



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

November 16, 2017

Ms. M. Lynn Jarvis, Chief Clerk  
North Carolina Utilities Commission  
Mail Service Center 4325  
Raleigh, North Carolina 27699-4300

Re: Docket No. W-632, Sub 6

Dear Ms. Jarvis:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the following:

1. Affidavit and Exhibit of Lynn Feasel, Staff Accountant, Accounting Division; and
2. Affidavit of Babette McKemie, Utilities Engineer, Water, Sewer, and Telecommunications Division.

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

Sincerely,

/s/ Elizabeth D. Culpepper  
Staff Attorney  
[elizabeth.culpepper@psncuc.nc.gov](mailto:elizabeth.culpepper@psncuc.nc.gov)

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STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-632, SUB 6

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	
Application by John T. Billingsley, et al.,	)	
149 Penn Road, Reidsville, North Carolina	)	AFFIDAVIT
27320, for Authority to Increase Rates for	)	OF
Water Utility Service in Dogwood Acres	)	LYNN FEASEL
in Rockingham County, North Carolina	)	

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Lynn Feasel, being duly sworn, do depose and say:

I am a Staff Accountant with the Public Staff of the North Carolina Utilities Commission. I have a Bachelor degree in Economics from Tianjin Foreign Language Studies University, Tianjin, China, and a Master of Business Administration degree in Accounting from Baldwin Wallace University, Berea, Ohio. I joined the Public Staff on November 6, 2016.

The purpose of my affidavit is to present the accounting and ratemaking adjustments I recommend as a result of my investigation of the revenue, expenses, and rate base presented by John T. Billingsley, et al. (Billingsley or Company), in support of its application for authority to increase rates for water utility service in Dogwood Acres in Rockingham County.

The Company filed its application for a rate increase on July 3, 2017, based on the test year ended December 31, 2016. My investigation included a review of the application, 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, 2016, is \$3,060 for water operations. The level of operating revenue deductions requiring a return (total operating expenses excluding regulatory fees, gross receipts tax, and income taxes) is \$7,644. As set forth under G.S. 62-133.1, I have used the operating ratio method to evaluate the Company's proposed revenue requirement.

Based upon my investigation, I conclude that the Company's proposed revenues are not unreasonable and would not be unfair to its customers. Therefore, I recommend that the revenues as proposed by the Company be granted.

I have made several adjustments to the Company's operating revenues, expenses, and investment levels. The adjustments are detailed in the attached Feasel Exhibit I. My exhibit also includes adjustments recommended to me by Public Staff Engineer McKemie. The accounting and ratemaking adjustments, which I am proposing and discuss below, relate to the following items:

1. Plant in Service
2. Accumulated Depreciation and Depreciation Expense
3. Cash Working Capital
4. Rate Case Expense
5. Regulatory Fee
6. State and Federal Income Taxes

### **Plant in Service**

The original cost plant in service amount provided by the Company on its application was \$26,717, which was the same amount the Company submitted in its last general rate case, Docket No. W-632, Sub 3 (Sub 3 Rate Case). In the Sub 3 Rate Case, \$17,717 of the \$26,717 amount was found reasonable by the Commission and used to calculate ongoing rates. In response to Public Staff data requests in the present case, the Company stated that it had not added any additional plant to rate base since the Sub 3 Rate Case. Therefore, I have used the \$17,717 amount as approved in the last rate case as my adjusted level of plant in service for this proceeding.

### **Accumulated Depreciation and Depreciation Expense**

I have calculated amounts for accumulated depreciation and annual depreciation expense through December 31, 2016, to reflect depreciation related to the adjusted plant assets shown on Feasel Exhibit I, Schedule 2-1. Annual depreciation expense was calculated using the straight line depreciation method and the useful lives approved by the Commission in the Sub 3 Rate Case, unless fully depreciated. Additionally, accumulated depreciation was calculated based on the year each plant asset was placed in service, and years in service using the half-year convention in the first year on an asset's depreciable life, unless fully depreciated.

