



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 11, 2019

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

Re: Docket No. W-1226, Sub 3 – Application for Rate Increase

Dear Ms. Campbell:

In connection with the above-referenced docket, we transmit herewith for filing on behalf of the Public Staff the Affidavit of D. Michael Franklin, Utilities Engineer, Water Division; and the Affidavit of Iris Morgan, Staff Accountant, Accounting Division.

The Public Staff requests that the Commission decide this matter on the filings, as no customer protests have been filed in this docket. The Public Staff agrees with Fairfield Water Company's proposed revenue requirements and recommends the proposed rates.

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

Sincerely,

/s/ William E. H. Creech
Staff Attorney
zeke.creech@psncuc.nc.gov

/s/ Nadia L. Luhr
Staff Attorney
nadia.luhr@psncuc.nc.gov

Attachments

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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Oct 11 2019

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1226, SUB 3

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Fairfield Water Company, 932)
Hendersonville Road, Suite 201, Asheville, North)
Carolina 27340, for Authority to Increase Rates)
for Water Utility Service in the Fairfield Water)
System in Henderson County, North Carolina)

AFFIDAVIT OF
D. MICHAEL FRANKLIN

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, D. Michael Franklin, being duly sworn, do depose and say:

My name is D. Michael Franklin. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a Utilities Engineer with the Public Staff's Water, Sewer & Telephone Division.

I graduated from the University of South Carolina, earning a Bachelor of Science Degree in Engineering. I worked in the electric utility industry for 33 years prior to joining the Public Staff in June 2019. While employed by the Public Staff, I have presented recommendations in water/wastewater rate proceedings before the Commission.

My duties with the Public Staff are to monitor the operations of regulated water and wastewater utilities with regard to rates and service. Included in these duties are field investigations to review, evaluate, and recommend changes, when needed, in

the design, construction, and operations of regulated water and wastewater utilities; presentation of expert testimony in formal hearings; and presentation of information, data, and recommendations to the Commission.

The purpose of this affidavit is to describe my investigation and make recommendations concerning the application filed by Fairfield Water Company (Fairfield or Applicant) with the Commission on May 24, 2019, seeking authority to increase its rates for water utility service in Fairfield Water System in Henderson County, North Carolina.

My investigation of the rate case included a review of company records and review of records from the North Carolina Department of Environmental Quality (NCDEQ). I have conducted an analysis of revenues at existing and proposed rates, and assisted Public Staff Accountant Iris Morgan in reviewing the Applicant's capital improvements and expenses.

Fairfield Water Company has transitioned from a well water system to purchasing water from the City of Asheville. This transition was completed in August 2017 and required the installation of new water lines and the abandonment of equipment used by Fairfield to pump and treat well water. The Fairfield Water System currently serves approximately 12 water customers (using meters at each of 11 quadrplexes and one meter located at a church).

Fairfield's presently charged and proposed water utility service rates are as follows:

WATER UTILITY SERVICE:

<u>Monthly Metered Rates:</u>	<u>Present</u>	<u>Proposed</u>
Base charge, zero usage – Apartment Building	\$ 84.48	\$ 121.32
Base charge, zero usage – Church	\$ 21.12	\$ 30.33
Usage Charge, per 1,000 gallons	\$ 2.16	\$ 4.76

OTHER CHARGES:

Reconnection

Cut-off for Cause	\$ 14.40	\$ 15.00
Cut-off Requested	\$ 14.40	\$ 15.00

I have calculated annual water revenues of \$16,487 under the currently approved rates and \$27,579 under the Applicant's proposed rates.

The water system has not been issued any unresolved Notice of Violations by NCDEQ, Division of Water Resources in the past three years. Based on information provided by the Applicant and NCDEQ, and the Public Staff's investigation, I have found that the Applicant is providing adequate service to the customers.

