

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-1314, Sub 4**

**In the Matter of**

**PLURIS WEBB CREEK, LLC**

**Application for Rate Increase**

**PRE-FILED DIRECT TESTIMONY**

**of**

**DANIEL J. WINTERS**

**Chief Financial Officer  
Pluris Holdings, LLC**

**On behalf of**

**PLURIS WEBB CREEK, LLC**

**April 27, 2020**

1 Q. PLEASE STATE YOUR NAME FOR THE RECORD.

2 A. My name is Daniel J. Winters.

3 Q. PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR  
4 EMPLOYER.

5 A. I am Chief Financial Officer of Pluris Holdings, LLC, which is a holding  
6 company that owns limited liability companies that are public utility  
7 operating entities. In North Carolina those operating entities are Pluris  
8 Webb Creek, LLC, Pluris Hampstead, LLC, and Pluris, LLC. My business  
9 address is 5950 Berkshire Lane, Suite 800, Dallas, Texas 75225.

10 Q. WHAT IS YOUR CURRENT ROLE WITH REGARD TO PLURIS WEBB  
11 CREEK, LLC?

12 A. I provide accounting support and supervision as well as financial oversight  
13 as to Pluris Webb Creek, LLC ("Pluris" or "Utility").

14 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL  
15 BACKGROUND.

16 A. I hold a Bachelor of Science Degree in Accounting and Management from  
17 Pensacola Christian College, and an MBA in Finance from Dallas Baptist  
18 University. I have worked for both privately held and publicly traded  
19 companies in various areas of accounting and finance since I graduated in  
20 2001. I have been working with Pluris and practicing utility accounting since  
21 2012.

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

23 A. No.

1 Q. WHAT ROLE DO YOU PLAY IN PLURIS'S UTILITY OPERATIONS?

2 A. I support our operations through financial oversight of all expenditures, both  
3 capital and operating. I regularly keep our managers up-to-date on budget  
4 performance, assist with vendor management, review and research payroll  
5 and benefits, and work with our outside audit firm to ensure that our internal  
6 controls are adequate in order to provide an accurate financial  
7 representation of utility operations.

8 Q. WHAT ROLE DID YOU PLAY IN CONNECTION WITH THE FILING OF  
9 PLURIS'S APPLICATION FOR RATE INCREASE IN THIS DOCKET?

10 A. My role was to complete the Commission's form Application for Rate  
11 Increase ("Application") and prepare the Minimum Filing Requirements  
12 ("MFR") schedules attached to the Application, including schedules of rate  
13 base, cost of capital, income taxes and pro forma operating income and to  
14 develop the requested revenue requirement and rates.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

16 A. My testimony supports Pluris's request for the rate relief described in the  
17 Application. My testimony specifically sponsors and supports the schedules  
18 attached to the Application, which were prepared in developing Pluris's  
19 requested rates.

20 Q. WHAT TEST YEAR DID PLURIS USE IN ITS RATE APPLICATION?

21 A. The twelve month period ending December 31, 2019.

1 Q. WERE PLURIS'S APPLICATION FOR RATE INCREASE AND THE  
2 FINANCIAL SCHEDULES ATTACHED TO THE APPLICATION  
3 PREPARED BY YOU OR UNDER YOUR DIRECTION?

4 A. Yes.

5 Q. PLEASE DESCRIBE THESE SCHEDULES.

6 A. Exhibit A to my testimony is a Table of Contents listing all the schedules  
7 attached to the Application. These schedules develop the revenue  
8 requirement requested by Pluris in this proceeding. They consist of  
9 schedules of Rate Base and Adjustments; Cost of Capital; Proforma  
10 Statement of Operations and Adjustments; Income Taxes and Present and  
11 Proposed Rates.