### **Cash Working Capital**

Cash working capital provides the Company with funds necessary to carry on the day to day operations of the Company. In my calculation, I have included 1/8 of operating expenses as a measure of cash working capital.

### **Rate Case Expense**

My calculation of rate case expense includes the cost of the filing fee paid by the Company and expenses associated with copying and mailing notices to customers. I recommend that these rate case expenses be amortized over three years. Amortization of rate case expense prevents the ratepayers from being required to bear as an annual expense, a cost that will not necessarily occur each year.

### **Regulatory Fee**

I have adjusted the regulatory fee to reflect the statutory rate of 0.14% applied to total operating revenues under present and Company proposed rates.

### **State and Federal Income Taxes**

The levels of state and federal income tax are based on the statutory corporate rates for the level on income presented after all Public Staff adjustments.

This completes my affidavit.

*Lynn Feasel*

\_\_\_\_\_  
Lynn Feasel

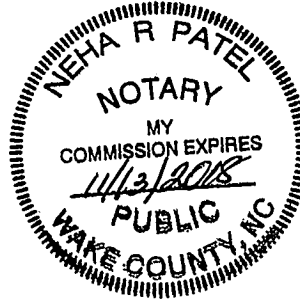
Sworn to and subscribed before me,

This the 15 day of November, 2017.

*NeHa R Patel*

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Notary Public

My Commission expires: 11/13/2018



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INDEX TO FEASEL EXHIBIT I

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John T. Billingsley, et al.  
Docket No. W-632, Sub 6  
**MARGIN ON OPERATING REVENUE DEDUCTIONS**  
**REQUIRING A RETURN**  
 For the Test Year Ended December 31, 2016

Feasel Exhibit I  
Schedule 1

Line No.	<u>Item</u>	Present Rates (a)	Company Proposed Rates (b)
1.	Net operating income for a return	(\$4,227) [1]	\$93 [4]
2.	Operating revenue deductions requiring a return	<u>7,644 [2]</u>	<u>7,644 [5]</u>
3.	Return	<u>-55.30% [3]</u>	<u>1.21% [3]</u>

[1] Feasel Exhibit I, Schedule 3, Line 24, Column (c).

[2] Feasel Exhibit I, Schedule 3, Line 15 + Line 16 + Line 17 + Line 18, Column (c).

[3] Line 1 divided by Line 2.

[4] Feasel Exhibit I, Schedule 3, Line 24, Column (e).

[5] Feasel Exhibit I, Schedule 3, Line 15 + Line 16 + Line 17 + Line 18, Column (e).



John T. Billingsley, et al.  
Docket No. W-632, Sub 6  
**ORIGINAL COST RATE BASE**  
For the Test Year Ended December 31, 2016

Feasel Exhibit I  
Schedule 2

<u>Line No.</u>	<u>Item</u>	<u>Amount Per Application (a)</u>	<u>Public Staff Adjustments [1] (b)</u>	<u>After Public Staff Adjustments (c)</u>
1.	Plant in service	\$26,717	(\$9,000)	\$17,717 [2]
2.	Accumulated depreciation	<u>(26,717)</u>	<u>11,141</u>	<u>(15,576) [3]</u>
3.	Net plant in service ( L1 + L2)	0	2,141	2,141
4.	Cash working capital	0	919	919 [4]
5.	Average tax accruals	<u>0</u>	<u>0</u>	<u>0</u>
6.	Original cost rate base (Sum of L3 thru L5)	<u>\$0</u>	<u>\$3,060</u>	<u>\$3,060</u>

- [1] Column (c) minus Column (a).  
[2] Feasel Exhibit I, Schedule 2-1, Line 10, Column (a).  
[3] Feasel Exhibit I, Schedule 2-1, Line 10, Column (f).  
[4] Calculated at one-eighth of operating expenses.

