

**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 for Authority to Adjust )	DIRECT TESTIMONY OF PHILIP
and Increase Rates and Charges for )	J. DRENNAN ON BEHALF OF
Water and Sewer Utility Service in All )	CAROLINA WATER SERVICE,
Service Areas in North Carolina )	INC. OF NORTH CAROLINA

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July 2, 2021

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

2 A. My name is Philip J. Drennan 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. I am Regional Director of Financial Planning and Analysis for Carolina  
6 Water Service, Inc. of North Carolina (“CWSNC” or “Company”).

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**  
8 **BACKGROUND?**

9 A. I have been employed by Corix Group of Companies since June 2016. I  
10 graduated from University of Illinois with a Bachelor of Science in Finance,  
11 and I also hold the Chartered Financial Analyst (CFA) designation. Prior to  
12 joining CWSNC and Corix Group of Companies, I was employed by various  
13 financial services firms performing equity research, financial modeling,  
14 valuation, and capital management duties.

15 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

16 A. My primary responsibilities include forecasting, budgeting, and financial  
17 analysis for the Company. I am also responsible for the oversight of data-  
18 gathering and preparation of rate cases, filing applications for rate cases,  
19 and providing data request responses for support of rate case filings.

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

3 A. The purpose of my testimony is to address certain financial aspects of this  
4 rate case, including but not limited to: 1) the Company's pro-forma  
5 revenues; 2) Amortization expenses; 3) Book and pro-forma adjustments;  
6 4) Taxes Other Than Income; and 5) Capital structure. I also describe and  
7 support the Company's proposal with respect to fee-free bill payment  
8 options, as well as address the Company's water efficiency program.

9 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES IN THIS**  
10 **PROCEEDING?**

11 A. Yes. I am presenting the following schedules in support of the Company's  
12 position in this proceeding:

13 Schedule A – Rate Base and Rate of Return

14 Schedule B – Income Statement

15 Schedule C – Balance Sheet as of the Test Year ended March 31, 2021

16 Schedule D-1 – Required Return and Cost of Debt (Capital Structure)

17 Schedule F-1 – Current Tariff

18 Schedule F-2 – Proposed Tariff

19 I am also sponsoring the North Carolina Utilities Commission's  
20 ("NCUC") Form W-1 Report and supporting schedules, included in this filing.

1 **Q. PLEASE DESCRIBE THE COMPANY'S TEST YEAR AND PRO-FORMA**  
2 **ADJUSTMENT PROCESS IN THIS PROCEEDING.**

3 A. CWSNC is utilizing a Test Year in this proceeding of the twelve months  
4 ended March 31, 2021. The Company has incorporated various pro-forma  
5 adjustments based on known and measurable changes in operating costs  
6 beyond the Test Year. These adjustments are detailed and supported  
7 within the NCUC Form W-1 Report provided with the Company's  
8 application. I will describe and support these adjustments later in my  
9 testimony.

10 **PRO-FORMA REVENUES**

11 **Q. DID THE COMPANY MAKE ADJUSTMENTS TO TEST YEAR ACTUAL**  
12 **REVENUES IN COMPUTING PRO-FORMA PRESENT RATE**  
13 **REVENUES?**

14 A. Yes. The Company's Test Year bill analysis and adjustments made to Test  
15 Year revenues are described in the testimony of witness Matthew P.  
16 Schellinger II.

17 **BOOK AND PRO-FORMA ADJUSTMENTS**

18 **Q. HAS THE COMPANY PROPOSED BOOK AND PRO-FORMA**  
19 **ADJUSTMENTS TO CALCULATE ITS REVENUE REQUIREMENT?**

20 A. Yes, the Company has calculated various adjustments to components of its  
21 revenue requirement as adjustments to the Test Year balances and activity.

1 These pro-forma adjustments are summarized in Appendix A included with  
2 this testimony. In addition, please see the NCUC Form W-1 Report, Item  
3 #10 (“W1-10”) and supplemental Schedules 1 through 25, included with the  
4 application.

