

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

November 27, 2019

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

Via Electronic Delivery

Re: Docket Nos. W-354, Subs 363, 364, and 365
Carolina Water Service, Inc. of North Carolina
Joint Partial Settlement Agreement and Stipulation

Dear Ms. Campbell:

Enclosed for filing in the above-referenced dockets is the Joint Partial Settlement Agreement and Stipulation agreed to by Carolina Water Service, Inc. of North Carolina and the Public Staff.

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

As usual, thank you and your office for your assistance and please feel free to contact me if there are any questions.

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

Attorney for Carolina Water Service,
Inc. of North Carolina

c: Parties of Record

DOCKET NO. W-354, SUB 363
DOCKET NO. W-354, SUB 364
DOCKET NO. W-354, SUB 365

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)	JOINT PARTIAL
Carolina 28217, for Authority to Adjust and)	SETTLEMENT AGREEMENT
Increase Rates for Water and Sewer Utility)	AND STIPULATION
Service in All Service Areas in North Carolina)	

Carolina Water Service, Inc. of North Carolina ("CWSNC" or "Company"), through counsel, and the Public Staff – North Carolina Utilities Commission ("Public Staff"), through its Acting Executive Director, David Drooz (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 Partial 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 the issues in NCUC Docket Nos. W-354, Subs 363, 364, and 365:

I. BACKGROUND

A. On January 17, 2019, in Docket No. W-354, Sub 363, CWSNC filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss ("Petition").

- B. On May 24, 2019, CWSNC gave 30-days' notice of its intent to file a general rate case in Docket No. W-354 Sub 364.
- C. On June 6, 2019, the Commission entered an order consolidating Dockets Nos. W-354, Sub 363 and Sub 364.
- D. On June 28, 2019, CWSNC filed its Application for general rate relief in Docket No. W-354 Sub 364, including testimony by the following witnesses:
1. Catherine E. Heigel,¹ President of CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company;
 2. Dante M. DeStefano, Director of Financial Planning and Analysis for CWSNC;
 3. Gordon R. Barefoot,² President and CEO of Corix Infrastructure, Inc;
 4. J. Bryce Mendenhall, Vice President of Operations for CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company;
 5. Anthony Gray, Senior Financial and Regulatory Analyst, CWSNC; and
 6. Dylan W. D'Ascendis, Director at ScottMadden, Inc.
- E. On June 28, 2019, CWSNC also filed a Petition for Deferred Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects.
- F. On July 15, 2019, the Commission issued its Order Suspending Rates and Establishing a General Rate Case.

¹ On November 1, 2019, CWSNC filed notice that Donald H. Denton would adopt the pre-filed direct testimony of Catherine E. Heigel.

² On November 8, 2019, CWSNC filed notice that Shawn EliceGUI would adopt the pre-filed direct testimony of Gordon R. Barefoot.

- G. On August 2, 2019, the Commission issued an Order Scheduling Hearings and Requiring Customer Notice.
- H. On August 2, 2019, CWSNC witness DeStefano filed Supplemental Testimony; and on August 23, 2019, CWSNC filed an Amended Exhibit to DeStefano's Supplemental Testimony.
- I. On August 22, 2019, Corolla Light Community Association, Inc. ("CLCA") filed a Motion to Intervene, and on September 5, 2019, the intervention was allowed by order of the Commission.
- J. Public hearings were held in this matter as follows, and responses to concerns raised at the public hearings were filed by CWSNC on the dates indicated:
- Charlotte on September 5, 2019 (Response filed on September 25, 2019)
 - Manteo on September 10, 2019 (No customers appeared at hearing)
 - Boone on October 8, 2019 (Response filed on October 24, 2019 - combined with Asheville)
 - Asheville, October 9, 2019 (Response filed on October 24, 2019)
 - Raleigh, October 14, 2019 (Response filed on October 30, 2019)
 - Jacksonville, October 22, 2019 (Response filed on November 8, 2019)
- K. On October 4, 2019, CWSNC filed its rate case updates, schedules, and supporting data.
- L. On October 22, 2019, a Motion for Admission *Pro Hac Vice* was filed by Mark Alson, Ice Miller LLP of Indianapolis, Indiana, and Jo Anne Sanford, Sanford Law Office, PLLC requesting admission of Mr. Alson in order to participate in

these proceedings. On October 28, 2019, the Commission granted the motion.

