

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1040, SUB 10
DOCKET NO. W-1328, SUB 4

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Red Bird Utility Operating)	
Company, LLC, 1650 Des Peres Road, Suite 303, St.)	
Louis, Missouri 63131, and Bear Den Acres)	RED BIRD’S VERIFIED
Development, Inc., 600 Bear Den Mountain Road,)	REPORT REGARDING
Spruce Pine, North Carolina 28777, for Authority to)	ISSUES RAISED AT
Transfer the Bear Den Acres Development Water)	PUBLIC HEARINGS
System and Public Utility Franchise in McDowell)	
County, North Carolina, and for Approval of Rates)	

Pursuant to the Order Scheduling Public Hearing And Requiring Proposed Orders issued in these dockets on July 1, 2022, Red Bird Utility Operating Company, LLC (“Red Bird”) provides this Verified Report addressing customer service and service quality complaints, as well as actions planned by Red Bird to remedy customer concerns expressed during the public witness hearings held on August 4, 2022.

Rates/Billing

Most of the customers who testified during the hearings expressed concern about future rate increases associated with Red Bird’s proposed acquisition of the Bear Den system. As stated in the Transfer Application, Red Bird proposes to adopt Bear Den’s currently approved rates for the purposes of this acquisition. This is stated in the Notice to Customers but appears to have either been missed or misunderstood by customers.

Upon acquiring the Bear Den system Red Bird plans to implement improvements to both the Bear Den water system and the service provided to customers. The Notice to Customers (“Notice”) informed customers that Red Bird anticipates filing a rate case after it has owned and operated this system for at least a year and made investments and improvements. It is anticipated that a rate increase will be necessary and appropriate at that time. As indicated in the Notice, Red Bird also anticipates seeking Commission approval of uniform rates for all systems which it acquires. As indicated in the Notice, and as noted by Public Staff counsel during the hearings, at the time Red Bird actually proposes a rate increase customers will have the opportunity to be heard, the Public Staff will participate, and the Commission will review the prudence of all improvements to both water quality and service to customers during the Company’s first rate case, and it will determine the extent of the rate increase approved for Red Bird. The improvements outlined in the Notice are anticipated, but until Red Bird actually owns and operates the system it will not be able to identify and assess the nature and extent of any system issues that need to be addressed. As a result, there is currently no way to determine the extent of this future rate increase with precision due to the number of factors that will inevitably affect said increase.

The Company also heard concerns regarding part-time occupancy, usage, and the implications of this acquisition. For those part-time residents, there is an opportunity to shut off water during prolonged vacancy. Bear Den’s existing Tariff, which Red Bird proposes to adopt, has a reconnection fee of \$14.34 for turning water back on. This is a viable option for customers with those concerns. Additionally, individual residents can take appropriate measures to limit usage at their discretion which will result in lower billing.

Red Bird will calculate usage by conducting meter reads and will charge per the currently approved Tariff. Some customers asked about the ability to drill their own wells if they felt service ever became too costly, and the Company is not aware of any reasons why customers would not be able to do so.

Another issue raised during the hearings related to billing/rate concerns was the estimate of 1,500 gallons of monthly water usage used in the Notice. This is a round number, average estimate, loosely based on the usage found in Bear Den's 2020 Annual Report filed with the Commission, which Public Staff used in the Notice as an example to illustrate the impact of a hypothetical rate increase. This figure was only to facilitate the example set forth in the Notice. Customer billings at Bear Den will be based on meter readings, therefore, customer billings will be based on actual usage, not an estimate.

Communications

Red Bird heard the customer concerns regarding communications and transparency and is dedicated to providing effective communication and transparency. Red Bird has complied with all Commission Orders in providing notice and access to docketed information to the Bear Den customers. The Company utilized the most recent address/contact information provided to it by the Seller in providing these notices. Red Bird understands from the public hearing testimony that it may have received outdated mailing address information for some lots, and it will work to gather the correct customer data prior to sending future communications. The Company learned during the hearing that some customers made copies of notices and provided them to their neighbors. Additionally, the Company was made aware that customers notified their neighbors in person and by telephone. Per the Affidavit filed with the Commission by the current owner, Bear Den posted the Notice as directed by the July 1 Order. Red Bird's use of the postal service to

mail the Notices to both the service and billing addresses for BDA customers was as directed in the July 1 Order.