5 **PRO-FORMA EXPENSES**

6 **Q. PLEASE EXPLAIN THE COMPANY’S PRO-FORMA ADJUSTMENT**  
7 **METHODOLOGY FOR SALARIES AND WAGES.**

8 A. Pro-forma salary adjustments were made for known and measurable salary  
9 related expenses charged directly to CWSNC. Employees are organized  
10 into three groups to calculate salary and wage expenses for CWSNC. The  
11 three employee groups are titled NC Operations, NC Leadership, and  
12 Regional Leadership. Employees are placed into groups depending on their  
13 time spent directly on CWSNC job functions. NC Operations employees  
14 are allocated 100% to CWSNC. NC Leadership employees are allocated  
15 by an Equivalent Residential Connection (“ERC”) factor between  
16 companies that make up the Atlantic Region. An ERC is a base unit  
17 measurement used to convert average daily flows (“ADF”) of different meter  
18 sizes to the equivalent number of single-family residential connections.  
19 Regional Leadership employees are allocated by ERCs among companies  
20 that make up the Senior Vice President (“SVP”) East Region. Employees  
21 in the Regional Leadership region spend 90% of their time on Atlantic  
22 Region job duties and 10% of their time on SVP East Region activities. The

1 SVP organizational structure was created to streamline direct reporting  
2 functions within the Company, increase the sharing of best practices across  
3 business units, and to provide additional support to business units after Vice  
4 President of Operations positions were eliminated across the company,  
5 among other considerations.

6 **Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED SALARY  
7 AND WAGE EXPENSES FOR DIRECT PRO-FORMA ALLOCATIONS.**

8 A. To prepare pro-forma adjustments for salaries and wages in this docket, the  
9 Company began with payroll and employee data for all active employees as  
10 of the May 21, 2021 pay period. Vacancies and new headcount expected  
11 to be filled during this proceeding were added to reflect the accurate  
12 operating level headcount. Overtime and holiday pay for hourly employees  
13 were updated for current May 21, 2021 data. Deferred compensation paid  
14 in April of 2021 was included for salary and wage calculations for this  
15 proceeding. The sum of the new base salary, overtime, holiday pay, and  
16 deferred compensation was used to arrive at the annual salaries and wages  
17 amount per employee. Payroll and unemployment taxes were also  
18 calculated to reflect pro-forma salaries and wages adjustments.

19 **Q. ARE CORPORATE SUPPORT SERVICE ALLOCATIONS INCLUDED IN  
20 THE PRO-FORMA SALARIES AND WAGES ADJUSTMENT?**

21 A. No, Corix support service groups that performed similar functions were  
22 merged to deliver more efficient and streamlined support to the entire Corix

1 organization. Due to this organizational change, support service salaries  
2 are allocated through the tier 1 and tier 2 allocation process as explained in  
3 the 2021 Cost Allocation Manual submitted with this filing.

4 **Q. PLEASE EXPLAIN THE COMPANY’S ADJUSTMENTS FOR COSTS**  
5 **INCURRED FROM CORIX SUPPORT SERVICES.**

6 A. Corix corporate support services were combined on January 1, 2021 for  
7 efficiency purposes. Corporate support services are provided as one  
8 function to Corix Infrastructure Inc. (“CII”), as described in the 2021 Cost  
9 Allocation Manual. As a result, support service costs that are not directly  
10 assigned to a business unit are subject to the tier 1 and tier 2 allocation  
11 process. Support service costs are presented in a single “Corporate  
12 Allocations” account on CWSNC’s income statement. A separate workbook  
13 is available to explain the individual components of the Corporate Allocation  
14 accounting entry. To adjust the Test Year data for the change in the  
15 allocation process, all 2020 allocation entries were removed from the rate  
16 case filing. A pro-forma adjustment based on actual first quarter 2021  
17 expenses was made to annualize support service allocations to CWSNC.  
18 Annualized first quarter 2021 expenses reflect a more accurate measure of  
19 corporate allocations under the new organizational changes. Second  
20 quarter data will be available during this rate case proceeding and an  
21 update to the corporate allocation work paper will be made at that time.

1 Please refer to the 2021 Cost Allocation Manual for more information about  
2 the allocation of corporate support service costs.

3 **Q. PLEASE EXPLAIN THE BENEFITS CWSNC CUSTOMERS RECEIVE**  
4 **FROM THE COMPANY'S CORPORATE SUPPORT SERVICE**  
5 **STRUCTURE.**

6 A. Corporate support services include human resources, payroll, billing,  
7 accounts payable, treasury, legal, and other services that are necessary for  
8 the operation of any business. CWSNC customers receive these services  
9 on a shared basis, without having to bear the sole, full costs of the services,  
10 including critical and often expensive investments in technology, security,  
11 safety and environmental compliance. The parent company also has  
12 experts across a range of critical areas, such as construction, engineering  
13 operations, accounting, data processing, billing, regulation, and customer  
14 service that provide services to CWSNC and its customers.