- M. 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. Field inspections were conducted by the Public Staff at the following systems: Danby water system; The Village of Nags Head sewer system; and Connestee Falls sewer system.
- N. The Public Staff filed its direct testimony on November 4, 2019, consisting of testimony and exhibits by the following witnesses:
1. Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Telephone Division;
 2. Charles M. Junis, Utilities Engineer, Water, Sewer, and Telephone Division;
 3. Lindsey Q. Darden, Utilities Engineer, Water, Sewer, and Telephone Division;
 4. Windley E. Henry, Manager, Water, Sewer, and Telephone Section, Accounting Division;
 5. Michelle M. Boswell, Staff Accountant, Accounting Division;
 6. Lynn L. Feasel, Staff Accountant, Accounting Division; and
 7. John R. Hinton, Director, Economic Research Division.

- O. The Public Staff filed the Supplemental Testimony of Gina Y. Casselberry on November 15, 2019.
- P. The Public Staff filed Revised Exhibits of Lynn L. Feasel and Windley E. Henry on November 18, 2019.
- Q. On Monday, November 18, 2019, CWSNC withdrew its request for consideration and determination of a Consumption Adjustment Mechanism and of the Conservation Rate Pilot Program and Revenue Adjustment Mechanism proposed for The Point Subdivision.
- R. On November 19, 2019, the Commission entered an order consolidating Docket Nos. W-354, Sub 364 and Sub 365.
- S. 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 meetings and conference calls to discuss possible settlement.
- T. CWSNC filed the rebuttal testimony of Company witnesses DeStefano, Mendenhall, and D'Ascendis on November 20, 2019.
- U. On November 26, 2019, Public Staff witness John R. Hinton filed Supplemental Testimony and Supplemental Hinton Exhibit 10, revising his recommended cost rate of common equity.
- V. 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 partial joint settlement proposal, 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. ISSUES THAT WERE INITIALLY UNRESOLVED BETWEEN THE STIPULATING PARTIES AND UPON WHICH CWSNC FILED REBUTTAL TESTIMONY, BUT WHICH HAVE BEEN SUBSEQUENTLY COMPROMISED AND SETTLED

- a. Tariff Rate Design – Agreement that rate design in this case should be based on a 50/50 ratio of fixed/volumetric revenues for the Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour residential customers and an 80/20 ratio of fixed/volumetric revenues for the Uniform Sewer residential customers.
- b. Property Insurance Expense – Agreement to the Company's rebuttal position of \$279,912.
- c. Treatment of Water Service Corporation ("WSC") Rent Expense for its Chicago, Illinois office lease – Agreement to the Public Staff's Revised Feasel Exhibit I, Schedule 3-11.
- d. Water Loss adjustment for Purchased Water Expense – Agreement for a 20% water loss threshold for Whispering Pines, Zemosa Acres, Woodrun, High Vista, and Carolina Forest subdivisions.
- e. PAA Amortization Expense Rates – Agreement to the Public Staff's PAA amortization rates per Revised Feasel Exhibit I, Schedule 3-15.
- f. Storm Reserve Fund and Storm Expense – Agreement that the Company rescinds request to implement its proposed Storm Reserve Fund, and to utilize the Public Staff's position per Revised Feasel Exhibit I, Schedule 3-4.
- g. Application of Hurricane Florence Insurance Proceeds – Agreement to the Company's rebuttal position removing overpayments to-date from the insurer.

III. UNRESOLVED ISSUES BETWEEN THE STIPULATING PARTIES

The Stipulating Parties have not reached a compromise or settlement on the following two issues (“Unresolved Issues”):

- a. Return on Equity; and
- b. Deferred accounting treatment of AMR meter installation projects in the Fairfield Mountain and Connestee Falls systems.

IV. REVENUE REQUIREMENT ISSUES COMPROMISED AND RESOLVED BETWEEN THE STIPULATING PARTIES

Both before and subsequent to the time that CWSNC filed rebuttal testimony in this proceeding, the Stipulating Parties have reached agreement regarding certain revenue requirement issues that are identified on Settlement Exhibit 1, which is incorporated herein by reference and attached hereto. The actual amounts of the agreed-upon adjustments may differ due to the effects of the Unresolved Issues and updated information to be provided by the Company. The revenue requirement effects of the agreed-upon issues are shown on Settlement Exhibit 1.³ 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

³ The total increase in base rate revenues and the resulting average increase, if any, will not be determined until the Commission rules on the Unresolved Issues.

a rationale for future arguments on contested issues brought before the Commission. The areas of agreement are as follows:

A. The test period for this rate case is the twelve months ending March 31, 2019, 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.

