

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 400

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service, Inc.)
of North Carolina for Authority to Adjust and)
Increase Rates and Charges for Water and)
Sewer Utility Service in All Service Areas of)
North Carolina and Approval of a Three-)
Year Water and Sewer Investment Plan)

TESTIMONY OF DONALD H.
DENTON III IN SUPPORT OF
JOINT PARTIAL SETTLEMENT
ON BEHALF OF CAROLINA
WATER SERVICE, INC. OF
NORTH CAROLINA

SETTLEMENT TESTIMONY OF

DONALD H. DENTON III

ON BEHALF OF

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

November 22, 2022

TABLE OF CONTENTS

I. OVERVIEW OF PARTIAL SETTLEMENT AGREEMENT 2

II. PUBLIC INTEREST 5

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

2 A. My name is Donald H. Denton III. My business address is 5821 Fairview
3 Road, Suite 401, Charlotte, North Carolina 28209.

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

5 A. I am Senior Vice President, East Operations for Corix Group of Companies
6 (“Corix”). In this capacity, I oversee the operations of Carolina Water
7 Service, Inc. of North Carolina (“CWSNC” or the “Company”), Blue Granite
8 Water Company (“BGWC”) in South Carolina, and Sunshine Water Services
9 in Florida, all of which are subsidiaries of Corix Regulated Utilities (“CRU”).
10 In addition, I serve as President of CWSNC and BGWC.

11 **Q. ARE YOU THE SAME DONALD H. DENTON WHO SUBMITTED CASE-**
12 **IN-CHIEF AND REBUTTAL TESTIMONY ON BEHALF OF CWSNC IN**
13 **THIS PROCEEDING?**

14 A. Yes, I am.

15 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

16 A. The purpose of my settlement testimony is to provide an overview of, and
17 explain and support, the Joint Partial Settlement Agreement (or
18 “Agreement”) reached with the Public Staff in this proceeding. Matthew P.
19 Schellinger II also testifies in support of the Agreement, focusing on the
20 ratemaking details associated with the multi-year rate plan.

1 I. **OVERVIEW OF PARTIAL SETTLEMENT AGREEMENT**

2 Q. **PLEASE PROVIDE AN OVERVIEW OF THE PARTIAL SETTLEMENT**
3 **AGREEMENT.**

4 A. The Agreement provides for a 3-year multi-year rate plan or “WSIP” (Water
5 and Sewer Investment Plan). Rate Year 1 begins April 1, 2023; Rate Year
6 2 begins April 1, 2024; and Rate Year 3 begins April 1, 2025. As Mr.
7 Schellinger’s settlement testimony explains, the rates agreed to are based
8 on an historical Base Case of the 12 months ending March 31, 2022,
9 escalated for Rate Years 1, 2, and 3. Included in agreed upon Rate Year
10 revenue requirements are the Company’s projected capital project plans,
11 with a significant modification to the project contingencies to be reflected in
12 revenue requirements. Pursuant to N.C. Gen. Stat. § 62.133.1B(f), (g), and
13 Rule R1-17A(f), (k), the WSIP may be terminated prior to the end of the 3-
14 year period in certain circumstances, and the WSIP will continue at Rate
15 Year 3 rates until replaced by new authorized rates for the Company.

16 The Agreement provides for an agreed upon set of performance
17 metrics. The agreed upon performance metrics represent a combination of
18 those proposed by the Company and those proposed by Public Staff.
19 Rather than rushing to agreement on financial incentives and/or penalties
20 to attach to these performance metrics, the parties have agreed to continue
21 to discuss how incentives and/or penalties should be applied to some or all

1 of these performance metrics. More specifically, the parties have agreed to
2 file any agreement with respect to such – or alternatively, if agreement is
3 not reached, to file their respective positions on such, with the Commission
4 no later than 180 days after the date of the Commission’s order in this
5 proceeding. If agreement is reached, the parties will request Commission
6 approval of the agreed upon incentives and/or penalties. If agreement is
7 not reached, the parties will request that the Commission consider the
8 parties’ respective positions and decide the issue. Any performance metric
9 incentives and/or penalties ultimately approved by the Commission shall
10 be retroactive to the beginning of Rate Year 1. In addition, the Company
11 will report its performance under these metrics as provided in the WSIP
12 Statute and Rules.

13 Note that one of the performance metrics agreed upon by CWSNC
14 and the Public Staff is an agreement that the Company will apply for State
15 Revolving Fund grants for several of its capital projects.