15 CWSNC customers benefit by having access to investment capital  
16 to meet crucial funding needs. With increasingly more stringent health,  
17 safety, and environmental standards, ready access to capital is vital to  
18 continued quality service in the capital-intensive water and sewer utility  
19 business. In addition, the Corix Group of Companies realize national  
20 purchasing power to take advantage of economies of scale which result in  
21 lower costs to ratepayers.

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**Q. HOW, IF AT ALL, DID COVID-19 IMPACT CWSNC'S TEST YEAR RESULTS?**

A. In response to the state of emergency caused by COVID-19, the Company suspended the collection of late payment charges through the entire Test Year. Since the Company expects late payment charges to resume by the time rate changes from this proceeding become effective, a three-year average was used to normalize miscellaneous service revenues in the rate filing. Without this \$111,785 adjustment, Test Year revenues would be artificially low and customers would be overcharged during a rate increase. The Company did not make a similar adjustment to reconnection charges as these fees are designed to recover expenses the Utility incurs for disconnecting and reconnecting service to customers for non-payment. Since customer disconnections were also suspended during the Test Year, the Company did not incur expenses for the disconnection and reconnection of non-paying customers.

The Company examined the impacts of COVID-19 on test year expenses and found that, although bad debt expense as a percentage of revenue increased slightly during the test year, the increase was offset by reductions in travel, fuel, fleet, and various office expenses. As a result, and in order to be conservative, the Company has not made any test year adjustments to expenses for the impacts of COVID-19.

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**AMORTIZATION EXPENSES**

**Q. WHAT IS THE COMPANY’S POSITION REGARDING THE APPROPRIATE CONTRIBUTION IN AID OF CONSTRUCTION (“CIAC”) AND PURCHASE ACCOUNTING ADJUSTMENT (“PAA”) AMORTIZATION RATES TO BE UTILIZED IN THIS PROCEEDING?**

A. The Company agrees with the NCUC’s determination in its Final Order in the Sub 360 rate case that CIAC amortization rates should match the depreciation rates of the corresponding utility plant account. Therefore, the Company proposes using the approved CIAC amortization rates from Sub 360, which equate to composite rates of 2.43% for Uniform Water, 2.03% for Uniform Sewer, 2.50% for BF/FH/TC<sup>1</sup> Water, and 2.06% for BF/FH/TC Sewer. The Company also proposes using the approved PAA amortization rates in Sub 360 of 2.47% and 3.53% for its Water and Sewer Rate Divisions, respectively.

**TAXES OTHER THAN INCOME**

**Q. HAS THE COMPANY PROPOSED ANY ADJUSTMENTS TO THE TEST YEAR EXPENSES FOR PERSONAL OR REAL ESTATE PROPERTY TAXES?**

A. The Company’s Application does not include adjustments to the Test Year actuals for personal or real estate property taxes. However, municipalities are required in North Carolina to reassess property at least every eight

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<sup>1</sup> Bradfield Farms/Fairfield Harbour/Treasure Cove

1 years. Assessments are currently being finalized and resulting tax rates are  
2 soon to be approved and effective; therefore, the Company will provide  
3 updates to its property and real estate taxes as new information becomes  
4 available.

5 **CAPITAL STRUCTURE**

6 **Q. WHAT IS THE COMPANY’S PROPOSED CAPITAL STRUCTURE IN**  
7 **THIS RATE CASE?**

8 A. The Company is proposing an equity ratio of 47.97% and a debt ratio of  
9 52.03%. The proposed cost of long-term debt is 4.97%. Corix Regulated  
10 Utilities (“CRU”) Inc. (formerly known as Utilities, Inc.) has been able to  
11 issue debt at lower interest rates, reducing the CWSNC’s weighted cost of  
12 debt from 5.36% approved in Docket No. W-345, Sub 364 to 4.97%  
13 proposed in this rate case proceeding. CWSNC’s capital ratios and costs  
14 are consistent with the actual capital structure values of the Company’s  
15 parent, CRU, as of the end of the Test Year, March 31, 2021. When  
16 including the proposed cost of equity rate of 10.50%, per Company expert  
17 witness Dylan D’Ascendis, the resulting proposed overall rate of return is  
18 7.62%. The Company recommends updating the capital structure ratios as  
19 needed prior to evidentiary hearings in this rate case.

