The Company did not agree with the Public Staff's adjustment but did not offer any testimony to contradict the facts that were presented.

The Commission concludes that the appropriate reduction in rate base for the Sherwood Forest system under its percentage utilization method would be $22,421. However, this reduction should be offset for a reasonable capacity allowance of 35 percent which results in a total reduction in the amount to be included in rate base of $14,574. Accordingly, the amount that should be included in rate base for Sherwood Forest system is $11,926 ($26,500 - $14,574).

TET Subdivision

Public Staff witness Hering testified that the TET sewer system can serve 28 customers while only five are currently being served. The sewer system consists of a 9,000 gallon per day treatment plant and mains to serve all possible customers. As with the other systems, there is no evidence that any specific near-term growth is expected for this system.

The Commission concludes that the appropriate reduction in rate base for TET system, under its percentage utilization method would be $7,661. However, this reduction should be offset for a reasonable capacity allowance of 35 percent which results in a total reduction in the amount to be included in rate base of $4,980. Accordingly, the amount that should be included in rate base for TET is $4,347 ($9,327 - $4,980).

Other Items

In its original filing in this docket, the Company booked all the plant owned by the prior utility at Zemosa Acres. The Public Staff and the Company are now in agreement that only the mains, service lines, and meters were acquired. Accordingly, the Company has since reduced plant in service and its purchase acquisition adjustment account by $93,700 to reflect this agreement which does not represent a dollar difference between the parties.

The final difference between the parties is a difference in the amount to include for the vehicle of John Cunningham, an operator of unregulated sewer plants. Inasmuch as the Commission has concluded to allow 50 percent of the salary of John Cunningham in the cost of service in this case, the Commission also finds it appropriate to include 50 percent of the cost of his vehicle in this case which is $7,750.

Based upon the foregoing, the Commission concludes that the proper level of plant in service to be included in rate base is $40,168,215.

Debit Balance in Deferred Taxes

The parties differ on the level of debit balance in accumulated deferred income taxes that should be added to rate base. The Company calculates the balance to be $825,598; the Public Staff, $406,919. Carolina Water Service has increased rate base by $418,679 as a pro forma increase to accumulated deferred income taxes (ADIT). The Company made this adjustment to reflect the income tax liability on CIAC of $1,084,100. Public Staff witness Haywood removed the $418,679 from the debit balance of accumulated deferred income taxes. She

stated that the Company received this CIAC in 1987, 1988, and 1989 for the Hound Ears, Danby, and Cabarrus systems. She stated that the Company has stated that no income taxes on this CIAC have been paid. The Public Staff also stated that the $418,679 relates to contributed property not booked by the Company.

Company witness O'Brien addressed the ADIT issue on rebuttal. Witness O'Brien stated that the $418,679 related to $1,084,100 in fees paid by developers in the Cabarrus and Danby Subdivisions directly to contractors who had installed plant for the Company. Between 1987 and 1989, $660,500 was received from developers, Beta, EVI, and Squires who are developing in the Cabarrus area. These funds were paid by the developer directly to contractors as partial payment for work performed in constructing the Cabarrus elevated tank, the Cabarrus wastewater treatment plant, the Cabarrus lift station, the Danby wastewater treatment plant, and the Hound Ears wastewater treatment plant. The amount of $423,600 was received from developers in the Danby area. Firstmark provided $300,000 and Crosland provided $123,600 between 1987 and 1988. These funds were used to pay contractors for a portion of the Cabarrus elevated tank, the Cabarrus wastewater treatment plant, the Danby elevated tank, and the Danby wastewater treatment plant. Consequently, all of the $1,084,100 was money paid by developers directly to contractors for plant.

Witness O'Brien testified that subsequent to the discussions in discovery with the Public Staff, the Company has paid the $418,679 in taxes. Witness O'Brien asserted payment has been made in the form of estimated quarterly tax payments, although the payment has not been identified as related specifically to the contributions in the Cabarrus and Danby areas.