I have provided Public Staff Accountant Iris Morgan with recommendations for adjustments related to purchased water expense, plant in service assets, administrative and office expenses, water system testing and purchased power expenses. These recommendations are summarized as follows:

PURCHASED WATER

I reviewed the Applicant's test year purchased water expense provided in the application. In response to a Public Staff Data Request, the Applicant provided invoices from the City of Asheville for purchased water. Review of the invoices during the test year for the service period beginning on December 19, 2017, and ending on December 19, 2018, resulted in test year expenses of \$13,215.98 for purchased water, which is less than the \$16,793.06 stated in the application. The purchased water expense increased to \$14,123.84 when current rates from the City of Asheville, effective July 1, 2019, are applied to the test year usage amount. As a result, the purchased water expense was reduced \$2,669.22 to \$14,123.84.

PLANT IN SERVICE

I reviewed the documents Fairfield provided in the original response to Public Staff Data Request 5 and the revised response provided on August 22, 2019, identifying water system plant assets and equipment (water system assets) added since the initial franchise was granted in 2004. To ensure completeness, I reviewed all documents provided. The following are changes recommended based upon my review:

- Mattern & Craig invoice number 3579-07, dated January 5, 2017. This invoice was not included as a water system asset expense because it was superseded by invoice number 3579-09, dated March 2, 2017. The March 2, 2017 invoice included the amounts shown on the January 5, 2017 invoice and also included additional scope for water line design

and permitting. The Total-to-Date amount of \$11,375.00 from invoice number 3579-09 was included in the water system asset cost. Additionally, while the Mattern & Craig invoices mention water and sewer line design and permitting, it was verified with the applicant that no sewer design or permitting work occurred.

- Check number 294, dated May 6, 2016, payable to Capital One Bank (USA), N.A. in the amount of \$18.00 was not allowed. The applicant could not provide sufficient detail on the expense.
- Two additional invoices that were provided by Fairfield in response to Public Staff Data Request 1.a) to document administrative and office (administrative) expenses upon review were determined to be water system asset costs and not administrative costs. McAbee & Associates, PA invoices 18210 and 18556, dated January 19, 2018, and June 21, 2018, respectively identify items considered water system asset expenses. These include staking of the waterline (\$200) and waterline as-built field location and preparation of the water easement plat (\$400). Both are non-recurring expenses associated with water system plant assets, resulting in \$600 moved to water system asset expenses.

In summary, of the invoices/receipts the applicant provided in response to Public Staff Data Request 5, Mattern & Craig invoice number 3579-07 (\$9,157.50) and check number 294, payable to Capital One Bank (USA), N.A. (\$18.00) were not allowed. Two invoices provided in response to Public Staff Data Request 1.a) on

administrative costs are not administrative expenses and instead are water system asset costs. Specifically, \$600.00 paid to McAbee & Associates, PA for invoice numbers 18210 and 18556.

ADMINISTRATIVE AND OFFICE EXPENSES

I reviewed the invoices Fairfield provided in response to Public Staff Data Request 1.a) identifying administrative and office (administrative) expenses. The following are changes recommended based upon my review:

- As previously mentioned, \$600 in expenses from McAbee & Associates, PA, were moved from administrative expenses to water system assets.
- Mattern & Craig invoice dated June 15, 2018, for \$525 for "Additional Services to previously approved Sewer Extension Plans" is not allowed since it was for sewer system work and not associated with the water system project. Similarly, McAbee & Associates, PA invoice 19002, dated December 11, 2018, for \$375 is not allowed since it is also related to sewer system work.
- All five invoices from Matney & Associates, P.A. in the total amount of \$2,719 provided in Public Staff Data Request 1.a) response were determined to be sewer system work and are removed as administrative expenses. Based on the response to Public Staff Data Request 20, Fairfield switched from well water to purchased water from the City of Asheville in August 2017. The Matney & Associates, P.A.

invoices are from 2018, for work that, if water system related, would have had to occur prior to obtaining water from Asheville. These include invoices 17-2635 (January 1, 2018), 18-1096 (February 1, 2018), 18-1185 (March 1, 2018), 18-1303 (May 1, 2018), and 18-1366 (June 1, 2018).

