

**STATE OF 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, 3212 6th Avenue South,
Suite 200, Birmingham, Alabama 35222,
for Authority to Adjust and Increase Rates
for Water Utility Service in All Service
Areas in North Carolina

JOINT PROPOSED ORDER
APPROVING AGREEMENT
AND STIPULATION OF
SETTLEMENT, GRANTING
PARTIAL RATE INCREASE,
AND REQUIRING CUSTOMER
NOTICE

HEARD: Thursday, October 7, 2021, at 6:30 p.m., by virtual means using
Webex electronic platform

Tuesday, March 8, 2022, at 1:00 p.m., Commission Hearing
Room 2115, Dobbs Building, 430 North Salisbury Street,
Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; and
Commissioners Daniel G. Clodfelter and Jeffrey A. Hughes

APPEARANCES:

For Old North State Water Company, LLC:

David T. Drooz
Fox Rothschild LLP
434 Fayetteville Street, Suite 2800
Raleigh, North Carolina 27601

For the Using and Consuming Public:

Reita D. Coxton and Munashe Magarira, Staff Attorneys, Public
Staff – North Carolina Utilities Commission, 4326 Mail Service
Center, Raleigh, North Carolina 27699-4300

BY THE COMMISSION: On July 3, 2019, Old North State Water
Company, LLC¹ (ONSWC or Company), filed a letter notifying the North
Carolina Utilities Commission (Commission) of its intent to file a general rate

¹ On March 25, 2022, ONSWC filed with the Commission a notice to include in the ONSWC Company folder that the legal entity would be converting from a limited liability company to a C corporation, and that the ownership remained the same. The new name of the utility will be Old North State Water Company, Inc.

case application pursuant to Commission Rule R1-17(a). On April 7, 2021, ONSWC filed an updated letter of intent with the Commission.

On June 29, 2021, ONSWC filed its verified Application to Adjust and Increase Rates for Water Utility Service in All Service Areas in North Carolina (Application). The Company's proposed rates would increase the average monthly bill by approximately 68%, although the exact amount of increase would vary by subdivision and customer usage. Along with the Application, the Company filed the direct testimony of John McDonald, Manager of ONSWC, and Laurie Oakman, Accounting Manager of Integra Water, LLC, a company that provides support services to ONSWC.

By Order issued July 26, 2021, the Commission declared the matter to be a general rate case pursuant to N.C. Gen. Stat. § 62-137 and suspended the proposed new rates for up to 270 days pursuant to N.C.G.S. § 62-134.

On July 29, 2021, ONSWC filed a revised version of John McDonald's direct testimony.

On September 21, 2021, the Commission issued an *Order Scheduling Hearings, Establishing Discovery Guidelines, and Requiring Customer Notice* (Scheduling Order). Among other things, the Scheduling Order established the dates and times for public hearings in the matter on October 7, 2021, to be held remotely via Webex videoconference, and for an expert witness hearing in Raleigh, North Carolina on December 2, 2021. The Commission further required customer notice of the proposed rate increase and hearings. The Company filed a Certificate of Service notifying the Commission that the required notice to customers had been provided on September 22, 2021.

The intervention and participation in this docket by the Public Staff of the North Carolina Utilities Commission (Public Staff) is made and recognized pursuant to N.C.G.S. § 62-15(d) and Commission Rule R1-19(e). No other party intervened in this proceeding.

On October 5, 2021, the Public Staff and ONSWC (collectively, the Parties) filed a joint motion to cancel the first session of the public hearing scheduled to begin at 1:00 p.m., due to the absence of any registered witnesses. The Commission granted that motion by order of October 6, 2021.

On October 7, 2021, the later session of the public hearing scheduled to begin at 6:30 p.m., was held as scheduled via Webex. The following public witnesses provided testimony: Melissa Bertonica, Chuck Mosher, Brian Vervynckt, Anthony Noto, Thomas Flynn, Cynthia Black, Martin Francis-Kallukalam, Jolieann Kilpatrick, Mary Matton, Jeffrey Craig, Mayuri Coleman, and Nicholas Aronne. In addition to testimony at the public hearing, various consumer statements of position have been sent to the Commission.

On October 13, 2021, the Company filed its response to Public Staff Data Request No. 55. The response included references to supporting files that present an update to ONSWC's revenues, expenses, and rate base. Also on October 13, 2021, the Public Staff filed a motion requesting that its direct testimony filing date be extended to November 2, 2021, and the Company's rebuttal testimony filing date be extended to November 15, 2021. The Company did not object to this motion.

On October 27, 2021, ONSWC filed its report on customer comments received in the public hearing.

On October 27, 2021, ONSWC and the Public Staff filed a Joint Motion to Extend Testimony Filing Deadlines and Reschedule Expert Witness Hearing. By Order issued on November 16, 2021, the Commission rescheduled the expert witness hearing to March 8, 2022, and extended several filing deadlines, which included the deadlines for (i) ONSWC's update to its revenues, expenses, rate base, and cost of capital; (ii) the Public Staff's direct testimony; and (iii) ONSWC's rebuttal testimony (First Extension Order). Those deadlines were extended until November 23, 2021, February 1, 2022, and February 15, 2022, respectively.

On November 23 and 24, 2021, ONSWC filed updates to its revenues, expenses, and rate base (Update Filing).

On November 29, 2021, ONSWC filed a Notice of Intent to Place Temporary Rates into Effect, and Motion for Approval of an Undertaking and for Approval of Notice of Temporary Rates and Approval of Notice of Rescheduled Hearing (Temporary Rates Notice and Motion). On December 14, 2021, the Commission issued an *Order Accepting Financial Undertaking and Approving Notice to Customers of Rescheduled Hearing and Temporary Rates* (Interim Rates Order).

On January 11, 2022, ONSWC filed a Certificate of Service demonstrating that its customers were provided notice of interim rates and the rescheduled expert witness hearing.

On January 28, 2022, the Public Staff filed a Motion of the Public Staff for Waiver of Deadlines and Extension of Time to File Testimony. On February 1, 2022, the Commission issued an *Order Granting Motion of the Public Staff for Extensions of Time* (Second Extension Order).

On February 8, 2022, the Public Staff filed the direct testimony and exhibits of Charles M. Junis, Director of the Water, Sewer, and Telephone Division; John R. Hinton, Director of the Economic Research Division; and Iris Morgan, Financial Analyst in the Accounting Division, Water Section.

On February 22, 2022, the Company filed the rebuttal testimony and exhibits of witnesses McDonald and Oakman.

On March 1, 2022, the Public Staff filed the supplemental testimony and exhibits of witnesses Junis and Morgan.

On March 3, 2022, the Commission issued an *Order Allowing Supplemental Testimony and Supplemental Rebuttal Testimony and Providing for Limited Discovery*.

On March 4, 2022, ONSWC filed the supplemental rebuttal testimony and exhibit of witness Oakman.

On March 7, 2022, the Public Staff and ONSWC filed a joint motion to excuse all witnesses from appearing at the evidentiary hearing, noting that the Parties had informed the Commission on March 3, 2022, that a settlement resolving all issues in principle had been reached. The joint motion was dated on Sunday, March 6, 2022, and was received by the Commission for filing on March 7, 2022. It stated that a settlement agreement was being filed contemporaneously, and that settlement testimonies and exhibits would be filed by March 7, 2022.

On March 8, 2022, the Commission issued an order denying the motion to excuse witnesses and postponing the hearing until 1:00 p.m. on March 8, 2022.

The Joint Settlement Agreement and Stipulation (Settlement Agreement), with accompanying exhibits (Stipulation Exhibits), was filed on March 8, 2022.

On March 8, 2022, ONSWC filed the settlement testimony of witness McDonald and a rate case expense update as Oakman Late-Filed Exhibit I. Also on March 8, 2022, the Public Staff filed the settlement testimony and exhibits of witnesses Junis, Morgan, and Hinton.