B. The Company and the Public Staff both accept the proposed adjustments as identified as “Settled Items” on the attached Settlement Exhibit 1.

C. The Company agrees to the Public Staff’s proposed calculations of Accumulated Deferred Income Taxes (“ADIT”) regarding unamortized rate case expense. The Stipulating Parties agree to revise ADIT for any updates made to rate case expense deferrals.

D. CWSNC and the Public Staff agree that deferral accounting treatment for post-in-service depreciation expense and carrying costs related to the Company’s capital investments in wastewater treatment plants placed in service at Nags Head and Connestee Falls during the pendency of this proceeding is reasonable and appropriate.

E. 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 Settlement Exhibit 1, Line 41, for actual and estimated costs once supporting documentation is provided by the Company. The Stipulating Parties agree to amortize rate case expenses for a five-year period.

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 partial 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. Except for testimony and exhibits related to the Unresolved Issues and this Stipulation, the pre-filed 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 pre-filed testimony and exhibits. If, however, questions are asked by any Commissioner, or if questions are asked or positions are taken by any person who is not a Stipulating Party, 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, subject to the revenue requirement effect of the Commission's decisions on the Unresolved Issues.

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 Partial 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 26th day of November, 2019.

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/Gina C. Holt**
Staff Attorney, Public Staff

CAROLINA WATER SERVICE, INC. OF NC

Docket No. W-354, Sub 364

Settlement Exhibit I

**CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended March 31, 2019**

Line No.	Item	CWSNC Water (a)	CWSNC Sewer (b)	BF/FH/TC Water (c)	BF/FH/TC Sewer (d)	Settlement Total
1	Increase/(decrease) in total revenue per Company	\$ 2,674,305	\$ 3,808,085	\$ 187,541	\$ 211,302	\$ 6,881,233
	Uncontested items:					
2	Difference in calculation of revenue requirement based on Company amounts	0	0	0	0	0
3	Adjust capital structure to 50.9% debt and 49.1% equity	59,702	55,575	2,794	7,213	125,284
4	Adjust debt cost rate to 5.36%	(71,805)	(66,841)	(3,360)	(8,675)	(150,681)
5	Adjustment to uncollectibles	9,073	6,546	3,793	5,382	24,794
6	Adjustment to forfeited discounts	(5,001)	(2,614)	(1,030)	(1,481)	(10,126)
7	Adjustment to miscellaneous revenues	(12,780)	(7,722)	(1,752)	(1,830)	(24,084)
8	Update revenues to 9/30/2019	(112,245)	(465,258)	(290)	(4,922)	(582,715)
9	Adjustment to include plant held for future use	(8,158)	(43,949)	0	0	(52,107)
10	Adjustment to remove pro forma estimates	(141,063)	(1,258,468)	0	(68,976)	(1,468,507)
11	Adjustment to remove AA Pace Utilities	9,836	0	1,805	1,805	13,446
12	Adjustment to customer deposits	(593)	(358)	(8)	(9)	(968)
13	Adjustment to excess book value	28	0	0	0	28
14	Adjustment to average tax accruals	(13,116)	(8,026)	(846)	(917)	(22,905)
15	Adjustment to maintenance salaries	(120,314)	(72,584)	(26,023)	24,950	(193,971)
16	Adjustment to purchased power	0	(7,689)	0	0	(7,689)
17	Adjustment to maintenance testing	(1,585)	(206)	(43)	0	(1,834)
18	Adjustment to chemicals	0	(32,563)	0	12,681	(19,882)
19	Adjustment to transportation	(2,663)	(1,609)	(317)	(332)	(4,921)
20	Adjustment to office utility	(1,747)	(1,056)	(604)	(656)	(4,063)
21	Adjustment to amortization expense - CIAC	(19,632)	46,732	(16,839)	(1,540)	8,721
22	Adjustment to franchise tax	72	44	10	9	135
23	Adjustment to pension and benefits	56,088	33,927	(12,106)	(8,758)	69,151
24	Adjustment to amortization expense - PAA	(13,048)	8,063	1,626	12,089	8,730
25	Adjustment to cost center rate base	0	0	0	0	0
26	Adjustment to reclass Intoollect LLC	(418)	(253)	(50)	(52)	(773)
27	Adjustment to meter reading	0	0	0	0	0
28	Adjustment to property tax	0	0	0	0	0
29	Rounding	(1)	(1)	(2)	(4)	(8)
30	Adjustment to general salaries and wages	(223,625)	(135,076)	(31,422)	7,134	(382,989)
31	Adjustment to payroll tax	(36,527)	(22,059)	(13,197)	3,021	(68,762)
32	Adjustment to depreciation expense	127,970	33,247	7,483	13,006	181,706
33	Adjustment to outside services - other	(17,466)	(10,554)	(199)	(235)	(28,454)
34	Adjustment to office supplies and other office exp.	(315)	(190)	7	(39)	(537)
35	Adjustment to capitalized time	(2,102)	(9,261)	(5,863)	(32,308)	(49,534)