- The monthly charge from James & James Environmental Management, Inc. (J&JEM) for bacteriological testing listed on invoices dated from January 20, 2018, through December 22, 2018, are included in the contractual services – lab testing expenses and are not included in the administrative and office expenses. Similarly, the Nitrate test on invoice 181471, dated June 20, 2018, is included as a contractual services – lab testing expense and is not included as an administrative and office expense.
- In September 2019, the Applicant informed the Public Staff that a new contract was signed with J&JEM. The contract increased the monthly fee from \$400/month to \$500/month. However, the new monthly fee includes the cost to prepare the monthly water quality report and the annual Consumer Confidence Report. Previously, preparation of these reports was billed separately.

In summary, from the administrative and office expenses provided by the applicant in their response to Public Staff Data Request 1.a), and supplemented by the new contract with J&JEM, \$600 was moved to water system assets and \$635 was

moved to contractual services – lab testing expenses. Additionally, \$3,619 is disallowed since it is for sewer project work and unrelated to the water system improvements.

CONTRACTUAL SERVICES – LAB TESTING EXPENSES

I reviewed Fairfield's water testing expenses. The types of tests that must be performed and the testing frequency are determined by NCDEQ compliance standards for the Safe Drinking Water Act. Fairfield provided the Public Staff with the compliance frequency schedule. The Company's calculations do not account for the variation in the frequency with which specific water quality tests must be performed. Two tests, one for TTHM and the second for Lead/Copper, are conducted at a frequency of once every three years and should be annualized over the corresponding number of years.

Fairfield's provided Lead/Copper test expense is for a single test. The test, however, normally consists of 5 individual tests performed every 3 years, resulting in the Fairfield amount being increased from \$45 to \$225 every three years or \$75 annually.

Performance of annual Nitrate testing, although not required by NCDEQ, is considered to be an acceptable test of the water system.

The Orthophosphate test is a field parameter. J&JEM informed the Applicant that since their Monitoring and Status report requires it to be a laboratory analysis, it is billed separately. Invoices provided by the Applicant show the Orthophosphate

test performed monthly at a cost of \$20. This amount has been included as a contractual service – lab testing expense.

Prepared reports such as the monthly water quality report and the annual Consumer Confidence Report are not included. These expenses are operational expenses and included in the administrative and office expenses.

In September 2019, the Applicant informed the Public Staff that a new contract was signed with J&JEM. Bacteriological testing increased from \$45 monthly to \$50 monthly. The new rate has been included as a water testing expense.

Based on my review, I recommend the following water testing expenses:

<u>Test</u>	<u>Frequency</u>	<u>Cost</u>	<u>Annual Total</u>
Bacteriological	Monthly	\$50/month	\$ 600
Nitrate	Annually	\$35/year	\$ 35
TTHM	3 Years	\$92/year	\$ 92
Lead/Copper	3 Years	\$75/year	\$ 75
Orthophosphate	Monthly	\$20/month	\$ 240
		Total:	\$1042

PURCHASED POWER EXPENSE

In response to Public Staff Data Request 1.c), Fairfield provided billing documentation from Duke Energy during the test year beginning with service from December 29, 2017, and ending with service on August 8, 2018. The total amount billed during that period is \$179.63. The name on the Duke Energy bills is Fairfield

Farms Pump and the rate is identified as SGS – Small General Service. A handwritten note on the invoice dated August 1, 2018, states: "call to have account closed was sold" and the last documented service date is August 8, 2018. Page 3 of the application (Docket No. W-1226, Sub 3) contains a list of Utility Property in Service at the end of 2018. Line item 4 for pumping equipment indicates there is no remaining pumping equipment. As a result, the above purchased power for Fairfield equipment is not considered to be an ongoing expense.