Witness O'Brien stated that the Company desired to take the position with the IRS that taxes are due on contributed property based upon the fair value of the property received. Because the Commission, in its order in Docket No. W-354, Sub 69, had treated portions of the Cabarrus and Danby plant as plant that should be excluded from rate base, the Company took the position that this plant was not yet used and useful and, therefore, had no value. Witness O'Brien stressed that Carolina Water Service disagrees with the Commission's treatment of plant in Docket No. W-354, Sub 69, and strongly believes that the plant is used and useful because it is on line providing water or sewer service. However, to the extent that the Commission removed the plant from rate base, the Company would like to take advantage of this disallowance by arguing to the IRS that receipt of funds to finance the plant should not give rise to federal income tax expense.

The Commission has carefully weighed the conflicting evidence in this proceeding presented by the parties regarding this issue and has determined that uncertainty exists as to the level of the tax liability and whether the said taxes have been paid. Therefore, the Commission will not make an adjustment to the debit balance in accumulated deferred income taxes to increase rate base in the amount of $418,679 at this time.

Accumulated Depreciation

The next difference between the Company and the Public Staff involves the proper level of accumulated depreciation. The Company calculates the level as $2,962,730; the Public Staff, $3,007,709; for a total difference of $44,979.

A difference in the amount of $19,618 arises due to the inclusion by the Public Staff of the Beatties Ford system. Having concluded that the Beatties Ford system should be included in this proceeding, no further discussion is warranted. The remaining difference between the parties of $25,361 involves a disagreement on the level of certain items including accumulated depreciation of the Genoa system at the time it was acquired by the Company. A further discussion of this difference is included in the discussion of the Genoa system under Acquisition Adjustments that follows.

The Commission concludes that the proper level of accumulated depreciation to be included in rate base is $3,007,709.

Acquisition Adjustments

The Company has calculated the plant acquisition adjustment to be $2,355,018. The Public Staff has calculated the plant acquisition adjustment to be $2,701,730 which results in a difference of $346,712. The Public Staff has made a number of adjustments to remove from rate base the price Carolina Water Service has paid to sellers from whom it has acquired operating systems that the Company has never before sought to include in rate base. In each instance, the Public Staff has recommended that all or part of the price paid by the Company be excluded from rate base. A summary of the differences between the parties in this area is as follows:

Utility	Amount
Ashley Hills	$ (16,638)
Belvedere	(78,215)
Kings Grant	(6,851)
Watauga Vista	(17,076)
White Oak	(48,896)
Vander Water	645
Zemosa Acres	(117,252)
Genoa Water	(7,511)
Beatties Ford	(54,918)
	$(346,712)

As a general proposition, when a public utility buys assets that have previously been dedicated to public service as utility property, the acquiring utility is entitled to include in rate base the lesser of the purchase price or the net original cost of the acquired facilities in the hands of the transferor at the time of transfer. The theory behind this proposition is that the investor in utility property should only be entitled to recover his own investment. Also, public utility ratepayers normally should only be responsible for reimbursing an investor once for the cost of public utility property through depreciation expense recovered through rates and through payment of a return on the unrecovered investment.

The following is a discussion of each of the adjustments at issue between the parties.

Ashley Hills

Public Staff witness Hering testified that the sewer plant serving Ashley Hills/Amber Acres had been contributed by the developers, Parrish and Weathers, to Thomas L. Bailey. Then, on May 4, 1984, Parrish and Weathers filed a complaint proceeding to recover the utility from Mr. Bailey. In this complaint, Docket No. W-771, Sub 1, item 9 states: "Complainants submit that they contributed the plant to Mr. Bailey. . . .".

This shows that even though Parrish and Weathers later reacquired the utility plant through a court proceeding, there was no rate base, since they had previously contributed the plant.

