the NCUC entered an Order in Docket Nos. W-354, Subs 356A and 360 on \_\_\_\_\_, 2019, which authorized CWSNC to implement the following WSIC and SSIC percentage surcharges effective for service rendered on and after April 1, 2019:

WSIC Surcharge

CWSNC Water – 0.34%

Bradfield Farms/Fairfield Harbour/Treasure Cove Water – 0.53%

SSIC Surcharge

CWSNC Sewer – 0.44%

Bradfield Farms Sewer – 0.14%

Fairfield Harbour Sewer – 0.07%

This tariff/rate schedule and the Commission-approved WSIC and SSIC surcharges do not apply to sewer customers served by CWSNC in its Corolla Light/Monteray Shores service area. It applies to all other uniform rate water and sewer customers served by the Company.

The Commission-authorized WSIC and SSIC percentage surcharges will be applied to the total utility bill of each affected customer under the Company's applicable service rates and charges and will remain in effect unless and until modified or superceded by the NCUC in a subsequent semiannual WSIC/SSIC surcharge proceeding or they are reset to zero in a subsequent general rate case.

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the foregoing **Application for Approval of Water and Sewer System Improvement Surcharge Rate Adjustments Pursuant to G.S. 62-133.12** filed in Docket Nos. W-354, Subs 356A and 360 on the parties to those dockets in accordance with North Carolina Utilities Commission Rule R1-39, either by United States mail, first class postage pre-paid; by hand delivery; or by means of electronic delivery upon agreement of the receiving party.

This the 31st day of January, 2019.

**Electronically Submitted**  
**/s/Jo Anne Sanford**  
North Carolina State Bar No. 6831

SANFORD LAW OFFICE, PLLC  
sanford@sanfordlawoffice.com  
Tel: 919.210.49001