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**INCOME TAXES AND TAX CUT AND JOBS ACT (TCJA)**

**Q. WHAT INCOME TAX RATES HAS THE COMPANY UTILIZED IN THIS PROCEEDING?**

A. The Company’s revenue requirement calculations utilize the current state income tax rate of 2.5% and federal income tax rate of 21%, for a blended tax rate of 22.98%.

**Q. HOW IS THE COMPANY HANDLING THE EXPIRING UNPROTECTED EXCESS DEFERRED INCOME TAX (“EDIT”) RIDER AND REAMORTIZATION ADJUSTMENTS TO SUB 364?**

A. The Company’s handling of expiring unprotected EDIT balances and amortization adjustments to sub 364 is described in the testimony of Matthew P. Schellinger II.

**TARIFF CHANGES**

**Q. WHAT CHANGES TO THE COMPANY’S TARIFF FEES, OUTSIDE OF BASE RATES, ARE PROPOSED IN THIS APPLICATION?**

A. The Company proposes updates for purchased water and sewer rate increases, primarily for Johnston County (serving the Winston Pointe and White Oak Plantation systems). These changes are shown in filing exhibit schedule B-7a and reflect known and measurable price increases at the time of the rate filing. The Company will make updates for increases in other purchased water and sewer systems if they become known and measurable during the discovery period.

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**DEFERRED ACCOUNT FOR CAPITAL PROJECTS**

**Q. DOES THE COMPANY ANTICIPATE FILING FOR DEFERRAL OF CAPITAL PROJECT COSTS, SEPARATE BUT CONTEMPORANEOUS FROM THIS APPLICATION?**

A. No, CWSNC is not filing for deferral of capital project costs in this application, or separately in a contemporaneous filing.

**FEE-FREE BILL PAYMENT OPTIONS**

**Q. PLEASE EXPLAIN THE COMPANY’S CURRENT OPTIONS FOR CUSTOMERS TO PAY THEIR WATER OR SEWER BILL.**

A. Customers can currently make payments using a variety of methods, such as paper check, e-check, debit card, or credit card. Electronic payment methods can be processed via the Company’s mobile app and web pay portal, MyUtilityConnect, and can be used for auto-pay setup. Customers can also trigger payments through their bank account (auto-draft) or initiate payment over the phone with the Company’s Customer Service team.

Despite this array of payment options, not all methods are free from payment processing, or transaction fees. Customers who pay over the phone, through the web portal or app, or auto-pay via debit/credit card or e-check are charged a fee based on the payment amount, customer classification (residential, non-residential), and payment method (e-check, credit card, debit card). These fees are charged to customers at the point

1 of transaction by the Company's third-party vendor, First Billing Services  
2 ("FBS"). None of the fees or transaction data is managed or maintained  
3 within the Company's billing system.

4 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL FOR ADDRESSING**  
5 **THIRD-PARTY PAYMENT PROCESSING FEES.**

6 A. In recent years, customers have become more comfortable with making  
7 electronic payments and eschewing paper checks. With the rise of online  
8 shopping, partially driven by necessity due to COVID-19 restrictions,  
9 customers are opting for the simplicity and convenience of electronic  
10 payments.<sup>2</sup> In 2018, the number of check payments fell below the number  
11 of automated clearing house ("ACH") debit transfers for the first time ever.<sup>3</sup>  
12 Customers have a growing expectation for fee-free electronic transactions.  
13 Consumer advocates also have long urged utilities and their regulators to  
14 remove burdensome processing fees for customers.<sup>4</sup>

15 The Company believes it is appropriate to offer fully fee-free payment  
16 options for its customers, recovering the costs to process payments from all  
17 customers through its cost of service, as is currently done for existing fee-  
18 free methods such as checks.<sup>5</sup> Removing these transaction fees provides

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<sup>2</sup> <https://www.digitalcommerce360.com/2021/02/15/ecommerce-during-coronavirus-pandemic-in-charts>

<sup>3</sup> <https://www.federalreserve.gov/newsevents/pressreleases/files/2019-payments-study-20191219.pdf>

<sup>4</sup> <https://www.nasuca.org/2012-07-urging-utilities-to-eliminate-convenience-fees-for-paying-utility-bills-with-debit-and-credit-cards-and-urging-appropriate-state-regulatory-oversight/>

<sup>5</sup> It should be noted that payment by paper check is not necessarily fee-free, due to postage and mailing costs borne by the customer.