12 Q. PLEASE EXPLAIN HOW TEST YEAR EXPENSES WERE ADJUSTED.

13 A. Test year Operation & Maintenance ("O&M") expenses were adjusted for  
14 the known and measurable changes related to the future costs associated  
15 with the operation of Pluris's new membrane bio-reactor ("MBR")  
16 wastewater treatment plant, which is scheduled to be placed in service  
17 before the end of May 2020. O&M expense was also adjusted for  
18 amortization of the estimated rate case costs necessary to file this rate  
19 case. Depreciation expense was adjusted for proforma capital additions.  
20 Taxes other than income were adjusted for the increased Public Utility  
21 Regulatory Fees associated with the requested revenue increase. Also, a  
22 provision for income taxes was calculated assuming the company is taxed  
23 as a C Corporation.

1 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO UTILITY PLANT IN  
2 SERVICE.

3 A. Pluris plans to place the MBR plant in service in May 2020 which would result  
4 in the total construction costs being moved to Utility Plant. Costs accumulated  
5 in Construction Work in Process (“CWIP”), combined with the remaining  
6 budgeted construction costs to be paid by the end of May, will be transferred  
7 to Utility Plant upon completion of the MBR plant. An additional estimate has  
8 been included for the Allowance for Funds Used During Construction  
9 (“AFUDC”). Also, as mentioned in Maurice Gallarda’s testimony regarding the  
10 final accounting as Emergency Operator (“EO”) filed herewith in accordance  
11 with the *Order Appointing Emergency Operator, Approving Increased Rates,*  
12 *And Requiring Customer Notice* issued August 8, 2016 (the “*EO Order*”), in  
13 Docket W-864, Sub 11, Pluris’s under-recovery of the returns authorized in the  
14 *EO Order* is included in the adjustments to Utility Plant in Service.

15 Q. PLEASE EXPLAIN YOUR ADJUSTMENT WITH REGARD TO LAND.

16 A. In its acquisition of the Webb Creek system assets through the Onslow  
17 County tax foreclosure process, Pluris acquired four parcels of land  
18 adjacent to the existing Webb Creek wastewater treatment plant site. It was  
19 unknown at the time of the foreclosure auctions whether these four parcels  
20 were a necessary part of the original plant property or if they would be  
21 needed for future use. After further review and having settled on the design  
22 of the new MBR plant being constructed on that site, Pluris has determined  
23 that one of these parcels is needed for access as an entrance to the

1 wastewater treatment site and three are not needed. Pluris has removed  
2 the three lots from Utility Plant in Service and, therefore, is not seeking Rate  
3 Base treatment as to this land. This land has been correctly reclassified as  
4 Non-Utility Property.

5 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED  
6 DEPRECIATION.

7 A. Accumulated Depreciation has been adjusted for the above-mentioned  
8 reclassification of CWIP, the estimated remaining budgeted costs, the estimate  
9 of AFUDC, and the portion of the under-recovery of the returns authorized in  
10 the *EO Order* relating to Utility Plant in Service. Pluris used a 35-year life to  
11 calculate the appropriate adjustment for Accumulated Depreciation.

12 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO DEPRECIATION EXPENSES.

13 A. Depreciation expense was adjusted in accordance with the Accumulated  
14 Depreciation adjustments described above.

15 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO O&M EXPENSE.

16 A. As set forth in the MFRs, O&M expense was adjusted for the continuing  
17 expenses associated with operation of the new MBR wastewater treatment  
18 plant being constructed by Pluris. These adjustments to existing operating  
19 costs were made by Pluris management based on expected costs going  
20 forward and are as follows: Legal (\$-7,747); Travel (\$-1,131);  
21 Salaries/Payroll Taxes/Benefits (\$22,499); Corporate Management  
22 Expense (\$-46,896); and Direct Utility Expense (\$1,221). Also, O&M was

1 increased for amortization of estimated rate case expense, which is  
2 discussed separately below.

3 Q. PLEASE DESCRIBE THE ADJUSTMENTS FOR WORKING CAPITAL.

4 A. Working capital is based on the formula approach of  $\frac{1}{8}$ <sup>th</sup> (12.5%) of O&M  
5 expense. Thus, working capital was adjusted to 12.5% of total proforma  
6 O&M expense of \$541,119 and totals \$67,640.