John T. Billingsley, et al.  
Docket No. W-632, Sub 6  
**CALCULATION OF PLANT IN SERVICE,  
 ACCUMULATED DEPRECIATION,  
 AND DEPRECIATION EXPENSE**  
 For the Test Year Ended December 31, 2016

Feasel Exhibit I  
 Schedule 2-1

Line No.	Item	Plant in Service [1] (a)	Year Acquired [1] (b)	Useful Life [1] (c)	Annual Depreciation [2] (d)	Years in Service [3] (e)	Accumulated Depreciation 12/31/2016 [4] (f)
1.	Structures and improvements	\$2,139	1984	40	\$53	32.5	\$1,738
2.	Pump	300	1977	5	0	39.5	300
3.	Improvement in 1977	344	1977	5	0	39.5	344
4.	Improvement in 1978	771	1978	5	0	38.5	771
5.	Improvement in 1984	785	1984	5	0	32.5	785
6.	Storage tank	5,749	1984	35	164	32.5	5,338
7.	Mains	3,797	1984	50	76	32.5	2,468
8.	Meters	3,032	1984	20	0	32.5	3,032
9.	Pump	800	1994	5	0	22.5	800
10.	Total plant in service (Sum of L1 thru L9)	<u>\$17,717</u>			<u>\$293</u>		<u>\$15,576</u>

[1] Per final order in Sub 3 rate case.

[2] Column (a) divided by Column (c), unless fully depreciated

[3] Calculated based on year acquired.

[4] Column (d) multiplied by Column (e), unless fully depreciated

John T. Billingsley, et al.  
Docket No. W-632, Sub 6  
**NET OPERATING INCOME FOR A RETURN**  
For the Test Year Ended December 31, 2016

Feasel Exhibit I  
Schedule 3  
Page 1 of 2

		Present Rates		Company Proposed Rates		
Line No.	Item	Amount Per Application	Public Staff Adjustments [1]	Per Public Staff [2]	Net Company Increase [9]	Operations After Rate Increase [10]
		(a)	(b)	(c)	(d)	(e)
<b><u>Operating Revenues:</u></b>						
1.	Service revenues	\$4,493	(\$1,071)	\$3,422 [3]	\$4,345	\$7,767 [3]
2.	Miscellaneous revenues	0	0	0	0	0
3.	Uncollectible accounts	0	0	0	0	0
4.	Total operating revenues	4,493	(1,071)	3,422	4,345	7,767
<b><u>Operating Expenses:</u></b>						
5	Total salaries	2,215	0	2,215	0	2,215
6	Administrative and office expense	0	0	0	0	0
7	Electric Power for pumping	1,070	0	1,070	0	1,070
8	Purchased power	0	0	0	0	0
9	Chemicals	60	0	60	0	60
10	Testing	3,272	(2,299)	973 [3]	0	973
11	Maintenance & repair	2,955	(241)	2,714 [3]	0	2,714
12	Permit fees	270	0	270	0	270
13	Tank painting	536	(536)	0 [3]	0	0
14	Rate case expense	0	49	.49 [4]	0	49
15	Total operating expenses	10,378	(3,027)	7,351	0	7,351
<b><u>Depreciation and Taxes:</u></b>						
16	Depreciation expense	0	293	293 [5]	0	293
17	Property tax	0	0	0	0	0
18	Payroll tax	0	0	0	0	0
19	Regulatory fee	25	(20)	5 [6]	6	11 [6]
20	State income tax	0	0	0 [7]	3	3 [11]
21	Federal income tax	0	0	0 [8]	16	16 [12]
22	Total depreciation and taxes	25	273	298	25	323
23	Total operating revenue deductions	10,403	(2,754)	7,649	25	7,674
24	Net operating income for return	(\$5,910)	\$1,683	(\$4,227)	\$4,320	\$93

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John T. Billingsley, et al.