1 additional flexibility to customers to choose the most effective payment  
2 option for their situation.

3 **Q. PLEASE EXPLAIN HOW FEE-FREE PAYMENT OPTIONS WOULD**  
4 **BENEFIT CUSTOMERS.**

5 A. Removing transaction fees from all payment methods would lead to  
6 increased customer satisfaction. Customers would be able to freely select  
7 the best method of payment for their particular situation, without a penalty  
8 for selecting the most convenient option. Customers would be better able  
9 to take advantage of incentives such as rewards points or cashback with  
10 their credit card provider, automate their monthly payments to better  
11 manage their home budget and avoid payment delays, leverage security  
12 features and protections provided by their bank, and to circumvent a lack of  
13 checking or savings account.<sup>6</sup>

14 **Q. HOW WOULD THE COMPANY ACCOUNT FOR TRANSACTION FEES**  
15 **NOT CHARGED DIRECTLY TO CUSTOMERS?**

16 A. The Company proposes that FBS directly bill the Company for the  
17 transaction fees it would otherwise directly charge to customers. FBS would  
18 generate a monthly invoice based on the same billing structure used  
19 currently for customer payments, shown in Figure 1 below. These invoiced  
20 transaction fees would be included as a billing expense within the  
21 Company's cost of service and recovered in rates from all customers.

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<sup>6</sup> <https://www.fdic.gov/news/press-releases/2018/pr18077.html>

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**Figure 1: FBS Transaction Fee Schedule**

- **Residential Accounts:**
  - Echeck, Debit/Credit \$0 - \$75 = \$1.99 fee
  - Echeck, Debit/Credit \$75.01 - \$5,000 = \$2.25 fee
- **Non-Residential Accounts:**
  - Debit/Credit \$1.00 - \$5,000 = 2.45% fee
  - E-Check - \$2.25
- **Auto Payments**
  - Credit/Debit = reference fee structure listed above
  - Echeck = \$0.99 fee

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**Q. PLEASE EXPLAIN WHY IT IS REASONABLE FOR THE COMPANY TO INCLUDE THE COST OF TRANSACTION FEES IN ITS COST OF SERVICE.**

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A. The Company expects a change to fee-free payments will provide overall benefits to both its customers and the Company's administrative and operating practices. Providing customers with better options for paying their bill can remove a disincentive to make a payment, improve the adoption of electronic and paperless billing practices, and otherwise lower the need for calls and contacts with the Customer Experience team. Minimizing billing or payment-related calls as well as collections actions can allow the Company to better manage its administrative resources and manage its operating costs.

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1 **Q. HAS THE NCUC ADOPTED A FEE-FREE TRANSACTION PRACTICE**  
2 **FOR OTHER UTILITIES?**

3 A. Yes. The NCUC approved the use of fee-free transaction practices for Duke  
4 Energy Carolinas in Docket E-7 Sub 1214. Duke Energy Carolinas also  
5 received approval for the practice in South Carolina in Docket 2018-319-E.

6 **Q. WHAT AMOUNT OF THIRD-PARTY TRANSACTION FEES IS THE**  
7 **COMPANY INCLUDING IN ITS COST OF SERVICE IN THE CURRENT**  
8 **PROCEEDING?**

9 A. CWSNC has reflected \$285,588 of estimated third-party transaction fees as  
10 a pro forma adjustment to its Billing Expenses. The total has been  
11 calculated based on annualizing the 1<sup>st</sup> quarter of 2021 transaction activity  
12 as supplied by FBS. This was used, as opposed to the Test Year, as the  
13 Company did not have its normal collections processes in place for bulk of  
14 the Test Year due to COVID-19 implications, and resumed its normal  
15 collections processes (except late payment fees, per NCUC order) as of  
16 November 1, 2020. This amount has been allocated by Equivalent  
17 Residential Connections (“ERC”) across the Company’s Rate Divisions:  
18 \$155,259 for Uniform Water, \$92,207 for Uniform Sewer, \$18,849 for  
19 Bradfield Farms/Fairfield Harbour/Treasure Cove Water, and \$19,274 for  
20 BF/FH/TC Sewer.

