

SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

November 30, 2021

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

Via Electronic Delivery

Re: Docket No. W-354 Sub 384
Joint Settlement Agreement and Stipulation Between Public Staff
and Carolina Water Service, Inc. of North Carolina

Dear Ms. Dunston:

Attached for filing please find the Joint Settlement Agreement and Stipulation (“Agreement”) submitted by Carolina Water Service, Inc. of North Carolina and the Public Staff in this docket. By separate filing today, the Public Staff will submit the exhibits and supporting schedules for the Agreement.

I hereby certify that a copy of the attached Agreement has been served on all parties of record in these proceedings.

As always, 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
N.C. State Bar No. 6831
Attorney for Carolina Water Service, Inc.
of North Carolina

c: Parties of Record

CERTIFICATE OF SERVICE

I hereby certify that the foregoing filing, captioned **Joint Settlement Agreement and Stipulation Between Public Staff and Carolina Water Service, Inc. of North Carolina**, has been served on the parties of record to Docket No. W-354, Sub 384, 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 30th day of November, 2021.

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

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Attorney for Carolina Water Service, Inc.
of North Carolina

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 384

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Carolina Water Service, Inc. of) North Carolina, 4044 Parkway Plaza Boulevard,) Suite 375, Charlotte, North Carolina 28217, for) Authority to Adjust and Increase Rates for) Water and Sewer Utility Service in All Service) Areas in North Carolina)	JOINT SETTLEMENT AGREEMENT AND STIPULATION
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Carolina Water Service, Inc. of North Carolina (CWSNC or Company), through counsel, and the Public Staff – North Carolina Utilities Commission (Public Staff), through its Executive Director, Christopher J. Ayers (collectively the Stipulating Parties), pursuant to N.C. Gen. Stat. § 62-69 and Rule R1-24(c) of the Rules and Regulations of the North Carolina Utilities Commission (Commission or NCUC), respectfully submit the following Joint Settlement Agreement and Stipulation (Stipulation) for consideration by the Commission in this proceeding. The Stipulating Parties hereby stipulate and agree as follows with regard to settling all of the issues in NCUC Docket No. W-354, Sub 384:

I. BACKGROUND

- A. On May 25, 2021, CWSNC gave 30-days' notice of its intent to file a general rate case in Docket No. W-354, Sub 384.
- B. On July 2, 2021, CWSNC filed its Application for general rate relief in Docket No. W-354, Sub 384, including testimony by the following witnesses:

- 1) Donald H. Denton, President of CWSNC;
 - 2) Dana Hill, Director of State Operations for CWSNC;
 - 3) Philip J. Drennan, Regional Director of Financial Planning and Analysis for CWSNC;
 - 4) Matthew P. Schellinger II, Manager of Financial Planning and Analysis for CWSNC;
 - 5) LaQuisha M. Parks, Vice President of Customer Experience for CWSNC; and
 - 6) Dylan D'Ascendis, Partner at ScottMadden, Inc.
- C. On July 16, 2021, Motions for Admission Pro Hac Vice were filed by Kay Pashos and Mark Alson, both with Ice Miller LLP in Indianapolis, Indiana, and Jo Anne Sanford, Sanford Law Office, PLLC, requesting admission of Ms. Pashos and Mr. Alson in order to participate in these proceedings. On July 27, 2021, the Commission granted the motions.
- D. On July 26, 2021, the Commission issued its Order Establishing a General Rate Case and Suspending Rates.
- E. On August 25, 2021, CWSNC filed a Revision to the Direct Testimony of Dana Hill.
- F. On October 8, 2021, the Commission issued an Order Establishing Discovery Guidelines, Scheduling Hearings, and Requiring Customer Notice.
- G. On October 8, 2021, CWSNC filed its rate case updates, schedules, and supporting data, along with Supplemental Testimony of Philip J. Drennan.