7 Q. PLEASE DESCRIBE THE ADJUSTMENTS FOR INCOME TAXES.

8 A. The provision for income taxes was based on the expected proforma net  
9 income to be provided by the proposed rate base and rates, assuming the  
10 utility is taxed as a C Corp. The provision was based on the combined  
11 effective State and Federal tax rate of 22.975% and calculated to be  
12 \$78,578, as shown in the MFRs.

13 Q. PLEASE DESCRIBE THE ADJUSTMENTS FOR TAXES OTHER THAN  
14 INCOME TAXES.

15 A. Taxes other than income taxes were increased for the Public Utility  
16 Regulatory Fee, based on the increase in revenue requested in this  
17 proceeding. The increase amounted to \$743 using the rate of this tax of  
18 0.13%.

19 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO RATE CASE EXPENSE.

20 A. Rate case expense for this proceeding was estimated to be \$67,500, broken  
21 down as follows: for legal (\$37,500), Company personnel not included in  
22 the corporate expense allocation (\$25,000), and Company out-of-pocket

1 for notices, printing, travel and miscellaneous (\$5,000). The total was  
2 amortized over 5 years and O&M expense was increased by \$13,500.

3 Q. WHAT IS THE REVENUE REQUIRED BY PLURIS TO REALIZE A FAIR  
4 RATE OF RETURN AND RECOVER ITS PRUDENT AND NECESSARY  
5 OPERATING EXPENSES?

6 A. The revenue required by Pluris to realize a fair rate of return investment and  
7 recover its prudent and necessary operating expenses is \$1,225,214.

8 Q. DID YOU ALSO PREPARE A FINAL ACCOUNTING AS TO THE  
9 PROVISIONAL RATES SET BY THE COMMISSION WHEN IT  
10 APPOINTED PLURIS AS EMERGENCY OPERATOR OF THE WEBB  
11 CREEK SYSTEM?

12 A. Yes, when Pluris was appointed as Emergency Operator in Docket W-864,  
13 Sub 11, the Commission established interim provisional rates for Pluris as  
14 recommended by the Public Staff. Due to the extensive investment Pluris  
15 made in the Webb Creek system during its service as Emergency Operator,  
16 and its commitment to build a new MBR plant to serve the Webb Creek  
17 vicinity, when the Commission issued a Certificate of Public Convenience  
18 and Necessity to Pluris in Docket W-1314, Sub 1, it continued the interim  
19 provisional rates and required the filing of a final accounting, as follows:

20 Therefore, in order to avoid the delay inherent in the true up  
21 and audit process at this juncture, it is appropriate to accept  
22 the Public Staff's recommendation that **the interim rates**  
23 **shall continue until Pluris files the contemplated rate**  
24 **case, at which time Pluris shall prepare and file a final**  
25 **accounting to be audited by the Public Staff, and a true**  
26 **up of the provisional rates collected as emergency**

1                   **operator and interim rates shall be dealt with in the rate**  
2                   **case.**

3                   *Order Revoking Webb Creek Water And Sewage, Inc.'s Franchise,*  
4                   *Granting Certificate Of Public Convenience And Necessity To Pluris Webb*  
5                   *Creek, LLC, Continuing Interim Rates, Discharging Emergency Operator,*  
6                   *And Requiring Customer Notice*, issued in Dockets W-864, Sub 14 and W-  
7                   1314, Sub 1, March 26, 2019, Ordering ¶ 8 ("*Revocation Order*") (emphasis  
8                   added).