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**WATER EFFICIENCY PROGRAM**

**Q. PLEASE DESCRIBE THE COMPANY’S PROPOSAL TO ADDRESS WATER EFFICIENCY.**

A. The Company has taken note of the growing literature in the water industry regarding water efficiency and conservation. While inter-related, efficiency and conservation focus on different drivers of water usage. Efficiency deals with optimizing the use of available supply via infrastructure and fixtures, and conservation represents behavioral practices that can result in decreased consumption. Though there are multiple potential components of water utility efficiency programs, key among them are water audits, education of the consumer as to wise water use techniques and home fixture retrofit incentives.<sup>7</sup> The Company has noted in previous rate filings that it regularly compiles and analyzes data on its water supply and consumption to identify areas to prioritize for leak detection and rehab/replacement projects. In addition, the Company has implemented a meter testing program for large meters and interconnections. The Company also produces and distributes a wide variety of customer education materials related to the value of water and wise-use measures, distributed through a number of low-cost means – social media, HOA websites for our

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<sup>7</sup> “Community Water System Efficiency and Conservation Best Management Practices Manual”, North Carolina Department of Environmental and Natural Resources.  
[https://files.nc.gov/ncdeq/Water%20Resources/files/planning/bmp/BMP\\_Manual.pdf](https://files.nc.gov/ncdeq/Water%20Resources/files/planning/bmp/BMP_Manual.pdf)

1 14 largest systems, and the Company's website. These materials are also  
2 available to be distributed to customers at in-person functions, and are used  
3 to update customers on current events or seasonal water use practices as  
4 well as directing customers to ways they can perform in-home water audits  
5 and tests. However, due to the Company's geographically diverse  
6 customer base, it is difficult to implement in-person activities and events  
7 with sufficient scale and impact to water efficiency.

8 In order to build a comprehensive program that promotes efficiency  
9 and conservation, the Company proposes adding to its above noted  
10 activities a new "Water Efficiency Program." Under this program, the  
11 Company would offer efficient water fixture rebates for its customers. Such  
12 a program would be the first of its kind among North Carolina regulated  
13 water utilities (and second behind the City of Durham among EPA-  
14 registered programs in the State) and would provide an additional layer of  
15 customer benefit for those who also would save on their energy bills from  
16 the installation of efficient household fixtures.

17 **Q. WHAT ARE THE GOALS OF THE WATER EFFICIENCY PROGRAM?**

18 A. The Company proposes to consolidate its current proposed, and potential  
19 future efforts to address water efficiency within the Water Efficiency  
20 Program. In doing so, the Company can package the proposed rebate  
21 program which provides a direct, clear customer benefit to adopting water  
22 efficient actions with its existing communications efforts to improve the

1 overall effectiveness. The rebate program would address non-discretionary  
2 (base) water usage by focusing on indoor appliances that are used year-  
3 round and for which customers have less control of water usage. Growing  
4 the “toolkit” available for the Company and its customers to address wise  
5 water use allows for improved management and flexibility for Company  
6 infrastructure and the limited supply of water across its service area.  
7 Managing the supply of potable water for the long-term is in the best  
8 interests of the customer, their community, and water providers.

9 **Q. PLEASE EXPLAIN HOW THE COMPANY PROPOSES TO ADMINISTER**  
10 **THE REBATE PROGRAM.**

11 A. The Company proposes to implement a standard water fixture rebate  
12 application form, providing access to the form through its website, along  
13 with a current list of fixtures eligible for rebate due to WaterSense or Energy  
14 Star certification. The Company would communicate the program’s  
15 availability and basic terms through its existing low/no-cost communication  
16 channels noted above as well as an annually issued bill insert, directing  
17 customers to the website for details and the form. Application forms would  
18 be submitted to a central e-mail address to be logged, reviewed, and  
19 approved or rejected by Company staff. The Company would respond to  
20 the customer with the approval/rejection result and inform as to the date the  
21 customer can expect a credit on their monthly bill, usually within one bill  
22 cycle.

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Customers would have the ability to receive rebates for fixtures as noted in Table 1 below. Along with the completed form, customers would provide a receipt of the fixture purchase that can be verified as relating to an eligible fixture and dated within 60 days of the application date. Unique customer accounts can qualify for 2 toilet and showerhead rebates each. The rebate values were selected to both incentivize participation and compare favorably to a sample of EPA-recognized programs.

