



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

May 26, 2020

Ms. Kimberley A. Campbell, Chief Clerk  
North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, North Carolina 27699-4300

Re: Docket No. W-218, Sub 526 – Application for General Rate Increase

Dear Ms. Campbell:

In connection with the above-referenced dockets, I transmit herewith for filing on behalf of the Public Staff the testimony and exhibit of Lynn L. Feasel, Staff Accountant, Accounting Division.

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

Sincerely,

/s/ Megan Jost  
Staff Attorney  
[megan.jost@psncuc.nc.gov](mailto:megan.jost@psncuc.nc.gov)

MJ/cla

Attachment(s)

Executive Director  
(919) 733-2435

Communications  
(919) 733-5610

Economic Research  
(919) 733-2267

Legal  
(919) 733-6110

Transportation  
(919) 733-7766

Accounting  
(919) 733-4279

Consumer Services  
(919) 733-9277

Electric  
(919) 733-2267

Natural Gas  
(919) 733-4326

Water  
(919) 733-5610

4326 Mail Service Center • Raleigh, North Carolina 27699-4300  
An Equal Opportunity / Affirmative Action Employer

OFFICIAL COPY

May 26 2020

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 526

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 )

TESTIMONY OF  
LYNN FEASEL  
PUBLIC STAFF – NORTH  
CAROLINA UTILITIES  
COMMISSION

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**AQUA NORTH CAROLINA, INC.  
DOCKET NO. W-218, SUB 526**

**TESTIMONY OF LYNN FEASEL  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION**

**May 26, 2020**

1   **Q.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2       **PRESENT POSITION.**

3   A.   My name is Lynn Feasel and my business address is 430 N.  
4       Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant  
5       with the Accounting Division of the Public Staff – North Carolina  
6       Utilities Commission, and represent the using and consuming public.

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

9   A.   I have been employed by the Public Staff since November 6, 2016.

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

12  A.   I am a graduate of Baldwin Wallace University with a Master of  
13       Business Administration degree in Accounting. I am a Certified Public  
14       Accountant licensed in the State of North Carolina. Prior to joining  
15       the Public Staff, I was employed by Franklin International in  
16       Columbus, Ohio until June 2013. Additionally, I worked for ABB, Inc.,

1 from September 2013 until October 2016. I joined the Public Staff as  
2 a staff accountant in November 2016. Since joining the Public Staff,  
3 I have worked on rate cases involving water and sewer, natural gas,  
4 and electric companies, filed testimony and affidavits in various  
5 general rate cases, updated earnings reports for Carolina Water  
6 Service, Inc. of North Carolina, Aqua North Carolina, Inc. (Aqua, Aqua  
7 NC, or Company), and various natural gas companies, calculated  
8 refunds to consumers from AH4R and Progress Residential, and  
9 reviewed franchise and contiguous filings for multiple water and  
10 sewer companies.

11 **Q. WHAT ARE YOUR DUTIES?**

12 A. I am responsible for analyzing testimony, exhibits, and other data  
13 presented by parties before the North Carolina Utilities Commission  
14 (Commission). I have the further responsibility of performing the  
15 examinations of books and any other data and data request  
16 responses provided by public utilities in proceedings before the  
17 Commission, and summarizing the results into testimony and  
18 exhibits for presentation to the Commission.

19 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**  
20 **PROCEEDING?**

21 A. On December 31, 2019, Aqua filed an application with the  
22 Commission seeking authority to adjust rates and charges for water

1 and sewer service in all of its service areas in North Carolina, approval  
2 of a conservation pilot program, deferral accounting, and modification  
3 of certain terms and conditions for the provision of water and sewer  
4 utility services. My investigation included a review of the application  
5 filed by the Company, an examination of the Company's books and records  
6 for the test year and post-test year, and a review of any additional  
7 documentation provided by the Company in response to written and verbal  
8 data requests.

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

11 A. The purpose of my testimony in this proceeding is to present the  
12 results of my investigation of the levels of revenue, expenses, and  
13 investment filed by Aqua in support of its requested increase in  
14 operating revenues for its Aqua uniform water operations (Aqua  
15 Uniform Water), Aqua uniform sewer operations (Aqua Uniform  
16 Sewer), Brookwood water operations (Brookwood Water), Fairways  
17 water operations (Fairways Water), and Fairways sewer operations  
18 (Fairways Sewer).

19 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**  
20 **YOUR TESTIMONY AND EXHIBITS?**

21 A. Yes. My testimony contains a discussion of each issue resulting from  
22 my investigation, and my exhibit consists of schedules showing the

1 calculation of my adjustments to revenues, expenses, and rate base.  
2 My schedules also reflect adjustments recommended by other Public  
3 Staff witnesses, as follows:

4 1) The recommendations of Public Staff witness Boswell  
5 regarding protected excess deferred income taxes (EDIT).

6 2) The recommendations of Public Staff witness Henry  
7 regarding the following items:

8 (a) Unamortized rate case expense;

9 (b) Unamortized repair tax credit; and

10 (c) Net plant in service.

11 **Q. WHAT ADJUSTMENTS WILL YOU DISCUSS?**

12 A. The accounting and ratemaking adjustments that I will discuss relate  
13 to the following items:

14 (a) Accumulated deferred income tax (ADIT);

15 (b) Purchase acquisition adjustment (PAA) and accumulated  
16 amortization of PAA;

17 (c) Amortization expense - PAA;

18 (d) Salaries and wages;

19 (e) Miscellaneous expense;

20 (f) Employee pension and benefits;

21 (g) Insurance;

22 (h) Payroll taxes;

- 1 (i) Contract services - other; and  
2 (j) Contra-OH allocations.

3 **ACCUMULATED DEFERRED INCOME TAX (ADIT)**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED**  
5 **DEFERRED INCOME TAX (ADIT).**

6 A. I have made several adjustments to ADIT. First, I have updated ADIT  
7 associated with rate case expense to reflect the unamortized  
8 balance recommended by Public Staff witness Henry. Next, I have  
9 adjusted ADIT to include the amounts associated with the Public  
10 Staff's recommended levels of unamortized repair tax credit costs  
11 recommended by Public Staff witness Henry. Next, I have adjusted  
12 ADIT to update actual amounts associated with post-test year  
13 additions based on calculations provided by the Company. Finally, I  
14 have adjusted ADIT to include the flowback of protected EDIT  
15 recommended by Public Staff witness Boswell that was inadvertently  
16 excluded from the filing. These adjustments result in a decrease of  
17 \$513,154 for ADIT.

**PURCHASE ACQUISITION ADJUSTMENT (PAA) AND**  
**ACCUMULATED AMORTIZATION OF PAA**

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PURCHASE  
ACQUISITION ADJUSTMENT (PAA) AND ACCUMULATED  
AMORTIZATION OF PAA.**

A. I removed the post-test year PAA additions and associated accumulated amortization reflected in the application and replaced them with the actual post-test year PAA additions through March 31, 2020, and calculated accumulated amortization of the post-test year PAA additions based on the information provided by the Company. I updated the Company's test year accumulated amortization of PAA with the calculated accumulated amortization of PAA within the test year based on the in-service date, amortization rate, and amortization policy of the Company. I also updated the net acquisition incentive adjustment (AIA) for post-test year additions through the cutoff date, March 31, 2020, and updated the accumulated amortization of AIA based on the in-service date, amortization rate, and the amortization policy. These adjustments result in an increase of \$90,781 in PAA and a decrease of \$72,152 in accumulated amortization of PAA.



1

**PAA AMORTIZATION EXPENSE**

2   **Q.   PLEASE   EXPLAIN   YOUR   ADJUSTMENT   TO   PAA**  
3       **AMORTIZATION EXPENSE.**

4    A.   I have calculated the PAA and AIA amortization expense to reflect  
5       my adjustments to PAA and AIA through March 31, 2020. These  
6       adjustments result in an increase of \$3,541 in amortization expense.