- H. Subsequent to the filing of the Company's Application in this docket, the Public Staff engaged in substantial discovery of CWSNC regarding the matters addressed by the Company's Application, its testimony, and its updates. The Public Staff further examined the relevant books and records of CWSNC with respect to the Company's Application.
- I. On October 22, 2021, CWSNC filed a Certificate of Customer Notice Regarding Public Hearing.
- J. Public hearings were held virtually in this matter on November 1, 2021, in two sessions beginning at 1:30 pm and 4:30 pm, respectively. Thirty-five witnesses testified, and responses to concerns raised at the public hearings were filed by CWSNC two weeks later, on November 15, 2021.
- K. On November 5, 2021, the Public Staff filed Direct Testimony by the following witnesses:
- 1) Gina Y. Casselberry, Advanced Utilities Engineer for the Public Staff;
 - 2) Lynn Feasel, Accountant for the Public Staff;
 - 3) Lindsay Q. Darden, Utilities Engineer for the Public Staff; and
 - 4) John R. Hinton, Director of the Economic Research Division of the Public Staff.
- L. The Public Staff filed the Supplemental Testimony and Exhibits of Lynn Feasel and Lindsay Q. Darden on November 18, 2021.
- M. The Public Staff filed the Second Supplemental Testimony of Lindsay Q. Darden on November 24, 2021 responding to the concerns raised at the public hearings.

- N. Following completion of the Public Staff's investigation of the Company's Application and accompanying documents, review of the results of its examination of the Company's books and records, review of the Company's responses to the Public Staff's Data Requests, and after the Public Staff filed its direct testimony, the Stipulating Parties met and participated in virtual meetings and conference calls to discuss possible settlement.
- O. After settlement negotiations, in which some concessions from their respective litigation positions were made by both Stipulating Parties, the Stipulating Parties were ultimately able to arrive at a joint settlement proposal addressing all issues in dispute, the terms of which are reflected in the following sections of this Stipulation and the schedules and exhibits attached hereto. The Stipulating Parties agree and stipulate as follows:

II. REVENUE REQUIREMENTS AND REVENUE INCREASE

- A. The Stipulating Parties have reached agreement regarding certain revenue requirement issues that are identified on Joint Settlement Exhibit 1, which is incorporated herein by reference and attached hereto. The revenue requirement effects of this Stipulation provide sufficient support for the annual revenue required on the issues agreed to in this Stipulation. No Stipulating Party waives any right to assert any position in any future proceeding or docket before the Commission or in any court, as the adjustments agreed to in this Stipulation are strictly for purposes of compromise and are intended to show a rational basis for reaching the agreed-upon revenue requirement adjustments without either party

conceding any specific adjustment. The Stipulating Parties agree that settlement on these issues will not be used as a rationale for future arguments on contested issues brought before the Commission. The areas of agreement are as follows:

- B. The test period for this rate case is the twelve months ending March 31, 2021, adjusted for certain changes in plant, revenues, and costs that were not known at the time the case was filed but are based upon circumstances occurring or becoming known through the close of the evidentiary hearing.
- C. Based on its October 8, 2021 update filing, CWSNC proposed a total revenue increase of \$5,383,632, as follows:
- 1) Uniform Water -- \$2,632,410
 - 2) Uniform Sewer -- \$1,857,562
 - 3) Bradfield Farms/Fairfield Harbour/Treasure Cove Water
(BF/FH/TC) -- \$491,425
 - 4) BF/FH/TC Sewer -- \$402,235
- D. Based on its November 18, 2021 supplemental filing, the Public Staff proposed a total revenue increase of \$3,159,741, as follows:
- 1) Uniform Water -- \$1,464,561
 - 2) Uniform Sewer-- \$1,067,563
 - 3) BF/FH/TC Water -- \$370,489
 - 4) BF/FH/TC Sewer -- \$257,128
- E. The Stipulating Parties mutually agree and stipulate that the Company should be authorized to increase its revenues by a total of \$3,785,232, as

follows, and as detailed on the schedules in Joint Settlement Exhibit 1 hereto:

- 1) Uniform Water -- \$1,771,180
- 2) Uniform Sewer -- \$1,311,752
- 3) BF/FH/TC Water -- \$399,638
- 4) BF/FH/TC Sewer -- \$302,662

F. The agreed upon revenue increase is derived from the Public Staff's November 18, 2021 supplemental filing as a starting point, adjusted as follows:

- 1) Authorized return on equity of 9.40% (and a capital structure and weighted average cost of capital as follows):

Item	Capitalization Ratio	Embedded Cost	Overall Cost Rate
Debt	49.80%	4.85%	2.42%
Equity	50.20%	9.40%	4.72%
Total	100.00%		7.14%

- 2) Increase in salaries and wages for the inclusion of a previously filled area manager position.¹
- 3) Increase in uncollectibles rates related to accrual for availability customers.²

¹ Public Staff proposed to adjust the Company's salaries and wages expense to remove an area manager position that was temporarily unfilled (for approximately 30 days). This position is now filled on November 18, 2021. Accordingly, to be representative of ongoing operations, the Stipulating Parties agreed to include this area manager's salaries and wages in the Company's revenue requirements.