TYPE	REBATE	MAX REBATE	QUALIFIED PURCHASE
Toilet	\$75	\$150	WaterSense-certified
Washing Machine	\$100	\$100	Energy Star-certified
Showerhead	\$15	\$30	WaterSense-certified
Dishwasher	\$100	\$100	Energy Star-certified

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**Q. HOW DOES THE COMPANY PROPOSE TO TRACK AND RECOVER THE REBATES APPLIED TO CUSTOMER BILLS?**

A. CWSNC proposes to post the rebates applied to customer bills to a Regulatory Asset Account, for recovery in a future rate case. As the Company cannot readily estimate the participation rate for the rebate program between the conclusion of the current proceeding and its next rate case, accounting for rebates (i.e., decreases to revenues) in a Regulatory Asset account will allow for the uncertainty in participation to be excluded

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from the revenue requirement in the current case. The Company can then track and evaluate the impact of the program between rate cases and recommend any necessary updates, enhancements, or modifications to the program in its next rate case. The recovery of the Regulatory Asset balance will therefore be addressed in a future rate case.

**Q. WHAT ADMINISTRATIVE EXPENSES DOES THE COMPANY EXPECT TO INCUR FROM THE PROPOSED PROGRAM?**

A. CWSNC anticipates managing the administration of the program with its existing staff, avoiding costs from a 3<sup>rd</sup> party vendor. The Company estimates that the annual bill insert noted above, which would broadly communicate the program and supplement existing electronic methods, would cost approximately \$2,000. The Company has included these costs as a pro-forma adjustment to Office Supplies and Other Expenses.

**Q. HAS THE COMPANY IDENTIFIED A LIST OF ELIGIBLE FIXTURES?**

A. Yes, the Company will direct customers to the U.S. EPA's listing of registered WaterSense fixtures for eligible toilet and showerhead options - <https://lookforwatersense.epa.gov/products/> -- as well as Energy Star fixtures for washing machine and dishwasher eligible options -- <https://www.energystar.gov/productfinder/?s=mega>.

**CONCLUSION**

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

A. Yes.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

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

**Appendix A**

Docket No. W-354, Sub 384

Adj. #	Description	Filing Exhibit Schedule	Support Schedule	Testimony Sponsor
1	<b><u>Allocation Adjustment - re-allocate Plant In-Service, A/D, ADIT based on 25% ratio for Availability ERC's:</u></b> Plant In-Service Accumulated Depreciation Accumulated Deferred Income Taxes	A-1a, A-1b A-2a, A-2b A-6a, A-6b	Sch. 1 Sch. 1 Sch. 1	
2	<b><u>Adjust cash working capital for changes in maintenance and general expenses:</u></b> Book Adjustment Pro-Forma Adjustment	A-3a, A-3b A-3a, A-3b	A-3a, A-3b A-3a, A-3b	
3	<b><u>Adjust book ADIT for State and Federal for prior order adjustments not recorded:</u></b> State Federal	A-6a, A-6b A-6a, A-6b	Sch. 3 Sch. 3	
4	<b><u>Include Cost Free Capital as approved in W-354, Sub 266</u></b>	A-12a	Sch. 4	
5	<b><u>Avg. Tax Accruals - Adjust Regulatory Fee for pro-forma service revenues * 0.13%:</u></b> Book Adjustment Pro-Forma Adjustment	A-13a, A-13b A-13a, A-13b	A-13a, A-13b A-13a, A-13b	

Direct Testimony of Philip J. Drennan

Adj. #	Description	Filing Exhibit Schedule	Support Schedule	Testimony Sponsor
6	<u>Include unamortized balance of Federal Protected EDIT:</u> Unamortized Federal Protected EDIT reserve	A-14a, A-14b	Sch. 6	Schellingner
	<u>Adjust Deferred Charges and Amortization of Rate Case Expenses:</u> Remove all Test Year cost in Deferred Charges & Rate Case Expense balances	A-15a, A-15b	A-15a, A-15b	
7	Include W-354, Sub 384 estimated rate case expense. In addition to unamortized balance from prior cases	A-15a, A-15b	Sch. 7	
8	To adjust annual rate case amortization expense	B-15a, B-15b	Sch. 7	
9	To Adjust non-rate case expense deferred charges to reflect unamortized balances as of 4/1/2022	A-15a, A-15b	Sch. 9	
10	<u>Include Pro-Forma Plant</u> Include post Test Year pro-forma plant additions Include retirements associated with post Test Year pro-forma plant additions Include incremental accumulated depreciation associated with post Test Year pro-forma plant	A-15a, A-15b A-15a, A-15b A-15a, A-15b	Sch. 10 Sch. 10 Sch. 10	Hill
11	Include depreciation expense associated with pro-forma plant  <u>To reclass Test Year Corporate Allocations</u> Salaries & Wages Salary Captime Maintenance & Repair	B-21a, B-21b  B-4a, B-4b B-5a, B-5b B-8a, B-8b	Sch. 10  Sch. 11 Sch. 11 Sch. 11	Drennan