7

**SALARIES AND WAGES**

8   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO SALARIES AND**  
9       **WAGES.**

10   A.   I have made the following adjustments to salaries and wages:

- 11       1)    Remove capitalized time credit-labor;  
12       2)    Add transportation regular payroll expense;  
13       3)    Update payroll to March 23, 2020;  
14       4)    Remove open positions;  
15       5)    Remove temporary employees;  
16       6)    Adjust overtime pay;  
17       7)    Adjust standby pay;  
18       8)    Adjust leave without paid employees' salary;  
19       9)    Remove bonus allocated to shareholders; and  
20       10)   Remove executive compensation allocated to shareholders.

1   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE**  
2       **CAPITALIZED TIME CREDIT-LABOR.**

3   A.   The salaries and wages amount on the application did not exclude  
4       the capitalized time credit for labor; instead the Company combined  
5       all capitalized credits and listed them as a separate line item in the  
6       application. I removed capitalized time credit for labor cost according  
7       to the data from Exhibit B1/B2 to reflect the salaries and wages net  
8       of capitalized time credit expense before any additional adjustments.

9   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO ADD**  
10       **TRANSPORTATION REGULAR PAYROLL EXPENSE.**

11   A.   On Exhibit B1/B2, the Company treated transportation regular payroll  
12       expense as salaries and wages, but on the application, this expense  
13       was not included as salaries and wages. I made the adjustments to  
14       include this expense in salaries and wages.

15   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO UPDATE SALARIES**  
16       **AND WAGES.**

17   A.   On April 6, 2020, Aqua provided the Public Staff with an updated  
18       calculation of salaries and wages as of March 23, 2020. I adjusted  
19       salaries and wages to reflect the Company's updates for current  
20       active employees, exclude the allocation of salaries and wages to  
21       non-utility operations and other states, and remove the capitalized

1 expense based on the updated salaries and wages and the expense  
2 percentage provided by the Company.

3 Aqua's pro forma balance for salaries and wages includes labor  
4 costs allocated from 1) corporate service; 2) corporate sundries; and  
5 3) Aqua Customer Operations (ACO). After reviewing the Company  
6 updates to salaries and wages and responses to the Public Staff's  
7 data requests, I recommend the following adjustments:

8 1) Labor cost allocated from corporate service: Aqua included 42  
9 terminated employees and a portion of new hired employees'  
10 salary in the application. I removed the 42 terminated  
11 employees' salary and added in a normalized year of salary  
12 for the new hired employees. Based on the Company's  
13 response to Data Request 114, Item 1, there were nine  
14 employees that were terminated after the end of test year but  
15 whose positions were not filled by March 31, 2020. Therefore,  
16 I removed the salaries of these nine employees that were  
17 allocated to Aqua NC. Bonus allocated from corporate service  
18 was also included in the application. Based on the Company's  
19 response to Public Staff Data Request 16, Item 1, I removed  
20 35% of the short term incentive plan and 50% of the stock  
21 options and awards, and allocated it to the shareholder.

1           2)   Labor cost allocated from ACO: Aqua included a portion of  
2                   new hired employees' salaries in the application. I normalized  
3                   the salaries on the Company's book to a full year for the new  
4                   hired employees. Based on the Company's response to Data  
5                   Request 113, Item 1, there were 10 employees that were  
6                   terminated after the end of test year whose positions were not  
7                   filled by March 31, 2020. Therefore, I removed the salaries of  
8                   these 10 employees that were allocated to Aqua NC. There  
9                   were also two employees that were transferred to Aqua Illinois  
10                  and Aqua NC after the end of the test year. The one employee  
11                  transferred to Aqua NC was already included in Aqua NC  
12                  salaries, so I removed both of their salaries allocated to Aqua  
13                  NC from ACO. Bonus allocated from ACO was also included  
14                  in the application. Based on the Company's response to  
15                  Public Staff Data Request No. 16, Item 1, I removed 35% of  
16                  the short term incentive plan and 50% of the stock options and  
17                  awards and allocated it to the shareholder.

18   **Q.   HAS THE COMPANY INCLUDED OPEN POSITIONS IN ITS**  
19           **CALCULATION OF SALARIES AND WAGES FOR THIS CASE?**

20   A.   Yes. In its application, the Company included estimated salaries for  
21           5 open or new positions. On April 6, 2020, the Company provided an  
22           updated calculation of labor expense reflecting the March 23, 2020,  
23           actual salaries for the 179 active employees and one employee that

1 was hired on April 13, 2020. The Company also included salaries for  
2 2 open positions in its update, for a total of 182 positions.

3 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE**  
4 **SALARIES FOR OPEN POSITIONS IN RATES?**

5 A. No. The Public Staff has evaluated the test year open employee  
6 positions at Aqua NC where one employee left employment at Aqua  
7 NC on a date certain, and a period of time elapsed before the date  
8 the replacement employee began work. During this period for this  
9 vacant position, Aqua NC did not pay wages, payroll taxes, or group  
10 medical insurance, nor provide other employee benefits. Aqua NC  
11 experiences open positions every year. On May 19, 2020, there are  
12 five full time Aqua NC open positions listed on the Aqua America  
13 website. Aqua NC should not have nonexistent expenses included in  
14 the revenue requirement.

15 During the test year ending September 30, 2019, there were a total  
16 of 24 full time employees that left employment at Aqua NC whose  
17 positions were later filled by full time replacement employees. Based  
18 upon the total number of days the full time employee vacancies  
19 existed, the Public Staff is adjusting out the wages, payroll taxes,  
20 group medical insurance, and other benefits for 4.82 positions. This  
21 adjustment normalizes the open positions over the entire test year.

1           The salaries and benefits calculated for the 4.82 open positions were  
2           based on the updates provided by the Company on April 6, 2020.

3           1)     I removed salaries and wages for two open positions as of  
4                 March 23, 2020, listed as Facility Operator I and Facility  
5                 Operator III.

6           2)     I removed salaries and wages for one position that was filled  
7                 on April 13, 2020, listed as Facility Operator II.

8           3)     I removed salaries and wages for one position that was  
9                 terminated on April 1, 2020, listed as meter reader.

10          4)     I used the average salaries and wages of the above four  
11                 positions to calculate the estimated salaries and wages for the  
12                 fifth position and removed it from salaries and wages.

13          The update cutoff, including the customer count, utilized by the  
14          Public Staff in this proceeding is March 31, 2020. It would not be  
15          appropriate to add employees hired after March 31, 2020, for newly  
16          approved positions without a matching of revenues, due to added  
17          customer growth beyond March 31, 2020.

18   **Q.     PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE**  
19   **TEMPORARY EMPLOYEES.**

20   A.     In the Company's updated salaries and wages, two temporary  
21             employees were included. I removed them because they were not  
22             full time or part time employees and the expenses related to them

1           should not be treated as salaries and wages; instead their wages  
2           should be treated as contract service expense.

3   **Q.     PLEASE EXPLAIN YOUR ADJUSTMENT TO OVERTIME PAY.**

4   A.     In its application, Aqua calculated overtime pay by dividing projected  
5           salaries and wages as of April 1, 2020, by annual hours to get an  
6           annual hourly pay rate by department. This annual hourly rate was  
7           then multiplied by 1.5 to get an annual overtime pay rate. The annual  
8           overtime pay rate was multiplied by the actual overtime hours to yield  
9           overtime cost to include in salaries and wages.

10          The Public Staff disagrees with this methodology of calculating  
11          overtime wages for several reasons. First, employees in the same  
12          department have different hourly rates. Using an average hourly rate  
13          to calculate the overtime cost for all employees in each department  
14          does not reflect the actual overtime cost. Second, the Company used  
15          projected cost instead of actual salaries and wages at March 31,  
16          2020, to calculate the overtime rate. Third, there could be some  
17          employees who left the Company during the test year but whose  
18          overtime cost was still included.

19          Based on the reasons stated above, I calculated actual overtime pay  
20          for each active employee based on the updated payroll as of March  
21          23, 2020.

