

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-218, SUB 573

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF  
APPLICATION BY AQUA NORTH CAROLINA, INC.,  
202 MACKENAN COURT, CARY, NORTH CAROLINA 27511  
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR WATER  
AND SEWER UTILITY SERVICE IN ALL SERVICE AREAS IN  
NORTH CAROLINA

JOINT SETTLEMENT TESTIMONY OF  
DEAN R. GEARHART AND DAVID HADDAD  
ON BEHALF OF  
AQUA NORTH CAROLINA, INC.

March 31, 2023

1 **I. INTRODUCTION**

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

3 A. My name is Dean R. Gearhart. My business address is 202 MacKenan  
4 Court, Cary, NC 27511.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Aqua North Carolina, Inc. (“Aqua”, “Aqua North Carolina”,  
7 or “Company”) as the Rates and Planning Manager; as such, I provide  
8 financial supervision and guidance to the president of the state organization.

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

10 A. My name is David Haddad, I am a consultant with Regulated Capital  
11 Consultants, LLC (RCC), and my business address is 4355 Cobb Parkway,  
12 Suite J255, Atlanta, GA 30339. My role in this case is to provide support to  
13 the Aqua North Carolina finance team to manage delivery of all filing  
14 requirements associated with the North Carolina Utilities Commission  
15 (NCUC or Commission) Form W1 (Items 1-7 30). Specifically, I have worked  
16 with the Company to develop the rate case accounting model exhibits to  
17 satisfy the requirements of NCUC Rule R1 17A in relation to the Water  
18 System Improvement Plan (WSIP).

19 **Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS**  
20 **PROCEEDING?**

21 A. Yes, we did.

22 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

1 A. The purpose of our settlement testimony is to explain and support specific  
2 items described in the Stipulation of Partial Settlement (“Stipulation”)  
3 reached with the Public Staff in this proceeding, as noted in the Becker  
4 settlement testimony.

5 **Q. PLEASE PROVIDE AN OVERVIEW OF THE ITEMS FURTHER**  
6 **DETAILED IN THIS TESTIMONY.**

7 A. This testimony will cover how the revenue requirements are calculated for  
8 the multi-year rate plan or “WSIP” (Water and Sewer Investment Plan) Rate  
9 Years 1, 2, and 3 in the Stipulation reached between Aqua and the Public  
10 Staff. In addition, this testimony discusses the Stipulation provisions related  
11 to the WSIP revenue requirements, O&M adjustments, and capital additions  
12 for plant-in-service included in rate base

13 **II. REVENUE REQUIREMENTS**

14 **Q. PLEASE GIVE A BRIEF OVERVIEW OF THE STIPULATION AS IT**  
15 **RELATES TO REVENUE REQUIREMENTS DURING THE TERM OF THE**  
16 **AGREED UPON MULTI-YEAR RATE PLAN?**

17 A. The Stipulation provides for a 3-year multi-year rate plan, with Rate Year 1  
18 beginning January 1, 2023; Rate Year 2 beginning January 1, 2024; and  
19 Rate Year 3 beginning January 1, 2025. The rates agreed to are based on  
20 an historical test year ended December 31, 2021, and updated for certain  
21 actual activity through August 31, 2022 (the Base Case). Included in agreed  
22 upon Rate Year 1 – 3 revenue requirements are the Company’s reasonably

1 known and measurable capital investments and anticipated reasonable and  
2 prudent expenses, further detailed below in Section III.

3 It is worth note that the Company and the Public Staff have not reached  
4 agreement on several issues as outlined in Mr. Becker's testimony. As a  
5 result, the revenue requirements agreed to and presented in the Stipulation  
6 are incomplete, in the sense that the Commission's decision on contested  
7 issues including PFAS costs, SIP/SAP costs, the Wakefield project  
8 adjustment, and the authorized rate of return on equity will affect the final  
9 revenue requirement and rates.

10 Aside from the impact of the remaining contested issues, the agreed-upon  
11 revenue requirements are presented in Public Staff Settlement Exhibit 1.

12 The Base Case for this rate case is the 12-month test period ending  
13 December 31, 2021, adjusted for certain changes in plant, revenues, and  
14 costs that were not known at the time the case was filed but are based upon  
15 circumstances occurring or becoming known through August 31, 2022, and  
16 including regulatory commission expense up to the close of the evidentiary  
17 hearing. The Base Case revenue requirements are used as the starting  
18 point for the revenue requirements for WSIP Rate Years 1, 2, and 3. The  
19 starting point for revenue requirements utilizes the Public Staff's corrected  
20 exhibits, adjusted for certain mutually agreed upon updates such as  
21 Regulatory Commission Expenses, with the following exceptions:

22 a. the Stipulating Parties agree to an adjustment to salaries and wages  
23 in the amount of (\$195,143) to remove four open positions from the

1 Company's filings, which includes the update to salaries and wages through  
2 August 31, 2022. The Stipulating Parties also agree to an adjustment to  
3 benefits associated with the four open positions in the amount of (\$42,843).  
4 This adjustment is contingent upon the conditions set forth in subsections  
5 IV.C. and D of the Stipulation.

