

**SPRINGDALE WATER AND SEWER, LLC
DOCKET NO. W-1324, SUB 0**

**ROYAL OAKS, INC.
DOCKET NO. W-406, SUB 6**

**TESTIMONY OF IRIS MORGAN
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

MARCH 18, 2020

1 **Q. MS. MORGAN, PLEASE STATE FOR THE RECORD YOUR**
2 **NAME, ADDRESS, AND PRESENT POSITION.**

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in
5 the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding.

7 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC**
8 **STAFF?**

9 A. I have been employed by the Public Staff since September 2, 2002.
10 I joined the Public Staff Accounting Division on December 1, 2008.

11 **Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND**
12 **EXPERIENCE?**

13 A. I am a graduate of North Carolina Wesleyan College with a Bachelor
14 of Science degree in Accounting and Business Administration, a
15 Masters of Accounting and Financial Management, a Masters in
16 Business Administration, and a Masters in Public Administration.

1 Prior to joining the Public Staff Accounting Division, I was employed
2 with the Public Staff Consumer Services Division.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR POSITION?**

4 A. I am responsible for analyzing testimony, exhibits, and other data
5 presented by parties before the Commission. I have the further
6 responsibility of performing the examinations of books and records
7 of the utilities involved in rate proceedings and summarizing the
8 results into testimony and exhibits for presentation before the
9 Commission.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my testimony is to present the accounting and
13 ratemaking adjustments I am recommending as a result of my
14 investigation of the revenue, expenses, and rate base presented by
15 Springdale Golf Partners, LLC d/b/a Springdale Water & Sewer, LLC
16 (Springdale or Company), in support of its application for transfer of
17 public utility franchise and for approval of rates for providing water
18 and sewer utility service in the Springdale Estates Subdivision and
19 Springdale Country Club in Haywood County, North Carolina.

20 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION**
21 **INTO THE COMPANY'S FILING.**

1 A. The Company filed its application for transfer of public utility
2 franchise and for approval of rates on October 4, 2019, based on the
3 test year ended March 31, 2019. My investigation included a review
4 of the application filed by the Company, a review of documentation
5 provided by the Company in response to written data requests, and
6 a review of the Company's financial records.

7 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**
8 **YOUR TESTIMONY AND EXHIBITS?**

9 A. Yes. For each issue, I will present a discussion of how and why I
10 differ from the Company. I will also present schedules showing the
11 calculation of my adjustments to revenues, expenses, and rate base.
12 My schedules will also reflect adjustments recommended by other
13 Public Staff witnesses. Schedules 1(a) and 1(b) of Morgan Exhibit I
14 present the margin on operating revenue deductions requiring a
15 return under present rates, Company proposed rates, and Public
16 Staff recommended rates. Schedules 2(a) and 2(b), along with their
17 supporting schedules, present the original cost rate base. Schedules
18 3(a) and 3(b), along with their supporting schedules, present the net
19 operating income for a return. Schedules 4(a) and 4(b) represent the
20 Public Staff's calculation of operating ratios.

21 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**
22 **COMPANY'S RATE REQUEST FOR WATER OPERATIONS?**

1 A. Based on my investigation, the level of operating revenue deductions
2 requiring a return (total operating expenses excluding regulatory fee
3 and income taxes) for water operations is \$28,428. The Company's
4 original cost rate base on March 31, 2019, is \$10,688. As set forth
5 under G.S. 62-133.1, I have used the operating ratio method to
6 evaluate the Company's proposed rate increase. Based on my
7 investigation, I recommend that water rates be set to produce
8 \$31,237 of total operating revenues. This annual level of revenue will
9 provide the Company the opportunity to earn a return of 7.50%, the
10 reasonable rate recommended by Public Staff Financial Analyst
11 Craig in his affidavit.

12 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**
13 **COMPANY'S RATE REQUEST FOR SEWER OPERATIONS?**

14 A. Based on my investigation, the level of operating revenue deductions
15 requiring a return (total operating expenses excluding regulatory fee
16 and income taxes) for sewer operations is \$16,385. The Company's
17 original cost rate base on March 31, 2019, is \$3,905. As set forth
18 under G.S. 62-133.1, I have used the operating ratio method to
19 evaluate the Company's proposed rate increase. Based on my
20 investigation, I recommend that sewer rates be set to produce
21 \$18,004 of total operating revenues. This annual level of revenue will
22 provide the Company the opportunity to earn a return of 7.50%, the

1 reasonable rate recommended by Public Staff Financial Analyst
2 Craig in his affidavit.