1     **Q.     PLEASE EXPLAIN YOUR ADJUSTMENT TO STANDBY PAY.**

2     A.     I removed the standby pay for employees terminated during the test  
3             year.

4     **Q.     PLEASE EXPLAIN YOUR ADJUSTMENT TO LEAVE WITHOUT**  
5             **PAY EMPLOYEES SALARY.**

6     A.     During the test year period, there were 3 employees on personal  
7             leave, 24 employees on FMLA Continuous leave, 3 employees on  
8             FMLA Intermittent leave, and 2 employees on short term disability  
9             leave for more than 26 weeks. According to the Company's  
10            responses to Public Staff Data Request 34, Item 2, and Data  
11            Request 23, Item 1, these employees were not paid during the period  
12            of time when they left; therefore, I removed the portion of the salary  
13            they were not paid during this period.

14    **Q.     PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE BONUS**  
15             **TO SHAREHOLDERS.**

16    A.     The Company's application included bonuses paid to North Carolina  
17             employees and bonus allocated from corporate service and ACO  
18             during the test year, including Short-Term Incentive (STI) bonuses,  
19             stock options, restricted stock units amortization, and performance  
20             share units amortization. According to Aqua NC's most recent  
21             policies for the STI Plan, 50% of the metric weight depends on  
22             financial while 17.5% of the 50% is directly related to Aqua America's



1 earnings per share. Earnings per share directly benefit the  
2 shareholders' value instead of providing a benefit to the ratepayers.  
3 Therefore, I have removed 17.5% of the bonuses paid to NC  
4 employees from expenses and allocated them to the Company's  
5 shareholders. According to Aqua Services, Inc.'s most recent  
6 policies for the STI Plan, 50% of the metric weight depends on  
7 financial while 35% of the 50% is directly related to Aqua America's  
8 earnings per share. Earnings per share directly benefit the  
9 shareholders' value instead of providing a benefit to the ratepayers.  
10 Therefore, I have removed 35% of the bonus expenses allocated  
11 from corporate service and ACO and allocated them to the  
12 Company's shareholders. According to Aqua America, Inc.'s most  
13 recent policies for the 2009 Omnibus Equity Compensation Plan, the  
14 plan will encourage the participants to contribute to the success of  
15 the Company, align the economic interests of the participants with  
16 those of the shareholders, and provide a means through which the  
17 Company can attract and retain officers, other key employees, non-  
18 employee directors, and key consultants of significant talent and  
19 abilities for the benefit of its shareholders and customers. Therefore,  
20 I removed 50% of the stock options, restricted stock units  
21 amortization, and performance share units amortization paid to NC  
22 employees that were allocated from corporate service and ACO, and  
23 allocated them to the Company's shareholders.

1    **Q.    PLEASE EXPLAIN YOUR ADJUSTMENT TO EXECUTIVE**  
2           **COMPENSATION.**

3    A.    My adjustment to Executive Compensation includes the removal of  
4           50% of the total compensation of the top five executives, which is  
5           comprised of total annual salary, Short Term Incentive Plan (STIP),  
6           Long Term Incentive Plan (LTIP), and Benefits. The Public Staff has  
7           identified the top five Aqua America's executives who have charged  
8           compensation to Aqua NC. In this case, the top five Aqua America's  
9           officers are the Chief Executive Officer and President, Executive  
10          Vice President and Chief Financial Officer, Executive Vice President  
11          and Chief Operating Officer, Executive Vice President and Chief  
12          Strategy and Corporate Development Officer, and Executive Vice  
13          President, General Counsel and Secretary. As presented on Public  
14          Staff Feasel Exhibit I, Schedule 4, this adjustment is used to reflect  
15          the fact that the executives' duties and compensation encompass a  
16          substantial amount of activities that are closely linked to shareholder  
17          interests.

18   **Q.    IS YOUR RECOMMENDATION BASED ON THE PREMISE THAT**  
19           **THE COMPENSATION OF THE AQUA AMERICA CEO AND**  
20           **OTHER EXECUTIVE OFFICERS YOU HAVE SELECTED ARE**  
21           **EXCESSIVE OR SHOULD BE REDUCED?**

22   A.    No. This recommendation is based on the Public Staff's belief that it  
23          is appropriate and reasonable for the shareholders of the very large

1 water and wastewater utilities to bear some of the cost of  
2 compensating those individuals who are most closely linked to  
3 furthering shareholder interests, which are not always the same as  
4 those of ratepayers.

5 **Q. WHAT IS THE PREMISE FOR REMOVING 50% OF THE TOP**  
6 **EXECUTIVES' COMPENSATION?**

7 A. Officers have fiduciary duties of care and loyalty to shareholders, but  
8 not to customers. Consequently, the Company's executive officers  
9 are obligated to direct their efforts not only to minimizing the costs  
10 and maximizing the reliability of Aqua's service to customers, but  
11 also to maximizing the Company's earnings and the value of its  
12 shares. It is reasonable to expect that management will serve the  
13 shareholders as well as the ratepayers; therefore, a portion of  
14 management compensation and pension should be borne by the  
15 shareholders.

16 The executive compensation for the five Aqua America executives  
17 includes Short Term Incentive Annual Cash Incentive (STI)  
18 payments which are 50% based upon Aqua America's earnings per  
19 share and return on equity. The Long Term Incentive for  
20 Performance Share Grants for 2019 was based 26.5% on Aqua  
21 America's total shareholder return vs. large investor owned utilities,  
22 and 26.5% on Aqua America's total shareholder return vs. the S & P

1 Mid Cap Utilities index. In addition for 2019, the performance based  
2 stock options were based on Aqua America's achievement of at least  
3 an adjusted return on equity equal to 150 basis points below the  
4 return on equity granted by the Pennsylvania Public Utility  
5 Commission during Aqua Pennsylvania's (Aqua America's  
6 Pennsylvania water subsidiary) last rate proceeding. Aqua America's  
7 total shareholder return consists of dividends to shareholders and  
8 the increase in the price of Aqua America's common stock. Aqua  
9 America reports on page 42 of the Essential 2020 Proxy that its total  
10 shareholder's return for 2019 was 40.41%.

11 The compensation objectives for the five named Executive Officers  
12 are listed on page 45 Essential 2020 Proxy as follows:

1

## Long Term Equity Incentive Awards

<u>Form</u>	<u>Compensation Objective</u>
Restricted Stock Units	<b>Align executive interests with shareholder interests,</b> retain key executives (emphasis added)
Performance Share Units	<b>Align executive interests with shareholder interests,</b> creates a strong financial incentive for achieving or exceeding long-term performance goals (emphasis added)
Performance Based Stock Options	<b>Align executive interests with shareholder interests;</b> through financial performance based nature, provides strong incentives to achieve core Company goals.” (Emphasis added).

2           The fixed base salary of the President and CEO was 24.9% of his  
3           total compensation as shown on page 61 of the Essential 2020  
4           Proxy. The fixed base salary of the other four executive officers  
5           range from 34.2% to 39.1%, as shown on pages 62 and 63 of the  
6           Essential 2020 Proxy. The average of the fixed base salary of all five  
7           executives is 34.7%.

8           The Board of Directors Compensation Committee during 2019 made  
9           key decisions for 2020 compensation plan designs, including as  
10          stated on Essential 2020 Proxy on page 50:

1 Revised the balance between base compensation and  
2 long term incentives for Mr. Franklin (CEO) to a heavier  
3 weighting (53%) on long term incentives in the total  
4 compensation package **to further underscore drive**  
5 **for long-term value creation for shareholders.**  
6 (Emphasis added).

7 The Essential 2020 Proxy on page 50 also stated

8 Similarly, the grant of restricted stock units, when  
9 coupled with our stock ownership requirements,  
10 **further aligns interests of the management with the**  
11 **shareholders by increasing the number of shares**  
12 **each member of management hold.** (Emphasis  
13 added).

14 The Essential 2020 Proxy further states on page 51

15 Stock Ownership Guidelines - Designed to focus  
16 named executive officers on the long-term  
17 performance of the Company **and align the interests**  
18 **of our executives with our shareholders** by  
19 encouraging named executive officers to maintain a  
20 significant ownership interest in the Company.  
21 (Emphasis added).

