

**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,) DIRECT TESTIMONY OF
Inc. of North Carolina for Authority to) DONALD H. DENTON III ON
Adjust and Increase Rates and Charges) BEHALF OF CAROLINA
for Water and Sewer Utility Service in All) WATER SERVICE, INC. OF
Service Areas of North Carolina) NORTH CAROLINA

July 2, 2021

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

2 A. My name is Donald H. Denton III and my business address is 4944 Parkway
3 Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

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

10 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND?**

12 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of
13 Technology as well as an Executive Masters in Business Administration
14 from Queens University in Charlotte, North Carolina. I have worked in the
15 utility sector for over twenty-three years in multiple capacities ranging from
16 engineering to strategic planning and major project execution.

17 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF THE COMPANY?**

18 A. I am responsible for the Company’s regulated water and sewer operations
19 in North Carolina, including facility operations, finance, business
20 development, safety, compliance, regulatory affairs, and customer service.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to provide an overview of CWSNC's
4 requested rate increase in support of the Company's Application in this
5 case. In my testimony, I summarize the requested relief and describe how
6 the rate request will allow the Company a reasonable opportunity to cover
7 its costs of providing utility services plus earn a fair return for our investors.
8 My testimony also outlines the primary drivers of the requested rate
9 increase and the general impact of the rate increase on customers. In
10 addition, my testimony explains the Company's proposed new water
11 efficiency initiative and our proposed new payment options. Finally, I
12 introduce the other witnesses who present testimony for the Company in
13 this case.

14 **Q. PLEASE DESCRIBE THE CWSNC SERVICE TERRITORY IN NORTH**
15 **CAROLINA.**

16 A. CWSNC is a public utility subject to the jurisdiction of the North Carolina
17 Utilities Commission ("NCUC" or "Commission), providing water and sewer
18 utility service to 34,229 water customers and 20,995 sewer customers¹,
19 located in 38 counties across North Carolina.

¹ As of 3/31/21 Test Year, 30,856 active water customers, 3,373 water availability customers, 19,788 active sewer customers, and 1,207 sewer availability customers.

1 **Q. PLEASE EXPLAIN WHY THE COMPANY IS FILING FOR A RATE**
2 **INCREASE.**

3 A. Our need for rate relief stems primarily from the significant capital
4 investments since the Company's last rate case, made to provide reliable
5 and compliant water and sewer services to our customers. Since the last
6 rate case, the Company will have made over \$20 million in capital
7 investment in North Carolina that is not yet reflected in rates. These
8 investments are needed to replace and rehabilitate aging infrastructure and
9 to modernize and increase efficiencies in the Company's systems. They
10 are discussed in more detail in Mr. Hill's testimony. The investments include
11 but are not limited to: (1) Bradfield Farms Wastewater Treatment Plant; (2)
12 multiple lift station replacements; (3) Elk River well rehabilitation; (4)
13 Rutledge Landing well filtration; and (5) Brandywine Bay well treatment
14 improvements.

15 Without adequate rate relief, CWSNC's ability to continue to provide
16 safe, reliable, and efficient water and sewer utility services to its customers
17 and to meet its financial obligations will be impaired, which would ultimately
18 adversely affect our service and our customers. In addition, the Company's
19 access to needed capital on reasonable terms could be constrained, which
20 would also redound to the detriment of our customers.

21 More specifically, under present rates and with good management,
22 CWSNC is not able to cover its operating costs and earn a reasonable

1 return on its investments in the Company's systems. During the Test Year,
2 CWSNC experienced an overall rate of return per its books for its combined
3 water and sewer operations of 7.20%. The Company's pro-forma Test Year
4 overall returns are 5.28% for water operations and 5.27% for sewer
5 operations. These rates of return are well below CWSNC's currently-
6 authorized overall rate of return on rate base of 7.39%, which is based on
7 an authorized rate of return on common equity of 9.50%, established by the
8 Commission in its 2020 Rate Case Order in Docket No. W-354, Sub 364.

9 CWSNC's current balance sheet and income statement are
10 contained in the Company's Rate Case Application. CWSNC's balance
11 sheet is attached to the Application as Schedule C and the Company's
12 income statement is attached to the Application as Schedule B. The
13 Company's current rate base and rate of return are shown on Schedule A
14 of the Application.

15 **Q. WHAT IS THE REVENUE REQUIREMENT REQUESTED BY CWSNC IN**
16 **THIS PROCEEDING?**

17 A. The Company proposes an increase in revenue requirements of
18 \$4,514,488, an increase of 11.47% over pro-forma present rate revenues
19 of \$39,366,595 for a total revenue requirement request of \$43,881,082.
20 This represents an 11.13% increase in water revenue, and an 11.87%
21 increase in sewer revenues.