The Company challenged witness Hering's proposed adjustment in cross-examination and in rebuttal testimony. CWS maintained that even though a developer expressed the intention of recovering the cost of a utility system through lot sales, rather than through utility rates, this did not mean the system should have zero rate base because the developer may not have actually made full recovery through lot sales. CWS established that witness Hering did not know the extent to which Parrish and Weathers had recovered the cost of the Ashley Hills sewer system through lot sales. The Company also argued in rebuttal that the developers did receive some compensation from Mr. Bailey in exchange for the utility system, and that the developers made system improvements after deeding the system over to Mr. Bailey.

The Company's evidence is insufficient to establish any dollar amount of rate base for the Ashley Hills sewer system. The evidence shows that the system was contributed by the developers to Mr. Bailey. The compensation that CWS says was received by the developers -- that "Mr. Bailey was to operate the sewage treatment plant in compliance with the law and to bear the cost of doing so" -- does not rise to the level of a dollar amount appropriate for inclusion in rate base. After all, Mr. Bailey was entitled as a franchise holder to recover his costs of operating the system in compliance with the law through rates. The evidence shows that the developers contributed the system, and presumably intended to recover their costs through lot sales. Whether they actually recovered their utility system investment through lot sales, or are still doing so, is irrelevant at this point for regulatory purposes. Once a developer indicates he is contributing a utility system's cost to a utility company, this contribution cannot be undone by subsequently examining how the developer's finances turned out. Cost recovery through means other than rate base treatment is a risk the developer bears when he decides to make the contribution.

Company witness O'Brien testified that a 70,000 gpd treatment plant had been added to the Ashley Hills system. However, testimony in Docket No. W-846, Sub 8, revealed that this addition was not yet operational and no one knew when it would be operational. Mr. Thurston Debnam, managing part of Amber Associates, also testified that they were paying for the package treatment plant and contributing it to Parrish and Weathers. Thus, there is no basis for placing in rate base the cost of the 70,000 gpd plant addition referred to by the Company.

As for other improvements, witness O'Brien stated in Docket No. W-880, "the Public Staff required Parrish and Weathers to make improvements over the past two years and they were in fact made." As quoted from Finding of Fact No. 8 of Docket No. W-880:

> Witness Tweed testified that he has required witness Parrish to make certain improvements to the system over the past 2 years and that the repairs had been made. (Emphasis added.)

When asked whether this could refer to expense items instead of capital improvements, witness O'Brien testified, "You can't tell for sure." The Company has not shown there were any capital improvements (which would be rate base items) subsequent to the contribution of the original system, and has not shown any dollar amount even if there were capital improvements.

Based on the foregoing, the Commission concludes that the $17,000 purchase price of the Ashley Hills system, less the 1989 amortization, should be removed from rate base.

Belvedere

The franchise order for the prior owner of the Belvedere system states, in Finding of Fact No. 8, Docket No. W-809, that:

> The initial cost of the applicant's utility system will be recovered through the sale of lots and through the tap-on fees, thus there is no need for the Applicant to seek recovery of such investment through customer rates.

The Commission having previously determined that there would be zero rate base for the cost of the Belvedere water and sewer system, it was incumbent upon CWS to show a change of circumstances or some new evidence supporting rate base treatment of part of the utility systems. The Company has not shown any such evidence. The Company did not cite any evidence of the dollar value of capital improvements made since the initial system costs were contributed. Instead, CWS argued that the prior owner could not have recovered his cost through lot sales because it is in bankruptcy, and could not have recovered his cost through tap fees since the system is not built out.

The Commission agrees with CWS that the evidence indicates it is unlikely that the prior owner recovered all its costs related to the Belvedere utility systems. However, as discussed above, this is irrelevant to the regulatory issue the Commission must decide. Because the prior owner indicated that it would not seek to recover the system costs through rates, there is no rate base for the initial cost of these systems. A zero rate base system cannot acquire rate base simply by virtue of being purchased by a new owner. While the prior owner may have failed to recover the costs for the utility systems through lot sales, and then sold these systems to CWS for $80,000 to recoup some of its losses, this would not undo the fact that the utility systems were contributed initially and therefore have zero original cost rate base.