On March 8, 2022, the evidentiary hearing for expert witnesses was held in Raleigh, North Carolina as scheduled. All prefiled testimonies and exhibits of ONSWC and Public Staff witnesses were admitted into the record, along with the initial rate case application and the October 27, 2021, Report on Customer Comments from the Company. Company witnesses McDonald and Oakman, and Public Staff witnesses Junis, Morgan, and Hinton, testified in response to questions from the Commission and follow-up questions by counsel for ONSWC. The Commission requested five late-filed exhibits from ONSWC and one late-filed exhibit from the Public Staff.

On March 11, 2022, ONSWC submitted four of the five late-filed exhibits the Commission requested. The late-filed exhibits are (1) the Articles of Organization for ONSWC, Corrected ONSWC Articles, and the ONSWC Operating Agreement; (2) a letter explaining the typographical error that caused the difference between Oakman Rebuttal Exhibit 2 and the Public Staff's (Junis) corresponding exhibit with regard to purchased water systems; (3) confidential

consolidated and consolidating financial statements for Integra Water, LLC; and (4) confidential documentation related to ONSWC's note receivable and notes payable (specifically, (i) Intercompany Promissory Note from Chatham North Holdings, Inc. to ONSWC, dated December 4, 2020; (ii) Intercompany Promissory Note from ONSWC to Integra Water, LLC, dated January 1, 2019; (iii) Intercompany Promissory Note from ONSWC to Integra Water, LLC, dated December 4, 2020; (iv) Intercompany Promissory Note from ONSWC to Integra Water Creola, LLC, dated January 1, 2019; (v) Intercompany Promissory Note from ONSWC to Integra Water Madison County, LLC, dated January 1, 2019; and (vi) Intercompany Promissory Note from ONSWC to Integra Water Vinemont, LLC, dated January 1, 2019).

The confidential and public versions of the evidentiary hearing transcript were filed in the docket on March 11, 2022.

On March 16, 2022, ONSWC submitted the fifth and final late-filed exhibit requested during the evidentiary hearing, specifically: its response to the statement of Nicholas Egan.

Also, on March 16, 2022, ONSWC filed a motion to correct ownership information in the present docket and other ONSWC sub-dockets, noting that John McDonald and not Integra Water, LLC owned the 95% interest in ONSWC. This filing was necessary to correct information included in multiple new franchise applications and clarify portions of ONSWC witness McDonald's prefiled rebuttal testimony.

On March 21, 2022, the Public Staff filed its late-filed exhibit.

On March 29, 2022, the Commission issued an *Order Accepting Late-Filed Exhibits, Requesting Further Late-Filed Exhibits, and Setting Date for Filing of Briefs and Proposed Orders* (Further Late-Filed Exhibits Order). In this order, the Commission admitted the late-filed exhibits previously filed by both parties into the evidentiary record and ordered the Parties to submit a joint proposed order within 30 days. The Further Late-Filed Exhibits Order also ordered ONSWC to file four additional late-filed exhibits and prospectively admitted those exhibits into the evidentiary record upon filing. The additional late-filed exhibits requested are (1) a copy of the signed promissory note from ONSWC to Integra Madison County, LLC, if a signed note exists; (2) loan agreements dated January 2019 and December 2020, referenced in the promissory notes ONSWC gave to various Integra affiliates; (3) the December 4, 2020 loan agreement between Chatham North Holdings, Inc., and ONSWC referenced in the Chatham note receivable held by ONSWC; and (4) a written explanation, under oath, of the reasons why Integra Water, LLC's consolidated and consolidating balance sheets show that ONSWC's financial results are not consolidated with Integra Water, LLC's.

On March 31, 2022, ONSWC filed the following documents in response to the Further Late-Filed Exhibits Order: (1) a written explanation, under oath, of the

reasons why Integra Water, LLC's consolidated and consolidating balance sheets show that ONSWC's financial results are not consolidated with Integra Water, LLC's; (2) a confidential copy of the signed promissory note from ONSWC to Integra Madison County, LLC; (3) the December 4, 2020, loan agreement between Chatham North Holdings, Inc., and ONSWC; and (4) confidential loan agreements referenced in the promissory notes ONSWC filed on March 11, 2022 (specifically, (i) Intercompany loan security from ONSWC to Integra Water, LLC, dated January 1, 2019; (ii) Intercompany loan security from ONSWC to Integra Water, LLC, dated December 4, 2020; (iii) Intercompany loan security from ONSWC to Integra Water Creola, LLC, dated January 1, 2019; (iv) Intercompany loan security from ONSWC to Integra Water Madison County, LLC, dated January 1, 2019; and (v) Intercompany loan security from ONSWC to Integra Water Vinemont, LLC, dated January 1, 2019). On March 31, 2022, ONSWC also filed a new update to its rate case expense and stated that the update had been reviewed by the Public Staff and incorporated all adjustments from the Public Staff.

On April 14, 2022, ONSWC filed an additional late-filed exhibit at the request of Commission Staff: a confidential Guaranty Agreement by ONSWC-Chatham North, LLC in favor of ONSWC.

On April 26, 2022, the Public Staff filed Stipulation Exhibit I REVISED and Stipulation Exhibit II REVISED (Final Stipulation Exhibits). The Company reviewed the exhibits before filing and did not identify any issues. Also on April 26, 2022, the Public Staff filed Junis Settlement Exhibit 1 (Revised).

On April 28, 2022, the Company and the Public Staff filed a Joint Proposed Order.

Based upon the foregoing, including the verified Application, testimony and exhibits of the customers appearing at the public witness hearing, testimony and exhibits of the expert witnesses received into evidence, Settlement Agreement, both versions of the Stipulation Exhibits, and the entire record herein, the Commission now makes the following:

FINDINGS OF FACT

General Matters

1. ONSWC is duly organized as a public utility operating under the laws of the State of North Carolina and is subject to the jurisdiction of the Commission pursuant to N.C.G.S. § 62-3(23)a.2. The Company is authorized to provide water utility service in 44 service areas across North Carolina.

2. ONSWC is subject to the jurisdiction of the Commission, pursuant to Chapter 62 of the General Statutes of North Carolina, and the Commission has authority to determine the justness and reasonableness of ONSWC's proposed rates for its water utility operations in North Carolina.

3. The appropriate test period for use in this proceeding, is the 12-month period ending on December 31, 2020, updated for known and measurable changes to revenues, expenses, and rate base through August 31, 2021.

4. The current proceeding is ONSWC's first general rate case for water utility service. The rates in effect are the rates the Commission approved when ONSWC's franchises were granted.

5. As of the end of the updated test year, August 31, 2021, ONSWC served approximately 1,863 water customers in North Carolina.

The Settlement Agreement

6. On March 8, 2022, the Public Staff and ONSWC filed the Settlement Agreement, resolving all the contested issues between the Public Staff and ONSWC in this matter.

7. The Settlement Agreement is the product of give and take in negotiations between the Parties, is material evidence in this proceeding, and is entitled to be given appropriate weight in this case along with the other evidence of record, including that submitted by the Company, the Public Staff, and the customers who testified at the public witness hearing.

8. The Settlement Agreement is a settlement of all matters in controversy in this proceeding as between the Parties.

Acceptance of the Settlement Agreement

9. The Settlement Agreement will provide ONSWC and its ratepayers just and reasonable rates.

10. The provisions of the Settlement Agreement serve the public interest and are just and reasonable to all parties to this proceeding and ONSWC's ratepaying customers.

11. It is appropriate to approve the Settlement Agreement in its entirety.

Customer Concerns and Service

12. At the public hearing and in written comments delivered to the Commission, customers described water quality problems, low pressure, reliability issues, and other service-related concerns. Many customers also objected to the proposed increase in rates.