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Docket No. W-632, Sub 6

**FOOTNOTES TO SCHEDULE 3(a)**

For the Test Year Ended December 31, 2016

Feasel Exhibit I

Schedule 3

Page 2 of 2

<u>Line No.</u>	<u>Item</u>
[1]	Column (c) minus Column (a), unless otherwise footnoted.
[2]	Column (a) plus Column (b), unless otherwise footnoted.
[3]	Per Public Staff Engineer Mckemie.
[4]	Feasel Exhibit I, Schedule 3-1, Line 7
[5]	Feasel Exhibit I, Schedule 2-1, Line 10, Column (d)
[6]	Line 4 multiplied by 0.14%
[7]	Feasel Exhibit I, Schedule 3-2, Line 13, Column (a)
[8]	Feasel Exhibit I, Schedule 3-2, Line 15, Column (a)
[9]	Column (e) minus Column (c), unless otherwise footnoted.
[10]	Column (c) plus Column (d), unless otherwise footnoted.
[11]	Feasel Exhibit I, Schedule 3-2, Line 13, Column (b)
[12]	Feasel Exhibit I, Schedule 3-2, Line 15, Column (b)

OFFICIAL COPY

Nov 16 2017

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**John T. Billingsley, et al.**

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Docket No. W-632, Sub 6

**CALCULATION OF RATE CASE EXPENSE**

For the Test Year Ended December 31, 2016

Feasel Exhibit I

Schedule 3-1

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1.	Rate case filing fee	\$100 [1]
2.	Postage for mailing notices to customers	28 [2]
3.	Expense for copying notices to customers	12 [3]
4.	Cost of envelopes to mail notices	<u>6 [4]</u>
5.	Total rate case expense (Sum of L1 thru L4)	146
6.	Amortization period in years	<u>3</u>
7.	Rate case expense per Public Staff (L5 / L6)	<u><u>\$49</u></u>

[1] Statutory filing fee

[2] 29 customers x \$0.49 x 2 mailings

[3] 29 customers x \$0.10 x 2 pages x 2 mailings

[4] 29 customers x \$0.05 x 2 envelopes x 2 mailings

**John T. Billingsley, et al.**

Docket No. W-632, Sub 6

**CALCULATION OF INCOME TAXES**

For the Test Year Ended December 31, 2016

Feasel Exhibit I  
Schedule 3-2

Line No.	Item	Present Rates (a)	[1]	Company Proposed Rates (b)	[2]
1.	Operating revenue	\$3,422		\$7,767	
2.	Operating revenue deductions:				
3.	Operating expenses	7,351		7,351	
4.	Depreciation expense	293		293	
5.	Amortization of CIAC	0		0	
6.	Property taxes	0		0	
7.	Payroll taxes	0		0	
8.	Regulatory fee	5		11	
9.	Gross receipts tax	0		0	
10.	Interest expense	0		0	
11.	Total deductions (Sum of L3 thru L10)	7,648		7,654	
12.	State taxable income (L1 - L11)	(4,226)		113	
13.	State income tax (L12 x 3%)	0		3	
14.	Federal taxable income (L12 - L13)	(4,226)		110	
15.	Federal income tax (L14 x 15%)	0		16	
16.	Net amount (L14 - L15)	(4,226)		94	
17.	Add: Interest expense	0		0	
18.	Net income for return (L16 + L17)	(\$4,226)		\$94	

[1] Feasel Exhibit I, Schedule 3, Column (c).

[2] Feasel Exhibit I, Schedule 3, Column (e).

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**John T. Billingsley, et al.**


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Docket No. W-632, Sub 6

Feasel Exhibit I  
Schedule 4

**CALCULATION OF OPERATING RATIOS**  
For the Test Year Ended December 31, 2016

Line No.	Item	Present Rates (a)	Company Proposed Rates (b)
<u>Interest expense, regulatory fee, gross receipts, and income taxes included:</u>			
1.	Gross operating revenues	\$3,422 [1]	\$7,767 [5]
2.	Operating expenses	<u>7,649 [2]</u>	<u>7,674 [6]</u>
3.	Operating ratios (L2 / L1)	<u>223.53%</u>	<u>98.81%</u>
<u>Interest expense, regulatory fee, gross receipts, and income taxes excluded:</u>			
4.	Gross operating revenues	\$3,417 [3]	\$7,737 [7]
5.	Operating expenses	<u>7,644 [4]</u>	<u>7,644 [8]</u>
6.	Operating ratios (L5 / L4)	<u>223.71%</u>	<u>98.80%</u>

[1] Feasel Exhibit I, Schedule 3, Line 4, Column (c).