Based on the foregoing, the Commission concludes that the $80,000 purchase price for the Belvedere system, less the 1989 amortization, should be removed from rate base.

Kings Grant

This is another system where the prior owner stated that he would recover his capital investment in the utility system not through rates, but through other means, indicating that the cost of the system was contributed and the utility had zero rate base. Public Staff witness Hering testified that the seller, W.P.M. Associates, is recovering its cost through the sale of lots. Witness Hering based this on testimony from the original franchise hearing, Docket No. W-878, in which the developer said that this was his preferred method. The developer also did not request a tap fee and said that "if it becomes a necessity, I'll come back and try to make arrangements for that." Up until the time that the system was sold, a tap fee was never requested.

Company witness O'Brien testified that the prior owner probably intended to recover the cost of the utility system in part through sale to CWS, and this justified including the purchase price in rate base. On cross-examination, he stated that he did not have any documentation or specific evidence that the developer of Kings Grant Subdivision either did or did not recover the cost of the utility system through lot sales.

Once again, the evidence that the prior owner intended to recover his cost through lot sales, and not by including the cost in rate base, is undisputed. This evidence supports the Commission in finding that the prior owner contributed the cost of the system to the utility he was operating. The prior owner's decision to contribute the system cost cannot be undone by the Company's conjecture that he may have subsequently sought to recover part of the cost by sale of the system to CWS. When the original cost of utility plant to the first utility company owner is zero by virtue of contribution, the cost for that same plant remains zero for subsequent utility company owners.

Based on the foregoing, the Commission concludes that the $7,000 purchase price of the Kings Grant system, less the 1989 amortization, should be removed from rate base.

Watauga Vista

Public Staff witness Hering testified that the original developer included the cost of the water system in the price of the lots. The second developer has stated that there is a $1,750 fee as part of the purchase contract for each lot. Originally, only $150 of this was booked by the water utility; the other $1,600 was retained by developer. Witness Hering contended that because the customers were already paying for the water system once through their lot purchases, it would be unfair to have them pay for the utility plant again through rate base treatment.

On cross-examination, witness O'Brien admitted he had no information to contradict the Public Staff position that both the first and second developers were recovering utility plant cost through the purchase price of lots. On rebuttal, he testified that CWS, not the developer, had been receiving tap-on fees from customers since CWS took over the system.

The Commission does not believe the evidence of the Company justifies inclusion of the purchase price of this system in rate base. Witness Hering testified that, of the $1,750 charged by the second developer for utility plant recovery, only $150 was flowed to the utility as a tap fee. Tap fees generally relate to the cost of tapping a customer's service lateral into the utility's main, setting a meter box, and installing a meter; especially for a utility like CWS that has a separate plant impact fee. The nature of tap fees is such that the cost they relate to may not arise until a new customer comes onto the system. The fact that CWS is recovering tap fees from new customers does not mean it has an existing investment that is unrecovered. The evidence indicates that any unrecovered cost that may exist for the Watauga Vista water system was incurred by the developers, and that such investment was contributed to the utility by the developers because they arranged to recover their cost through lot sales. If the developers had not recovered all their cost at the time of the sale to CWS, the system still had zero rate base due to the clear evidence that the prior owners did not intend to recover their capital costs through rate base treatment.

Based on the foregoing, the Commission concludes that the $17,500 purchase price of the Watauga Vista system, less the 1989 amortization, should be removed from rate base.

White Oak

Public Staff witness Hering testified that the White Oak water and sewer systems were contributed by the developer. Witness Hering testified though that both phases were contributed based on the following language from the final Order (Docket No. W-354, Sub 66) dated June 27, 1988, which transferred these systems to CWS:

> Whether or not White Oak had the opportunity to write off its utility investment for tax purposes prior to sale of its systems has no bearing upon the ratemaking treatment to be afforded by this Commission to the investment of CWS in said system. White Oak has represented to the Commission in previous dockets that the utility plant would be contributed by the developer. If the developer at any point decided that it would no longer contribute property to White Oak then White Oak should have come before the Commission requesting approval of a tap-on fee to cover its cost or requesting authority to be relieved of its responsibility to serve the remaining undeveloped area. Furthermore, because the developer has not written off its investment for tax purposes does not mean that it did not recover the cost of the utility system through lot sales.