13. ONSWC filed a report in response to the customer testimony on water quality and service problems provided at the public hearing. The report stated that some of the problems are related to a contract operator, Envirolink, Inc., that ONSWC no longer uses and described actions the Company has taken, or is

taking, to address the problems described by customers. ONSWC has made significant improvements to water quality and service in recent months and is continuing to make improvements.

14. The overall quality of water service provided by ONSWC is adequate.

Operating Revenues

15. The appropriate level of operating revenues under present rates for use in this proceeding is \$929,771, consisting of service revenues of \$915,716 and miscellaneous revenues of \$14,907, reduced by uncollectible accounts of \$852.

16. ONSWC requested an increase in rates that would produce \$448,340 in additional total operating revenues after Public Staff adjustments, an increase of 48% over present annual total operating revenues.

Rate Base

17. The appropriate level of ONSWC rate base used and useful in providing water service is \$1,669,418.

Capital Structure, Cost of Capital, and Overall Rate of Return

18. An imputed hypothetical capital structure comprised of 50.00% common equity and 50.00% long-term debt ratio is a reasonable and appropriate capital structure for ONSWC for purposes of this proceeding.

19. An imputed 4.60% cost of debt for ONSWC is reasonable and appropriate for purposes of this proceeding.

20. A 9.40% rate of return on common equity for ONSWC is just and reasonable for purposes of this proceeding.

21. The cost of capital and revenue increase approved in this Order is intended to provide ONSWC, through sound management, the opportunity to earn an overall rate of return of 7.00%. This overall rate of return is derived from applying a cost of debt of 4.60% and a rate of return on common equity of 9.40%, to a hypothetical capital structure consisting of 50.00% long-term debt and 50.00% common equity.

22. Continuous, safe, adequate, reliable, and affordable water utility service by ONSWC is essential to ONSWC's customers.

23. The overall rate of return and capital structure approved by the Commission appropriately balance the benefits received by ONSWC's customers from the provision of safe, adequate, and reliable water utility service with the difficulties that some of ONSWC's customers will experience in paying the Company's increased rates.

24. The 9.4% rate of return on common equity and the hypothetical capital structure approved by the Commission balance ONSWC's need to obtain equity and debt financing with its customers' need to pay the lowest possible rates.

25. The authorized levels of overall rate of return and rate of return on common equity set forth above are supported by competent, material, and substantial record evidence; are consistent with the requirements of N.C.G.S. § 62-133; and are fair to ONSWC's customers generally and in light of changing economic conditions.

Maintenance and General Expense

26. The appropriate level of operating and maintenance expense for use in this proceeding is \$1,091,016.

27. It is appropriate for ONSWC to recover total rate case expenses of \$202,868 related to the current proceeding.

28. It is appropriate to amortize the total rate case costs for the current proceeding over three (3) years resulting in annual rate expense of \$67,623, as agreed to by the Parties. The Parties also agree that unamortized rate case expense will not be included in rate base and will not earn a return, and any rate case expense not amortized by the time of the Company's next rate case may be carried forward to that case for cost recovery in rates.

Depreciation and Amortization Expense

29. The appropriate level of depreciation expense and appropriate level of amortization of CIAC expense for use in this proceeding are \$351,728 and (\$227,870), respectively.

Property, Payroll, and Other Taxes

30. The appropriate level of property, payroll, and other taxes for use in this proceeding is \$21,182, consisting of \$1,382 for property taxes, \$19,447 for payroll taxes, and \$353 for other taxes.

Regulatory Fee and Income Taxes

31. It is reasonable and appropriate to calculate regulatory fee expense using the regulatory fee rate of 0.13% effective July 1, 2019, pursuant to the Commission's June 18, 2019, Order issued in Docket No. M-100, Sub 142. The appropriate level of regulatory fee expense under present rates in this proceeding is \$1,792.

32. It is appropriate to calculate income taxes for ratemaking purposes based on the adjusted level of revenues and expenses and the tax rates for utility operations.

33. It is reasonable and appropriate to use the current North Carolina corporate income tax rate of 2.50% to calculate ONSWC's revenue requirement. The appropriate level of state income taxes for use in this proceeding is \$2,547.

34. It is reasonable and appropriate to use the federal corporate income tax rate of 21% to calculate ONSWC's revenue requirement. The appropriate level of federal income taxes for use in this proceeding is \$20,857.

Revenue Requirement

35. The rate base method is the appropriate method to use in this proceeding for determining fair and reasonable rates for water service as allowed by N.C.G.S. § 62-133.

36. ONSWC's rates should be adjusted by amounts which, after all pro forma adjustments, will produce revenues of \$1,378,111. This rate increase will allow ONSWC the opportunity to earn a 7.00% overall rate of return, which the Commission has found to be reasonable upon consideration of the findings in this Order.

37. The rate increase approved herein represents an increase of \$448,340, or approximately 48% in total water operating revenues.

Billing Analysis and Rate Design

38. It is reasonable and appropriate for ONSWC to use a uniform rate design for all its water utility service areas in North Carolina, while allowing future pass through of purchased water price increases for the Blawell and Rocklyn subdivisions pursuant to N.C.G.S. § 62-133.11.

39. It is reasonable and appropriate for the rates set in this case to be based on a 40/60 ratio of fixed/volumetric (or base/usage) revenues for uniform water rates, as set out in the Settlement Agreement.

40. The rates and charges listed below, and included in Appendix A, attached hereto, are just and reasonable and should be approved.

| | |
|---|----------|
| Monthly Base Charge per residential unit: | \$ 24.11 |
| Usage charge, per 1,000 gallons - Rocklyn | \$ 5.57 |
| Usage charge, per 1,000 gallons - Blawell | \$ 3.01 |
| Usage charge, per 1,000 gallons – all other systems | \$ 7.57 |

Other Matters

41. The Parties agree that ONSWC will hold ratepayers harmless for the uncollected contributions in aid of construction (CIAC) income tax gross-up

attributable to the Arlington Manor, Bella Terra, and Brook Meadow systems in this and future rate case proceedings. The Public Staff and ONSWC agree to continue to work together on how the uncollected income tax gross-up should be treated in ONSWC's accounting system to ensure that ratepayers are not negatively impacted. It is reasonable for (i) the Company to provide the Public Staff with its proposed accounting treatment for consideration and feedback within 30 days of this Order; (ii) the Public Staff to provide the Company feedback on its proposal within 60 days of receipt of the same; and (iii) the Parties to update the Commission on its efforts within 90 days of this Order. If the Parties cannot agree on an acceptable accounting treatment, they shall file their respective recommendations with the Commission within 120 days of this Order. It is also reasonable for the Public Staff to continue to review the way in which the income tax gross-up is being treated to ensure that ratepayers are being held harmless and further address this issue in future rate case proceeding if, in the Public Staff's view, the accounting treatment the Company employs to hold ratepayers harmless does not function as intended.

42. The Parties agree to work on a mutually acceptable methodology for determining how to calculate refunds owed for bills issued during the interim rate period, if rates charged during the interim period were higher than the rates approved in this Order. It is reasonable for the Company to file a schedule listing the refund amounts, if any refunds are due, with the Commission within 15 days of this Order and the Public Staff to file a response to the Company's schedule within 30 days of this Order. After the Parties have filed their proposed refund schedules, the Commission will issue an order approving or modifying the refund schedule, and the Company shall make any refunds to customers within 30 days of such order.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 5

General Matters and Jurisdiction

The evidence supporting these findings of fact is contained in the verified Application, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings are primarily jurisdictional and informational and are uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6 – 11

Settlement Agreement and Acceptance of the Settlement Agreement

The evidence supporting these findings of fact is contained in the verified Application in the Commission's records, including the Company's report on comments made at the public hearing; testimony of public witnesses; Settlement Agreement and accompanying exhibit filed on March 8, 2022; and testimony and exhibits of the expert witnesses for the parties, including, particularly, the settlement testimony and exhibits of Public Staff witnesses Junis, Morgan, and

Hinton and the settlement testimony of ONSWC witness McDonald. Additionally, the appropriate amount of rate case expense has been updated by ONSWC in a late-filed exhibit, filed on March 31, 2022, requiring adjustment to Stipulation Exhibits I and II, the revenue requirement, and rates.