3 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**
4 **STAFF WITNESSES HAVE YOU INCORPORATED IN YOUR**
5 **EXHIBIT?**

6 A. Morgan Exhibit I reflects the following adjustments recommended by
7 other Public Staff witnesses:

- 8 1. The recommendation of Public Staff Financial Analyst
9 Craig regarding the margin on operating revenue
10 deductions requiring a return;
- 11 2. The recommendations made by Public Staff Engineer
12 Franklin with regard to the following items pertaining to:
 - 13 a. Plant in service:
 - 14 b. Service revenues at present rates;
 - 15 c. Service revenues at proposed rates;
 - 16 d. Purchased power;
 - 17 e. Testing;
 - 18 f. Permit fees;
 - 19 g. Sludge removal; and
 - 20 h. Depreciation rates

21 **Q. IN WHAT AREAS HAVE YOU ADJUSTED THE COMPANY'S**
22 **CALCULATION OF ITS RATE BASE, REVENUES, AND**
23 **EXPENSES?**

- 1 A. The accounting and ratemaking adjustments that I am proposing
2 relate to the following items:
- 3 1. Plant in service;
 - 4 2. Accumulated depreciation and depreciation expense;
 - 5 3. Contributions in Aid of Construction (CIAC);
 - 6 4. Cash working capital;
 - 7 5. Administrative and office expense;
 - 8 6. Maintenance and repair;
 - 9 7. Rate case expense;
 - 10 8. Property tax;
 - 11 9. Regulatory fee;
 - 12 10. Gross receipts tax; and
 - 13 11. State and federal income taxes.

14 **PLANT IN SERVICE**

15 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU MADE TO PLANT**
16 **IN SERVICE FOR WATER OPERATIONS.**

17 A. The Company presented a total amount of \$211,272 for plant in
18 service on its application. My review of the Company's financial
19 records and data request responses indicated that all plant assets
20 are fully depreciated and can no longer be recovered through rate
21 base. Therefore, based on the recommendation of Public Staff
22 Engineer Franklin, I capitalized \$8,537 of expenses for a well pump

1 and motor. This adjustment results in a total amount of \$8,537 for
2 plant in service, as shown on Schedule 2(a) of Morgan Exhibit I.

3 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU MADE TO PLANT**
4 **IN SERVICE FOR SEWER OPERATIONS.**

5 A. The Company presented a total amount of \$233,261 for plant in
6 service on its application. My review of the Company's financial
7 records and data request responses indicated that all plant assets
8 are fully depreciated and can no longer be recovered through rate
9 base. Therefore, based on the recommendation of Public Staff
10 Engineer Franklin, I capitalized \$2,127 of expenses for PD blowers.
11 This adjustment results in a total amount of \$2,127 for plant in service
12 for sewer operations, as shown on Schedule 2(b) of Morgan Exhibit I.

13 **ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

14 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU MADE TO**
15 **ACCUMULATED DEPRECIATION AND DEPRECIATION**
16 **EXPENSE FOR SPRINGDALE WATER AND SEWER**
17 **OPERATIONS.**

18 A. I calculated amounts for accumulated depreciation and depreciation
19 expense to reflect depreciation related to the adjusted plant assets
20 discussed above and shown on Schedules 2-1(a) and 2-1(b).
21 Accumulated depreciation and depreciation expense were
22 calculated based on the service lives recommended by Public Staff

1 Engineer Franklin. Accumulated depreciation was also calculated
2 based on the year each plant asset was placed in service.

3 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO CIAC FOR**
5 **SPRINGDALE WATER AND SEWER OPERATIONS.**

6 A. The Company presented a total amount of \$144,011 for combined
7 operations for CIAC on its application. Based on my review of the
8 Company's financial records and data request responses,
9 Springdale did not provide supporting documentation for this
10 amount. Therefore, I decreased CIAC to \$0 for both water and sewer
11 operations, as shown on Schedules 2(a) and 2(b) of Morgan Exhibit I.

12 **CASH WORKING CAPITAL**

13 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR CASH WORKING**
14 **CAPITAL.**

15 A. The Company did not provide an amount for this item on its
16 application. In my calculation, I have included one-eighth of total
17 operating expenses as a measure of cash working capital.

18 **ADMINISTRATIVE AND OFFICE EXPENSE**

19 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO ADMINISTRATIVE**
20 **AND OFFICE EXPENSE FOR SPRINGDALE WATER AND**
21 **SEWER OPERATIONS?**

1 A. The Company included \$1,500 for water operations and \$1,500 for
2 sewer operations on its application for administrative and office
3 expense. Based on review of the Company's financial records, I
4 made an adjustment to include \$15,445 of additional expenses that
5 were omitted by the Company in error, thus reflecting a total amount
6 of \$18,445 for administrative and office expense. This adjustment
7 results in a total amount of \$10,283 for water operations and \$8,162
8 for sewer operations of administrative and office expense, as shown
9 on Schedule 3-1 of Morgan Exhibit I.

10 **MAINTENANCE AND REPAIR**

11 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO MAINTENANCE**
12 **AND REPAIR FOR SPRINGDALE WATER AND SEWER**
13 **OPERATIONS?**

14 A. The Company presented a total amount of \$3,800 for combined
15 operations for maintenance and repair. However, the Company did
16 not provide invoices supporting this amount. Therefore, I made
17 several adjustments to this expense. First, based on the
18 recommendation of Public Staff Engineer Franklin, I made an
19 adjustment to include \$413 of engineering and consulting fees. Next,
20 I made an adjustment to include \$535 of miscellaneous repairs
21 expenses. These adjustments result in a total amount of \$529 for
22 water operations and \$419 for sewer operations for maintenance and
23 repair, as shown on Schedule 3-2 of Morgan Exhibit I.