22 The Short Term Incentives Award on page 52 of the Essential 2020  
23 Proxy has the metric of 50% Financial, broken down to Adjusted  
24 Earnings Per Share 35% and Return on Equity 15%. The stated  
25 rationale is: "This award measure aligns the executive to results for  
26 the shareholders."

27 The total STI Essential 2020 Proxy payments to the five executives  
28 as shown on page 64 totaled \$2,161,244, of which 45.5% was based

1           upon Aqua America's earnings per share and 17.05% based upon  
2           Aqua America's return on equity, as shown on page 63.

3           The compensation paid to these five executives is heavily based  
4           upon Aqua America's earnings per share and Aqua America's total  
5           shareholder return. These performance measures heavily benefit  
6           Aqua America's shareholders. It is appropriate that 50% of the total  
7           compensation (including benefits) to the five executive officers  
8           should be allocated to Aqua America's shareholders.

9           Adjusting the compensation of the top five executives is consistent  
10          with the positions taken by the Public Staff in past general rate cases  
11          involving investor-owned utilities serving North Carolina retail  
12          customers. Some of these cases include Duke Energy Progress  
13          (DEP) 2018 General Rate Case (Docket No. E-2 Sub 1142), Duke  
14          Energy Carolinas' (DEC) 2018 General Rate Case (Docket No. E-7,  
15          Sub 1146), Public Service Company of North Carolina's (PSNC)  
16          2016 General Rate Case (Docket No. G-9, Sub 565), Piedmont's  
17          2013 General Rate Case (Docket No. G-9, Sub 631) and Piedmont's  
18          2019 General Rate Case (Docket No. G-9, Sub 743). DEC, DEP, and  
19          Dominion Energy North Carolina have all made executive  
20          compensation adjustments in their respective general rate cases to  
21          remove a portion of their top executives' total compensation. The  
22          Public Staff has consistently updated each utility's adjustments to

1 reflect a 50% reduction of the top executives' total compensation in  
2 each of the general rate case proceedings.

3 Aqua America is a publically traded large investor-owned utility with  
4 a market capitalization on May 19, 2020, of \$9.8 Billion. Aqua  
5 America's market capitalization is the second highest of the publicly  
6 traded investor-owned water and wastewater utilities. Aqua NC is the  
7 largest Commission-regulated water and wastewater utility with more  
8 than 100,000 customers, more than double the number of customers  
9 of the second largest, and ten times more customers than the third  
10 largest Commission-regulated water and wastewater utility. The  
11 Public Staff recommends that Aqua NC's executive compensation  
12 allocation from Aqua America be allocated 50% to the Aqua America  
13 shareholders, the same as the Commission-regulated electric and  
14 natural gas utilities.

15 **MISCELLANEOUS EXPENSE**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO MISCELLANEOUS**  
17 **EXPENSE.**

18 A. I made the following adjustments to miscellaneous expense:

19 1) Capitalized time credit-other-miscellaneous: I removed  
20 capitalized time credit other for miscellaneous cost according to the  
21 data from Exhibit B3-s in my adjustment to reflect miscellaneous



1 expense net of capitalized time credit expense before my other  
2 adjustments.

3 2) Board of Director (BOD): I made an adjustment to remove  
4 50% of the expenses associated with the Aqua America BOD that  
5 have been allocated to the Aqua NC jurisdiction, as presented on  
6 Public Staff Feasel Exhibit I, Schedule 7. Aqua NC does not have a  
7 separate BOD. The expenses allocated to the Aqua NC jurisdiction  
8 encompass the BOD's compensation, Directors' and Officers' liability  
9 insurance, and other miscellaneous BOD expenses. The Essential  
10 Utilities, Inc. Board of Directors Corporate Governance Guidelines  
11 revised February 3, 2020, state on page 6:

## 12 II. RESPONSIBILITIES OF THE BOARD

13 1. It is the responsibility of the Board to  
14 provide guidance and direction on the  
15 Corporation's general business goals  
16 and strategy and to provide general  
17 oversight of, and direction to  
18 management **so that the affairs of**  
19 **the Corporation are conducted in**  
20 **the long term interests of all its**  
21 **shareholders.** (Emphasis added).

22 In addition, in Responsibilities of the Board, no. 10 (page 8) for  
23 director compensation it states “. . . **compensation should align**  
24 **the director's interests with the long-term interest of**  
25 **shareholders. . . .**“ (Emphasis added).

1       The shareholders vote on the election of directors. The customers  
2       do not have a vote. It is clear the BOD is responsible for acting in the  
3       best interests of the shareholders.

4       The 2019 compensation to each of the eight Aqua America  
5       independent directors was \$90,000 cash, plus stock grants equal to  
6       \$90,000 in value, as shown on the Essential 2020 Proxy, page 33.

7       The compensation for each independent director for 2020 increases  
8       to \$100,000 cash, plus stock grants equal to \$100,000 in value as  
9       shown on the Essential 2020 proxy, page 33. The Aqua America  
10      CEO and BOD Chairman does not receive separate director  
11      compensation. The test year BOD compensation and expense  
12      allocation to Aqua NC was \$190,717. Public Staff Feasel Exhibit 1  
13      Schedule 7, Line 3, Line 4, and Line 6 shows the reduction of 50%  
14      of the BOD compensation and expenses through the third quarter of  
15      2019.

16      The nine Aqua America directors own a total 306,037 shares of Aqua  
17      America common stock as shown on the Essential 2020 Proxy, page  
18      36. Based upon the May 18, 2020 market close for Essential Utilities  
19      of \$41.02 per share, the 306,037 director owned shares have a  
20      combined total value of \$12,533,638. This large director stock  
21      ownership further aligns the directors' interests with shareholders.

1           The Public Staff believes that it is appropriate and reasonable for the  
2           shareholders of the larger water and wastewater utilities to bear a  
3           reasonable share of the costs of compensating those individuals who  
4           have a fiduciary duty to protect the interests of shareholders, which  
5           may differ from the interests of ratepayers. The premise of this  
6           adjustment is closely linked to the premise of the adjustment made  
7           by the Public Staff related to executive compensation. Furthermore,  
8           Directors' and Officers' liability insurance, while a necessary  
9           expense for a corporation, is obtained to defend the BOD in lawsuits  
10          brought by shareholders for issues such as merger claims and  
11          shareholders' derivatives. Therefore, the Public Staff recommends it  
12          is appropriate for both ratepayers and shareholders to equally share  
13          the cost of BOD expenses.

14          3)   Other miscellaneous expenses: I removed miscellaneous  
15          expenses allocated to Aqua NC from Corporate Sundries in the  
16          amount of \$10,490 that were prior to the test year, one time  
17          deduction, and annualize an expense item.

18                                   **EMPLOYEE PENSIONS AND BENEFITS**

19   **Q.   PLEASE EXPLAIN HOW YOU ADJUSTED EMPLOYEE**  
20   **PENSIONS AND BENEFITS EXPENSE.**

21   A.   I removed capitalized time credit for employee pensions and benefits  
22          cost based on data from Exhibit B3-a in my adjustment to reflect the

1 pension and benefits net of capitalized time credit expense before  
2 my other adjustments. In addition I am recommending the following  
3 adjustments to pensions and benefits:

4 1) Update NC benefits to match the updates to salaries and wages:  
5 I made matching adjustments to pensions and benefits related to  
6 adjustments made to salaries and wages for updates to March 23,  
7 2020.

8 2) Update NC benefits for five positions which were open but  
9 were filled with new hired employees: I updated pensions and  
10 benefits for the five open positions that were originally included in  
11 this application but were replaced with new hired employees.

12 3) Remove four employees who were terminated after  
13 September 30, 2019: I removed the pension and benefit for four  
14 employees who were terminated after September 30, 2019.

15 4) Remove estimated pensions and benefits for one position: I  
16 used the average pensions and benefits to calculate the estimated  
17 pensions and benefits expense for the fifth position and removed it  
18 from pensions and benefits expense to align with the open position  
19 adjustments.