In conclusion, based upon the Public Staff's investigation, the Public Staff finds that the rates requested by Fairfield are justified, and should be approved.

This completes my affidavit.


D. Michael Franklin

Sworn to and Subscribed before me,

This is the 10th day of October 2019.


Notary Public

Cleo L Ackerman
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 01-08-2023

My Commission expires 1-8-2023

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1226, SUB 3

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Fairfield Water Company,)
932 Hendersonville Road, Suite 201,)
Asheville, North Carolina 28803, for)
Authority to Increase Rates for Water)
Utility Service in the Fairfield Water)
System in Henderson County, North)
Carolina)

AFFIDAVIT
OF
IRIS MORGAN

State of North Carolina

County of Wake

I, Iris Morgan, after first being duly sworn, do depose and say:

I am a Staff Accountant with the Public Staff Accounting Division, 430 N. Salisbury Street, Raleigh, North Carolina, and represent the using and consuming public. I have a Bachelor of Science degree in Accounting and Business Administration from North Carolina Wesleyan College. I have a Masters degree in Accounting and Financial Management, a Masters degree in Business Administration and a Masters degree in Public Administration from the Keller Graduate School of Management. I joined the Public Staff Accounting Division on December 1, 2008.

The purpose of my affidavit is to present the accounting and ratemaking adjustments I am recommending as a result of my investigation of the revenue, expenses, and rate base presented by Fairfield Water Company (Fairfield or Company), in support of its application to increase rates for water utility service in

the Fairfield Water System in Henderson County, North Carolina.

The Company filed its application for a rate increase on May 24, 2019, based on the test year ended December 31, 2018. My investigation included a review of the application filed by Fairfield, an examination of the Company's books and records for the test year, and a review of additional documentation provided by the Company in response to Public Staff written and verbal data requests.

Based on my investigation, the Company's original cost rate base at December 31, 2018, is \$44,954 for water operations. The level of operating revenue deductions requiring a return (total operating expenses excluding regulatory fee and income taxes) is \$27,650.

Based on my investigation, I conclude that the Company's proposed revenue requirement is reasonable and would be fair to its customers. Therefore, I recommend that the Commission approve rates designed to recover the full revenue requirement as proposed by the Company.

I have made several adjustments to the Company's operating revenues, expenses, and investment levels. The adjustments are detailed in the attached Morgan Exhibit I. My exhibit also includes adjustments recommended to me by Public Staff Engineer Franklin relating to service revenues at present rates, service revenues at proposed rates, testing, purchased water and depreciation lives. The accounting and ratemaking adjustments shown on Morgan Exhibit I relate to the following items:

1. Plant in Service
2. Accumulated Depreciation and Depreciation Expense

3. Cash Working Capital
4. Administrative and Office
5. Insurance
6. Other Taxes
7. Rate Case Expense
8. Regulatory Fee
9. Gross Receipts Tax
10. State and Federal Income Taxes

Plant in Service

The Company presented \$75,750 for plant in service on its application. My review of the Company's financial records did not support this amount. Therefore, I calculated an amount for plant in service based on the Company's responses to Public Staff data requests. First, I started with \$7,369 of plant in service, the amount approved in the Company's initial franchise proceeding, Docket No. W-1226, Sub 0. Next, I examined the Company's financial records and concluded that \$5,731 of these plant items have been retired. Thus, I removed these items from plant in service, leaving \$1,638 of plant assets remaining. To this amount, I added \$42,919 of plant additions made since the initial franchise proceeding. Finally, based on the recommendation of Public Staff Engineer Franklin, I capitalized \$600 of expenses from administrative and office expense and included this amount in the waterline installation project costs of \$27,319. These adjustments result in a total amount of \$44,557 for plant in service, as shown on Schedule 2-1 of Morgan Exhibit I.