ONSWC and the Public Staff entered into and filed their Settlement Agreement on March 8, 2022. The Settlement Agreement addresses all issues in dispute and resolves all issues except with regard to two matters where the Parties agree to continue to work together. The two matters of continuing discussion among the Parties are in Part IV of the Settlement Agreement: the accounting method for uncollected income tax gross-up related to three water systems, and the methodology for calculating any customer refunds that might be due. Those two matters may be addressed in a subsequent Order.

Attached to the Settlement Agreement are Stipulation Exhibits I and II, which demonstrates the impact of the Parties' agreements on the calculation of ONSWC's gross revenue for the test period as updated. The Settlement Agreement is based upon the twelve-month test period ending on December 31, 2020, updated for known changes in rate base, revenues, and expenses through August 31, 2021, with a further update for rate case expense. The Settlement Agreement and Stipulation Exhibits reflect a negotiation of contested issues. The Parties agree that the provisions of the Settlement Agreement do not reflect any position asserted by either ONSWC or the Public Staff, but instead reflect compromise and settlement between them. The Settlement Agreement provides that it is binding on ONSWC and the Public Staff and is conditioned upon the Commission's acceptance of the Settlement Agreement in its entirety. There are no other parties to this proceeding.

The key aspects of the Settlement Agreement, as adjusted for the updated rate case expense, are as follows:

- **Revenue Requirement** – The Parties agree to an annual revenue increase of \$448,340.
- **Capital Structure** – The Parties agree that a hypothetical capital structure comprised of 50.00% long-term debt and 50.00% common equity is appropriate for ratemaking purposes for this proceeding.
- **Cost of Capital** – The Parties agree that a cost of debt of 4.60%, and a rate of return on equity of 9.40% is appropriate for ratemaking purposes for this proceeding.
- **Rate Base** – The Parties agree that the original cost rate base used and useful in providing service to the Company's customers is \$1,669,418.

- **Operating and Maintenance Expense** – The Parties agree that the appropriate level of operating and maintenance expense under present rates is \$1,091,016.
- **Total Operating Revenue Deductions** – The Parties agree that the appropriate level of total operating revenue deductions, which includes depreciation expense and CIAC amortization expense of \$351,728 and (\$227,870), respectively, is \$1,261,252.
- **Tariff Rate Design** –
 - A. The Parties agree that the rate design in this case should be based on a 40/60 ratio of fixed/volumetric (or base/usage) service revenues for Uniform Water rates.
 - B. The Parties agree that the volumetric rates for the Blawell and Rocklyn systems should be based upon pass-through rates from the Town of Stedman and City of Winston-Salem, respectively.

Based upon the foregoing and the entire record herein, the Commission concludes that the Settlement Agreement was entered into by the Parties after extensive discovery and negotiations, the Settlement Agreement is the product of give and take settlement negotiations between ONSWC and the Public Staff, and the Settlement Agreement represents a reasonable and appropriate resolution of certain specific matters that had been in dispute in this proceeding.

In making this finding, the Commission notes that no party expressed opposition to the provisions of the Settlement Agreement. In addition, when the provisions of the Settlement Agreement are compared to ONSWC's Application and the recommendations included in the testimony of the Public Staff's witnesses, the Settlement Agreement results in a number of downward adjustments to the expenses sought to be recovered by ONSWC and resolves issues, some of which were more important to ONSWC and others of which were more important to the Public Staff. The Commission further concludes that the Settlement Agreement and both versions of the Stipulation Exhibits are material evidence to be given appropriate weight in this proceeding, along with all other evidence of record, including that submitted by ONSWC, the Public Staff, and the customers who testified at the public witness hearing.

After careful consideration, the Commission concludes that the Settlement Agreement strikes a fair balance between the interests of ONSWC to maintain its financial strength at a level that enables it to attract sufficient capital on reasonable terms, on the one hand, and its customers to receive safe, adequate, reliable, and affordable water service at the lowest reasonably possible rates, on the other. The Commission concludes that the resulting rates are just and reasonable to both ONSWC and its customers. In addition, the Commission concludes that the provisions of the Settlement Agreement are just and reasonable to all parties to

this proceeding and serve the public interest, and it is appropriate to approve the Settlement Agreement in its entirety.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12 – 14

Customer concerns and Service

The evidence supporting these findings of fact is found in the testimony of the twelve public witnesses at the October 7, 2021, virtual hearing; testimony of Public Staff witness Junis; testimony of ONSWC witness McDonald; verified Report on Customer Comments from the Public Hearing (Report) filed by ONSWC on October 27, 2021; and ONSWC's late-filed exhibit submitted on March 16, 2022 discussing its response to the email statement of customer Nicholas Egan.

The public witnesses who provided testimony are Melissa Bertonica, Chuck Mosher, Brian Vervynckt, Anthony Noto, Thomas Flynn, Cynthia Black, Martin Francis-Kallukalam, Jolieann Kilpatrick, Mary Matton, Jeffrey Craig, Mayuri Coleman, and Nicholas Aronne. They expressed concerns regarding water service and quality, including problems with stains and discoloration caused by service interruptions, low pressure, and other issues. The Commission takes seriously the concerns of customers and, consequently, required ONSWC to file a report responding to the public witness testimony. In its Report, ONSWC addressed individually the specific concerns of each testifying customer. ONSWC admitted that service and water quality problems have existed in the past. The Company described recent investments it has made at various water systems, including the installation of filters to remove iron and manganese from the groundwater pumped by its wells. ONSWC noted performance problems with a previous contract operator, Envirolink, Inc., and stated that operations have improved since Envirolink, Inc., was replaced. The Report further addressed concerns sent to the Commission or Public Staff since the hearing.

Public Staff witness Junis testified that ONSWC is providing service to customers in 43 water systems and has been approved to provide water service in one more system (Carriage Cove) where there are not yet any customers being served. He determined that as of the August 31, 2021, update period, ONSWC served 1,863 customers. Based on his review of ONSWC's water systems, operations, and customer service, he observed that:

- (a) There has been deficient monitoring frequency, reporting, and public notification of water quality and system issues from 2019 through 2021;

- (b) The Company has already addressed, or is in the process of addressing, problems resulting from its former contract operator, EnviroLink, Inc.;
- (c) At least a year of quarterly reporting would be appropriate for water quality issues described by customers at the Fish Hawk Ranch, Olde Mill Trace, and Blaney Farms systems; and
- (d) The overall quality of water utility service provided by ONSWC is adequate.

In his rebuttal testimony, Company witness McDonald agreed with the conclusions of Public Staff witness Junis. He further described actions and investments being done to improve water quality, committed to filing the quarterly reports recommended by Public Staff witness Junis, and committed to making ONSWC responsive to any ongoing and future concerns about water quality and service.