² CWSNC is required to issue bills to availability customers but does not provide service to those customers. Availability customers are not receiving water or sewer services and as such there is no means by which to disconnect or sever a customer for lack of payment. The result is

- G. CWSNC and the Public Staff both accept the revenue requirements and proposed adjustments on the attached Joint Settlement Exhibit 1.
- H. The Stipulating Parties have agreed to a methodology for calculating regulatory commission expense, also known as rate case expense, and will update the number in Joint Settlement Exhibit 1, Line 35, for actual and estimated costs through the end of this proceeding, once supporting documentation is provided by CWSNC. The Stipulating Parties agree to remove rate case expense from rate base and amortize rate case expenses (both the unamortized portion from previous case(s) and the current rate case expense for this proceeding) over a 5-year period without a return or carrying costs.

III. TARIFF RATE DESIGN

- A. The Stipulating Parties agree that rate design in this case should be based on a 40/60 ratio of fixed/volumetric (or base/usage) revenues for Uniform Water and BF/FH/TC Water. The Stipulating Parties further agree that rate design in this case should be based on a 60/40 ratio of fixed/volumetric (or base/usage) revenues for Uniform Sewer.
- B. The Stipulating Parties agree that, consistent with CWSNC's proposal, the Eastgate and Tanglewood South subdivisions should be moved to a purchased water pass-through rate from Fayetteville Public Works

that a large majority of availability customers have aged accounts receivable balances that are very old, but no mechanism exists by which to write off those balances to actual bad debt expense. Those balances comprise most of the Company's allowance for doubtful accounts reserve balance.

Commission and the Willowbrook subdivision should be moved to a purchased water pass-through rate from Johnston County Public Utilities.

- C. The Stipulating Parties agree that, consistent with CWSNC's proposal, the unprotected EDIT credit should terminate as of March 31, 2022.
- D. The Stipulating Parties agree that, consistent with the Public Staff's recommendation, purchased water and sewer rates should be updated as proposed by the Public Staff.
- E. The Stipulating Parties understand and agree that CWSNC will continue to utilize certain rate adjustment mechanisms, specifically, the Water System Improvement Charge (WSIC), the Sewer System Improvement Charge (SSIC), and the bulk purchased water and sewer services pass-through mechanism.

IV. OTHER ISSUES

- A. The Stipulating Parties agree that CWSNC should be authorized to implement its proposed fee-free payment option, but for residential customers only, with the cost of service of such reflected in CWSNC's revenue requirements as shown on Joint Settlement Exhibit 1. The Stipulating Parties agree that CWSNC should regularly report to the Commission and the Public Staff concerning the fee-free payment option, on a twice a year basis. The reports should detail the number of fee-free payments made by customers by month, along with levels of CWSNC uncollectibles expense by month.

- B. The Stipulating Parties agree that CWSNC should be authorized to implement its proposed “Water Efficiency Program,” under which CWSNC will offer efficient water fixture rebates for its customers. This program should be treated as a pilot program and re-evaluated in CWSNC’s next rate case. Consistent with CWSNC’s proposal, the Stipulating Parties agree that CWSNC should be authorized to defer and subsequently recover in a future rate case the water efficiency rebates applied to customer bills in a regulatory asset account. This regulatory asset should not earn a return or carrying charges. Also consistent with CWSNC’s proposal, the administrative expenses estimated for this program should be included in the Company’s revenue requirements, as shown in Joint Settlement Exhibit 1. The Stipulating Parties further agree that CWSNC should report to the Commission and the Public Staff about the water efficiency program on an annual basis. Such reports should detail the amount of rebates applied to customer bills, the size of the regulatory asset, the type of water efficiency measures for which rebates were applied, and estimates or ranges of water efficiency impacts of such measures from an authoritative, third-party source.