Accumulated Depreciation and Depreciation Expense

I calculated amounts for accumulated depreciation and depreciation expense to reflect depreciation related to the adjusted plant assets discussed above and shown on Schedule 2-1. Accumulated depreciation and depreciation expense were calculated based on the service lives recommended by Public Staff Engineer Franklin. Accumulated depreciation was also calculated based on the year each plant asset was placed in service, using the half-year convention in the first year of an asset's depreciable life.

Cash Working Capital

The Company did not provide an amount for this item on its application. In my calculation, I have included one-eighth of total operating expenses as a measure of cash working capital.

Administrative and Office Expense

The Company included \$13,091 for administrative and office expense on its application. Based on review of the Company's financial records, I made an adjustment to include \$1,108 of additional expenses that were omitted by the Company in error, thus, reflecting a total amount of \$14,199 for administrative and office expense. Next, I reclassified \$1,184 of insurance expense to a separate line item. Then, I removed \$200 of administrative expenses that occurred outside the test year. Finally, based on the recommendation of Public Staff Engineer Franklin, I capitalized \$600 of expenses from administrative and office expense, and removed \$3,619 of administrative expenses related to sewer project costs. These adjustments result in a total amount of \$8,596 for administrative and office expense

as shown on Schedule 3-1 of Morgan Exhibit I.

Insurance

The Company did not list an amount for insurance expense on its application. Therefore, I made an adjustment to reclassify \$1,184 of insurance expense from administrative and office expense to a separate line item. This adjustment resulted in a total amount of \$1,184 for insurance expense, as shown on Schedule 3-2 of Morgan Exhibit I.

Other Taxes

The Company listed \$25 as other taxes on its application. Based on review of the Company's financial records and communications with the Company, I found that this amount was the Company's regulatory fee. Therefore, I made an adjustment to remove this amount from other taxes and calculated the regulatory fee using the statutory rate of 0.13%, as shown on Schedule 3 of Morgan Exhibit I.

Rate Case Expense

On its application, the Company did not include an amount for rate case expense. Therefore, I have calculated rate case expense to include the cost of the filing fee and the cost for mailing notices. I amortized the total cost for rate case expense over three years.

Regulatory Fee

I have calculated the regulatory fee using the statutory rate of 0.13%.

Gross Receipts Tax

With the repeal of N.C.G.S. § 105-116, the Company is no longer subject to gross receipts tax beginning on July 1, 2014. Therefore, I have made an adjustment to remove gross receipt tax for the test year from operating expenses.

State and Federal Income Taxes

State and federal income taxes are based on the statutory corporate rates for the level of income presented after all Public Staff adjustments.

This completes my affidavit.


Iris Morgan

Sworn to and subscribed before me,
This the 11th day of October 2019.


Notary Public

Cleo L Ackerman
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 01-08-2023

My Commission expires: 01-08-2023

INDEX TO MORGAN EXHIBIT I

<u>LINE NO.</u>	<u>TITLE</u>	<u>Schedule No.</u>
1.	RETURN ON ORIGINAL COST RATE BASE	1
2.	ORIGINAL COST RATE BASE	2
3.	CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE	2-1
4.	NET OPERATING INCOME FOR A RETURN	3 Page 1
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6.	ADJUSTMENT TO AMINISTRATIVE AND OFFICE EXPENSE	3-1
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8.	CALCULATION OF RATE CASE EXPENSE	3-3
9.	CALCULATION OF INCOME TAXES	3-4

Fairfield Water Company
Docket No. W-1226, Sub 3
RETURN ON ORIGINAL COST RATE BASE
For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit I
Schedule 1