Company witness O'Brien conceded that the utility system costs related to Phase I of the subdivision were contributed. He also agreed that the developers of the Phase II water and sewer system "intended to contribute the facilities and expense them for tax purposes." However, he stated that despite the intentions of White Oak developer, the Tax Reform Act changed circumstances and the facilities were not contributed. This was conjecture. Witness O'Brien offered no evidence from the White Oak developer or elsewhere that these facilities were not contributed. The fact that the developers intended to contribute the utility systems is the controlling circumstance here, and subsequent changes in the tax laws neither undo this original intent, which

resulted in an original cost rate base of zero, nor demonstrate that the developers' intent necessarily changed. There is no valid reason for the Commission to change its finding from Docket No. W-354, Sub 66, that these systems were contributed to the prior utility.

Based on the foregoing, the Commission concludes that the $50,000 purchase price of the white Oak System, less the 1989 amortization, should be removed from rate base.

Vander

Public Staff witness Hering testified that he reduced the purchase price of the Vander system by $26,652 to represent the net original cost of $18,730 at time of acquisition. At the hearing, Company witness O'Brien agreed with this adjustment but the Company failed to offset its adjustment by the 1989 amortization of $645. The Commission agrees with this adjustment because ratepayers should not have to pay more than once for the same net original cost of utility property used to provide them with service. Further, rate base should be increased by $645 to allow for the omission in the Company's amount of this adjustment.

Zemosa Acres

According to witness Hering, the Company booked all the plant owned by the prior utility at Zemosa Acres Subdivision, and the contract for sale of this system to CWS that was filed with the Public Staff indicated that all the prior owner's utility facilities and real estate had been sold to CWS. However, at the hearing the Company agreed that they in fact had only purchased the mains, meters, and services. The other utility property was not needed because CWS obtained water on a wholesale basis from the county rather than pumping from wells as the prior owner did.

The Public Staff and the Company are now in agreement that only the mains, service lines, and meters were acquired. The Company, in its latest filings has reduced plant in service and PAA by $93,700 to reflect this agreement. The Public Staff had not yet reflected this agreement at the time of its last filing. This does not result in a dollar difference between the parties.

The discussion of remaining difference of $24,136, less the 1989 amortization of $584, follows.

The Company and the Public Staff while in agreement over the plant items to be included at the time of acquisition, are not in agreement on the net original cost of these items. Witness Hering testified that he took the cost of mains, services, and meter boxes from prior rate cases, recorded the amount of tap-on fees as had been done by the Commission in prior dockets, and calculated depreciation to arrive at a net original cost at the date of purchase of $20,864. The principal difference between the parties was the amount of tap-on fees. (This also affected the level of accumulated depreciation). Witness Hering imputed tap-on fees for all customers at the time of sale; witness O'Brien just recorded the tap-on fees the prior owners showed they had actually received.

The Commission agrees with witness Hering's methodology and therefore his adjustment for the Zemosa Acres system. CWS should not benefit from the prior owner's discriminating against customers by charging some, but not others, the tap-on fee. Where the prior owner was authorized by this Commission to charge a tap fee, the Commission will adjust the rate base as if the authorized fee had been charged. If the prior owner failed to collect tap fees which it had both the right and duty to collect, it has effectively made a contribution of the costs to which such tap fees relate. This adjustment to impute tap fees is consistent with past Commission practice.

With respect to the amount of accumulated depreciation that is to be used, witness Hering testified that he calculated the depreciation for each year after adding any additions and subtracting the appropriate level of tap fees, based on the customers at the end of each year. Witness O'Brien testified that he used $56,915, which was the accumulated depreciation booked for all the assets of Zemosa. The Commission has already agreed with witness Hering's approach to tap fees, and consequently agrees with his calculation of accumulated depreciation for Zemosa Acres.