16 The Settlement Agreement also addresses the return on equity
17 (ROE) banding contemplated by the WSIP Statute: for Rate Year 1, the
18 ROE banding -- within which the Company may earn returns without being
19 deemed to be either overearning or underearning – is plus/minus 50 basis
20 points from the authorized ROE. For Rate Years 2 and 3, the ROE banding
21 is minus 50 basis points, with 0 basis points of “upside”. The Company will
22 quarterly report its earnings (along with the status of its capital improvement

Docket No. W-354, Sub 400

1 plan and disconnections). The Company will also file annual reports
2 consistent with the WSIP Statute and Rules and the annual review process,
3 and will credit customers for any annual overearnings determined by the
4 Commission. Consistent with the WSIP Statute and Rules, in an
5 underearning situation, the Company may file a new general base rate case
6 before the end of the WSIP period.

7 The rate design for CWSNC will remain the same as that approved
8 in the Company's most recent rate order, Docket No. W-354, Sub 384. In
9 addition, the Company's water efficiency program and fee-free billing
10 program will continue, with the same reporting requirements as contained
11 in Docket No. W-354, Sub 384. Finally, the sewer tariff will be modified to
12 include a new sewer use rule designed to protect the Company's
13 wastewater systems from damaging industrial and non-domestic
14 contaminants.

15 Finally, the Settlement Agreement provides that the Echota and
16 Seven Devils systems in Watauga County will not be reflected in WSIP
17 revenue requirements in this proceeding, and CWSNC and the Public Staff
18 will work toward resolution of certain South Carolina customers and plant
19 that have historically been included in the Company's revenue
20 requirements.

1 **Q. DOES THE SETTLEMENT CONTEMPLATE OR REQUEST ANY**
2 **WAIVER OF THE PROVISIONS OF THE WSIP STATUTE OR WSIP**
3 **RULES?**

4 A. No, it does not.

5 **Q. WHAT ISSUES WERE NOT AGREED TO BY THE COMPANY AND THE**
6 **PUBLIC STAFF?**

7 A. The parties did not reach agreement as to the ROE that should be
8 authorized during the term of the WSIP, nor did the parties agree as to how
9 the 5% annual revenue increase cap should be applied – i.e., on a company
10 basis versus a rate division basis. The parties have agreed to litigate these
11 two issues and abide by the Commission’s decision on these two issues
12 (subject to either party’s rights to appeal such decision). As Mr.
13 Schellinger’s settlement testimony notes, the parties did agree to the capital
14 structure and cost of debt to be used to calculate an authorized return for
15 the Company.

16 **II. PUBLIC INTEREST**

17 **Q. IN YOUR OPINION, IS THE PARTIAL SETTLEMENT AGREEMENT**
18 **REASONABLE AND IN THE PUBLIC INTEREST?**

19 A. Yes, it is. The Agreement will provide the benefits of a multi-year rate plan
20 to customers and the Company – specifically, rate predictability and
21 certainty during the term of the WSIP, an additional incentive for the

1 Company to manage its business within the level of revenues authorized,
2 administrative efficiency as a result of fewer rate cases, regulatory
3 monitoring and additional insight into the Company's longer term
4 investments and costs, and maintenance of regulatory oversight. The
5 Partial Settlement Agreement is a product of serious, arms-length
6 negotiation between the Company and the Public Staff, represents
7 numerous compromises by both parties, and results in a reasonable multi-
8 year rate plan.

9 More specifically, the Partial Settlement Agreement: establishes
10 rates that are fair both to the customer and to CWSNC, reasonably ensures
11 the continuation of safe and reliable utility services by CWSNC, will not
12 result in sudden substantial rate increases to customers annually or over
13 the term of the plan, is representative of CWSNC's operations over the plan
14 term, and is otherwise consistent with the public interest.

15 **Q. PLEASE IDENTIFY SOME OF THE COMPROMISES MADE BY THE**
16 **COMPANY.**

17 A. The compromises made by the Company include: compromises in overall
18 revenue requirements to be authorized through reductions in capital project
19 costs and project contingencies; inclusion in revenue requirements of
20 various plant retirements; reduction in the estimates of chemicals expense,
21 sludge hauling expense, and uncollectibles expense; reduction in the Rate

1 Year 1 escalation rate; exclusion of Echota and Seven Devils systems; and
2 additional performance metrics.

3 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH**
4 **RESPECT TO THE SETTLEMENT AGREEMENT?**

5 A. I respectfully recommend that the Commission approve the Partial
6 Settlement Agreement in its entirety.

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

9 A. Yes, it is.

10 **Q. DOES THIS CONCLUDE YOUR PREPARED SETTLEMENT**
11 **TESTIMONY?**

12 A. Yes, it does.