Line No.	Item	Capital-ization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [3] (c)	Overall Cost Rate [6] (d)	Net Operating Income [7] (e)
<u>Present rates:</u>						
1.	Debt	50%	\$22,477 [2]	4.50% [1]	2.25%	\$1,011 [7]
2.	Equity	50%	22,477 [2]	-54.21% [5]	-27.11%	(12,184) [8]
3.	Total	100%	<u>\$44,954 [3]</u>		<u>-24.86%</u>	<u>(\$11,173) [9]</u>
<u>Company proposed rates:</u>						
4.	Debt	50%	\$22,477 [4]	4.50% [1]	2.25%	\$1,011 [7]
5.	Equity	50%	22,477 [4]	-4.93% [5]	-2.47%	(1,107) [10]
6.	Total	100%	<u>\$44,954 [3]</u>		<u>-0.22%</u>	<u>(\$96) [11]</u>

- [1] Provided by Public Staff Financial Analyst Craig.
- [2] Column (a) x Line 3, Column (b).
- [3] Morgan Exhibit I, Schedule 2, Line 7, Column (c).
- [4] Column (a) x Line 6, Column (b).
- [5] Column (e) divided by Column (b).
- [6] Column (a) x Column (c).
- [7] Column (b) x Column (c).
- [8] Line 3 - Line 1, Column (e).
- [9] Morgan Exhibit I, Schedule 3, Line 32, Column (c).
- [10] Line 6 - Line 4, Column (e).
- [11] Morgan Exhibit I, Schedule 3, Line 32, Column (e).

Fairfield Water Company
 Docket No. W-1226, Sub 3
ORIGINAL COST RATE BASE
 For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit I
Schedule 2

Line No	Item	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$75,750	(\$31,193)	\$44,557 [2]
2.	Accumulated depreciation	(15,952)	13,037	(2,915) [3]
3.	Contributions in aid of construction	0	0	0
4.	Net plant in service	59,798	(18,156)	41,642
5.	Cash working capital	0	3,312	3,312 [4]
6.	Average tax accruals	0	0	0
7.	Original cost rate base	<u>\$59,798</u>	<u>(\$14,844)</u>	<u>\$44,954</u>

- [1] Column (c) - Column (a).
 [2] Morgan Exhibit I, Schedule 2-1, Line 9, Column (a)
 [3] Morgan Exhibit I, Schedule 2-1, Line 9, Column (f)
 [4] Calculated at one-eighth of total O & M expenses

Fairfield Water Company
 Docket No. W-1226, Sub 3
CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE
 For the Test Year Ended December 31, 2018

Public Staff
 Morgan Exhibit I
 Schedule 2-1
 Page 1 of 1

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed in Service (b)	Life (c)	Years in Service (d) [4]	Annual Deprec. (e) [5]	Accum. Deprec. (f) [6]
Per W-1226, Sub 0 initial franchise proceeding:							
1.	Water treatment and improvement	\$1,638 [1]	2003 [1]	20 [1]	15.5	\$82	\$1,271
Per Sub 3 Rate Case:							
2.	Topographic survey - Riverstone & Fairfield	1,350 [2]	2016 [2]	40 [3]	2.5	34	85
3.	Water & sewer line extension, design & permitting	11,375 [2]	2017 [2]	40 [3]	1.5	284	426
4.	Water connection to Asheville	690 [2]	2017 [2]	40 [3]	1.5	17	26
5.	David Burieson - land clearing	450 [2]	2017 [2]	40 [3]	1.5	11	17
6.	Waterline installation project	27,319 [2]	2017 [2]	40 [3]	1.5	683	1,025
7.	Survey	1,735 [2]	2017 [2]	40 [3]	1.5	43	65
8.	Total Sub 3 plant in service (Sum of L2 thru L7)	42,819				1,072	1,644
9.	Total plant in service (L1 + L8)	\$44,557				\$1,154	\$2,915

- [1] Based on initial franchise proceeding, Docket No. W-1226, Sub 0, unless otherwise footnoted.
- [2] Based on a review of Company financial records.
- [3] Provided by Public Staff Engineer Franklin.
- [4] Based on year placed in service using half year convention.
- [5] Column (a) divided by Column (c), unless fully depreciated.
- [6] Column (d) x Column (e), unless fully depreciated.