1

RATE CASE EXPENSE

2 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO RATE CASE**
3 **EXPENSE?**

4 A. On its application, the Company did not include an amount for rate
5 case expense. Therefore, I have calculated rate case expense to
6 include the cost of the filing fee and the cost for mailing notices. I
7 amortized the total cost for rate case expense over three years.

8

PROPERTY TAX

9 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO PROPERTY TAX?**

10 A. The Company included \$2,400 of property taxes for combined
11 operations. Based on review of the Company's financial records and
12 data request responses, Springdale did not provide invoices to
13 support this amount. Therefore, I made an adjustment to decrease
14 property tax to \$0, as shown on Schedule 3 of Morgan Exhibit I.

15

REGULATORY FEE – OTHER TAXES

16 **Q. HOW HAVE YOU ADJUSTED THE REGULATORY FEE – OTHER**
17 **TAXES?**

18 A. I have calculated the regulatory fee using the statutory rate of 0.13%.

1

GROSS RECEIPTS TAX

2

**Q. WHAT ADJUSTMENTS DID YOU MAKE TO GROSS RECEIPTS
TAX?**

3

4

A. With the repeal of N.C.G.S. § 105-116, the Company is no longer
subject to gross receipts tax beginning on July 1, 2014. Therefore, I
have made an adjustment to remove gross receipt tax for the test
year from operating expenses.

5

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8

STATE AND FEDERAL INCOME TAXES

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**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE AND
FEDERAL INCOME TAXES.**

10

11

A. State and federal income taxes are based on the statutory corporate
rates for the level of income presented after all Public Staff
adjustments.

12

13

14

**Q. DO YOU HAVE ANY RECOMMENDATIONS FOR THE
COMPANY?**

15

16

A. Yes. I am making the following recommendations:

17

1. Springdale Water and Sewer, LLC's accounting records and
business transactions should be kept separate from other
business entities, including but not limited to Springdale Golf
Partners, LLC.

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2. The Company should keep accurate general ledgers, bank
statements, invoices, etc., for future rate making proceedings.

22

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, it does.

INDEX TO MORGAN EXHIBIT I

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SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
MARGIN ON OPERATING REVENUE DEDUCTIONS
REQUIRING A RETURN
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 1(a)

Water Operations

Line No.	<u>Item</u>	Present Rates (a)	Company Proposed Rates (b)	Public Staff Recommended Rates (c)
1.	Net operating income for a return	(\$6,490) [1]	\$24,642 [4]	\$2,132 [6]
2.	Operating revenue deductions requiring a return	<u>28,428 [2]</u>	<u>28,428 [5]</u>	<u>28,428 [7]</u>
3.	Return	<u><u>-22.83% [3]</u></u>	<u><u>86.68% [3]</u></u>	<u><u>7.50% [8]</u></u>

- [1] Morgan Exhibit I, Schedule 3(a), Line 30, Column (c).
[2] Morgan Exhibit I, Schedule 3(a), Line 20 + Line 21 + Line 22 + Line 23, Column (c).
[3] Line 1 divided by Line 2.
[4] Morgan Exhibit I, Schedule 3(a), Line 30, Column (e).
[5] Morgan Exhibit I, Schedule 3(a), Line 20 + Line 21 + Line 22 + Line 23, Column (e).
[6] Line 2 x Line 3.
[7] Morgan Exhibit I, Schedule 3(a), Line 20 + Line 21 + Line 22 + Line 23, Column (g).
[8] Provided by Public Staff Financial Analyst Craig.

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
MARGIN ON OPERATING REVENUE DEDUCTIONS
REQUIRING A RETURN
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 1(b)

Sewer Operations

Line No.	<u>Item</u>	Present Rates (a)	Company Proposed Rates (b)	Public Staff Recommended Rates (c)
1.	Net operating income for a return	\$359 [1]	\$14,620 [4]	\$1,229 [6]
2.	Operating revenue deductions requiring a return	<u>16,385 [2]</u>	<u>16,385 [5]</u>	<u>16,385 [7]</u>
3.	Return	<u>2.19% [3]</u>	<u>89.23% [3]</u>	<u>7.50% [8]</u>

[1] Morgan Exhibit I, Schedule 3(b), Line 30, Column (c).

[2] Morgan Exhibit I, Schedule 3(b), Line 20 + Line 21 + Line 22 + Line 23, Column (c).

[3] Line 1 divided by Line 2.

[4] Morgan Exhibit I, Schedule 3(b), Line 30, Column (e).

[5] Morgan Exhibit I, Schedule 3(b), Line 20 + Line 21 + Line 22 + Line 23, Column (e).

[6] Line 2 x Line 3.

[7] Morgan Exhibit I, Schedule 3(b), Line 20 + Line 21 + Line 22 + Line 23, Column (g).

[8] Provided by Public Staff Financial Analyst Craig.

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

ORIGINAL COST RATE BASE

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 2**Water and Sewer Combined**

Line No.	Item	Per Application (a)	Public Staff Adjustments (b)	After Public Staff Adjustments (c)
		[1]	[2]	[3]
1.	Plant in service	\$444,633	(\$433,969)	\$10,664
2.	Accumulated depreciation	(300,622)	299,189	(1,433)
3.	Contributions in aid of construction	(144,011)	144,011	0
4.	Accumulated amortization of CIAC	0	0	0
5.	Cash working capital	0	5,362	5,362
6.	Average tax accruals	0	0	0
7.	Original cost rate base (Sum of L1 thru L6)	\$0	\$14,593	\$14,593

[1] Morgan Exhibit I, Schedule 2(a) plus 2(b), Column (a).