Based on the foregoing and all the evidence in the record pertaining to water quality and service issues, the Commission concludes that ONSWC is providing adequate service to its customers. The Commission further concludes that it is appropriate for ONSWC to file quarterly reports beginning July 1, 2022, as recommended by Public Staff witness Junis. Such reports shall continue through July 1, 2023 (for a total of five reports), and may be continued thereafter if so ordered by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 15 – 16

Operating Revenues

The evidence supporting these findings of fact is found in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony and exhibits of Company witness Oakman, Settlement Agreement, both versions of the Stipulation Exhibits, and the Company's March 31, 2022, late-filed exhibit updating rate case expense. The following table summarizes the differences between the Company's level of operating revenues under present rates from its Application (updated as of August 31, 2021), the amounts recommended by the Public Staff, and the amounts reflected in the Settlement Agreement:

| Item | Company per Application (Updated) | Amount per Public Staff | Amount per Settlement Agreement |
|---------------------------------|-----------------------------------|-------------------------|---------------------------------|
| Service revenues | \$966,960 ² | \$915,716 | \$1,364,056 |
| Miscellaneous revenues | 14,907 | 14,907 | 14,907 |
| Uncollectible accounts | - | (852) | (852) |
| Total operating revenues | \$981,867 | \$929,771 | \$1,378,111 |

The Commission finds that the operating revenue adjustments made to ONSWC's Update Filing, as reflected in the Public Staff's supplemental testimony and exhibits, and accepted in the Settlement Agreement as shown in the Stipulation Exhibit, and updated for rate case expense in the Final Stipulations Exhibits, are reasonable and appropriate for use in this proceeding.

Based upon the foregoing, the Commission concludes that the appropriate level of operating revenues under present rates for use in this proceeding is as follows:

| Item | Amount |
|---------------------------------|--------------------|
| Service revenues | \$1,364,056 |
| Miscellaneous revenues | 14,907 |
| Uncollectible accounts | <u>(852)</u> |
| Total operating revenues | \$1,378,111 |

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17 Rate Base

The evidence supporting this finding of fact is contained in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony of ONSWC witnesses McDonald and Oakman, Settlement Agreement, and both versions of the Stipulation Exhibits.

The Public Staff proposed adjustments to the amount of original cost rate base in the Company's Update Filing. After revisions to its adjustments, the Public Staff proposed an original cost rate base amount in Morgan Exhibit I, Schedule 2, as revised in her supplemental testimony. The amount proposed by the Public Staff in its supplemental testimony was accepted by ONSWC for purposes of settlement, and is shown in both versions of the Stipulation Exhibits. The following table summarizes the settlement position of the Parties with respect to ONSWC's original cost rate base at December 31, 2020, updated to August 31, 2021, including pro forma adjustments:

² Subsequently revised by ONSWC to \$915,716 to correct a usage error.

| Item | Amounts |
|---|--------------------|
| Plant in Service | \$11,303,481 |
| Accumulated Depreciation | (2,434,709) |
| Net Plant in Service | \$8,868,772 |
| Contributions in aid of construction (CIAC) | (7,776,152) |
| Accumulated amortization of CIAC | 699,378 |
| Customer Advances | (249,980) |
| Cash working capital | 131,980 |
| Average tax accruals | (4,580) |
| Customer deposits | - |
| Original cost rate base | \$1,669,418 |

Therefore, based on the Settlement Agreement and both versions of the Stipulation Exhibits, and the record as a whole, the Commission concludes that the amount and components of original cost rate base reflected in both versions of the Stipulation Exhibits, as shown above, are reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 18 – 25

Capital Structure, Cost of Capital, and Overall Rate of Return

The evidence supporting these findings of fact is contained in the verified Application, testimony and exhibits of Public Staff witness Hinton, testimony of ONSWC witness McDonald, Settlement Agreement, both versions of the Stipulation Exhibits, and ONSWC's late-filed exhibits relating to its financing resources.

The Company initially requested a cost of capital based on its existing capital structure of 17% common equity and 83% long-term debt, with a rate of return on common equity of 9.75% and an overall rate of return of 7.75%, which was derived from comparison with other water utilities. A debt rate of 7.34% would result from use of those numbers. ONSWC Witness McDonald testified that all of ONSWC's financing was provided by Integra Water, LLC, which he controls.

In direct testimony, Public Staff witness Hinton expressed concern at the degree of leveraging present in the Company's existing capital structure. His testimony included two recommendations. Under his first recommendation, the overall rate of return would be based upon (i) a hypothetical capital structure comprised of 50.00% common equity and 50.00% long-term debt, (ii) a rate of return on common equity of 9.40%, and (iii) a hypothetical debt rate of 4.6%. Those factors result in an overall rate of return of 7.0%. This recommendation was contingent upon the Company infusing additional equity capital in an amount sufficient to increase its equity ratio to 50.00% by the evidentiary hearing. Public Staff witness Hinton's first recommendation would also require the Company to

maintain a capital structure with a minimum of 45.00% common equity and file audited financial statements with its Annual Report.

Public Staff witness Hinton's second recommendation would come into play if ONSWC did not infuse additional equity capital by the evidentiary hearing. Under his second recommendation, the overall rate of return would be based upon (i) ONSWC's actual capital structure as of August 31, 2021 (comprised of 89.63% long-term debt and 10.37% common equity), (ii) a rate of return on common equity of 9.40%, and (iii) ONSWC's actual cost of debt of 6.0%. Those factors result in an overall rate of return of 6.35%. Public Staff witness Hinton also recommended that the Commission issue an order requiring ONSWC to bring its capital structure to a minimum level of 50.00% common equity.

In settlement testimony, Public Staff witness Hinton revised his concerns about the high debt leveraging and financial viability of ONSWC articulated in his direct testimony. He stated that further discussions with the Company during settlement talks and his review of the consolidated financial statements of Integra Water, LLC, led him to withdraw his prior recommendations that the Company's change its actual capital structure and be required to submit audited financial statements. An essential part of the changes to Public Staff witness Hinton's position is the settlement commitment of ONSWC witness McDonald, as the authorized representative of Integra Water, LLC, for Integra Water, LLC, to continue to finance the capital needs of ONSWC at sufficient levels to permit ONSWC to fund its capital needs and operational expenses such that

With that revision to Public Staff witness Hinton's position as part of the Settlement Agreement, both Parties accepted a hypothetical capital structure of 50% long-term debt and 50% common equity, a hypothetical debt cost rate of 4.60%, and a rate of return on common equity of 9.40% , resulting in an overall rate of return of 7.00%, for ratemaking purposes in this proceeding.

In reviewing the Settlement Agreement, the Commission gives weight to the testimony of public witnesses as to the difficulty of paying for rate increases and their economic situations. An essential part of approving a cost of capital for ratemaking is that it be no greater than necessary to allow the utility to obtain the funding for capital investment and operating needs that will enable the provision of adequate quality and reliable water service. The Commission finds and concludes that the capital structure, debt cost rate, rate of return on equity, and overall rate of return presented in the Settlement Agreement and both versions of the Stipulation Exhibits appropriately balances the need to keep rates as low as possible for customers while at the same time allowing reasonable financing needed to provide adequate and reliable water service for customers. The Commission further notes that its approval of a rate of return on common equity at the level of 9.40% is not a guarantee to the Company that it will earn a rate of return on common equity at that level. Rather, as North Carolina law requires, setting the rate of return on common equity at this level merely affords ONSWC the opportunity to achieve such a return. Based on all the evidence presented, the Commission finds and concludes that the capital structure, debt cost rate, rate of return on equity, and the 7.00% overall rate of return presented in the Settlement

Agreement and both versions of the Stipulation Exhibits are reasonable and appropriate for use in this proceeding, and are, therefore, approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 26 – 28