Fairfield Water Company
Docket No. W-1226, Sub 3
NET OPERATING INCOME FOR A RETURN
For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit 1
Schedule 3
Page 1 of 2

Line No.	Item	Present Rates			Company Proposed Rates	
		Per Application (a)	Public Staff Adjustments [1] (b)	Per Public Staff [2] (c)	Net Company Increase [13] (d)	Operations After Rate Increase [14] (e)
1.	Operating Revenues:					
2.	Service revenues	\$16,672	(\$185)	\$16,487 [3]	\$11,092	\$27,579 [3]
3.	Miscellaneous revenues	11	0	11	0	11
4.	Bad debt	0	0	0	0	0
5.	Total operating revenues	16,683	(185)	16,498	11,092	27,590
6.	Operating Revenue Deductions:					
7.	Salaries and wages	0	0	0	0	0
8.	Contract labor	0	0	0	0	0
9.	Administrative and office	13,091	(4,495)	8,596 [4]	0	8,596
10.	Maintenance and repairs	786	0	786	0	786
11.	Electric power for pumping	204	0	204	0	204
12.	Chemicals	0	0	0	0	0
13.	Testing	1,195	(153)	1,042 [3]	0	1,042
14.	Permit fees and licenses	270	0	270	0	270
15.	Purchased water	16,793	(2,669)	14,124 [3]	0	14,124
16.	Dues and seminars	0	0	0	0	0
17.	Insurance expense	0	1,184	1,184 [5]	0	1,184
18.	Bank charges	0	0	0	0	0
19.	Computer/software fees	0	0	0	0	0
20.	Rate case expense	0	39	39 [6]	0	39
21.	Rent expense	0	0	0	0	0
22.	Other expenses	251	0	251	0	251
23.	Total O&M expenses	32,590	(6,094)	26,496	0	26,496
24.	Depreciation expense	1,158	(4)	1,154 [7]	0	1,154
25.	Property taxes	0	0	0	0	0
26.	Other taxes	25	(25)	0 [8]	0	0
27.	Regulatory fee	0	21	21 [9]	15	36 [9]
28.	Gross receipts tax	945	(945)	0 [10]	0	0
29.	State income tax	0	0	0 [11]	0	0 [15]
30.	Federal income tax	0	0	0 [12]	0	0 [16]
31.	Total operating revenue deductions	34,718	(7,047)	27,671	15	27,686
32.	Net operating income for return	(\$18,035)	\$6,862	(\$11,173)	\$11,077	(\$96)

Fairfield Water Company

Docket No. W-1226, Sub 3

FOOTNOTES TO SCHEDULE 3

For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit I
Schedule 3
Page 2 of 2

- [1] Column (c) - Column (a).
- [2] Column (a) plus Column (b), unless otherwise footnoted
- [3] Per Public Staff Engineer Franklin.
- [4] Morgan Exhibit I, Schedule 3-1, Line 8.
- [5] Morgan Exhibit I, Schedule 3-2, Line 3.
- [6] Morgan Exhibit I, Schedule 3-3, Line 5.
- [7] Morgan Exhibit I, Schedule 2-1, Line 9, Column (e).
- [8] Adjustment to remove regulatory fee.
- [9] Line 5 x 0.0013.
- [10] Adjustment to remove gross receipts tax.
- [11] Morgan Exhibit I, Schedule 3-4, Line 12, Column (a).
- [12] Morgan Exhibit I, Schedule 3-4, Line 13, Column (a).
- [13] Column (e) - Column (c).
- [14] Column (c) plus Column (d), unless otherwise footnoted.
- [15] Morgan Exhibit I, Schedule 3-4, Line 12, Column (b).
- [16] Morgan Exhibit I, Schedule 3-4, Line 13, Column (b).