[2] Morgan Exhibit I, Schedule 2(a) plus 2(b), Column (b).

[3] Morgan Exhibit I, Schedule 2(a) plus 2(b), Column (c).

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0
ORIGINAL COST RATE BASE
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 2(a)

Springdale - Water Operations

Line No.	Item	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$211,272	(\$202,735)	\$8,537 [2]
2.	Accumulated depreciation	(111,911)	110,691	(1,220) [3]
3.	Contributions in aid of construction	(99,361)	99,361	0 [4]
4.	Accumulated amortization of CIAC	0	0	0
5.	Cash working capital	0	3,371	3,371 [5]
6.	Average tax accruals	0	0	0
7.	Original cost rate base (Sum of L1 thru L6)	\$0	\$10,688	\$10,688

[1] Column (c) minus Column (a).

[2] Morgan Exhibit I, Schedule 2-1(a), Column (a), Line 2.

[3] Morgan Exhibit I, Schedule 2-1(a), Column (f), Line 2.

[4] Based on review of Company financial records.

[5] Calculated at one-eighth of operating expenses.

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

ORIGINAL COST RATE BASE

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 2(b)**Springdale - Sewer Operations**

Line No.	Item	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$233,361	(\$231,234)	\$2,127 [2]
2.	Accumulated depreciation	(188,711)	188,498	(213) [3]
3.	Contributions in aid of construction	(44,650)	44,650	0 [4]
4.	Accumulated amortization of CIAC	0	0	0
5.	Cash working capital	0	1,991	1,991 [5]
6.	Average tax accruals	0	0	0
7.	Original cost rate base (Sum of L1 thru L6)	\$0	\$3,905	\$3,905

[1] Column (c) minus Column (a).

[2] Morgan Exhibit I, Schedule 2-1(b), Column (a), Line 2.

[3] Morgan Exhibit I, Schedule 2-1(b), Column (f), Line 2.

[4] Based on review of Company financial records.

[5] Calculated at one-eighth of operating expenses.

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
**CALCULATION OF PLANT IN SERVICE, ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE**
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 2-1(a)

Springdale - Water Operations

Line No.	<u>Item</u>	Plant In Service (a)	[1]	Year Acquired (b)	[1]	Life (c)	[2]	Years In Service (d)	[3]	Annual Depreciation (e)	[4]	Accumulated Depreciation (f)	[5]
1.	Well pump and motor	\$8,537		2018		7		1.00		\$1,220		(\$1,220)	
2.	Total plant in service per Public Staff:	<u>\$8,537</u>								<u>\$1,220</u>		<u>(\$1,220)</u>	

[1] Per examination of Company's financial records.

[2] Provided by Public Staff Engineer Franklin.

[3] Calculated based on year placed in service using half year convention.

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

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

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
**CALCULATION OF PLANT IN SERVICE, ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE**
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 2-1(b)

Springdale - Sewer Operations

Line No.	Item	Plant In Service (a)	[1]	Year Acquired (b)	[1]	Depreciation Life In Years (c)	[2]	Years In Service (d)	[3]	Annual Depreciation (e)	[4]	Accumulated Depreciation (f)	[5]
1.	Blowers	\$2,127		2019		10		1.00		\$213		(\$213)	
2.	Total plant in service per Public Staff:	<u>\$2,127</u>								<u>\$213</u>		<u>(\$213)</u>	

[1] Per examination of Company's financial records.

[2] Provided by Public Staff Engineer Franklin.

[3] Calculated based on year placed in service using half year convention.

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

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

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
NET OPERATING INCOME FOR A RETURN
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3