20 5) Remove full time employees who are not qualified for Long-  
21 Term Disability (LTD) benefits as of March 31, 2020: According to

1 the Company's insurance policies, there is a 12-month waiting period  
2 for LTD. There were 16 employees who have not qualified for all LTD  
3 benefits as of March 31, 2020, so I removed their benefits from  
4 expenses.

5 6) Remove full time employees who are not qualified for AD&D  
6 & Life (Life) benefits as of March 31, 2020: According to the  
7 Company's insurance policies, there is a 1<sup>st</sup> day of the month after  
8 30 days waiting period for life benefits. There were two employees  
9 who had not qualified for all life benefits as of March 31, 2020, so I  
10 removed their benefits from expenses.

11 7) Remove full time employees who are not qualified for Dental,  
12 Medical, and Vision benefits as of March 31, 2020: According to the  
13 Company's insurance policies, there is a 1<sup>st</sup> day of the month after  
14 30 days waiting period for Dental, Medical, and Vision benefits.  
15 There were two employees who had not qualified for Dental, Medical,  
16 and Vision benefits as of March 31, 2020, so I removed their benefits  
17 from expenses.

18 8) Remove unqualified employee benefit expense allocated from  
19 Corporate Sundries: I removed \$17,834 of employee benefit  
20 expenses allocated to Aqua NC from Corporate Sundries that were  
21 outside of the test year, for employee personal accessories, or for  
22 one-time retirement dinners.

**INSURANCE EXPENSE**

1

2   **Q.   PLEASE EXPLAIN HOW YOU ADJUSTED INSURANCE**  
3       **EXPENSE.**

4   A.   First, I adjusted the insurance premiums to reflect the current  
5       premiums for Aqua America, Inc., the parent company of Aqua North  
6       Carolina, Inc., provided by the Company, and allocated them to Aqua  
7       using the following factors:

8       (a)   The amounts of premiums paid by the Company for workers'  
9       compensation, general liability insurance, Marsh fees, and executive  
10      risk insurance are based on payroll. Therefore, I have allocated  
11      premiums for these policies to North Carolina based on payroll  
12      information provided by the Company. Ohio had a separate workers'  
13      compensation policy and was not included in the total workers'  
14      compensation policy for Aqua America. Therefore, I excluded Ohio  
15      payroll in my calculation of payroll factor allocation percentage for  
16      the workers' compensation premium.

17      (b)   I allocated the automobile premium based on the number of  
18      automobiles for North Carolina as a percentage of the total number  
19      of automobiles for all states.

1 (c) I allocated property insurance and cyber security insurance to  
2 North Carolina based on the values of the property covered by the  
3 current policy;

4 (d) The pollution control liability insurance premium is based on  
5 revenues, and I allocated this premium to North Carolina based on  
6 the revenues used to calculate the premium;

7 (e) I allocated umbrella premium and claims handling expense to  
8 North Carolina based on the weighted average allocation factors  
9 including payroll, customer counts, and property values for Aqua NC.  
10 The reason is that umbrella insurance and claims handling expense  
11 is related to employee benefits, customer, and property. Therefore,  
12 it is more appropriate to take into consideration all three factors.

13 Next, I adjusted claims for workers' compensation, general liability,  
14 and automobile insurance to reflect the average of claims paid for  
15 North Carolina for the last five years. The Company changed the  
16 methodology used to summarize the claims paid in the past years.  
17 Instead of using the claims incurred in each year, Aqua NC used the  
18 claims actually paid in each year. The change of this methodology  
19 caused a duplicated reporting of claims incurred in one year but paid  
20 in future years. After reviewing the data provided by the Company, I  
21 removed the duplicated reported claims to reflect an accurate  
22 amount of claims paid in the past five years. This is a one-time

1 adjustment. In the future rate cases, there is no need to remove  
2 duplicated claims reported as long as the Company uses the same  
3 methodology used in this rate case.

4 I also included surety bonds for North Carolina based on information  
5 provided by the Company.

6 I then allocated my adjusted levels of workers' compensation  
7 premium, workers' compensation claims, automobile premium, and  
8 automobile claims between capital, non-utility operations, and water  
9 and sewer expense based on the expense percentage provided by  
10 the Company. These adjustments resulted in a total insurance cost  
11 for North Carolina of \$622,323.

12 I allocated all insurance items to the five North Carolina entities  
13 based on the same allocation factors used to allocate insurance  
14 premiums and claims from Aqua America to Aqua NC. These  
15 adjustments resulted in a decrease in insurance expense of  
16 \$203,813.

17 **PAYROLL TAXES**

18 **Q. WHY DID YOU ADJUST PAYROLL TAXES?**

19 A. I made an adjustment to reflect payroll taxes based on the Public  
20 Staff's recommended level of salaries at the current payroll tax rates.

21 This adjustment results in a decrease of \$207,673 in payroll tax



1 expense. Unlike salaries and wages, pension and benefits, and  
2 miscellaneous expenses, for which I removed the capitalized time  
3 credits to reach the net expenses before any other adjustments, I did  
4 not remove the capitalized time credit for payroll tax expenses in my  
5 adjustments to reach payroll taxes net of capitalized credit expense.  
6 Instead, I directly compared my calculated payroll tax net of  
7 capitalized time credit expense with the Company's payroll tax in the  
8 application to calculate my adjustment. The reason was that there  
9 were three types of payroll taxes, including Federal Insurance  
10 Contributions Act (FICA), Federal Unemployment Tax Act (FUTA),  
11 and State Unemployment Tax Act (SUTA). I had the total capitalized  
12 time credit for payroll taxes for each rate division but I did not have it  
13 broken down by the three types of payroll taxes. Therefore, I was not  
14 able to compare my final payroll tax net of capitalized credit  
15 expenses to that of the Company by these three categories.

16 **CONTRACT SERVICE OTHER**

17 **Q. PLEASE EXPLAIN HOW YOU ADJUSTED CONTRACT SERVICE**  
18 **OTHER.**

19 **A.** I made an adjustment to remove \$67,776 of contract service other  
20 expense allocated to Aqua NC from Corporate Sundries that were  
21 outside of the test year and expenses beneficial to the shareholders.

1

**CONTRA-OH ALLOCATIONS**

2   **Q.   PLEASE EXPLAIN HOW YOU ADJUSTED CONTRA-OH**  
3       **ALLOCATIONS.**

4   A.   I made an adjustment to remove capitalized labor, capitalized  
5       benefit, capitalized payroll tax, capitalized insurance, and capitalized  
6       miscellaneous from contra-OH allocation to avoid removing the  
7       overhead allocation twice from expenses.

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

9   A.   Yes, it does.



---

---

INDEX TO FEASEL EXHIBIT I

---

---

<u>Line No.</u>	<u>Title</u>	<u>Schedule No.</u>
1	ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX	1
2	ADJUSTMENT TO PLANT ACQUISITION ADJUSTMENT (PAA), NET ACQUISITION INCENTIVE ADJUSTMENTS (AIA) AND ACCUMULATED AMORTIZATION OF PAA	2
3	ADJUSTMENT TO AMORTIZATION OF PLANT ACQUISITION ADJUSTMENT (PAA) AND ACQUISITION INCENTIVE ADJUSTMENT (AIA)	3
4	ADJUSTMENT TO SALARIES AND WAGES	4
5	ADJUSTMENT TO EMPLOYEE PENSIONS AND BENEFITS	5
6	ADJUSTMENT TO INSURANCE EXPENSE	6
7	CALCULATION OF INSURANCE EXPENSE FOR NORTH CAROLINA	6-1
8	CALCULATION OF AQUA NC ALLOCATION FACTORS FOR INSURANCE	6-1 (a)
9	CALCULATION OF AVERAGE CLAIMS PAID FOR AQUA NC	6-1 (b)
10	ADJUSTMENT TO MISCELLANEOUS EXPENSE	7
11	ADJUSTMENT TO PAYROLL TAXES	8
12	ADJUSTMENT TO CONTRA-OH ALLOCATIONS	9

