

**NORTH CAROLINA UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-1300, SUB 60**

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**IN THE MATTER OF:  
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC  
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING  
WATER UTILITY SERVICE IN ALL OF ITS SERVICE AREAS  
IN NORTH CAROLINA**

**PRE-FILED DIRECT TESTIMONY OF  
OF  
LAURIE OAKMAN  
ON BEHALF OF  
OLD NORTH STATE WATER COMPANY, LLC**

**JUNE 29, 2021**

1   **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE**  
2       **RECORD.**

3   A.    My name is Laurie Oakman. My business address is 3212 6<sup>th</sup> Avenue South, Suite  
4       200, Birmingham, Alabama 35222.

5

6   **Q.     PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR**  
7       **EMPLOYER.**

8   A.    I am employed by Integra Water, LLC (“Integra Water”). The business address for  
9       Integra Water is 3212 6<sup>th</sup> Avenue South, Suite 200, Birmingham, Alabama 35222.

10

11                           **GENERAL INFORMATION**

12   **Q.     WHAT ARE YOUR CURRENT ROLES WITH ONSWC AND INTEGRA**  
13       **WATER?**

14   A.    I am employed by Integra Water as the Accounting Manager. Integra Water has an  
15       operating agreement with Old North State Water Company, LLC (“ONSWC”) to  
16       provide support services to ONSWC.

17

18   **Q.     PLEASE DESCRIBE YOUR RESPONSIBILITIES AS ACCOUNTING**  
19       **MANAGER FOR INTEGRA WATER.**

20   A.    I support ONSWC’s and Integra Water’s operations through financial oversight of  
21       ONSWC and six other water and wastewater companies owned or managed by

1 Integra Water. In that capacity, I monitor and analyze accounting data, produce  
2 periodic financial statements, and keep the Manager of ONSWC and Integra  
3 Water up-to-date on budget performance. I am also responsible for the daily  
4 operations of the accounting department of Integra Water that provides  
5 accounting services for ONSWC and Integra Water. I provide daily cash balances  
6 for ONSWC and Integra Water-owned entities, and I provide financial data for  
7 operations and capital improvements to the management team. I also work as the  
8 human resources liaison for Integra Water to assist with payroll and benefits for  
9 employees.

10  
11 **Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND.**

12 A. I have a Bachelor of Science degree from the University of Montevallo, and I have  
13 a Master of Accountancy from the University of Alabama at Birmingham. I have  
14 been certified as an Alabama State Board Certified Public Accountant since  
15 February, 2003.

16  
17 **Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.**

18 A. I began working for Integra Water in December 2016. Prior to that time, I worked  
19 in the telecommunications industry for fifteen years with BellSouth/AT&T in  
20 various management level accounting roles, including Carrier Access Billing and

1 Revenue Accounting. I also worked as the Accounting Manager for a local  
2 chemical distribution company.

3  
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**  
5 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

6 A. No.

7  
8 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. My testimony supports ONSWC’s request for an increase in rates as provided in  
10 the Application for Rate Increase and attached schedules. My testimony  
11 specifically addresses certain financial aspects of the rate case, including  
12 ONSWC’s pro-forma revenues and expenses, pro-forma adjustments, capital  
13 structure, rate design, and taxes.

14  
15 **Q. WHAT ROLE DID YOU HAVE IN THE PREPARATION OF THE**  
16 **APPLICATION FOR RATE INCREASE AND THE SUPPORTING**  
17 **SCHEDULES?**

18  
19 A. My role was to prepare the Application for Rate Increase and prepare the  
20 schedules attached to the Application. I also developed the requested revenue  
21 requirement and rates.