Fairfield Water Company
 Docket No. W-1226, Sub 3
ADJUSTMENT TO ADMINISTRATIVE AND OFFICE EXPENSE
 For the Test Year Ended December 31, 2018

Public Staff
 Morgan Exhibit I
 Schedule 3-1

Line No	Item	Amount
1.	Administrative and office expense per application	\$13,091
2.	Adjustment to reflect actual administrative and office expense	1,108 [1]
3.	Administrative and office expense (L1 + L2)	14,199
4.	Adjustment to reclassify insurance expense	(1,184)
5.	Adjustment to remove expenses outside the test year	(200)
6.	Adjustment to remove administrative expenses for sewer project costs	(3,619) [2]
7.	Adjustment to capitalize waterline installation project expenses	(600) [2]
8.	Administrative & office expense per Public Staff (Sum of L3 thru L7)	8,596
9.	Adjustment to administrative and office expense (L8 - L1)	(\$4,495)

[1] Based on a review of Company's financial records and data request responses.
 [2] Per recommendation by Public Staff Engineer Franklin.

Fairfield Water Company
Docket No. W-1226, Sub 3
ADJUSTMENT TO INSURANCE EXPENSE
For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit I
Schedule 3-2

<u>Line No</u>	<u>Item</u>	<u>Amount</u>
1.	Insurance expense per application	\$0
2.	Adjustment to reclassify insurance expense from administrative and office expense	<u>1,184</u> [1]
3.	Insurance expense per Public Staff (L1 + L2)	<u>1,184</u>
4.	Adjustment to insurance expense (L3 - L1)	<u>\$1,184</u>

[1] Based on a review of Company's financial records and data request responses.

Fairfield Water Company
 Docket No. W-1226, Sub 3
CALCULATION OF RATE CASE EXPENSE
 For the Test Year Ended December 31, 2018

Public Staff
 Morgan Exhibit 1
 Schedule 3-3

<u>Line No</u>	<u>Item</u>	<u>Amount</u>
1.	Cost to mail notices	\$17 [1]
2.	NCUC filing fees	<u>100 [2]</u>
3.	Total rate case expense (Line 1+ Line 2)	117
4.	Amortization factor	<u>3</u>
5.	Amortized regulatory expense (Line 3 / Line 4)	<u><u>\$39</u></u>

[1] Based on 12 customers x 2 mailings x \$.55 stamps plus \$.15 for envelopes and copying.

[2] Filing fee per application

Fairfield Water Company
Docket No. W-1226, Sub 3
CALCULATION OF INCOME TAXES
For the Test Year Ended December 31, 2018

Public Staff
Morgan Exhibit I
Schedule 3-4

Line No.	Item	Present Rates [1] (a)	Company Proposed Rates [3] (b)
1.	Operating revenue	\$18,498	\$27,590
2.	Operating revenue deductions:		
3.	O & M expenses	26,496	26,496
4.	Depreciation expense	1,154	1,154
5.	Property taxes	0	0
6.	Other taxes	0	0
7.	Regulatory fee	21	36
8.	Gross receipts tax	0	0
9.	Interest expense	1,011 [2]	1,011 [4]
10.	Total deductions (Sum of L3 thru L9)	28,682	28,697
11.	Taxable income (L1 - L10)	(12,184)	(1,107)
12.	Less: State income tax @ 2.5%	0	0
13.	Less: Federal income tax @ 21%	0	0
14.	Net amount (L11 - L12 - L13)	(12,184)	(1,107)
15.	Add: Interest expense	1,011 [2]	1,011 [4]
16.	Net income for return (L14 + L15)	(\$11,173)	(\$96)

- [1] Morgan Exhibit I, Schedule 3, Column (c).
[2] Morgan Exhibit I, Schedule 1, Line 1, Column (d).
[3] Morgan Exhibit I, Schedule 3, Column (e).
[4] Morgan Exhibit I, Schedule 1, Line 4, Column (e).