As Red Bird's affiliates have done elsewhere, Red Bird plans to send a communication to the customers approximately one month prior to the closing of the acquisition or within 10 days of closing on the system. That communication introduces the acquiring utility operating company to the customers and explains various aspects of operations such as billing, how to contact customer service, how to handle emergencies, etc. Because the Commission has not yet approved this acquisition, Red Bird has not yet mailed that information to the Bear Den Acres customers, but it will do so upon Commission approval of this acquisition.

Should the Commission approve the transfer application in these dockets, customers will have various established means by which they can receive communications from and communicate with Red Bird. Red Bird customers may contact Red Bird by calling the customer service toll-free phone number, the emergency toll-free number, or sending an email to customer service. The emergency toll free number and the website /email are available 24/7. This information is provided on the website and is included in all written materials sent to customers. Personnel are available during regular business hours (M-F 8:00 - 5:00) to address customer concerns. The main office is open M-F from 7:00 am to 5:00 pm to respond to customer concerns forwarded by operations or customer service personnel. Additionally, main office customer service personnel are available to be contacted after hours for emergency calls should a situation be escalated.

Concerns / Issues Regarding the Campground

Red Bird has entered into an agreement to acquire the public water system (PWS NC0156129) serving the approximately 50 residential connections in the Bear Den Acres

development from Bear Den Acres Development, Inc. The Company is unable to speak to the ownership and management of the adjoining campground, but can unequivocally state that Red Bird is not acquiring the Bear Den Campground and that the Bear Den Acres public water system which Red Bird seeks to acquire does not serve that campground.

Operations

Red Bird heard the customer concerns regarding the future operation of this system and the implications of a national company providing service to a local system. CSWR and Red Bird are dedicated to identifying and employing qualified low-cost firms to operate facilities that its operating company subsidiaries acquire. A multi-step process has been developed to ensure that the Operation Firm delivering the best value of service is selected. The cost savings yielded from this process and approach are a product of the ability to bid multiple systems in a single bid package, which enables the operating company to choose from the lowest cost qualified bidders.

The first step in this process is to identify potential Operation Firms in the vicinity of the acquisition. CSWR utilizes several avenues to identify potential Operation Firms. This includes, but is not limited to, web searches, contacting local Rural Water Associations, word of mouth, and local contacts in the area. The goal is to contact as many potential Operating Firms as possible to make sure that we can identify a firm that provides adequate services to assist CSWR's operating subsidiaries in delivering safe and reliable water resources and/or sewer service to the communities we serve.

After identifying potential firms, CSWR sends a Request for Qualifications ("RFQ") packet to all identified firms (a copy of the RFQ was filed with the Commission on April 18, 2022). After a firm is deemed qualified to serve as a CSWR contractor, CSWR will begin to send Requests for Proposals ("RFPs") for projects that are within their service

area and are within their operational capabilities. After multiple systems have been acquired, these RFPs contain multiple service areas/projects in order to best achieve economies of scale and yield cost-savings to our utility ratepayers. As new firms are identified and become qualified, the operating company receives more bids and has a better chance of finding the best value firm to provide service.

After acquisitions are approved, CSWR will divide up projects due for closing on a regional basis. This is done in attempt to lower operational costs and make the projects more manageable for CSWR and the selected Operations Firm. Another benefit to the regional approach is that it gives the opportunity for local operations firms to compete with the Nationwide firms. After the RFPs have been returned, CSWR's Environmental, Health & Safety Team review all Proposals to find the best value for the operating company. The value is determined by a combination of cost and services proposed to be provided from the Operations Firm. After the best value proposal is determined, CSWR and the selected firm will negotiate to ensure that all parties agree on how to best serve the community.

In North Carolina, CSWR sent out RFQ packets to 11 different entities and have approved three of the responding entities as qualified contractors (identified below):

- Inframark Water & Infrastructure Services
- Woodard & Curran
- Midwest Water Operations (ClearWater Solutions)

At this time, the Company plans to award one of these three Operation Firms a contract to serve the customers of the Bear Den water system. On July 1, 2022, Red Bird contracted with Bear Den to provide temporary system operations while awaiting the Commission's decision on this transfer application. Red Bird simultaneously contracted with ClearWater Solutions to provide the local operations necessary to run the system. The

current owner of the Bear Den system asked for relief from operating the system and has been awaiting approval of this transfer since September of 2020. As such, Red Bird stepped in as a temporary contract operator and was able to efficiently transition operations on an interim basis until such time as a decision is made in this case.