Maintenance and General Expenses

The evidence for these findings of fact is found in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony and exhibits of ONSWC witness Oakman, late-filed exhibit updating rate case expense filed on March 31, 2022, Settlement Agreement, and both of the Stipulation Exhibits. The following table summarizes the differences between the Company's requested level of maintenance and general expenses, amounts recommended by the Public Staff, and amounts agreed to in the Settlement Agreement:

| Item | Company per Application (Updated) | Amount per Public Staff | Amount per Settlement Agreement |
|---|---|----------------------------|---------------------------------------|
| Salaries and wage | \$195,854 | \$195,854 | \$195,854 |
| Administrative and office expense | 314,781 | 314,781 | 314,781 |
| Maintenance and repair expense | 218,169 | 162,135 | 162,135 |
| Transportation | 28,102 | 28,102 | 28,102 |
| Electric Power | 77,465 | 66,087 | 66,087 |
| Chemicals | 10,870 | 10,314 | 10,314 |
| Testing | 95,007 | 95,007 | 95,007 |
| Permit fees | 8,521 | 8,521 | 8,521 |
| Purchased water | 52,239 | 35,175 | 35,175 |
| Other expenses – <i>Professional expenses:</i> | | | |
| <i>lawn maintenance</i> | 89,130 | 89,130 | 89,130 |
| Other expenses – <i>Insurance Expense</i> | 14,211 | 11,723 | 11,723 |
| Other expenses – <i>Bad debt expense</i> | 852 | - | - |
| Other expenses – <i>Miscellaneous expense:</i> | | | |
| <i>bond expense</i> | 9,908 | 6,564 | 6,564 |
| Rate case expense | 73,974 | 67,623 | 67,623 |
| Total Operating and Maintenance Expenses | \$1,189,083 | \$1,091,016 | \$1,091,016 |

Rate Case Expense

In her prefiled rebuttal testimony, ONSWC witness Oakman asked that the Company be allowed to update its rate case expense by filing, at the close of the evidentiary hearing, its actual costs to that date and its estimated costs for preparing and filing a proposed order. She also opined that rate case expense should be amortized over two years, rather than the three year period recommended by Public Staff witness Morgan. Pursuant to the Settlement Agreement, ONSWC filed, on March 31, 2022, a late-filed Rate Case Expense Exhibit, which provided an update to the Company's rate case expense. ONSWC stated that the update was reviewed by the Public Staff and incorporated all adjustments recommended by the Public Staff. The Settlement Agreement provides that rate case expense will not be included in rate base, will not earn a return for the current proceeding, will be amortized over three years, and ONSWC may request any unamortized balance in computing rate case expense in a future rate case proceeding.

Therefore, in light of the foregoing, the Commission concludes that it is appropriate for ONSWC to recover total rate case expenses of \$202,868 related to the current proceeding, as updated on March 31, 2022. The Commission also concludes that it is appropriate that total rate case expense for the current proceeding be excluded from rate base and not earn a return, and be amortized over three (3) years resulting in an annual rate case expense of \$67,623. The Commission also concludes that it is reasonable that the Company be able to request any unamortized rate case expense balance in computing rate case expense in its next rate case proceeding.

On the basis of the Settlement Agreement and Stipulation Exhibit I, the updated rate case expense, and the record as a whole, the Commission concludes that the amount and components of maintenance and general expense reasonable and appropriate for use in this proceeding are as follows:

| Item | Amount |
|---|-----------|
| Salaries and wage | \$195,854 |
| Administrative and office expense | 314,781 |
| Maintenance and repair expense | 162,135 |
| Transportation | 28,102 |
| Electric Power | 66,087 |
| Chemicals | 10,314 |
| Testing | 95,007 |
| Permit fees | 8,521 |
| Purchased water | 35,175 |
| Other expenses – <i>Professional expenses: lawn maintenance</i> | 89,130 |
| Other expenses – <i>Insurance Expense</i> | 11,723 |
| Other expenses – <i>Bad debt expense</i> | - |

| | |
|---|--------------------|
| Other expenses – <i>Miscellaneous expense: bond expense</i> | 6,564 |
| Rate case expense | 67,623 |
| Total Maintenance and General Expenses | \$1,091,016 |

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 29 – 34

Depreciation and Amortization Expense; Property, Payroll, and Other Taxes; and Regulatory Fee and Income Taxes

The evidence supporting these findings of fact is found in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony and exhibits of ONSWC witness Oakman, Settlement Agreement, and both versions of the Stipulation Exhibits. The following table summarizes the differences between the Company's level of depreciation and amortization expenses and taxes from the Application (as modified by the Update Filing), supplemental testimony and exhibits of Public Staff witnesses Morgan and Junis, and amounts reflected in the Settlement Agreement and both versions of the Stipulation Exhibits:

| Item | Company per Application (Updated) | Amount per Public Staff | Amount per Settlement Agreement |
|---|-----------------------------------|-------------------------|---------------------------------|
| Depreciation expense | \$352,723 | \$351,728 | \$351,728 |
| Amortization expense – CIAC | (262,687) | (227,870) | (227,870) |
| Property taxes | 1,382 | 1,382 | 1,382 |
| Payroll taxes | 19,447 | 19,447 | 19,447 |
| Other taxes | 353 | 353 | 353 |
| Regulatory fee expense | - | 1,209 | 1,792 |
| State income tax | - | - | 2,547 |
| Federal income tax | - | - | 20,857 |
| Total depreciation, amortization, regulatory fee, and tax expenses | \$111,218 | \$146,249 | \$170,236 |

On the basis of the testimony and exhibits of Company witness Oakman and Public Staff witness Morgan, the Settlement Agreement, both versions of the Stipulation Exhibits, and the record as a whole, the Commission concludes that the amounts and components of depreciation and amortization expense, taxes, and regulatory fee expense reasonable and appropriate for use in this proceeding are as follows:

| Item | Amount per Settlement Agreement |
|---|---------------------------------------|
| Depreciation expense | \$351,728 |
| Amortization expense – CIAC | (227,870) |
| Property taxes | 1,382 |
| Payroll taxes | 19,447 |
| Other taxes | 353 |
| Regulatory fee expense | 1,792 |
| State income tax | 2,547 |
| Federal income tax | 20,857 |
| Total depreciation, amortization, regulatory fee, and tax expenses | \$170,236 |

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 35 - 37

Revenue Requirement

The evidence for these findings of fact is found in the verified Application; testimony and exhibits of Public Staff witnesses Junis, Morgan, and Hinton; testimony and exhibits of ONSWC witnesses McDonald and Oakman; Settlement Agreement; both versions of the Stipulation Exhibits; and late-filed exhibits.

The Parties used the rate base method pursuant to N.C.G.S. § 62-133, to calculate the revenue requirement in this proceeding.

The Parties agreed that ONSWC's rates should be adjusted by amounts which, after all pro forma adjustments, will produce revenues of \$1,378,111. This rate increase will allow ONSWC the opportunity to earn a 7.00% overall rate of return, as stipulated. The stipulated rate increase represents an increase of \$448,340, or approximately 48% in total water operating revenues.

The following schedules summarize the gross revenue and overall rate of return that ONSWC should have a reasonable opportunity to achieve based on the increases in revenues reflected in the Settlement Agreement and approved in this Order. These schedules, illustrating ONSWC's gross revenue requirements, incorporate the adjustments reflected in the Settlement Agreement and found appropriate by the Commission in this order.