9                   Q.     PLEASE SUMMARIZE THE FINAL ACCOUNTING.

10                  A.     In the *EO Order* in Docket W-864, Sub 11, the Commission appointed Pluris  
11                   as the Emergency Operator of the Webb Creek system. In the *EO Order* the  
12                   Commission accepted the recommendations of the Public Staff that Pluris be  
13                   allowed a 7.67% return on its investment in the Webb Creek system and a  
14                   7.5% operating margin as fair compensation for Pluris, given the extent of the  
15                   problems with the Webb Creek system, the magnitude of the investment  
16                   required, the anticipated difficulty of attempting to bring that system into  
17                   compliance, and the responsibility of serving as emergency operator.

18                  In Finding of Fact 8 in the *Revocation Order*, the Commission found:

19                                 [It is appropriate to accept the Public Staff's recommendation  
20                                 that the interim rates shall continue until Pluris files the  
21                                 contemplated rate case, at which time Pluris shall prepare and  
22                                 file a final accounting to be audited by the Public Staff, and a true  
23                                 up of the provisional rates.

24                                 Likewise, Ordering Paragraph 9 of the *Revocation Order* requires that, "in  
25                                 the event that a rate case application has not been filed by Pluris by June  
26                                 30, 2020," the Public Staff shall advise the Commission as whether it finds  
27

1 that Pluris has either not recovered its costs and approved returns, or has  
2 over-recovered during its emergency operatorship. This echoes the  
3 language of the *EO Order*, where the Commission set interim provisional  
4 rates for Pluris “subject to refund of any amounts found unjust and  
5 unreasonable, and subject to true up if the emergency operator has not  
6 recovered its costs and approved returns or has over-recovered.” (*EO Order*,  
7 ¶ 3, p. 7).

8 Pluris submitted quarterly financial reports to the Public Staff during the  
9 entire emergency operatorship and the Final Accounting true up is provided  
10 as Exhibit B to my testimony.

11 The Final Accounting shows that, over the 32 months of Pluris’ service as  
12 Emergency Operator, Pluris invested over \$900,000 in Utility Plant and  
13 earned just over \$110,000 in Operating Income.

14 Q. WHAT DID THE FINAL ACCOUNTING SHOW AS TO WHETHER THE  
15 PROVISIONAL RATES SET BY THE COMMISSION ALLOWED PLURIS TO  
16 EARN THE RETURNS ON ITS INVESTMENT IN WEBB CREEK PLANT, THE  
17 ANNUAL DEPRECIATION EXPENSE ON THAT INVESTMENT, AND THE  
18 MARGIN ON ITS REASONABLE AND PRUDENT OPERATING EXPENSES,  
19 AS DESCRIBED IN THE *EO ORDER*?

20 A. The Final Accounting shows, based on the return on investment of 7.67%  
21 and 7.5% operating margin provided for in the *EO Order*, that Pluris under-  
22 recovered its return on investment by \$102,143 and is due an additional  
23 \$100,734 for its operating margin. The total amount of Pluris’s under-

1 recovery / shortfall resulting from its service as Emergency Operator of the  
2 Webb Creek system is \$202,877.

3 Q. IS PLURIS'S UNDER RECOVERY OF THE RETURNS AUTHORIZED IN THE  
4 *EO ORDER*, AS SHOWN IN PLURIS'S FINAL ACCOUNTING, ADDRESSED  
5 IN PLURIS'S PROPOSED RATES?

6 A. Yes, the proposed rates allow Pluris to recover the \$202,877 shortfall from its  
7 service as Emergency Operator of the Webb Creek system by including that  
8 amount in rate base, and recovering it over the coming years.

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

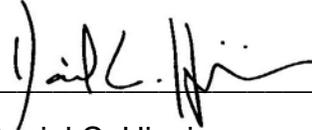
10 A. Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing document, has been served on all counsel of record for all parties in this docket, if any, and the Public Staff, by either depositing same in a depository of the United States Postal Service, first-class postage prepaid and mailed by the means specified below, or by electronic delivery.

This the 27<sup>th</sup> day of April, 2020.

BURNS, DAY & PRESNELL, P.A.

A handwritten signature in black ink, appearing to read "Daniel C. Higgins", written over a horizontal line.

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