V. AGREEMENT TO SUPPORT SETTLEMENT; NON-WAIVER

- A. The Stipulating Parties will act in good faith to support the reasonableness of this Stipulation in any hearing before the Commission and any proposed order or brief in this docket. The Stipulating Parties further agree that

this Stipulation is in the public interest because it reflects a give-and-take settlement of contested issues.

B. The provisions of this Stipulation do not reflect any position asserted by any of the Stipulating Parties but reflect instead the compromise and settlement between the Stipulating Parties as to all of the issues covered hereby. No Stipulating Party waives any right to assert any position in any future proceeding or docket before this or any other Commission and in any court except insofar as the Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not be cited as precedent by any of the Stipulating Parties regarding any issue in any other proceeding or docket before this Commission or in any court.

C. This Stipulation is a product of negotiation between the Stipulating Parties, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.

VI. INTRODUCTION OF TESTIMONY AND WAIVER OF CROSS-EXAMINATION

A. The prefiled testimony and exhibits of the Stipulating Parties may be received in evidence without objection, and each Party waives all right to cross-examine any witness with respect to such prefiled testimony and exhibits. If, however, questions are asked by any Commissioner, then any Stipulating

Party may respond to such questions by presenting testimony or exhibits and cross-examining any witness with respect to such testimony and exhibits.

B. The Stipulating Parties agree that CWSNC's Application and the testimony and exhibits of the Stipulating Parties will provide sufficient support for the annual revenue requirement amounts agreed to in this Stipulation.

VII. STIPULATION BINDING ONLY IF ACCEPTED IN ITS ENTIRETY

This Stipulation is the product of negotiation and compromise of a complex set of issues, and no portion of this Stipulation is or will be binding on either of the Stipulating Parties unless the entire Settlement Agreement and Stipulation is accepted by the Commission. If the Commission rejects any part of this Stipulation or approves this Stipulation subject to any change or condition, or if the Commission's approval of this Stipulation is rejected or conditioned by a reviewing court, the Stipulating Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Stipulating Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Stipulating Party withdraws from the Stipulation, each Stipulating Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and shall not be bound or prejudiced by the terms and conditions of the Stipulation.

VIII. COUNTERPARTS

This Stipulation may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. Execution by facsimile signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed and stipulated to this the 30th day of November, 2021.

Electronically Submitted

Carolina Water Service, Inc. of North Carolina

By: /s/ Jo Anne Sanford
Sanford Law Office, PLLC

Public Staff – North Carolina Utilities Commission

By: /s/ John D. Little
Staff Attorney, Public Staff

CAROLINA WATER SERVICE, INC. OF NC

Docket No. W-354, Sub 384

**CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended March 31, 2021**

Joint Settlement Exhibit 1

Line No.	Item	CWSNC Water (a)	CWSNC Sewer (b)	BF/FH/TC Water (c)	BF/FH/TC Sewer (d)	Total
1	Increase/(decrease) in total revenue per Company application	\$ 1,958,236	\$ 1,839,003	\$ 413,146	\$ 304,103	\$ 4,514,489
2	Company 10.08.21 updates	674,174	18,559	78,279	98,132	869,144
3	Increase/(decrease) in total revenue per Company updates	2,632,410	1,857,562	491,425	402,235	5,383,632
	Difference in calculation of revenue requirement based on Company amounts	0	0	(1)	0	(1)
4	Adjust capital structure to 49.8% debt and 50.2% equity	47,300	43,611	2,379	6,692	99,982
5	Adjust return on equity from 10.5% to 9.4%	(493,758)	(455,260)	(24,833)	(69,855)	(1,043,706)
6	Adjust debt cost rate from 4.76% to 4.85%	29,588	27,281	1,489	4,185	62,543
7	Adjustment to uncollectibles	(83,947)	(20,556)	(5,756)	8,892	(101,367)
8	Adjustment to forfeited discounts	(1,787)	(29)	(73)	(175)	(2,065)
9	Adjustment to miscellaneous revenues	(67,008)	(36,915)	(8,623)	(8,132)	(120,678)
10	Update revenues to 9/30/2021	3,728	(78,714)	(320)	(5,970)	(81,276)
11	Adjustment to reclassify utility accounts	(2,031)	2,031	0	0	0
12	Adjustment to remove pro forma estimates	(179,410)	(178,167)	(8,475)	(116,549)	(482,601)
13	Adjustment to over booked AFUDC	(276)	(261)	0	(7)	(544)
14	Adjustment to customer deposits	(3,073)	(2,150)	(294)	(265)	(5,782)
15	Adjustment to inventory	416	247	0	0	663
16	Adjustment to average tax accruals	(19,187)	(2,546)	(1,426)	(273)	(23,432)
17	Adjustment to remove Company proposed additions to add PS post	98,736	86,958	(2,222)	(18,206)	165,266
18	Adjustment to reclass UT 71 & 72 to direct cost	209,330	98,887	4,428	32	312,677
19	Adjustment to gain on sale	(16,844)	(7,927)	0	0	(24,771)
20	Adjustment to include actual post TY GL additions	77,931	80,762	(2,355)	93,995	250,333
21	Adjustment to reclassify wrongly booked gross up tax to CIAC	0	1,046	0	0	1,046
22	Adjustment to allocated cost GL adjustments	(209,641)	(96,777)	(5,351)	(944)	(312,713)
23	Adjustment to reflect annual level of depreciaiton	7,768	(20,563)	1,307	(5,836)	(17,324)
24	Adjustment to cash working capital	(1,023)	(1,298)	(296)	88	(2,529)
25	Adjustment to ADIT	1,127	(31,593)	1,166	(4,123)	(33,423)
26	Adjustment for excess deferred taxes	(34,194)	(44,777)	(1,022)	(9,869)	(89,862)
27	Adjustment to deferred charges	15,074	9,019	1,952	1,925	27,970
28	Adjustment to purchased power	(41,166)	(5,633)	0	0	(46,799)
29	Adjustment to maintenance and repair	81,537	37,619	13,141	29,298	161,595
30	Adjustment to maintenance testing	26,867	(23,817)	2,513	(5,563)	0
31						