1 **Q. IF APPROVED, WHAT WOULD BE THE IMPACT OF THE COMPANY'S**
2 **REQUESTED INCREASE TO THE TYPICAL WATER AND SEWER**
3 **CUSTOMER AT AN AVERAGE CONSUMPTION LEVEL?**

4 A. Under the Company's proposal, a typical Uniform Water residential
5 customer using 3,837 gallons/month would see an increase of
6 approximately \$7.00 per month, beginning with the rate effective date in this
7 case. A typical Uniform Sewer residential customer using 3,505
8 gallons/month would see an increase of approximately \$8.63 per month.
9 More details on the proposed rates for each Rate Division can be found in
10 the testimony of Witness Schellinger.

11 **Q. PLEASE DESCRIBE THE COMPANY'S RECENT REORGANIZATION.**

12 A. Effective January 1, 2021, the management of the Atlantic Business Unit
13 (which includes CWSNC and Blue Granite Water Company in South
14 Carolina) was combined with Utilities Inc. of Florida to form an East
15 Operations Team for Corix Regulated Utilities under my direction. Major
16 goals of the reorganization are to facilitate collaboration between the
17 leadership teams for the benefit of each business and its customers, to
18 increase the sharing of best practices across business units, and to more
19 efficiently and effectively share certain support functions across business
20 units. Importantly, no job losses resulted from this reorganization, other
21 than the role of the VP of Operations. Also, importantly, the states' separate
22 and unique external brand identities will remain.

1 **Q. DOES THE COMPANY'S RATE ADJUSTMENT PROPOSAL REFLECT**
2 **CORPORATE SHARED SERVICE AND GOVERNANCE COSTS**
3 **ALLOCATED FROM CORIX?**

4 A. Yes, as in the last rate case, CWSNC seeks to have those allocated costs
5 reflected in our rates. Mr. Drennan's testimony discusses shared services
6 in further detail.

7 **Q. CAN YOU PLEASE SUMMARIZE CWSNC'S CORPORATE PURPOSE**
8 **AND VISION?**

9 A. CWSNC's purpose is to help people enjoy a better life and communities
10 thrive. Our vision is to be the preferred utility delivering co-created solutions
11 our customers want.

12 **Q. HOW DOES CWSNC PLAN TO ACHIEVE THIS PURPOSE AND VISION?**

13 A. We plan to achieve our purpose and vision by accomplishing the following
14 strategic goals:

- 15 ➤ Operational and Service Excellence – develop our people, strengthen
16 our processes, and invest in our technology to support a high-
17 performance organization and a culture of continuous improvement.
- 18 ➤ Connected Customers and Stakeholders – communicate and engage
19 with our team members, customers, and communities with relevant and
20 timely billing, service, and operational information to improve
21 stakeholder awareness and collaboration.

- 1 ➤ Strong Financial Performance – manage and plan business costs,
- 2 pursue growth, and mitigate enterprise risks in a prudent manner to
- 3 engender trust and confidence in our financial responsibility and ensure
- 4 access to needed capital.
- 5 ➤ Engaged People and Culture – attract and retain top talent to deliver
- 6 dependable, timely, courteous, and quality services to meet the needs
- 7 of our customers and communities.

8 **Q. HOW WOULD YOU CHARACTERIZE CWSNC’S CURRENT**
9 **OPERATIONAL PERFORMANCE?**

10 **A.** I would characterize our current performance as excellent in the following
11 areas:

- 12 ➤ Providing safe drinking water through water system compliance;
- 13 ➤ Maintaining high quality water;
- 14 ➤ Reducing water quality issues;
- 15 ➤ Maintaining and improving sewer system compliance;
- 16 ➤ Achieving on-time and accurate meter reads;
- 17 ➤ Completing field activities on time; and
- 18 ➤ Community participation.

19 I would characterize our current performance as “good, showing
20 improvement” in the following areas:

- 21 ➤ Driver safety;
- 22 ➤ Reducing sewer compliance issues; and

1 ➤ Improving workplace safety.

2 **Q. HOW IS THIS RATE CASE RELATED TO CWSNC'S CORPORATE**
3 **PURPOSE AND VISION?**

4 A. Capital investments, such as those we have made and seek to include in
5 our rate base in this case, are essential to our operational integrity. They
6 are required in order to maintain and improve our ability to provide high
7 quality and compliant water and sewer services to our customers and our
8 communities. Paying competitive wages to our employees is critical to our
9 ability to attract and retain talented employees who, in turn, provide
10 excellent operational performance and customer service for our customers
11 and communities.

12 **Q. HOW DOES THE COMPANY ENGAGE WITH AND EDUCATE ITS**
13 **CUSTOMERS?**

14 A. To enhance our customers' engagement with the Company, we have
15 implemented multiple communication channels from Facebook, Twitter, and
16 a newly-designed webpage to bill inserts, phone calls, and face-to-face
17 meetings. In addition, the Company has just launched a new customer
18 portal application called MyUtilityConnect for our customers. Using this new
19 online tool, customers can (1) pay their bills on the go; (2) elect to receive
20 service notifications through the application; and (3) monitor their water
21 usage through the application. The Company has used social media outlets
22 to inform customers and Homeowner Associations ("HOAs") about this new

1 tool and will be providing more information via bill inserts. In order to initially
2 access the application, customers can visit our website or search for
3 MyUtilityConnect in the Apple App Store or Google Play Store.