| SCHEDULE I ONSWC, LLC Docket No. W-1300, Sub 60 Net Operating Income for a Return For The Twelve Months Ending August 31, 2021 | | | |
|--|------------------|----------------------|-------------------------------|
| | Present Rates | Increase Approved | After Approved Increase |
| <u>Operating Revenues:</u> | | | |
| Service revenues | \$915,716 | \$448,340 | \$1,364,056 |
| Miscellaneous revenues | 14,907 | - | 14,907 |
| Uncollectible accounts | (852) | - | (852) |
| Total operating revenues | \$929,771 | \$448,340 | \$1,378,111 |
| <u>Operating and Maintenance Expenses:</u> | | | |
| Salaries and wages | \$195,854 | - | \$195,854 |
| Administrative and office expense | 314,781 | - | 314,781 |
| Maintenance and repair expense | 162,135 | - | 162,135 |
| Transportation | 28,102 | - | 28,102 |
| Electric Power | 66,087 | - | 66,087 |
| Chemicals | 10,314 | - | 10,314 |
| Testing | 95,007 | - | 95,007 |
| Permit fees | 8,521 | - | 8,521 |
| Purchased water | 35,175 | - | 35,175 |
| Other expenses – <i>Professional expenses: lawn maintenance</i> | 89,130 | - | 89,130 |
| Other expenses – <i>Insurance expense</i> | 11,723 | - | 11,723 |
| Other expenses – <i>Bad debt expense</i> | - | - | - |
| Other expenses – <i>Miscellaneous expense: bond expense</i> | 6,564 | - | 6,564 |
| Rate case expense | 67,623 | - | 67,623 |
| Total operating and maintenance expenses | \$1,091,016 | - | \$1,091,016 |
| <u>Depreciation and Taxes:</u> | | | |
| Depreciation expense | \$351,728 | - | \$351,728 |
| Amortization expense – CIAC | (227,870) | - | (227,870) |
| Property taxes | 1,382 | - | 1,382 |
| Payroll taxes | 19,447 | - | 19,447 |

| | | | |
|--|---------------------------|-------------------------|-------------------------|
| Other taxes | 353 | - | 353 |
| Regulatory fee expense | 1,209 | 583 | 1,792 |
| State income tax | - | 2,547 | 2,547 |
| Federal income tax | - | 20,857 | 20,857 |
| Total depreciation and taxes | <u>\$146,249</u> | <u>\$23,897</u> | <u>\$170,236</u> |
| Total operating revenue deductions: | \$1,237,265 | \$23,897 | \$1,261,252 |
| Net operating income for return | <u>(\$307,494)</u> | <u>\$424,353</u> | <u>\$116,859</u> |

| SCHEDULE II ONSWC, LLC Docket No. W-1300, Sub 60 Original Cost Rate Base For The Twelve Months Ending August 31, 2021 | |
|---|---------------------------|
| Plant in Service | \$11,303,481 |
| Accumulated Depreciation | (2,434,709) |
| Net Plant in Service | <u>\$8,868,772</u> |
| Contributions in aid of construction (CIAC) | (7,776,152) |
| Accumulated amortization of CIAC | 699,378 |
| Customer Advances | (249,980) |
| Cash working capital | 131,980 |
| Average tax accruals | (4,580) |
| Customer deposits | - |
| Original cost rate base | <u>\$1,669,418</u> |
| Rate of return: | |
| Present | -18.42% |
| Approved | 7.00% |

| SCHEDULE III | |
|--------------|--|
|--------------|--|

| ONSWC, LLC | | | | |
|---|-------------------------|----------------------------|----------------------------|-------------------------|
| Docket No. W-1300, Sub 60 | | | | |
| Statement of Capitalization and Related Costs | | | | |
| For The Twelve Months Ending August 31, 2021 | | | | |
| Item | Capitalization Ratio | Original Cost Rate Base | Embedded Cost or Return | Net Operating Income |
| Present Rates – Original Cost Rate Base | | | | |
| Long-term Debt | 50% | \$834,709 | 4.60% | \$38,397 |
| Common Equity | 50% | \$834,709 | -41.44% | (345,891) |
| Total | 100% | \$1,669,418 | | (\$307,494) |
| Approved Rates – Original Cost Rate Base | | | | |
| Long-term Debt | 50% | \$834,709 | 4.60% | \$38,397 |
| Common Equity | 50% | \$834,709 | 9.40% | 78,463 |
| Total | 100% | \$1,669,418 | | \$116,860 |

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 38 – 40

Billing Analysis and Rate Design

The evidence for these findings of fact is found in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony and exhibits of ONSWC witnesses McDonald and Oakman, and Settlement Agreement.

In settlement testimony, Public Staff witness Junis stated the present rates result in 39.34% of service revenues being collected by fixed base charges and 60.66% by variable usage charges. The rates proposed by the Company would result in 39.55% of service revenues being collected by fixed base charges and 60.45% by variable usage charges. The Public Staff initially recommended a fixed/variable ratio of 30%:70% for rate design. As a result of give-and-take negotiations to settle the contested issues, the Public Staff and ONSWC agreed that rate design in this case should be based on a 40%:60% ratio of fixed/variable service revenues. Public Staff witness Junis testified that a rate design based on a fixed/variable ratio of 40%:60% is reasonable and appropriate for settlement purposes given that the current proceeding is ONSWC's first general rate case,

ONSWC has a record of operating losses, and these ratios were the result of give-and-take settlement negotiations.

Under the stipulated rates, the typical monthly water bill for a residential customer using the Company-wide average of 4,984 gallons would be \$61.84. The amount of the dollar increase and percentage increase in the average customer monthly bill will differ for each system, as the new rates will be uniform across all ONSWC water systems whereas the previous rates were not the same across all systems. The Blawell and Rocklyn systems will have somewhat lower average bills because those systems purchase water from nearby municipalities, and their rates are subject to future changes when the municipalities change rates.

The application proposed a change in the meter fee from \$70 to \$125. This proposal was not contested, and the Commission finds it reasonable. The Application did not propose any change in previously-approved connection (tap) fees, and the Commission finds it reasonable to keep the tap fees unchanged.

Based upon the evidence of record, the Commission concludes that the stipulated rates and charges, as updated by the late-filed rate case expense exhibit, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 41 – 42

Other Matters

The evidence for these findings of fact is found in the verified Application, testimony and exhibits of Public Staff witnesses Junis and Morgan, testimony and exhibits of ONSWC witnesses McDonald and Oakman, and Settlement Agreement.

The Commission concludes that the Parties' agreement that ONSWC will hold ratepayers harmless for the uncollected contributions in aid of construction (CIAC) income tax gross-up attributable to the Arlington Manor, Bella Terra, and Brook Meadow systems in this and future rate case proceedings is reasonable and appropriate. The Commission further concludes that it is reasonable for (i) the Company to provide the Public Staff with its proposed accounting treatment for consideration and feedback within 30 days of this Order; (ii) the Public Staff to provide the Company feedback on its proposal within 60 days of receipt of the same; and (iii) the Parties to update the Commission on its efforts within 120 days of this Order. If the Parties cannot agree on an acceptable accounting treatment, they shall file their respective recommendations with the Commission within 120 days of this Order. Lastly, it is also reasonable and appropriate for the Public Staff to continue to review the way in which the income tax gross-up is being treated to ensure that ratepayers are being held harmless and further address this issue in future rate case proceeding if, in the Public Staff's view, the accounting treatment the Company employs to hold ratepayers harmless does not function as intended.

Likewise, the Commission concludes that the Parties' agreement to work on a mutually acceptable methodology for determining how to calculate refunds owed for bills issued during the interim rate period, if rates charged during the interim period were higher than the rates approved in this Order is reasonable and appropriate. The Commission further concludes that it is reasonable for the Company to file a schedule listing the refund amounts, if any refunds are due, with the Commission within 15 days of this Order and the Public Staff to file a response to the Company's schedule within 30 days of this Order.