1   **Q.    WHAT TEST YEAR PERIOD IS ONSWC USING IN ITS APPLICATION**  
2       **FOR A RATE INCREASE?**

3    A.    ONSWC is utilizing a Test Year in this proceeding of the twelve months ended  
4       December 31, 2020.

5

6   **Q.    WAS ONSWC'S APPLICATION FOR RATE INCREASE AND THE**  
7       **SCHEDULES ATTACHED TO THE APPLICATION PREPARED BY YOU**  
8       **OR BY SOMEONE UNDER YOUR SUPERVISION?**

9    A.    Yes.

10

11   **Q.    PLEASE DESCRIBE THE SCHEDULES TO BE CONSIDERED IN THIS**  
12       **PROCEEDING.**

13   A.    Attached to the Application for Rate Increase are schedules to support the requested  
14       adjustment in rates. The schedules consist of the following:

- 15           • Balance sheet as of December 31, 2020 (Schedule A).
- 16           • Income statement for the Twelve Months Ended December 31, 2020  
17           (Schedule B).
- 18           • Calculation of Rate Base and Rate of Return (Schedule C).
- 19           • Calculation of Revenues Under Present Rates (Schedule D).

- Number of Customers Served, List of Systems, and Current Rates (Schedule E).
- Original Cost of Utility Systems (Schedule F).

**PRO-FORMA REVENUES AND EXPENSES**

**Q. HAS ONSWC SUSTAINED INCOME LOSSES FOR ITS WATER SYSTEMS DURING THE TEST YEAR?**

**A.** Yes. ONSWC experienced a net income loss of \$352,220.35 during the Test Year.

**Q. PLEASE EXPLAIN THE REASONS THAT ONSWC SUSTAINED INCOME LOSSES DURING THE TEST YEAR.**

**A.** ONSWC's substantial net income loss of \$352,220.35 during the Test Year was due to acquiring water systems since 2014 with set rates that had not been adjusted to accurately reflect the operating costs and expenses. The substantial net income loss was also the result of not having previously requested a rate adjustment for any of the water systems to cover ONSWC's operating expenses. From the time that ONSWC began acquiring water systems in 2014, it has never requested a rate increase until this request.

**Q. WHAT IS THE REVENUE INCREASE REQUESTED BY ONSWC?**



1 A. ONSWC's current revenues based on the current rates are \$690,700.19, and  
2 ONSWC's current expenses are \$1,042,920.54. These revenues currently leave  
3 ONSWC operating at a net income loss of \$352,220.35. After annualizing present  
4 rates, the pro-forma revenues are \$750,744.71. ONSWC proposes an increase in  
5 revenue of \$512,619.29, for total revenue of \$1,263,364.01, which represents an  
6 increase of 68% over present annual total revenues.

7  
8 **Q. WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**  
9 **RATE CASE?**

10 A. ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The  
11 proposed cost of long-term debt is 7.34%. These ratios and cost rates are  
12 consistent with the actual capital structure values as of the end of the Test Year  
13 ended December 31, 2020. ONSWC requests that the Commission accept  
14 ONSWC's current capital structure of 83% debt and 17% equity.

15  
16 **Q. WHAT RATE OF RETURN DOES ONSWC'S CURRENT RATES YIELD?**

17 A. ONSWC's current rates yield a rate of return of -33.77%.

18  
19 **Q. WHAT RATE OF RETURN WOULD ONSWC'S PROPOSED RATES**  
20 **YIELD?**

1 A. The rates proposed by ONSWC would yield on overall rate of return on rate base  
2 of 7.75%, based on a rate of return on common equity of 9.75%.

3

4

**PRO-FORMA ADJUSTMENTS**

5 **Q. DID ONSWC MAKE ANY PRO FORMA ADJUSTMENTS TO TEST YEAR**  
6 **ACTUAL REVENUES OR EXPENSES?**

7 A. Yes. ONSWC made pro forma adjustments to both Test Year revenues and  
8 expenses.

9

10 **Q. PLEASE EXPLAIN THE PRO-FORMA ADJUSTMENTS ONSWC MADE**  
11 **TO THE TEST YEAR REVENUES AND EXPENSES IN COMPUTING THE**  
12 **PRO-FORMA PRESENT RATE REVENUES.**

13 A. ONSWC completed a bill analysis to compile the base rate activity for the Test  
14 Year. The Test Year revenue amounts have been adjusted to reflect a full year of  
15 consumption with the customer count/bill count as of the end of the Test Year, due  
16 to several recent acquisitions that did not have data available for the entire Test  
17 Year. Specifically, the following water systems were acquired in 2020:

- 18 • W-1300, Sub 46: Bingham Woods Mobile Home Park in Orange County.
- 19 • W-1300, Sub 48: Autumn Ridge Subdivision in Guilford County.
- 20 • W-1300, Sub 53: Carriage Cove Subdivision in Guilford County.
- 21 • W-1300, Sub 54: Yardley Subdivision in Wake County.