Water and Sewer Combined		Present Rates			Company Proposed Rates		Public Staff Recommended Rates	
Line No.	Item	Amount Per Revised Application (a)	Public Staff Adjustments (b)	Per Public Staff (c) [1]	Net Company Increase (d)	Operations After Rate Increase (e) [2]	Net Public Staff Decrease (f)	Operations After Rate Decrease (g) [3]
Operating Revenues:								
1.	Service revenues	\$38,839	\$1	\$38,840	\$57,071	\$95,911	\$10,401	\$49,241
2.	Miscellaneous revenues	0	0	0	0	0	0	0
3.	Uncollectible accounts	0	0	0	0	0	0	0
4.	Total operating revenues	38,839	1	38,840	57,071	95,911	10,401	49,241
Operating Expenses:								
5.	Loss from disposal of equipment	0	0	0	0	0	0	0
6.	Salaries expense	6,000	0	6,000	0	6,000	0	6,000
7.	Administrative and office expense	3,000	15,445	18,445	0	18,445	0	18,445
8.	Purchased power	18,041	(5,093)	12,948	0	12,948	0	12,948
9.	Chemicals	1,207	0	1,207	0	1,207	0	1,207
10.	Testing	18,000	(16,226)	1,774	0	1,774	0	1,774
11.	Maintenance and repair	3,800	(2,852)	948	0	948	0	948
12.	Permit fees	860	330	1,190	0	1,190	0	1,190
13.	Insurance expense	0	0	0	0	0	0	0
14.	Contract management	0	0	0	0	0	0	0
15.	Other expenses - bank & late charges	0	0	0	0	0	0	0
16.	Legal fees	0	0	0	0	0	0	0
17.	Bad debts expense	0	0	0	0	0	0	0
18.	Sludge removal	0	350	350	0	350	0	350
19.	Rate case expense	0	38	38	0	38	0	38
20.	Total operating expenses	50,908	(8,008)	42,900	0	42,900	0	42,900
Depreciation and Taxes:								
21.	Depreciation	7,235	(5,802)	1,433	0	1,433	0	1,433
22.	Property tax	2,400	(2,400)	0	0	0	0	0
23.	Payroll tax	480	0	480	0	480	0	480
24.	Regulatory fee - other taxes	39	12	51	74	125	13	64
25.	Gross receipts tax	1,554	(1,554)	0	0	0	0	0
26.	State income tax	0	12	12	1,263	1,275	97	109
27.	Federal income tax	0	95	95	10,341	10,436	799	894
28.	Total depreciation and taxes	11,708	(9,637)	2,071	11,678	13,749	909	2,980
29.	Total operating revenue deductions	62,616	(17,645)	44,971	11,678	56,649	909	45,880
30.	Net operating income for return	(\$23,777)	\$17,646	(\$6,131)	\$45,393	\$39,262	\$9,492	\$3,361

[1] Morgan Exhibit I, Schedule 3(a) plus Schedule 3(b), Column (c).

[2] Morgan Exhibit I, Schedule 3(a) plus Schedule 3(b), Column (e).

[3] Morgan Exhibit I, Schedule 3(a) plus Schedule 3(b), Column (g).

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
NET OPERATING INCOME FOR A RETURN
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3(a)
Page 1 of 2

Springdale - Water Operations		Present Rates			Company Proposed Rates		Public Staff Recommended Rates	
Line No.	Item	Amount Per Application (a)	Public Staff Adjustments (b) [1]	Per Public Staff (c) [2]	Net Company Increase (d) [13]	Operations After Rate Increase (e) [14]	Net Public Staff Increase (f) [17]	Operations After Rate Increase (g) [18]
Operating Revenues:								
1.	Service revenues	\$21,967	\$0	\$21,967 [3]	\$38,532	\$60,499 [3]	\$9,270	\$31,237 [19]
2.	Miscellaneous revenues	0	0	0	0	0	0	0
3.	Uncollectible accounts	0	0	0	0	0	0	0
4.	Total operating revenues	21,967	0	21,967	38,532	60,499	9,270	31,237
Operating Expenses:								
5.	Contractor operator - labor	0	0	0	0	0	0	0
6.	Salaries	3,000	0	3,000	0	3,000	0	3,000
7.	Administrative and office expense	1,500	8,783	10,283 [4]	0	10,283	0	10,283
8.	Purchased power	15,651	(5,093)	10,558 [3]	0	10,558	0	10,558
9.	Chemicals	607	0	607	0	607	0	607
10.	Testing	9,000	(7,360)	1,640 [3]	0	1,640	0	1,640
11.	Maintenance and repair	3,200	(2,671)	529 [5]	0	529	0	529
12.	Permit fees	0	330	330 [3]	0	330	0	330
13.	Insurance expense	0	0	0	0	0	0	0
14.	Contract management	0	0	0	0	0	0	0
15.	Other expenses - bank & late charges	0	0	0	0	0	0	0
16.	Legal fees	0	0	0	0	0	0	0
17.	Bad debts expense	0	0	0	0	0	0	0
18.	Sludge removal	0	0	0	0	0	0	0
19.	Rate case expense	0	21	21 [6]	0	21	0	21
20.	Total operating expenses	32,958	(5,990)	26,968	0	26,968	0	26,968
Depreciation and Taxes:								
21.	Depreciation	3,902	(2,682)	1,220 [7]	0	1,220	0	1,220
22.	Property taxes	1,200	(1,200)	0 [8]	0	0	0	0
23.	Payroll taxes	240	0	240	0	240	0	240
24.	Regulatory fee - other taxes	22	7	29 [9]	50	79 [9]	12	41 [9]
25.	Gross receipts tax	879	(879)	0 [10]	0	0	0	0
26.	State income tax	0	0	0 [11]	800	800 [15]	69	69 [20]
27.	Federal income tax	0	0	0 [12]	6,550	6,550 [16]	567	567 [21]
28.	Total depreciation and taxes	6,243	(4,754)	1,489	7,400	8,889	648	2,137
29.	Total operating revenue deductions	39,201	(10,744)	28,457	7,400	35,857	648	29,105
30.	Net operating income for return	(\$17,234)	\$10,744	(\$6,490)	\$31,132	\$24,642	\$8,622	\$2,132

SPRINGDALE WATER AND SEWER, LLC

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FOOTNOTES TO SCHEDULE 3(a)

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3(a)
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Springdale - Water Operations