Technical resources and operational expertise that would be available under Red Bird's ownership have already greatly improved the quality of utility service provided to customers of affiliates in Missouri, Arkansas, Louisiana, Kentucky, Texas, Tennessee, Florida, Mississippi, and Arizona. CSWR has on staff engineers and other trained and qualified personnel with experience in the design and operation of water and wastewater systems, and CSWR supplements those resources with qualified and licensed local Operations Firms who are responsible for day-to-day plant operations. Access to these and other resources available through its affiliation with CSWR would allow Red Bird customers to achieve economies not generally available to similarly sized water and wastewater utilities. The affiliated group's business model makes this expertise and experience available to affiliates and does so through economies of scale that can be achieved because of CSWR's centralized management structure.

CSWR also has developed and implemented operating processes and technologies that improve service to customers. If authorized to make the acquisition proposed in this application, Red Bird plans to implement operational changes specifically designed to improve and enhance customer service. Customers would have access to a 24-hour phone line to report any utility service issues. Information received from those calls would then be transferred into CSWR's computerized maintenance management system and converted into work orders, which creates a historical record of all reported service issues. The work

order also ensures contracted customer service personnel can quickly commence work required to deal with issues affecting service efficiently and expeditiously.

Water Quality Issues

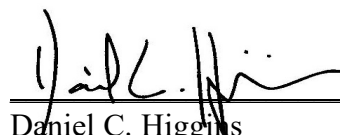
Red Bird heard the complaints of several customers regarding discolored or odiferous water. Based on the testimony of various witnesses, this experience seemed to be a function of the specific customer's location, both in terms of elevation and whether they are at the end of a water line. Red Bird has no knowledge of what specific efforts have been made in the past to address water quality issues but CSWR's operating subsidiaries have experience in addressing this kind of issue in other systems that have been acquired across ten different states. Given that experience Red Bird expects to be able to eliminate or mitigate this problem by ensuring that the appropriate chlorine residuals are maintained within the distribution system and ensuring that a routine flushing program is followed. Red Bird is aware that part of this community is transient and therefore water sits in the lines going to those properties at the "end of the line" that are only lived in "part time." For those customers, Red Bird believes they will have to flush their lines when they first return to their property to ensure that the old water is moved out of the lines before they use it. During that time, the flushed water will likely be discolored and may have an odor to it, but it should clear up once the stagnant water that has been sitting in the lines for the duration of the vacancy has been completely displaced with fresher water from the main. Red Bird projects that installation of an auto flush valve may clear up many of these problems currently impacting customers. Any instances where customers find odor or discoloration issues can and should be reported to our customer service representatives to allow our operators to conduct targeted flushing, which will improve said issues.

Red Bird appreciates the opportunity to address customer concerns voiced at the public hearings and will strive to achieve high levels of communication and transparency if it is allowed to acquire the Bear Den Acres system.

WHEREFORE, Red Bird respectfully requests that the Commission accept this report and, after hearing from the Public Staff, issue an order approving the transfer of the water utility system and public utility franchise serving Bear Den Acres Development in McDowell County, North Carolina, to Red Bird, approving rates, and requiring Red Bird to notify its customers of the transfer.

Respectfully submitted, this the 15th day of August, 2022.

BURNS, DAY & PRESNELL, PA



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STATE OF MISSOURI

COUNTY / CITY OF _____

VERIFICATION

_____, being first duly sworn, deposes and says that he/she is _____ of Central States Water Resources, Inc., the ultimate corporate parent of Red Bird Utility Operating Company, LLC, that he has read the foregoing Report and that the matters set forth therein are true of his/her own knowledge, except as to those matters and things therein alleged upon information and belief, which he believes to be true.

This the 15th day of August, 2022.

Sworn to and subscribed before me,
this the 15th day of August, 2022.

Notary Public

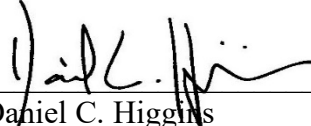
My Commission expires:

CERTIFICATE OF SERVICE

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

This the 15th day of August, 2022.

BURNS, DAY & PRESNELL, P.A.



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