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 1

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	ADIT per application	<u>(\$7,472,043)</u>	<u>(\$15,202,768)</u>	<u>(\$3,366,677)</u>	<u>(\$1,233,642)</u>	<u>(\$374,842)</u>
2	Adjustment for unamortized rate case expense	19,943 [1]	7,564 [1]	97 [1]	3,088 [1]	(3,870) [1]
3	Adjustment to remove post test year additions in the application	643,192 [2]	726,484 [2]	430,644 [2]	73,462 [2]	13,552 [2]
4	Adjustment to add in updated post test year additions through March 31, 2020	(456,301) [3]	(813,286) [3]	(153,062) [3]	(69,279) [3]	(20,283) [3]
5	Adjustment for unamortized repair tax credit	(4,406) [4]	(13,773) [4]	(2,186) [4]	(382) [4]	(347) [4]
6	Adjustment for excess deferred income tax	19,888 [5]	75,322 [5]	16,651 [5]	3,662 [5]	5,748 [5]
7	Adjustment to ADIT (Sum of L2 thru L6)	<u>222,316</u>	<u>(17,689)</u>	<u>292,144</u>	<u>10,551</u>	<u>(5,200)</u>
8	ADIT per Public Staff (L1 + L7)	<u><u>(\$7,249,727)</u></u>	<u><u>(\$15,220,457)</u></u>	<u><u>(\$3,074,533)</u></u>	<u><u>(\$1,223,091)</u></u>	<u><u>(\$380,042)</u></u>

[1] Unamortized rate case expense amount provided by Public Staff Accountant Henry.

[2] W-1 Item 13, NC Rate Case - Item 13 Taxes 093019 Updated for PTY Adds.

[3] Company's response to data request 74 ADIT Follow-up, NC Rate Case - Item 13 Taxes 093019 with Support revised 04.20.2020.

[4] Net of tax amount provided by Public Staff Accountant Henry.

[5] Company's revised response to data request 59, item 3.

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO PLANT ACQUISITION ADJUSTMENT (PAA),  
NET ACQUISITION INCENTIVE ADJUSTMENTS (AIA)  
AND ACCUMULATED AMORTIZATION OF PAA**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 2

Line No.	Item	Aqua Sewer [1] (a)	Aqua Water [1] (b)	Brookwood Water [1] (c)	Fairways Sewer [1] (d)	Fairways Water [1] (e)
1	Plant Acquisition Adjustment (PAA) per application	<u>(\$4,002,510)</u>	<u>\$6,102,179</u>	<u>(\$31,426)</u>	<u>\$0</u>	<u>\$0</u>
2	Adjustment to remove post test year PAA additions per application		(5,850)			
3	Adjustment to reflect AIA through March 31, 2020		58,831			
4	Adjustment for post test year PAA additions through March 31, 2020		37,800			
5	Adjustment to PAA (Sum of L2 thru L4)	<u>0</u>	<u>90,781</u>	<u>0</u>	<u>0</u>	<u>0</u>
6	Plant Acquisition Adjustment (PAA) per Public Staff (L1 + L5)	<u>(\$4,002,510)</u>	<u>\$6,192,960</u>	<u>(\$31,426)</u>	<u>\$0</u>	<u>\$0</u>
7	Accumulated Amortization of PAA per application	<u>\$3,072,970</u>	<u>(\$2,374,213)</u>	<u>\$29,053</u>	<u>\$0</u>	<u>\$0</u>
8	Adjustment to remove post test year accumulated ammortization of PAA per application		176			
9	Adjustment to remove accumulated amortization proforma per application	(3,072,969)	2,374,037	(29,053)		
10	Adjustment for post test year accumulated amortization of PAA per Public Staff		(253)			
11	Adjustment to add accumulated amortization calculated per Public Staff	<u>3,059,731</u>	<u>(2,432,816)</u>	<u>28,995</u>		
12	Adjustment to accumulated amortization of PAA (Sum of L8 thru L11)	<u>(13,238)</u>	<u>(58,856)</u>	<u>(58)</u>	<u>0</u>	<u>0</u>
13	Accumulated Amortization of PAA per Public Staff (L7 + L12)	<u>\$3,059,732</u>	<u>(\$2,433,069)</u>	<u>\$28,995</u>	<u>\$0</u>	<u>\$0</u>

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

---

**AQUA NORTH CAROLINA, INC.**

---

Docket No. W-218 Sub 526

**ADJUSTMENT TO AMORTIZATION OF PLANT ACQUISITION ADJUSTMENT (PAA)  
AND ACQUISITION INCENTIVE ADJUSTMENT (AIA)**

For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 3

Line No.	Item	Aqua Sewer [1] (a)	Aqua Water [1] (b)	Brookwood Water [1] (c)	Fairways Sewer [1] (d)	Fairways Water [1] (e)
1	Amortization of Plant Acquisition Adjustment (PAA) and Acquisition Incentive Adjustment (AIA) for account 406000 per application	<u>\$ (95,151)</u>	<u>\$ 255,592</u>	<u>\$229</u>	<u>\$0</u>	<u>\$0</u>
2	Adjustment to reflect amortization expense of PAA and AIA through March 31, 2020	<u>-</u>	<u>3,541</u>	<u>-</u>	<u>-</u>	<u>-</u>
3	Adjustment to amortization of PAA and AIA for account 406000 (L3)	<u>0</u>	<u>3,541</u>	<u>0</u>	<u>0</u>	<u>0</u>
4	Amortization of Plant Acquisition Adjustment (PAA) and Acquisition Incentive Adjustment (AIA) for account 406000 per Public Staff (L1 + L3)	<u><u>\$ (95,151)</u></u>	<u><u>\$ 259,133</u></u>	<u><u>\$229</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO SALARIES AND WAGES**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 4

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Salaries and wages per application	\$2,556,286	\$7,594,193	\$899,877	\$250,681	\$287,090
2	Less capitalized time credit-labor	(53,048) [1]	(215,603) [1]	(18,216) [1]	(2,799) [1]	(2,625) [1]
3	Add transportation regular payroll expense		584 [1]	131 [1]		44 [1]
4	Adjustment to update salaries and wages through March 31, 2020	(61,565) [2]	(167,673) [2]	(15,047) [2]	(4,788) [2]	(4,837) [2]
5	Adjustment to remove leave without pay	(52,684) [3]	(143,484) [3]	(12,876) [3]	(4,098) [3]	(4,139) [3]
6	Adjustment to reflect actual standby pay for active employees		(1,580) [4]	(580) [4]		
7	Adjustment to reflect actual OT pay for active employees	220,400 [4]	(248,220) [4]	1,542 [4]	123 [4]	335 [4]
8	Adjustment to remove bonuses related to earnings per share that benefit shareholders	(23,946) [5]	(79,233) [5]	(13,654) [5]	(3,295) [5]	(4,530) [5]
9	Adjustment to allocate executive compensation to shareholders	(60,897) [6]	(231,744) [6]	(52,254) [6]	(11,105) [6]	(17,388) [6]
10	Adjustment to reflect allocation from Corporate Service for the active employees	43,275 [6]	(181,064) [6]	(159,003) [6]	(25,696) [6]	(53,997) [6]
11	Adjustment to reflect allocation from Aqua Customer Operation (ACO) for the active employees	57,000 [7]	(9,379) [7]	(67,219) [7]	(4,757) [7]	(17,099) [7]
12	Adjustment to salaries and wages (Sum of L2 thru L11)	68,535	(1,277,396)	(337,176)	(56,415)	(104,236)
13	Salaries and wages per Public Staff (L1 + L12)	\$2,624,821	\$6,316,797	\$562,701	\$194,266	\$182,854

[1] Exhibit B1/B2 labor expense-summary by rate division and GL account.

[2] Calculated by the Public Staff based on Company's responses to data request 25, item 4.

[3] Calculated by the Public Staff based on Company's responses to data request 11, item 2.

[4] Calculated by the Public Staff based on Company's responses to data request 11, item 1.