IT IS, THEREFORE, ORDERED as follows:

1. That the Settlement Agreement between ONSWC and the Public Staff, entered into and filed on March 8, 2022, is incorporated herein by reference and is hereby approved, with the additional update adjustment for rate case expense filed on March 31, 2022;

2. That the Settlement Agreement and the parts of this Order pertaining to the contents of the Settlement Agreement shall not be cited or treated as precedent in future proceedings;

2. That ONSWC is authorized to increase its rates and charges for water utility service in its North Carolina service areas so as to produce, based on the adjusted test year level of operations, an increase in annual service revenues of \$448,340;

3. That the Schedule of Rates, attached as Appendix A, is hereby approved and deemed to be filed with the Commission pursuant to N.C.G.S. § 62-138;

4. That the Schedule of Rates is hereby authorized to become effective for service rendered on and after the issuance date of this Order;

5. That ONSWC shall file quarterly reports, starting on July 1, 2022, and continuing through July 1, 2023, regarding water quality and service issues at the Fish Hawk Ranch, Olde Mill Trace, and Blaney Farms systems as recommended by the Public Staff;

6. That ONSNC will hold ratepayers harmless for the uncollected contributions in aid of construction (CIAC) income tax gross-up attributable to the Arlington Manor, Bella Terra, and Brook Meadow systems in this and future rate case proceedings. The Public Staff and ONSWC shall continue to work together on how the uncollected income tax gross-up should be treated in ONSWC's accounting system to ensure that ratepayers are not negatively impacted in this rate case proceeding or future rate case proceedings. Additionally, the Company shall provide the Public Staff with its proposed accounting treatment for consideration and feedback within 30 days of this Order, the Public Staff shall provide the Company feedback on its proposal within 60 days of this Order, and the Parties shall update the Commission on its efforts within 90 days of this Order.

If the Parties cannot agree on an acceptable accounting treatment, they shall file their respective recommendations with the Commission within 120 days of this Order. The Public Staff shall continue to review the way in which the income tax gross-up is being treated to ensure that ratepayers are being held harmless and further address this issue in future rate case proceeding if, in the Public Staff's view, the accounting treatment the Company employs to hold ratepayers harmless does not function as intended;

7. That the Parties shall work on a mutually acceptable methodology for determining how to calculate refunds owed for bills issued during the interim rate period, if rates charged during the interim period were higher than the rates approved herein. The Company shall file a schedule listing the refund amounts, if any refunds are due, with the Commission within 15 days of this Order and the Public Staff shall file a response to the Company's schedule within 30 days of this Order. After the Parties have filed their proposed refund schedules, the Commission will issue an order approving or modifying the refund schedule, and the Company shall make any refunds to customers within 30 days of such order;

8. That the Notice to Customers, attached hereto as Appendix B, shall be mailed with sufficient postage or hand delivered to all affected customers by ONSWC in conjunction with the next regularly scheduled billing process after the issuance date of this Order; and

9. That ONSWC shall file the attached Certificate of Service, properly signed and notarized, not later than 45 days after the issuance date of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of _____, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

SCHEDULE OF RATES

for

OLD NORTH STATE WATER COMPANY, INC.

For providing water service in

ALL OF ITS SERVICE AREAS IN NORTH CAROLINA

| | |
|--|-------------|
| Monthly Base Rate (zero usage): | \$ 24.11 |
| Usage Rate per 1,000 gallons for Rocklyn | \$ 5.57 |
| Usage Rate per 1,000 gallons for Blawell | \$ 3.01 |
| Usage Rate per 1,000 gallons for all other systems | \$ 7.57 |
| Connection (tap) Fee: | |
| Shiloh | \$ 500.00 |
| Meadow Lake | \$ 500.00 |
| Olde Mill Trace | \$ 500.00 |
| Leone Landing | \$ 4,000.00 |
| Kanata Mills | \$ 500.00 |
| Ethan's Meadow | \$ 500.00 |
| Bella Vista | \$ 500.00 |
| Yates Mill Estates | \$ 500.00 |
| Vernon Place | \$ 500.00 |
| Jackson Manor | \$ 500.00 |
| Kingston | \$ 500.00 |
| Autumn Ridge | \$ 500.00 |
| Knights Landing | \$ 500.00 |
| Mornington | \$ 500.00 |
| Baileys at Glenmoor | \$ 500.00 |
| Carriage Cove | \$ 500.00 |
| Prescott | \$ 500.00 |
| Camberly Estates | \$ 500.00 |
| Ashcroft Park | \$ 500.00 |
| Yardley | \$ 500.00 |
| Fish Hawk Ranch | \$ 500.00 |
| Sterling Crest II | \$ 500.00 |
| Thatcher Woods | \$ 500.00 |
| Arlington Manor | \$ 500.00 |
| Bella Terra | \$ 500.00 |
| All other systems | \$ 0.00 |
| Meter Installation Fee: | \$ 125.00 |
| New Account Fee: | \$ 20.00 |

Reconnection Charge - Service Discontinued by Utility: \$30.00

Reconnection Charge - Service Discontinued by Customer: \$15.00

Bills Due: On billing date

Bills Past Due: 15 days after billing date

Billing Frequency: Monthly for service in arrears

Finance Charges for Late Payment: 1.0% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

All rates and fees are per Residential Equivalent Unit

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-1300, Sub 60, on this the _th day of _, 2022.

**STATE OF 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, 3212 6th Avenue South, Suite 200,) **JOINT PROPOSED ORDER**
Birmingham, Alabama 35222, for Authority to) **~~NOTICE TO CUSTOMERS~~**
Adjust and Increase Rates for Water Utility) **INCREASE**
Service in All Service Areas in North Carolina)

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing Old North State Water Company, Inc. (formerly Old North State Water Company LLC), to increase its rates for water utility service to all of its customers in its North Carolina service areas. The new approved monthly rates per Residential Equivalent Unit are as follows and are effective for service rendered on or after the date of this Notice:

WATER SERVICE

| | |
|---|-------------|
| Monthly Base Rate (zero usage): | \$ 24.11 |
| Usage Rate per 1,000 gallons for Rocklyn | \$ 5.57 |
| Usage Rate per 1,000 gallons for Blawell | \$ 3.01 |
| Usage Rate per 1,000 gallons for all other systems: | \$ 7.57 |
| Connection (tap) Fee: | |
| Shiloh | \$ 500.00 |
| Meadow Lake | \$ 500.00 |
| Olde Mill Trace | \$ 500.00 |
| Leone Landing | \$ 4,000.00 |
| Kanata Mills | \$ 500.00 |
| Ethan's Meadow | \$ 500.00 |
| Bella Vista | \$ 500.00 |
| Yates Mill Estates | \$ 500.00 |
| Vernon Place | \$ 500.00 |
| Jackson Manor | \$ 500.00 |
| Kingston | \$ 500.00 |
| Autumn Ridge | \$ 500.00 |
| Knights Landing | \$ 500.00 |
| Mornington | \$ 500.00 |
| Baileys at Glenmoor | \$ 500.00 |
| Carriage Cove | \$ 500.00 |

| | |
|-------------------|-----------|
| Prescott | \$ 500.00 |
| Camberly Estates | \$ 500.00 |
| Ashcroft Park | \$ 500.00 |
| Yardley | \$ 500.00 |
| Fish Hawk Ranch | \$ 500.00 |
| Sterling Crest II | \$ 500.00 |
| Thatcher Woods | \$ 500.00 |
| Arlington Manor | \$ 500.00 |
| Bella Terra | \$ 500.00 |
| All other systems | \$ 0.00 |

Meter Installation Fee: \$ 125.00

New Account Fee: \$ 20.00

Reconnection Charge - Service Discontinued by Utility: \$30.00

Reconnection Charge - Service Discontinued by Customer: \$15.00

The Commission's Order setting forth its findings and conclusions concerning this proceeding can be viewed on the Commission's website at www.ncuc.net, under the "Docket Search" feature, utilizing Docket No. W-1300, Sub 60.

This the ____ day of _____, 2022.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notice to Customers issued by the North Carolina Utilities Commission in Docket No. W-1300, Sub 60, and the Notice was mailed or hand delivered by the date specified in the Order.

This the _____ day of _____, 2022.

By: _____
Signature
Old North State Water Company, Inc.

The above named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notice to Customers was mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket No. W-1300, Sub 60.

Witness my hand and notarial seal, this the _____ day of _____, 2022.

Notary Public

Address

(SEAL) My Commission Expires: _____
Date