Adj. #	Description	Filing Exhibit Schedule	Support Schedule	Testimony Sponsor
	Transportation	B-12a, B-12b	Sch. 11	
	Outside Services	B-13a, B-13b	Sch. 11	
	Office Supplies & Other Exp	B-14a, B-14b	Sch. 11	
	Pension & Other Benefits	B-16a, B-16b	Sch. 11	
	Rent Expense	B-17a, B-17b	Sch. 11	
	Insurance Expense	B-18a, B-18b	Sch. 11	
	Office Utilities	B-19a, B-19b	Sch. 11	
	Bad Debt Expense	B-1a, B-1b	Sch. 11	
	Miscellaneous Expense	B-20a, B-20b	Sch. 11	
	Travel	B-20a, B-20b	Sch. 11	
	Depreciation Expense	B-21a, B-21b	Sch. 11	
	Taxes other than Income	B-25a, B-25b	Sch. 11	
	Corporate Allocation	B-20a, B-20b	Sch. 11	
12	<b><u>Adjust Service Revenues to pro-forma present rate levels</u></b>	B-1a, B-1b	Sch. E	Schellinger
	<u>Adjust Miscellaneous Revenues:</u>			
13	Adjust Late Payment Charges	B-1a, B-1b	B-3a, B-3b	Schellinger
14	Remove Allocated Misc. Revenues	B-1a, B-1b	B-1a, B-1b	
15	<b><u>Update Salaries &amp; Wages to reflect new going level rates and head count:</u></b>			Drennan
	Adjustment to reflect going level pay rates and headcount	B-4a, B-4b	Sch. 15	

Adj. #	Description	Filing Exhibit Schedule	Support Schedule	Testimony Sponsor
16	Adjustment to reflect updated payroll taxes based on going level salary and wages update	B-25a, B-25b	Sch. 15	
17	<u>Adjust Power Expense for vendor price changes since start of Test Year</u>	B-6a, B-6b	Sch. 16	
18	<u>Adjust Purchased Water/Purchased Sewer Expense for vendor price changes since start of Test Year</u>	B-7a	Sch. 17	Drennan
19	<u>Remove Unrecoverable Expenses:</u> Lobbying Charitable Donations Penalties/Fines	B-13a, B-13b B-20a, B-20b B-20a, B-20b	Sch. 18 Sch. 18 B-20a, B-20b	
20	<u>Remove Test Year entries related to Sub 364 Proceeding:</u> Remove Test Year entries related to Sub 364 Proceeding deferred accounting and acquisition cost Remove Test Year entries related to Sub 364 Proceeding deferred accounting and acquisition cost	B-20a B-20a, B-20b	B-20a B-20a, B-20b	
	<u>Adjust Chemicals Expense for vendor price changes since start of Test Year</u>	B-11a	Sch. 20	

Adj. #	Description	Filing Exhibit Schedule	Support Schedule	Testimony Sponsor
21	<u>Adjust rent expense for going level rates</u>	B-17a	Sch. 21	
22	<u>Reclassify Customer Deposit Interest as Miscellaneous Expense</u>	B-20a, B-20b	Sch. 22	
23	<u>To Include Payment Processing Fees and Water Efficiency Program Noticing Cost</u>	B-14a, B-14b	Sch. 23	Drennan
24	<u>Adjust Insurance Expense to annualize current policy premiums</u> General Liability Insurance Property Insurance Vehicle Insurance Other Insurance	B-18a, B-18b B-18a, B-18b B-18a, B-18b B-18a, B-18b	Sch. 24 Sch. 24 Sch. 24 Sch. 24	
25	<u>To reflect pro-forma Corix Shared Service Cost to North Carolina</u> Corporate Cost Regional Cost	B-13a and b B-13a and b	Sch. 25 Sch. 25	Drennan
26	<u>Adjust Regulatory Fee (Utility/Commission Tax) for proposed revenues</u> Remove test year amount Include annualized amount to reflect going level based on proposed revenues	B-25a, B-25b B-25a, B-25b	B-25a, B-25b B-25a, B-25b	