

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 364

In the Matter of
Application by Carolina Water Service,)
Inc., of North Carolina, 4944 Parkway)
Plaza Boulevard, Suite 375, Charlotte,)
North Carolina 28217, for Authority to)
Adjust and Increase Rates for Water)
and Sewer Utility Service in All Service)
Areas in North Carolina)

TESTIMONY OF
WINDLEY E. HENRY
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354 SUB 364**

**TESTIMONY OF WINDLEY E. HENRY
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION**

November 4, 2019

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

3 A. My name is Windley E. Henry and my business address is 430 N.
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting
5 Manager of the Water and Sewer/Communications Section of the
6 Public Staff - Accounting Division and represent the using and
7 consuming public.

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

10 A. I have been employed by the Public Staff since July 16, 1990.

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

13 A. I am a graduate of the University of North Carolina at Wilmington with
14 a Bachelor of Science degree in Accountancy. I am a Certified Public
15 Accountant licensed in the State of North Carolina. Prior to joining
16 the Public Staff, I was employed by the Seymour Johnson Federal
17 Credit Union. My duties there involved supervision of the accounting

1 department and preparing financial reports. I joined the Public Staff
2 as a Staff Accountant on July 16, 1990. Since joining the Public Staff,
3 I have presented testimony and exhibits in numerous cases before
4 this Commission involving water, sewer, and natural gas utilities.

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

6 A. I am responsible for the performance and supervision of the following
7 activities: (1) the examination and analysis of testimony, exhibits,
8 books and records, and other data presented by utilities and other
9 parties involved in Commission proceedings; and (2) the preparation
10 and presentation to the Commission of testimony, exhibits, and other
11 documents in those proceedings.

12 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
13 **PROCEEDING?**

14 A. On June 28, 2019, Carolina Water Service, Inc. of North Carolina
15 (CWSNC or Company) filed an application with the Commission
16 seeking authority to adjust and increase rates for all of its water and
17 sewer service areas in North Carolina. My investigation included a
18 review of the application filed by CWSNC, an examination of the
19 Company's books and records for the test year, and a review of
20 additional documentation provided by the Company in response to
21 written and verbal data requests.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony in this proceeding is to present the
4 results of my investigation of the levels of revenue, expenses, and
5 investment filed by CWSNC in support of its requested increase in
6 operating revenues for its uniform water operations (CWSNC
7 Uniform Water), uniform sewer operations (CWSNC Uniform Sewer),
8 Bradfield Farms/Fairfield Harbour/Treasure Cove Water operations
9 (BF/FH/TC Water) and Bradfield Farms/Fairfield Harbour/Treasure
10 Cove Sewer operations (BF/FH/TC Sewer).

11 **Q. MR. HENRY, PLEASE DESCRIBE YOUR RECOMMENDED**
12 **ADJUSTMENTS.**

13 A. My adjustments are described below.

14 **DEFERRAL ACCOUNTING PETITION**

15 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CWSNC'S**
16 **PROPOSED DEFERRAL ACCOUNTING PETITION.**

17 A. On June 28, 2019, in Docket No. W-354 Sub 365 (Sub 365), CWSNC
18 filed a Petition with the North Carolina Utilities Commission
19 (Commission) for an Accounting Order to defer post-in-service
20 depreciation and financing costs related to major new projects from
21 the date those assets are placed in service until the date the costs
22 are reflected in base rates. In its Petition, CWSNC describes four

1 major new projects for which the Company is requesting authority
2 to defer for inclusion in this rate case proceeding. Those four
3 projects consist of the Connetsee Falls wastewater treatment plant
4 (WWTP), the Nags Head WWTP, Fairfield Mountain automated
5 meter reading (AMR) meters, and Connetsee Falls AMR meters.

6 The Public Staff filed initial comments regarding the Company's
7 Petition on September 20, 2019, in which the Public Staff did not
8 oppose deferral accounting treatment for costs related to the WWTP
9 at Nags Head and Connetsee Falls. However, in those same initial
10 comments, the Public Staff recommended the Commission deny
11 deferral accounting treatment for the AMR meters installed in
12 Fairfield Mountain and Connetsee Falls. As stated by the Public Staff
13 in its comments, CWSNC has failed to make a clear, complete, and
14 convincing showing that the costs of the AMR meters are of an
15 unusual or extraordinary nature and, absent deferral, will have a
16 material impact on the Company's financial condition.

17 Based on the Public Staff's recommendation in the Sub 365 Petition,
18 I have calculated deferred carrying costs of \$520,144 for the
19 Connetsee Falls WWTP and \$578,634 for the Nags Head WWTP as
20 shown on Schedule 1 of Henry Exhibit I. It is my recommendation
21 that these carrying costs be amortized over a five-year period with
22 no unamortized balance included in rate base. The annual expense

1 for Uniform Sewer customers related to the deferred carrying costs
2 will be \$104,029 for the Connestee Falls WWTP and \$115,727 for
3 the Nags Head WWTP.