Based on the foregoing, the Commission finds that the weight of the evidence supports exclusion of $24,136 of the $45,000 purchase price from rate base, less the 1989 amortization, and so concludes.

Genoa

The Company and the Public Staff disagreed on the level of certain items used to determine the net original cost of the Genoa system at the time it was acquired by CWS. Public Staff witness Hering testified that his adjustment reflected the level of plant, accumulated depreciation and plant acquisition adjustment from Genoa's last rate case (Docket No. W-312, Sub 6) brought forward to the time of acquisition. To bring these items forward to the time of the acquisition by CWS, witness Hering used a 10% depreciation rate. In contrast, CWS brought these items forward by using a 2% depreciation rate.

The Public Staff used the 10% rate to depreciate the Genoa utility plant because that was the rate last approved by the Commission for Genoa. CWS used the 2% rate because that is CWS's composite rate. In rebuttal, CWS witness O'Brien stated that the 10% rate applied only to Genoa's pumping equipment,and since CWS acquired the entire system and not just pumping equipment, it would be more approprite to use a 2% depreciation rate. However, on cross-examination, he agreed that 10% depreciation on pumping equipment only resulted in a $2,000 depreciation expense in Genoa's last rate case and that there was an additional $4,000 depreciation expense included in that rate case. Witness O'Brien could not say whether the additional $4,000 in depreciation expense related to a 10% rate for nonpumping equipment or not.

The Commission has several concerns about using the 2% depreciation rate for the Genoa system prior to June 1987, when it was acquired by CWS. The first concern is that 10% was found to be a reasonable depreciation rate in the prior docket. This rate was, therefore, a component of the rates that the customers of this system were paying. It would be unfair to the customers to go back now and reduce the level of accumulated depreciation that has been paid in through rates. The other concern is that CWS proposes to apply their approved depreciation rate for a period of time when the utility plant in

question was owned by a different utility with a different approved depreciation rate.

The Commission has analyzed both positions and, because of the concerns previously mentioned, finds the 10% rate to be reasonable for use in calculating the net original cost at the time of acquisition. This results in a net original cost of $116,942 allowable in rate base, calculated as follows:

Plant	$ 354,392
Accumulated Depreciation	(40,473)
Plant Acquisition Adjustment	(21,027)
Contributions	(175,950)
Net Original Cost	$ 116,942

Based on the foregoing, the Commission concludes that the $150,000 purchase price of the Genoa system should be reduced by an acquisition adjustment of $7,697, less the 1989 amortization of $186. Further, accumulated depreciation should also be adjusted by $25,361 as noted in the Commission's discussion under the Accumulated Depreciation section of this Order.

The remaining difference between the parties is due to the Beatties Ford system. As the Commission has concluded to include the Beatties Ford system in this case, no further discussion is warranted.

Customer Deposits

The parties differ on the level of customer deposits. The Company includes $97,695. The Public Staff includes $100,861. Because the difference of $3,166 relates solely to Beatties Ford, the Commission establishes the level at $100,861.

Contributions in Aid of Construction

The Company calculates contributions in aid of construction as $17,180,633; the Public Staff $17,798,850. This difference of $618,217 results from the Beatties Ford difference of $535,597, a disagreement over the calculation of the Wolf Laurel management fees which results in a difference of $3,450, and a adjustment by the Public Staff to include $79,170 in tap-on fees for the Carronbridge Subdivision.

The difference regarding the inclusion of Beatties Ford has previously been decided and, therefore, no further discussion is warranted for this item.

Public Staff witness Lee's calculation of the management fees is based upon the assumption that there were 52 new connections in the Wolf Laurel Subdivision since the Company acquired the system. The Company's calculation is based on the premise that there were 29 new connections. Company witness Wenz testified that although the Company's application stated that there had been 52 new connections, in fact, there had been only 29. The Commission concludes that the Company has presented uncontradicted evidence that the number of new connections listed on the application is incorrect and that the correct number of new connections is 29. The Commission concludes that in

calculating contributions in aid of construction, the correct number of new connections in Wolf Laurel Subdivision should be used rather than the incorrect number on the application relied upon by the Public Staff. The Commission, therefore, adopts the Company's position regarding this item.