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Provided by Public Staff Engineer Franklin.
- [4] Morgan Exhibit I, Schedule 3-1, Column (b), Line 3.
- [5] Morgan Exhibit I, Schedule 3-2, Column (b), Line 3.
- [6] Morgan Exhibit I, Schedule 3-3, Column (b), Line 7.
- [7] Morgan Exhibit I, Schedule 2-1(a), Column (e), Line 2.
- [8] Based on review of Company financial records and data request responses.
- [9] Line 4 multiplied by .13%.
- [10] Adjustment to remove gross receipts tax.
- [11] Morgan Exhibit I, Schedule 3-4(a), Column (a), Line 12.
- [12] Morgan Exhibit I, Schedule 3-4(a), Column (a), Line 14.
- [13] Column (e) minus Column (c), unless otherwise footnoted.
- [14] Column (c) plus Column (d), unless otherwise footnoted.
- [15] Morgan Exhibit I, Schedule 3-4(a), Column (b), Line 12.
- [16] Morgan Exhibit I, Schedule 3-4(a), Column (b), Line 14.
- [17] Column (g) minus Column (c), unless otherwise footnoted.
- [18] Column (c) plus Column (f), unless otherwise footnoted.
- [19] Revenue requirement as calculated by the Public Staff.
- [20] Morgan Exhibit I, Schedule 3-4(a), Column (c), Line 12.
- [21] Morgan Exhibit I, Schedule 3-4(a), Column (c), Line 14.

SPRINGDALE WATER AND SEWER, LLC

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NET OPERATING INCOME FOR A RETURN

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3(b)
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Springdale - Sewer Operations

		Public Staff							
		Present Rates			Company Proposed Rates		Recommended Rates		
Line No.	Item	Amount Per Application	Public Staff Adjustments [1]	Per Public Staff [2]	Net Company Increase [13]	Operations After Rate Increase [14]	Net Public Staff Increase [17]	Operations After Rate Decrease [18]	
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	
<u>Operating Revenues:</u>									
1.	Service revenues	\$16,872	\$1	\$16,873 [3]	\$18,539	\$35,412 [3]	\$1,131	\$18,004 [19]	
2.	Miscellaneous revenues	0	0	0	0	0	0	0	
3.	Uncollectible accounts	0	0	0	0	0	0	0	
4.	Total operating revenues	16,872	1	16,873	18,539	35,412	1,131	18,004	
<u>Operating Expenses:</u>									
5.	Contractor operator	0	0	0	0	0	0	0	
6.	Salaries	3,000	0	3,000	0	3,000	0	3,000	
7.	Administrative and office expense	1,500	6,662	8,162 [4]	0	8,162	0	8,162	
8.	Purchased power	2,390	0	2,390	0	2,390	0	2,390	
9.	Chemicals	600	0	600	0	600	0	600	
10.	Testing	9,000	(8,866)	134 [3]	0	134	0	134	
11.	Maintenance and repair	600	(181)	419 [5]	0	419	0	419	
12.	Permit fees	860	0	860	0	860	0	860	
13.	Insurance expense	0	0	0	0	0	0	0	
14.	Contract management	0	0	0	0	0	0	0	
15.	Other expenses - bank & late charges	0	0	0	0	0	0	0	
16.	Legal fees	0	0	0	0	0	0	0	
17.	Bad debts expense	0	0	0	0	0	0	0	
18.	Sludge removal	0	350	350 [3]	0	350	0	350	
19.	Rate case expense	0	17	17 [6]	0	17	0	17	
20.	Total operating expenses	17,950	(2,018)	15,932	0	15,932	0	15,932	
<u>Depreciation and Taxes:</u>									
21.	Depreciation	3,333	(3,120)	213 [7]	0	213	0	213	
22.	Property tax	1,200	(1,200)	0 [8]	0	0	0	0	
23.	Payroll tax	240	0	240	0	240	0	240	
24.	Regulatory fee - other taxes	17	5	22 [9]	24	46 [9]	1	23 [9]	
25.	Gross receipts tax	675	(675)	0 [10]	0	0	0	0	
26.	State income tax	0	12	12 [11]	463	475 [15]	28	40 [20]	
27.	Federal income tax	0	95	95 [12]	3,791	3,886 [16]	232	327 [21]	
28.	Total depreciation and taxes	5,465	(4,883)	582	4,278	4,860	261	843	
29.	Total operating revenue deductions	23,415	(6,901)	16,514	4,278	20,792	261	16,775	
30.	Net operating income for return	(\$6,543)	\$6,902	\$359	\$14,261	\$14,620	\$870	\$1,229	

SPRINGDALE WATER AND SEWER, LLC

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FOOTNOTES TO SCHEDULE 3(b)

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3(b)
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Springdale - Sewer Operations