4 **STORM RESERVE FUND**

5 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
6 **REGARDING THE COMPANY'S PROPOSED STORM RESERVE**
7 **FUND?**

8 A. In this proceeding, CWSNC has made a request to establish a storm
9 reserve fund to support extraordinary O&M costs resulting from
10 damages sustained in severe storms such as Hurricane Florence.
11 The Company proposes to create a monthly, flat surcharge for each
12 active customer's water and sewer service bill until the reserve
13 threshold of \$250,000 is reached. CWSNC proposes to collect a
14 monthly surcharge of \$0.42 per customer per month based on the
15 threshold of \$250,000.

16 In addition to the storm reserve fund, CWSNC has applied to
17 include in rates, an annualized level of storm expense calculated
18 using a three-year average of actual storm expenses incurred,
19 excluding Hurricane Florence expenses. The annualized level of
20 storm expenses would be booked to maintenance and repair
21 expense. In this proceeding, the Public Staff has amortized to
22 deferred maintenance expense Hurricane Florence storm costs over

1 a three-year period in accordance with the Public Staff's
2 recommendation in Docket No. W-354, Sub 363, which was
3 consolidated with this rate case docket, by Commission Order dated
4 June 6, 2019.

5 By including an annualized level of storm expense in rates, the
6 Company will over-collect the amount included in rates for storm
7 restoration costs during periods when actual costs are less than the
8 level reflected in rates and under collect when actual costs exceed
9 the amount included in rates. In theory, however, the Company
10 should approximately recover its actual expenses over the long run.

11 In this case, CWSNC is now proposing that, in addition to the
12 annualized level, the Company also be allowed to create a storm
13 reserve fund. The Company proposes that when the reserve
14 threshold is reached, the Company will suspend the surcharge
15 beginning the following billing month. As costs are incurred and
16 reserve funds are applied, the Company plans to re-initiate the
17 surcharge to replenish the reserve. The reserve funds will only be
18 utilized if the Company's costs for the last 12 months exceed the
19 level of normalized storm expenses included in base rate revenue
20 requirement.

21 It is the Public Staff's opinion that the Company's proposal to
22 implement a storm surcharge is unfair to ratepayers, who would pay

1 for costs that exceed the annualized level but realize no benefit if
2 actual costs are less than the annualized level. Since the
3 normalization should allow the Company to recover its actual
4 expenses over the long run, CWSNC's proposed use of a storm
5 reserve fund in addition to the recovery of a normalized expense
6 would ensure over-recovery in the long run. Therefore, the Public
7 Staff recommends that the Commission deny the Company's request
8 for a storm reserve fund.

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

10 **A. Yes, it does.**

CAROLINA WATER SERVICE, INC. OF NC
Docket No. W-354, Sub 364
**CALCULATION OF DEFERRED POST-IN SERVICE
DEPRECIATION AND FINANCING COSTS
RELATING TO MAJOR NEW PROJECTS**
For The Test Year Ended March 31, 2019

Public Staff
Henry Exhibit I
Schedule 1

| Line No. | Item | Connestee Falls WWTP | Nags Head WWTP |
|----------|--|----------------------|-----------------|
| 1 | Plant additions | \$7,177,326 [1] | \$6,876,116 [1] |
| 2 | Less retirements | (400,000) [1] | (844,571) [1] |
| 3 | Net plant additions (L1 + L2) | 6,777,326 | 6,031,545 |
| 4 | Less accumulated depreciation (L3 x 2.50%) | (169,433) | (150,789) |
| 5 | Less accumulated deferred income taxes | (23,758) [2] | (21,144) [2] |
| 6 | Original cost rate base (L3 + L4 + L5) | 6,584,135 | 5,859,612 |
| 7 | Pre tax rate of return | 9.26% [3] | 9.26% [3] |
| 8 | Return on plant in service | 609,691 | 542,600 |
| 9 | Annual depreciation expense (L3 x 2.50%) | 169,433 | 150,789 |
| 10 | Revenue requirement before regulatory fee | 779,124 | 693,389 |
| 11 | Regulatory fee gross factor (1 - .0014) | 99.86% | 99.86% |
| 12 | Annual revenue requirement (L10 / L11) | 780,216 | 694,361 |
| 13 | Months in service to final order | 8 [4] | 10 [6] |
| 14 | Deferred carrying costs | 520,144 | 578,634 |
| 15 | Amortization period in years | 5 | 5 |
| 16 | Annual amortization | \$104,029 | \$115,727 |
| 17 | Adjustment to accumulated depreciation | (\$112,955) [5] | (\$125,658) [5] |

- [1] Provided by Public Staff Accountant Feasel.
[2] Calculated by the Public Staff based on book depreciation less tax depreciation.
[3] Calculated based on amounts approved in Sub 360 rate case.
[4] Number of months from August 2019 through March 2020.
[5] Line 4 divided 12 months multiplied by Line 13.
[6] Number of months from June 2019 through March 2020.