[2] Feasel Exhibit I, Schedule 3, Line 23, Column (c).

[3] Feasel Exhibit I, Schedule 3, Line 4 - Line 19 - Line 20 - Line 21, Column (c).

[4] Feasel Exhibit I, Schedule 3, Line 23 - Line 19 - Line 20 - Line 21, Column (c).

[5] Feasel Exhibit I, Schedule 3, Line 4, Column (e).

[6] Feasel Exhibit I, Schedule 3, Line 23, Column (e).

[7] Feasel Exhibit I, Schedule 3, Line 4 - Line 19 - Line 20 - Line 21, Column (e).

[8] Feasel Exhibit I, Schedule 3, Line 23 - Line 19 - Line 20 - Line 21, Column (e).

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-632, SUB 6

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	
Application by John T. Billingsley, et al.,	)	
149 Penn Road, Reidsville, North Carolina	)	AFFIDAVIT
27320, for Authority to Increase Rates for	)	OF
Water Utility Service in Dogwood Acres	)	BABETTE MCKEMIE
in Rockingham County, North Carolina	)	

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Babette McKemie, being duly sworn, do depose and say:

I am a Utilities Engineer with the Public Staff's Water, Sewer, and Telecommunications Division. I am a graduate of North Carolina State University, having earned a Bachelor of Science degree in Chemical Engineering. I am a registered Professional Engineer in North Carolina. I have twenty-nine years of environmental engineering experience. Since joining the Public Staff in November 2001, have worked on rate increase applications, new franchise applications, and other aspects of water utility regulation.

The purpose of this affidavit is to describe my investigation and make recommendations concerning the application filed by John T. Billingsley, et al. (Applicant), with the Commission on July 3, 2017, seeking authority to increase rates for water operations in Dogwood Acres in Rockingham County, North Carolina. The Applicant provides water utility service to 29 residential connections.



The water utility system consists of one well, one treatment building with chemical feed pumps, one 20,000 gallon storage tank, and a pumping and distribution system. On October 3, 2017, I conducted a field inspection of the water utility system. The system appears to be properly operated and maintained, and the Applicant is providing adequate water utility service in Dogwood Acres.

On July 24, 2017 the Commission issued its Order Establishing General Rate Case, Suspending Rates, Scheduling Hearing, and Requiring Customer Notice (Order). By Certificate of Service dated July 26, 2017, and filed with the Commission on September 28, 2017, the Applicant stated that the Notice to Customers was mailed or hand delivered to all affected customers by the date specified in the Order. As of the date of this affidavit, there have been no customer protests. On October 5, 2017, the Public Staff filed a Motion to Cancel Hearing, which was granted by the Commission on October 6, 2017.

I have assisted Public Staff Accountant Feasel in reviewing the water system operating expenses. I have provided a revenue projection based upon test year customers at present and proposed rates.

The Applicant's current and proposed rates filed in the application are as follows:

Monthly Metered Water Rates:	Current Rates	Proposed Rates
Base charge, zero usage	\$ 8.51	\$17.02
Usage charge, per 1,000 gallons	\$ 1.20	\$ 4.80

### Maintenance and Repairs

The Applicant categorized expenses for Maintenance and Repairs totaling \$2,955. After reviewing invoices submitted for the test year, I recommend Maintenance and Repair Expense of \$2,714. This includes mowing and an annualized expense for tank painting. The tank painting expense of \$3,750 amortized over 7 years is \$536 per year.

### Testing

After reviewing laboratory testing fees, and permit testing requirements, I recommend an annualized Testing Expense of \$973.

### Rates and Revenues

I have calculated annual water revenues of \$3,422 under present rates and \$7,767 under the Applicant's proposed rates. Based on its investigation, the Public Staff concludes that the Applicant's proposed rates are not unreasonable and should be approved.

This completes my affidavit.

  
Babette McKemie, P.E.

Sworn to and Subscribed before me,

This is the 15 day of November, 2017.

  
\_\_\_\_\_  
Notary Public

My Commission expires 11/13/2018