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CAROLINA WATER SERVICE, INC. OF NC

Docket No. W-354, Sub 364

Settlement Exhibit I

**CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year Ended March 31, 2019**

Line No.	Item	CWSNC Water (a)	CWSNC Sewer (b)	BF/FH/TC Water (c)	BF/FH/TC Sewer (d)	Settlement Total
36	Adjustment to gain on sale	(16,621)	(7,814)	0	0	(24,435)
37	Adjustment for excess deferred taxes	(34,362)	(43,531)	(1,165)	(10,807)	(89,865)
38	Adjustment to include actual GL additions	205,239	1,444,530	6,601	85,718	1,742,088
39	Adjustment to correct cost centers adjustments	(955)	(577)	(33)	(119)	(1,684)
40	Adjustment to update rate base for depreciation and amortization	(1,785)	(40,232)	(197)	(8,211)	(50,425)
41	Adjustments to include deferred accounting accumulated depreciation	0	(4,425)	0	0	(4,425)
42	Adjustment to rent	(33,718)	(20,374)	(4,027)	(4,205)	(62,324)
43	Adjustment to insurance	64,210	38,801	7,663	7,999	118,673
44	Adjustment to miscellaneous	(48,786)	(42,539)	(15,722)	(30,645)	(137,692)
45	Adjustment to purchased water/sewer	12,917	2,126	32,296	0	47,339
Accounting Changes Tentatively Confirmed:						
46	Adjustment to reflect regulatory rate change impact on operating deduction	(1,412)	(1,076)	(125)	(159)	(2,772)
47	Adjustment to reflect regulatory rate change impact on rate base	(595)	(554)	(29)	(71)	(1,249)
48	Adjustment to cash working capital	(4,436)	(472)	(626)	(404)	(5,938)
49	Adjustment to ADIT	68,963	(13,042)	1,770	6,648	64,339
50	Adjustment to deferred charges	(21,079)	(5,054)	56	(3,185)	(29,262)
51	Adjustment to regulatory commission expense	(27,951)	(14,692)	(3,090)	(3,235)	(48,968)
Contested items:						
52	Adjust return on equity to 9.1%	(656,807)	(611,393)	(30,737)	(79,361)	(1,378,298)
53	Adjustment to maintenance and repair	(56,058)	231,426	714	(10,246)	165,836
54	Revenue impact of Public Staff adjustments (Sum of L2 thru L53)	<u>(1,094,671)</u>	<u>(1,051,095)</u>	<u>(103,084)</u>	<u>(93,727)</u>	<u>(2,342,577)</u>
55	Increase/(decrease) per Public Staff (L1 + L54)	<u>\$ 1,579,634</u>	<u>\$ 2,756,990</u>	<u>\$ 84,457</u>	<u>\$ 117,575</u>	<u>\$ 4,538,656</u>
56	Public Staff recommended increase(decrease) (L55)	1,579,634	2,756,990	84,457	117,575	4,538,656
57	Federal Unprotected EDIT Rider	<u>(141,204)</u>	<u>(178,875)</u>	<u>(4,788)</u>	<u>(44,409)</u>	<u>(369,276)</u>
58	Public Staff Recommended change in revenue requirement (L56 + L57)	<u>\$ 1,438,430</u>	<u>\$ 2,578,115</u>	<u>\$ 79,669</u>	<u>\$ 73,166</u>	<u>\$ 4,169,380</u>

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