

**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.	)	DIRECT TESTIMONY OF
of North Carolina for Authority to Adjust	)	MATTHEW P. SCHELLINGER II
and Increase Rates and Charges for	)	ON BEHALF OF CAROLINA
Water and Sewer Utility Service in All	)	WATER SERVICE, INC. OF
Service Areas of North Carolina	)	NORTH CAROLINA

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July 2, 2021

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

2 A. My name is Matthew P. Schellinger II. My business address is 4944  
3 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

5 A. I am Manager of Financial Planning and Analysis for Carolina Water  
6 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 CWSNC since October 2019. I received a  
10 Bachelor of Science Degree with a major in Accounting from the University  
11 of South Florida in 2012. I received a Master of Business Administration  
12 with a focus in Management and Strategy from Western Governors  
13 University in 2016. Prior to joining CWSNC I was employed as a controller  
14 for an insurance agency from 2007 to 2013. In that capacity, I performed  
15 general corporate accounting functions on a daily and monthly basis. From  
16 2013 to 2019 I was employed by the South Carolina Office of Regulatory  
17 Staff, first as an Auditor and, starting in 2016, as a Regulatory Analyst. In  
18 that capacity I performed regular reviews of water, sewer, natural gas, and  
19 electric regulatory filings.

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

21 A. My primary responsibilities include forecasting, budgeting, and financial  
22 analysis for the Company.

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 and regulatory  
4 aspects of the rate case, including but not limited to: 1) the Company's pro-  
5 forma revenues and billing analysis; 2) the Company's unprotected Excess  
6 Deferred Income Taxes ("EDIT") balances; 3) the Company's protected  
7 EDIT balances; and 4) the Company's proposed rate design for water and  
8 sewer.

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 E – Proof of Revenues and Average Bill Calculations

14 **PRO-FORMA REVENUES**

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THE COMPANY HAS MADE**  
16 **TO TEST YEAR ACTUAL REVENUES IN COMPUTING PRO-FORMA**  
17 **PRESENT RATE REVENUES.**

18 A. The Company completed a bill analysis to compile the base rate billing  
19 activity for the Test Year. The active customer count as of the end of the  
20 Test Year, March 31, 2021, was identified to determine total active  
21 customers. The Test Year's actual customer consumption was utilized for  
22 the Test Year total consumption. The Company applied the rates for the

1 applicable tariff Rate Divisions as approved in Docket No. W-354, Sub 364<sup>1</sup>  
2 to the billing determinants to price out pro-forma present rate revenues at  
3 base rates.

4 The Company added the annualized Water System Improvement  
5 Charge and Sewer System Improvement Charge revenues estimated to be  
6 effective as of the time of the rate order for each rate division. Further, the  
7 bill credit for the Federal unprotected EDIT will be fully amortized at the time  
8 rates are effective, increasing present rate revenues.

9 **Q. DID YOU MAKE ANY ADJUSTMENTS TO PRO-FORMA PRESENT**  
10 **RATE REVENUES TO REFLECT COVID IMPACTS?**

11 A. Yes. The Company used a three-year average late payment charge rate to  
12 normalize pro-forma revenues under the assumption that the pandemic  
13 state of emergency will no longer be in effect for the period in which rates  
14 are effective.

15 **Q. WHAT ARE THE PRESENT RATE SERVICE REVENUES FOR EACH**  
16 **RATE DIVISION?**

17 A. As a result of the calculation described above, the present rate service  
18 revenues in this proceeding are as follows for the Company's Rate  
19 Divisions: \$19,942,681 for Uniform Water, \$15,788,677 for Uniform Sewer,  
20 \$1,433,835 for Bradfield Farms / Fairfield Harbour / Treasure Cove

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<sup>1</sup> The Commission's *Order Granting Partial Rate Increase and Requiring Customer Notice* in the Company's last rate case was issued on March 31, 2020, in Docket No. W-354, Sub 364 ("Sub 364").

1 (“BF/FH/TC”) Water, and \$2,295,562 for BF/FH/TC Sewer. Please see  
2 Schedule B-1a and B-1b, Column F.

3 **Q. WHAT IS THE SERVICE REVENUE INCREASE REQUESTED BY THE**  
4 **COMPANY FOR EACH RATE DIVISION?**

5 A. The Company is requesting the following increases to present rate service  
6 revenues in this proceeding: \$1,973,771 or 9.90% for Uniform Water,  
7 \$1,845,269 or 11.69% for Uniform Sewer, \$422,848 or 29.49% for  
8 BF/FH/TC Water, and \$305,540 or 13.31% for BF/FH/TC Sewer. Please  
9 see Schedule B-1a and B-1b, Column G.

10 **Q. HOW DOES THE COMPANY PROPOSE TO APPLY THE**  
11 **RECOMMENDED RATE INCREASES TO EACH RATE DIVISION?**

12 A. CWSNC proposes to maintain the 50/50 ratio of fixed/volumetric revenues  
13 for its water rate divisions as approved by the NCUC in Sub 364, the  
14 Company’s most recent general rate case. The Company also proposes to  
15 maintain the existing fixed/volume ratios for its sewer tariffs (80/20 ratio  
16 fixed/volumetric). As reflected on W1-10, Schedule 17, the Company has  
17 included adjustments to its purchased water and purchased sewer  
18 treatment-driven volumetric rates to flow through recent rate changes from  
19 its vendors.

20 **Q. HAVE YOU PREPARED A PROOF OF REVENUES FOR THIS CASE?**

21 A. Yes. Please see Schedule E for the detailed proof of revenues for both  
22 present and proposed rate service revenues.

1 **Q. WHAT FURTHER RATE DESIGN CONSIDERATIONS HAS THE**  
2 **COMPANY INCLUDED IN ITS APPLICATION?**

3 A. The Company proposes to move the Eastgate and Tanglewood South  
4 subdivisions to a purchased water pass through rate from Fayetteville  
5 Public Works Commission. These subdivisions are entirely purchased  
6 water systems, with no water provided from wells. Further, the Company  
7 proposes to move the Willowbrook subdivision to a purchased water pass-  
8 through rate from Johnston County Public Utilities. This subdivision is  
9 entirely purchased water, with no water provided from wells.

10 **Q. HOW DOES THE COMPANY PROPOSE TO TREAT EDIT IN THIS RATE**  
11 **PROCEEDING?**

12 A. The Company proposes to treat EDIT in the same manner as approved in  
13 Sub 364. Unprotected EDIT was set as a credit to bills with a two-year  
14 return, starting March 31, 2020. This balance is expected to be fully  
15 amortized, and the credit will be discontinued March 31, 2022. Protected  
16 EDIT balances were established in Sub 364. Amortization of those  
17 balances has been carried forward for rate base adjustment purposes.

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

20 A. Yes.

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

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