1        ONSWC calculated an adjustment to various expenses based on an average 10%  
2        customer growth rate across all of its water systems. ONSWC does not employ  
3        administrative and office personnel, so this customer base growth has a direct  
4        impact on administrative expenses related to customer service, billing and  
5        collections, and accounting, which require additional outside resources. The 10%  
6        growth rate also directly impacts the maintenance and repair expenses; electric  
7        power expenses required for additional pumping and distribution of water; and  
8        chemical treatment expenses needed to treat the additional water.

9  
10       ONSWC also made an adjustment to Purchased Water based on the following two  
11       purchased water systems: Blawell Subdivision in Cumberland County and Rocklyn  
12       Subdivision in Davidson County. The adjustments are based on a 2% customer  
13       growth rate in the Blawell Subdivision and a 28% customer growth in the Rocklyn  
14       Subdivision.

15  
16       **Q.    PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**  
17       **ACCUMULATED DEPRECIATION.**

18       **A.    No adjustments were made to accumulated depreciation.**

19  
20       **Q.    PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**  
21       **DEPRECIATION EXPENSES.**

1 A. ONSWC made adjustments to depreciation expense to annualize depreciation  
2 based on all Utility Placed in Service as of the end of the Test Year.  
3

4 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**  
5 **OPERATION AND MAINTENANCE EXPENSES.**

6 A. ONSWC made an adjustment to Purchased Water based on the following two  
7 purchased water systems: Blawell Subdivision in Cumberland County in Docket  
8 No. W-1300, Sub 31, and Rocklyn Subdivision in Davidson County in Docket No.  
9 W-1300, Sub 24. The adjustments are based on a 2% customer growth rate in the  
10 Blawell Subdivision and a 28% customer growth in the Rocklyn Subdivision.  
11

12 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE FOR**  
13 **WORKING CAPITAL.**

14 A. ONSWC made no adjustments for working capital.  
15

16 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE FOR**  
17 **INCOME TAXES.**

18 A. ONSWC made adjustments to recognize income taxable at the state income rate  
19 of 2.5% and the federal rate of 21%. ONSWC has not generated taxable income  
20 to date.  
21

1   **Q.   HAS ONSWC PROPOSED ANY ADJUSTMENTS TO THE TEST YEAR**  
2       **EXPENSES FOR PERSONAL OR REAL ESTATE PROPERTY TAXES?**

3   A.   ONSWC's Application does not include adjustments to the Test Year amounts for  
4       personal or real estate property taxes.

5

6                                   **CAPITAL STRUCTURE**

7   **Q.   WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**  
8       **RATE CASE?**

9   A.   ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The  
10       proposed cost of long-term debt is 7.34%. These ratios and cost rates are  
11       consistent with the actual capital structure values as of the end of the Test Year.  
12       When including the proposed rate of return on common equity of 9.75%, the  
13       resulting proposed overall rate of return is 7.75%.

14

15                                   **INCOME TAXES AND TCJA**

16   **Q.   WHAT INCOME TAX RATES HAS ONSWC USED IN THIS**  
17       **PROCEEDING?**

18   A.   At present, because ONSWC is not earning any income, ONSWC is not paying  
19       any federal or state income tax. Under the proposed rate increase, ONSWC will  
20       begin paying federal and state income taxes at the current rates of 2.5% for state  
21       income tax and 21% for federal income tax.

1

2 **Q. IS ONSWC PROPOSING ANY CHANGES TO THE IMPACTS AND**  
3 **TREATMENT PERTAINING TO THE TCJA?**

4 A. No. As ONSWC has not been required to pay any federal income tax because  
5 ONSWC is operating at a loss, there is no need to adjust for any impacts from  
6 TCJA.

7

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

9 A. Yes. However, I reserve the right to update or amend this testimony upon receipt of  
10 additional data or other information that may become available.

11