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Provided by Public Staff Engineer Franklin.
- [4] Morgan Exhibit I, Schedule 3-1, Column (c), Line 3.
- [5] Morgan Exhibit I, Schedule 3-3, Column (b), Line 3.
- [6] Morgan Exhibit I, Schedule 3-4, Column (c), Line 7.
- [7] Morgan Exhibit I, Schedule 2-1(b), Column (e), Line 2.
- [8] Based on review of Company financial records and data request responses.
- [9] Line 4 multiplied by 0.13%.
- [10] Adjustment to remove gross receipts tax.
- [11] Morgan Exhibit I, Schedule 3-5(b), Column (a), Line 12.
- [12] Morgan Exhibit I, Schedule 3-5(b), Column (a), Line 14.
- [13] Column (e) minus Column (c), unless otherwise footnoted.
- [14] Column (c) plus Column (d), unless otherwise footnoted.
- [15] Morgan Exhibit I, Schedule 3-5(b), Column (b), Line 12.
- [16] Morgan Exhibit I, Schedule 3-5(b), Column (b), Line 14.
- [17] Column (g) minus Column (c), unless otherwise footnoted.
- [18] Column (c) plus Column (f), unless otherwise footnoted.
- [19] Revenue requirement as calculated by the Public Staff.
- [20] Morgan Exhibit I, Schedule 3-5(b), Column (c), Line 12.
- [21] Morgan Exhibit I, Schedule 3-5(b), Column (c), Line 14.

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

ADJUSTMENT TO ADMINISTRATIVE AND OFFICE EXPENSE

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3-1

<u>Line No.</u>	<u>Item</u>	<u>Amount (a)</u>	<u>Water (b)</u> [2]	<u>Sewer (c)</u> [3]
1.	Administrative and office expense per application	\$3,000		
2.	Adjustment to reflect actual administrative and office expense	<u>15,445</u> [1]		
3.	Administrative and office expense per Public Staff (L1 + L2)	<u>\$18,445</u>	<u>\$10,283</u>	<u>\$8,162</u>

[1] Calculated by the Public Staff based on information provided by the Company.

[2] Column (a), Line 3 multiplied by water allocation factor of 55.75%

[3] Column (a), Line 3 multiplied by sewer allocation factor of 44.25%

SPRINGDALE WATER AND SEWER, LLC
Docket No. W-1324 Sub 0
ADJUSTMENT TO MAINTENANCE AND REPAIR
For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3-2

Line No.	<u>Item</u>	<u>Amount</u> (a)	<u>Water</u> (b)	<u>Sewer</u> (c)
1.	Maintenance and repair per application	\$3,800		
2.	Adjustment to reflect actual maintenance and repair expense	<u>(2,852) [1]</u>		
3.	Maintenance and repair expense per Public Staff (L1 + L2)	<u>\$948</u>	529	419
4.	Maintenance and repair per application		<u>3,200</u>	<u>600</u>
5.	Adjustment to maintenance and repair expense (L3 - L4)		<u>(\$2,671)</u>	<u>(\$181)</u>

[1] Per examination of Company's financial records.

[2] Column (a), Line 3 multiplied by water allocation factor of 55.75%

[3] Column (a), Line 3 multiplied by sewer allocation factor of 44.25%

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

CALCULATION OF RATE CASE EXPENSE

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3-3

Line No.	Item	Amount (a)	Water (b)	[3]	Sewer (c)	[4]
1.	Rate case application filing fee	\$25 [1]				
2.	Legal fees	0				
3.	Administrative fees	0				
4.	Office supplies and overhead	88 [2]				
5.	Total rate case expense (Sum of L1 thru L4)	113				
6.	Amortization period in years	3				
7.	Rate case expense per Public Staff (L5 / L6)	\$38	\$21		\$17	

[1] Statutory filing fee for Class C water and sewer companies.

[2] Based on 63 customers x 2 mailings x \$.55 stamps
plus \$.15 for envelopes and copying.

[3] Column (a), Line 7 multiplied by water allocation factor of 55.75%

[4] Column (a), Line 7 multiplied by sewer allocation factor of 44.25%

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

CALCULATION OF INCOME TAXES

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3-4(a)

Line No.	Springdale - Water Operations <u>Item</u>	Present Rates	[1]	Company Proposed Rates	[2]	Public Staff Recommended Rates	[3]
		(a)		(b)		(c)	
1.	Operating revenue	\$21,967		\$60,499		\$31,237	
2.	Operating revenue deductions:						
3.	Operating expenses	26,968		26,968		26,968	
4.	Depreciation expense	1,220		1,220		1,220	
5.	Property taxes	0		0		0	
6.	Other taxes	240		240		240	
7.	Regulatory fee	29		79		41	
8.	Gross receipts tax	0		0		0	
9.	Interest expense	0		0		0	
10.	Total deductions (Sum of L3 thru L9)	28,457		28,507		28,469	
11.	State taxable income (L1 - L10)	(6,490)		31,992		2,768	
12.	State income tax (L11 x 2.5%)	0		800		69	
13.	Federal taxable income (L11 - L12)	(6,490)		31,192		2,699	
14.	Federal income tax (L13 x 21%)	0		6,550		567	
15.	Net amount (L13 - L14)	(6,490)		24,642		2,132	
16.	Add: Interest expense	0		0		0	
17.	Net income for return (L15 + L16)	(\$6,490)		\$24,642		\$2,132	

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

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

[3] Morgan Exhibit I, Schedule 3(a), Column (g).