6 b. The Stipulating Parties agree to an adjustment in the amount of  
7 (\$264,603) to purchased water and sewer expense.

8 c. The Stipulating Parties agree to amortize the rate case expenses in  
9 the current proceeding over four years and update prudent and reasonable  
10 actually incurred rate case expense through the conclusion of hearing.

11 The revenue requirement for **Rate Year 1** used the Base Case revenue  
12 requirement described above, then made further adjustments as follows:

- 13 • Corrected accumulated depreciation to reflect certain plant  
14 retirements (these adjustments carry over to Rate Years 2 and 3)
- 15 • Escalated Base Case O&M expenses by 3.04%, except for items  
16 with specific projections or applicable tracking mechanisms.
- 17 • Escalated salaries and wages by 3.0%.
- 18 • Purchased water services and sewer pass through amounts remain  
19 at the Base Year levels (0% increase) for the WSIP period.
- 20 • Transportation-fuel remains at the Base Year level (0% increase) for  
21 the WSIP period.
- 22 • Escalated property taxes by 3.31%.

1 The revenue requirement for **Rate Year 2** used the Base Case revenue  
2 requirement adjusted for rate Year 1 described above, then made further  
3 adjustments as follows:

- 4 • Escalated Base Case O&M expenses by 3.04%, except for items  
5 with specific projections or applicable tracking mechanisms.
- 6 • Escalated salaries and wages by 3.0%.
- 7 • Purchased water services and sewer pass through amounts remain  
8 at the Base Year levels (0% increase) for the WSIP period.
- 9 • Transportation-fuel remains at the Base Year level (0% increase) for  
10 the WSIP period.
- 11 • Escalated property taxes by 3.31%.

12 The revenue requirement for **Rate Year 3** used the Base Case revenue  
13 requirement adjusted for rate Year 2 described above, then made further  
14 adjustments as follows:

- 15 • Escalated Base Case O&M expenses by 3.04%, except for items  
16 with specific projections or applicable tracking mechanisms.
- 17 • Escalated salaries and wages by 3.0%.
- 18 • Purchased water services and sewer pass through amounts remain  
19 at the Base Year levels (0% increase) for the WSIP period.
- 20 • Transportation-fuel remains at the Base Year level (0% increase) for  
21 the WSIP period.
- 22 • Escalated property taxes by 3.31%.

1 **Q. WHAT IS THE STIPULATED BASE CASE REGULATORY COMMISSION**  
2 **EXPENSE BASED UPON?**

3 A. The regulatory commission expense is based upon known and actual  
4 measurable expenses incurred to facilitate a rate case. The Stipulation  
5 provides for the update of prudent and reasonable actually incurred rate  
6 case expense through the conclusion of the evidentiary hearing, and with  
7 those costs being amortized over an agreed-upon four (4) year amortization  
8 period. The balance of historic unamortized rate case expenses (e.g., from  
9 W-218 Sub 526 and W-218 Sub 497) are added to the current rate case  
10 expenses expected to be incurred during Rate Year 1 only.

11  
12 **III. PLANT IN SERVICE AND ACCUMULATED DEPRECIATION AMOUNTS**  
13 **AND METHODOLOGY**

14 **Q. WHAT ARE THE PROVISIONS OF THE AGREEMENT RELATED TO**  
15 **CAPITAL FOR THE WSIP?**

16 A. On March 31, 2023, Aqua filed a revised Form W-1, Item 28. Based on the  
17 revised Form W-1, Item 28, which primarily addresses the bridge period of  
18 September through December of 2022, the projected plant in service  
19 additions and estimated retirements (10% of the plant cost) for WSIP Rate  
20 Years 1, 2, and 3 shall be as summarized in Public Staff Settlement Exhibit  
21 2, to which the Commission's decision on the remaining disputed items  
22 should apply. The plant in service and accumulated depreciation amounts  
23 for WSIP Rate Years 1, 2, and 3 shall be calculated under the Public Staff's

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methodology of assuming that in each WSIP Rate Year, both plant in service and accumulated depreciation for the WSIP Rate Year reflect a full year of depreciation on Day 1 of such WSIP Rate Year.

The Company’s WSIP capital plan for Rate Years 1 - 3 is represented by the information contained in the revised W-1 Item 28 attached as Aqua Settlement Exhibit 2.

The stipulation provides for the Rate Year 1 revenue requirement to include Post In-Service Charges as identified in Aqua Settlement Exhibit 1. This activity was not fully reviewed by the Public Staff and as such, the Public Staff and Aqua agreed to its inspection, review and audit in Aqua’s next general rate case.

The stipulation between Aqua and the Public Staff specifically excludes the capital items in Witness Becker’s Settlement Testimony.

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

A. Yes, it is.

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

A. Yes, it does.