CAROLINA WATER SERVICE, INC. OF NC

Docket No. W-354, Sub 384

**CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS**

For The Test Year Ended March 31, 2021

Joint Settlement Exhibit 1

OFFICIAL COPY

Nov 30 2021

Line No.	Item	CWSNC Water (a)	CWSNC Sewer (b)	BF/FH/TC Water (c)	BF/FH/TC Sewer (d)	Total
32	Adjustment to chemicals	(3,508)	0	0	0	(3,508)
33	Adjustment to office utility	(239)	(195)	(251)	0	(685)
34	Adjustment to amortization expense - CIAC	(20,673)	40,685	(19,323)	(6,139)	(5,450)
35	Adjustment to regulatory commission expense	(49,970)	(30,314)	(6,008)	(6,350)	(92,642)
36	Adjustment to pension and benefits	7,835	30,920	(2,166)	(1,165)	35,424
37	Adjustment to amortization expense - PAA	(12,732)	16,636	2,180	13,639	19,723
38	Adjustment to meter reading	(631)	0	0	0	(631)
39	Adjustment to property tax	(68)	0	0	0	(68)
40	Adjustment to general salaries and wages	(79,744)	(71,688)	(12,880)	(13,128)	(177,440)
41	Adjustment to payroll tax	(4,868)	(4,777)	(839)	(854)	(11,338)
42	Adjustment to depreciation expense	(58,537)	150,901	2,296	9,899	104,559
43	Adjustment to office supplies and other office exp.	(17,668)	(10,375)	(2,196)	(2,169)	(32,408)
44	Adjustment to capitalized time	18,182	(21,498)	(12,243)	15,013	(546)
45	Adjustment to rent	(3,116)	(2,359)	(1,351)	(1,380)	(8,206)
46	Adjustment to insurance	(18,189)	(15,250)	(4,487)	(4,391)	(42,317)
47	Adjustment to miscellaneous	(16,006)	(8,974)	(1,835)	(1,876)	(28,691)
48	Adjustment to purchased water/sewer	(47,355)	0	(12)	(12)	(47,379)
49	Rounding					0
50	Revenue impact of Public Staff adjustments (Sum of L4 thru L49)	<u>(861,230)</u>	<u>(545,810)</u>	<u>(91,787)</u>	<u>(99,573)</u>	<u>(1,598,400)</u>
51	Increase/(decrease) per Public Staff (L3 + L50)	<u>\$ 1,771,180</u>	<u>\$ 1,311,752</u>	<u>\$ 399,638</u>	<u>\$ 302,662</u>	<u>\$ 3,785,232</u>