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

CALCULATION OF INCOME TAXES

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 3-4(b)

Line No.	Springdale - Sewer Operations <u>Item</u>	Present Rates	[1]	Company Proposed Rates	[2]	Public Staff Recommended Rates	[3]
		(a)		(b)		(c)	
1.	Operating revenue	\$16,873		\$35,412		\$18,004	
2.	Operating revenue deductions:						
3.	Operating expenses	15,932		15,932		15,932	
4.	Depreciation expense	213		213		213	
5.	Property taxes	0		0		0	
6.	Other taxes	240		240		240	
7.	Regulatory fee	22		46		23	
8.	Gross receipts tax	0		0		0	
9.	Interest expense	0		0		0	
10.	Total deductions (Sum of L3 thru L9)	16,407		16,431		16,408	
11.	State taxable income (L1 - L10)	466		18,981		1,596	
12.	State income tax (L11 x 2.5%)	12		475		40	
13.	Federal taxable income (L11 - L12)	454		18,506		1,556	
14.	Federal income tax (L13 x 21%)	95		3,886		327	
15.	Net amount (L13 - L14)	359		14,620		1,229	
16.	Add: Interest expense	0		0		0	
17.	Net income for return (L15 + L16)	\$359		\$14,620		\$1,229	

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

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

[3] Morgan Exhibit I, Schedule 3(b), Column (g).

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

CALCULATION OF OPERATING RATIOS

For the Test Year Ended March 31, 2019

Public Staff

Morgan Exhibit I

Schedule 4(a)

Springdale - Water Operations

Line No.	Item	Present Rates (a)	Company Proposed Rates (b)	Public Staff Recommended Rates (c)
<u>Interest expense, regulatory fee, gross receipts, and income taxes included:</u>				
1.	Gross operating revenues	\$21,967 [1]	\$60,499 [5]	\$31,237 [9]
2.	Operating expenses	<u>28,457 [2]</u>	<u>35,857 [6]</u>	<u>29,105 [10]</u>
3.	Operating ratios (L2 / L1)	<u>129.54%</u>	<u>59.27%</u>	<u>93.17%</u>
<u>Interest expense, regulatory fee, gross receipts, and income taxes excluded:</u>				
4.	Gross operating revenues	\$21,938 [3]	\$53,070 [7]	\$30,560 [11]
5.	Operating expenses	<u>28,428 [4]</u>	<u>28,428 [8]</u>	<u>28,428 [12]</u>
6.	Operating ratios (L5 / L4)	<u>129.58%</u>	<u>53.57%</u>	<u>93.02%</u>

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

[2] Morgan Exhibit I, Schedule 3(a), Line 29, Column (c).

[3] Morgan Exhibit I, Schedule 3(a), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (c).

[4] Morgan Exhibit I, Schedule 3(a), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (c).

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

[6] Morgan Exhibit I, Schedule 3(a), Line 29, Column (e).

[7] Morgan Exhibit I, Schedule 3(a), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (e).

[8] Morgan Exhibit I, Schedule 3(a), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (e).

[9] Morgan Exhibit I, Schedule 3(a), Line 4, Column (g).

[10] Morgan Exhibit I, Schedule 3(a), Line 29, Column (g).

[11] Morgan Exhibit I, Schedule 3(a), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (g).

[12] Morgan Exhibit I, Schedule 3(a), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (g).

SPRINGDALE WATER AND SEWER, LLC

Docket No. W-1324 Sub 0

CALCULATION OF OPERATING RATIOS

For the Test Year Ended March 31, 2019

Public Staff
Morgan Exhibit I
Schedule 4(b)**Springdale - Sewer Operations**

Line No.	Item	Present Rates (a)	Company Proposed Rates (b)	Public Staff Recommended Rates (c)
<u>Interest expense, regulatory fee, gross receipts, and income taxes included:</u>				
1.	Gross operating revenues	\$16,873 [1]	\$35,412 [5]	\$18,004 [9]
2.	Operating expenses	<u>16,514 [2]</u>	<u>20,792 [6]</u>	<u>16,775 [10]</u>
3.	Operating ratios (L2 / L1)	<u>97.87%</u>	<u>58.71%</u>	<u>93.17%</u>
<u>Interest expense, regulatory fee, gross receipts, and income taxes excluded:</u>				
4.	Gross operating revenues	\$16,744 [3]	\$31,005 [7]	\$17,614 [11]
5.	Operating expenses	<u>16,385 [4]</u>	<u>16,385 [8]</u>	<u>16,385 [12]</u>
6.	Operating ratios (L5 / L4)	<u>97.86%</u>	<u>52.85%</u>	<u>93.02%</u>

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

[2] Morgan Exhibit I , Schedule 3(b), Line 29, Column (c).

[3] Morgan Exhibit I , Schedule 3(b), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (c).

[4] Morgan Exhibit I , Schedule 3(b), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (c).

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

[6] Morgan Exhibit I , Schedule 3(b), Line 29, Column (e).

[7] Morgan Exhibit I , Schedule 3(b), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (e).

[8] Morgan Exhibit I , Schedule 3(b), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (e).

[9] Morgan Exhibit I , Schedule 3(b), Line 4, Column (g).

[10] Morgan Exhibit I , Schedule 3(b), Line 29, Column (g).

[11] Morgan Exhibit I , Schedule 3(b), Line 4 - Line 24 - Line 25 - Line 26 - Line 27, Column (g).

[12] Morgan Exhibit I , Schedule 3(b), Line 29 - Line 24 - Line 25 - Line 26 - Line 27, Column (g).