[5] Calculated by the Public Staff based on Company's responses to data request 16, item 1.

[6] Calculated by the Public Staff based on Company's responses to data request 25, item 2.

[7] Calculated by the Public Staff based on Company's responses to data request 25, item 3.



**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO EMPLOYEE PENSIONS AND BENEFITS**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 5

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Employee pensions and benefits per application	\$863,123	\$2,659,692	\$318,251	\$84,255	\$94,306
2	Less capitalized time credit-benefits	(132,232) [1]	(525,699) [1]	(46,264) [1]	(7,461) [1]	(6,539) [1]
3	Adjustment to update pensions and benefits through 3/31/2020	(78,422) [2]	(213,867) [2]	(18,458) [2]	(6,433) [2]	(6,077) [2]
4	Adjustment to reflect allocation from Corporate Service for the active employees	26,560 [3]	4,612 [3]	(32,924) [3]	(4,178) [3]	(11,086) [3]
5	Adjustment to remove unqualified benefit from Corporate Sundries	(4,815) [4]	(11,235) [4]	(1,070) [4]	(357) [4]	(357) [4]
6	Adjustment to pensions and benefits (Sum of L2 thru L5)	(188,909)	(746,189)	(98,716)	(18,429)	(24,059)
7	Employee Pension and benefits per Public Staff (L1 + L6)	\$674,214	\$1,913,503	\$219,535	\$65,826	\$70,247

[1] Exhibit B3-a benefit expense-summary by rate division/GL account.

[2] Calculated by the Public Staff based on Company's responses to data request 23, item 10 and item 11.

[3] Calculated by the Public Staff based on Company's responses to data request 25, item 2.

[4] Calculated by the Public Staff based on Company's responses to data request 78, item 2.

**Aqua North Carolina, Inc.**  
Docket No. W-218, Sub 526  
**ADJUSTMENT TO INSURANCE EXPENSE**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 6

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)	Total [6] (f)
1	Workers' compensation premium	\$9,454 [1]	\$22,483 [1]	\$2,107 [1]	\$716 [1]	\$688 [1]	\$35,447
2	Automobile premium	3,552 [2]	13,451 [2]	2,973 [2]	654 [2]	1,026 [2]	21,656
3	General liability premium	10,678 [1]	25,395 [1]	2,381 [1]	808 [1]	777 [1]	40,039
4	Property insurance	36,163 [2]	79,832 [2]	15,319 [2]	6,334 [2]	1,978 [2]	139,626
5	Umbrella premium	37,228 [3]	98,625 [3]	16,543 [3]	5,168 [3]	4,371 [3]	161,935
6	Marsh fees	7,405 [1]	17,611 [1]	1,651 [1]	561 [1]	539 [1]	27,766
7	Executive risk	12,125 [1]	28,837 [1]	2,703 [1]	918 [1]	882 [1]	45,465
8	Pollution insurance	4,751 [4]	11,241 [4]	1,801 [4]	645 [4]	426 [4]	18,864
9	Cyber security	7,539 [2]	16,643 [2]	3,193 [2]	1,320 [2]	412 [2]	29,108
10	Claims handling expense	1,696 [3]	4,492 [3]	753 [3]	235 [3]	199 [3]	7,376
11	Total allocated costs (Sum of L1 thru L10)	130,591	318,610	49,424	17,359	11,298	527,282
12	Directly assigned costs:						
13	Workers' compensation claims	8,247 [1]	19,614 [1]	1,839 [1]	624 [1]	600 [1]	30,924
14	Automobile claims	6,210 [2]	23,519 [2]	5,199 [2]	1,144 [2]	1,795 [2]	37,866
15	General liability claims	6,654 [1]	15,825 [1]	1,483 [1]	504 [1]	484 [1]	24,951
16	Surety bonds	347 [1]	825 [1]	77 [1]	26 [1]	25 [1]	1,300
17	Total insurance per Public Staff (Sum of L11 thru L16)	152,049	378,393	58,022	19,657	14,202	622,323
18	Insurance amount per application	<u>151,449</u>	<u>526,560</u>	<u>95,236</u>	<u>21,827</u>	<u>31,064</u>	<u>826,136</u>
19	Adjustment to insurance expense (L17 - L18)	<u>\$600</u>	<u>(\$148,167)</u>	<u>(\$37,214)</u>	<u>(\$2,170)</u>	<u>(\$16,862)</u>	<u>(\$203,813)</u>

[1] Column (f) times Aqua NC salaries expensed percentages for each rate division.

[2] Column (f) times Aqua NC net plant in service ratios for each rate division.

[3] Column (f) times weighted average of three allocation factors--property, wage, and customer for each rate division.

[4] Column (f) times Aqua NC revenue ratios for each rate division.

[5] Exhibit B3-q insurance expense-summary by GL account.

[6] Feasel Exhibit I, Schedule 6-1, Column (e).

**Aqua North Carolina, Inc.**  
Docket No. W-218, Sub 526  
**CALCULATION OF INSURANCE**  
**EXPENSE FOR NORTH CAROLINA**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 6-1

Line No.	Item	Total To Be Allocated [1] (a)	Percentage To NC (b)	Amount To NC [8] (c)	Percentage to Expenses In This Case (d)	Insurance Expense per Public Staff [13] (e)
1	Workers' compensation premium	\$541,224	8.45% [2]	\$45,733	77.51% [12]	\$35,447
2	Automobile premium	169,032	16.53% [3]	27,941	77.51% [12]	21,656
3	General liability premium	525,444	7.62% [4]	40,039	100.00%	40,039
4	Property insurance	1,463,589	9.54% [5]	139,626	100.00%	139,626
5	Umbrella premium	1,805,292	8.97% [6]	161,935	100.00%	161,935
6	Marsh fees	364,380	7.62% [4]	27,766	100.00%	27,766
7	Executive risk	596,658	7.62% [4]	45,465	100.00%	45,465
8	Pollution insurance-PARLL	286,686	6.58% [7]	18,864	100.00%	18,864
9	Pollution insurance-CEL	31,263	0.00% [1]	0	100.00%	0
10	Cyber security	305,115	9.54% [5]	29,108	100.00%	29,108
11	Claims handling expense	82,225	8.97% [6]	7,376	100.00%	7,376
12	Total allocated costs (Sum of L1 thru L11)			543,853		527,282
13	Directly assigned costs:					
14	Workers' compensation claims			39,898 [9]	77.51% [12]	30,924
15	Automobile claims			48,855 [10]	77.51% [12]	37,866
16	General liability claims			24,951 [11]	100.00%	24,951
17	Surety bonds			1,300 [1]	100.00%	1,300
18	Total insurance per Public Staff (Sum of L12 thru L17)			<u>\$658,857</u>		<u>\$622,323</u>

[1] Based on current insurance policies and information provided by Company.

[2] Feasel Exhibit I, Schedule 6-1(a), Line 9, Column (a).

[3] Feasel Exhibit I, Schedule 6-1(a), Line 11, Column (a).

[4] Feasel Exhibit I, Schedule 6-1(a), Line 5, Column (a).

[5] Feasel Exhibit I, Schedule 6-1(a), Line 13, Column (a).

[6] weighted average of three allocation factors--property, wage, and customer: 1/3 x 9.75%+1/3 x 7.43%+1/3 x 9.54%.

[7] Feasel Exhibit I, Schedule 6-1(a), Line 15, Column (a).

[8] Column (a) times Column (b)., unless otherwise stated.

[9] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (a).

[10] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (b).

[11] Feasel Exhibit I, Schedule 6-1(b), Line 8, Column (c).

[12] Capitalization rate as shown on NCUC Form W-1, Item 10, Exhibit B1/B2-7, Line 28, Column (n).

[13] Column (c) times Column (d).