4 Another customer engagement avenue led by our Communications
5 Coordinator, Deborah Clark, includes the creation of WordPress sites (*i.e.*,
6 free web pages) for our customers to provide updates on projects, water
7 saving tips, and frozen pipes prevention tips. Additionally, Company
8 employees routinely attend meetings with the HOAs. Topics discussed
9 during the HOA meetings have included CWSNC planned capital projects,
10 project schedules, conservation and sustainability ideas, and other issues
11 of customer interest. HOA managers also receive articles from CWSNC for
12 inclusion in their newsletters. These articles include stories ranging from
13 updates on projects and services to water conservation tips. CWSNC has
14 also increased its efforts to improve customer engagement and awareness
15 about service protocols and rates.

16 CWSNC remains fully committed to excellent customer relationships
17 and providing adequate, efficient, and reliable service. We will continue to
18 evaluate new ways of interacting with our customers.

19 **Q. WHAT IS THE KEY OBJECTIVE OF THE COMPANY'S REQUESTED**
20 **GENERAL RATE ADJUSTMENT?**

21 A. The Company's most important objective is to continue providing safe,
22 reliable, affordable, and high quality water and sewer utility service to our

1 customers in North Carolina -- both today and into the future. Our request
2 for a rate increase is made to support investments that benefit our
3 customers while maintaining the Company's financial position. In order to
4 attract the capital necessary to continue to serve, it is imperative that
5 CWSNC have the opportunity to earn a reasonable return on its invested
6 capital. We strive to ensure that the investments CWSNC makes in North
7 Carolina are prudent, cost-effective, and appropriately balance reliable
8 service and affordable rates for our customers.

9 **Q. IS THE COMPANY PROPOSING ANY NEW CUSTOMER INITIATIVES IN**
10 **THIS CASE?**

11 A. Yes. The Company is proposing fee-free payment options for its customers,
12 in which it would recover the costs to process payments, including electronic
13 payment methods, from all customers through its cost of service, as is
14 currently done for existing fee-free methods such as checks. If approved,
15 customers will be able to choose the most effective payment for their
16 specific circumstances, without having to pay a separate transaction fee for
17 certain payment methods.

18 Additionally, the Company is proposing a new "Water Efficiency
19 Program," in which the Company would offer efficient water fixture rebates
20 for its customers. Such a program would be the first of its kind among North
21 Carolina regulated water utilities and would provide an additional layer of

1 customer benefit for those who also would save on their energy bills from
2 the installation of efficient household fixtures.

3 Witness Drennan provides further detail on the description, purpose,
4 and rate-related aspects of these two new customer initiatives.

5 **Q. PLEASE IDENTIFY THE OTHER WITNESSES PRESENTING**
6 **TESTIMONY IN SUPPORT OF THE COMPANY'S APPLICATION IN THIS**
7 **PROCEEDING.**

8 A. The Company's other witnesses filing direct testimony in support of this
9 case are:

- 10 • Dana Hill, Director of State Operations for CWSNC, whose testimony
11 addresses the Company's water and sewer system operations,
12 capital investments made in North Carolina since the last rate case,
13 and certain technology initiatives supporting North Carolina
14 operations. He also testifies about the Company's continued efforts
15 to address non-revenue water.
- 16 • Philip J. Drennan, Regional Director of Financial Planning and
17 Analysis, testifies in support of the Company's position regarding
18 present rate revenues, operating expenses including pro-forma
19 adjustments for salaries and wages, support service costs, and
20 general tariff changes. Mr. Drennan also addresses the Company's
21 capital structure. Finally, Mr. Drennan supports the Company's fee-
22 free bill payment option and the water efficiency program proposals.

- 1 • Matthew P. Schellinger II, Manager of Financial Planning and
2 Analysis, testifies in support of the Test Year billing analysis, present
3 rate revenues, and proposed revenues. Mr. Schellinger also
4 addresses rate design and the status of the Company's Excess
5 Deferred Income Taxes ("EDIT").
- 6 • LaQuisha M. Parks, Vice President of Customer Experience for Corix
7 Regulated Utilities, explains CWSNC's Customer Experience Team
8 Mission and Vision, changes to the Customer Experience Team, and
9 education and outreach efforts by the Customer Experience Team.
10 She also addresses the Company's customer service responses to
11 the COVID-19 pandemic.
- 12 • Dylan D'Ascendis, Partner at ScottMadden, Inc., provides extensive
13 testimony in support of the Company's proposed Return on Equity.

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

16 A. Yes.

17 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

18 A. Yes, it does. However, I reserve the right to update or amend this testimony
19 upon receipt of additional, relevant data or other information that may
20 become available.