**Aqua North Carolina, Inc.**  
Docket No. W-218, Sub 526  
**CALCULATION OF AQUA NC**  
**ALLOCATION FACTORS FOR INSURANCE**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 6-1(a)

Line No.	Item	Aqua NC (a)		Other (b)		Total Aqua America (c)	
	<b>Payroll factors</b>						
1	Non Aqua Service Payroll amounts	\$8,456,638	[1]	\$97,566,281	[3]	\$106,022,919	[1]
2	Corporate Service and Sundries payroll	1,389,376	[1]	23,308,860	[3]	24,698,236	[1]
3	Corporate ACO payroll	673,433	[1]	6,594,653	[3]	7,268,086	[1]
4	Total payroll (L1 + L2 + L3)	\$10,519,447		\$127,469,794		\$137,989,241	
5	Payroll factor for general liability	7.62%	[2]	92.38%	[2]	100.00%	[4]
6	Total payroll (L4)	\$10,519,447		\$127,469,794		\$137,989,241	
7	Less: Ohio payroll	0	[1]	13,458,496	[3]	13,458,496	[1]
8	Total payroll excluding Ohio (L6 - L7)	\$10,519,447		\$114,011,298		\$124,530,745	
9	Payroll factor for workers' compensation	8.45%	[2]	91.55%	[2]	100.00%	[4]
	<b>Automobile factor</b>						
10	Number of automobiles	181	[1]	914	[3]	1,095	[1]
11	Automobile factor	16.53%	[2]	83.47%	[2]	100.00%	[4]
	<b>Property factor</b>						
12	Property values	\$287,599,046	[1]	\$2,725,808,108	[3]	\$3,013,407,154	[1]
13	Property factor	9.54%	[2]	90.46%	[2]	100.00%	[4]
	<b>Pollution control factor</b>						
14	Revenues used to calculate premium	\$54,415,454	[1]	\$772,744,535	[3]	\$827,159,989	[1]
15	Pollution control factor	6.58%	[2]	93.42%	[2]	100.00%	[4]

[1] Based on information provided by Company.

[2] Allocation percentage calculated based on amounts for Aqua America in Column (c).

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

[4] Column (a) plus Column (b).

**Aqua North Carolina, Inc.**  
Docket No. W-218, Sub 526  
**CALCULATION OF AVERAGE CLAIMS**  
**PAID FOR AQUA NC**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 6-1(b)

Line No.	<u>Item</u>	Workers' Compensation (a)	Automobile (b)	General Liability (c)
1	Claims paid in 2015	\$23,189 [1]	\$76,124 [1]	\$26,866 [1]
2	Claims paid in 2016	34,178 [1]	44,468 [1]	38,499 [1]
3	Claims paid in 2017	56,032 [1]	52,310 [1]	53 [1]
4	Claims paid in 2018	60,798 [1]	39,825 [1]	34,217 [1]
5	Claims paid in 2019	25,294 [1]	31,550 [1]	25,121 [1]
6	Total claims paid for 2015 thru 2019 (Sum of L1 thru L5)	199,491	244,277	124,756
7	Number of years	5	5	5
8	Five year average of claims paid (L6 / L7)	<u>\$39,898</u>	<u>\$48,855</u>	<u>\$24,951</u>

[1] Based on information provided by Company.

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO MISCELLANEOUS EXPENSE**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 7

Line No.	Item	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Miscellaneous expense per application	<u>\$422,149</u>	<u>\$1,122,849</u>	<u>\$194,721</u>	<u>\$54,868</u>	<u>\$63,048</u>
2	Less capitalized time credit-other-miscellaneous	(4,176) [1]	(8,519) [1]	(943) [1]	(287) [1]	(642) [1]
3	Adjustment to remove 50% BOD compensation from test year	(15,064) [2]	(40,913) [2]	(3,657) [2]	(1,178) [2]	(1,178) [2]
4	Adjustment to remove 50% BOD expenses from test year	(6,059) [2]	(16,458) [2]	(1,471) [2]	(474) [2]	(474) [2]
5	Adjustment to add BOD 3rd quarter 2019 retainer fees	2,766 [3]	10,474 [3]	2,315 [3]	510 [3]	800 [3]
6	Adjustment to remove 50% BOD 3rd quarter 2019 retainer fees (-50% * L5)	(1,383)	(5,237)	(1,158)	(255)	(400)
7	Adjustment to remove unqualified other expenses from Corporate Sundries	(1,720) [4]	(6,515) [4]	(1,440) [4]	(317) [4]	(497) [4]
8	Adjustment to miscellaneous expense (Sum of L2 thru L7)	<u>(25,636)</u>	<u>(67,168)</u>	<u>(6,354)</u>	<u>(2,000)</u>	<u>(2,391)</u>
9	Miscellaneous expense per Public Staff (L1 + L8)	<u>\$396,513</u>	<u>\$1,055,681</u>	<u>\$188,367</u>	<u>\$52,868</u>	<u>\$60,657</u>

[1] Exhibit B3-s miscellaneous expense-summary by rate division and GL account.

[2] Calculated by the Public Staff based on Company's responses to data request 14, item 1 and item 2.

[3] Information provided by the Company for the updated board of directors retainer fees in quarter 3 2019.

[4] Calculated by the Public Staff based on Company's responses to data request 78, item 2.

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO PAYROLL TAXES**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 8

Line No.	<u>Item</u>	<u>Aqua Sewer (a)</u>	<u>Aqua Water (b)</u>	<u>Brookwood Water (c)</u>	<u>Fairways Sewer (d)</u>	<u>Fairways Water (e)</u>
1	Payroll taxes per application	<u>\$210,118</u>	<u>\$639,090</u>	<u>\$68,724</u>	<u>\$18,895</u>	<u>\$25,014</u>
2	Adjustment to federal withholding taxes - FICA	(12,105) [1]	(157,838) [1]	(24,963) [1]	(4,055) [1]	(10,710) [1]
3	Adjustment to federal unemployment tax - FUTA	152 [1]	(904) [1]	(141) [1]	(20) [1]	(69) [1]
4	Adjustment to state unemployment tax - SUTA	2,037 [1]	1,877 [1]	(661) [1]	2 [1]	(275) [1]
5	Adjustment to payroll taxes (Sum of L2 thru L4)	<u>(9,916)</u>	<u>(156,865)</u>	<u>(25,765)</u>	<u>(4,073)</u>	<u>(11,054)</u>
6	Payroll taxes per Public Staff (L1 + L5)	<u>\$200,202</u>	<u>\$482,225</u>	<u>\$42,959</u>	<u>\$14,822</u>	<u>\$13,960</u>

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

**AQUA NORTH CAROLINA, INC.**  
Docket No. W-218 Sub 526  
**ADJUSTMENT TO CONTRA-OH ALLOCATIONS**  
For the Test Year Ended September 30, 2019

Public Staff  
Feasel Exhibit I  
Schedule 9

Line No.	<u>Item</u>	Aqua Sewer (a)	Aqua Water (b)	Brookwood Water (c)	Fairways Sewer (d)	Fairways Water (e)
1	Contra-OH Allocations per application	(\$279,899)	(\$1,107,115)	(\$96,993)	(\$15,643)	(\$14,189)
2	Adjustment to remove the Cap-OH-Credit-Labor	53,048 [1]	215,603 [1]	18,216 [1]	2,799 [1]	2,625 [1]
3	Adjustment to remove the Cap-OH-Credit-Benefits	132,232 [1]	525,699 [1]	46,264 [1]	7,461 [1]	6,539 [1]
4	Adjustment to remove the Cap-OH-Credit-PR Tax	29,454 [1]	114,979 [1]	10,141 [1]	1,706 [1]	1,395 [1]
5	Adjustment to remove the Cap-OH-Credit-Other-Insurance	10,465 [1]	41,406 [1]	3,529 [1]	583 [1]	449 [1]
6	Adjustment to remove the Cap-OH-Credit-Other-Miscellaneous	4,176 [1]	8,519 [1]	943 [1]	287 [1]	642 [1]
7	Adjustment to Cap-OH-Credit (Sum of L2 thru L6)	229,375	906,206	79,093	12,836	11,650
8	Contra-OH Allocations per Public Staff (L1 + L7)	(50,524)	(200,909)	(17,900)	(2,807)	(2,539)

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