Contributions in aid of construction have been adjusted by the Public Staff to include $79,170 in tap-on fees paid during the test year by Belk Investments to CWS for Phase I of Carronbridge Subdivision. Belk Investments paid these tap fees in order to connect to the Beatties Ford sewage treatment plant. The Commission finds and concludes that these tap-fees should be considered as CIAC.

Based on the foregoing, the Commission concludes that the proper level of contributions in aid of construction for use in this proceeding is $17,795,400.

Deferred Taxes

The parties differ on the level of deferred taxes. The Company calculates the level as $818,928. The Public Staff calculates the level at $852,599. The difference arises from the parties disagreement over the Beatties Ford adjustment. Because the Commission has concluded to include this item, the Commission determines the correct level of deferred taxes to be $852,599.

Working Capital Allowance

The Company and Public Staff differ on the level of working capital allowance. The Company adds $406,581; the Public Staff adds $394,234 for a difference of $12,347. This difference arises from the parties disagreement over the level of operating revenue deductions and the exclusion of Beatties Ford. The Commission has determined that Beatties Ford should be included in this proceeding under Evidence and Conclusions for Finding of Fact No. 8. As discussed elsewhere herein this Order, the Commission has established the appropriate level of operating revenue deductions to be included in this proceeding. Based on the foregoing, the Commission concludes that the proper level of working capital allowance is $425,333.

Deferred Charges

The remaining difference of $242,862 relates to the unamortized balance in the deferred account and is shown in the following table:

Item	Company	Public Staff	Difference
Beatties Ford allocation	$ (4,674)	$ -0-	$ 4,674
Tank painting costs	149,433	123,509	(25,924)
Relocation costs	13,542	8,699	(4,843)
Misc. deferred charges	136,093	11,676	(124,417)
Rate case costs	228,730	147,232	(81,498)
Hugo costs	63,016	52,162	(10,854)
Total	$586,140	$343,278	$(242,862)

The first difference relates to Beatties Ford. The Commission finds that the difference related to Beatties Ford's inclusion to be appropriate based on the discussion elsewhere herein.

The second difference concerns the different starting points utilized by the Public Staff and the Company related to the amortization process for tank painting and relocation fees. Witness Wenz presented testimony stating that different amortization methods applied by the Company and the Public Staff cause variances. He further stated that the Company's amortization methodology assumes that costs are incurred evenly throughout the year for tank painting and relocation costs. Thus, the Company utilizes the half year depreciation methodology, which is consistent with the depreciation of an asset.

Methods utilized by the Commission to reflect the amortization of deferred charges for the year in which costs were incurred have been handled differently in various cases. For example, in Southern Bell Telephone and Telegraph Company, Docket No. P-55, Sub 926, the Commission approved the amortization methodology proposed by Southern Bell. This methodology allowed for the amortization of one-third of the Hugo costs, an entire year for the year in which costs were incurred. The remaining amortization portion was deferred over two remaining years.

The Commission understands that if costs for an entire year are reflected in operating expenses, then accordingly, an entire year of the unamortized deferred portion should also be reduced from the remaining rate base. The Commission realizes that this methodology was not contested by the Company in its last general rate case, Docket No. W-354, Sub 69. Therefore, the Commission is unaware of any reason for any inconsistency related to the methodology utilized in the last proceeding. Therefore, the Commission agrees with the Public Staff's amortization methodology and finds the appropriate levels of deferred charges for tank painting and relocation costs are $123,509 and $8,699, respectively.

The variance between the Company and the Public Staff for miscellaneous deferred charges is a result of the Company's inclusion of water testing fees of $142,600 amortized over a five-year period. The Company included in deferred charges an amount of $114,080 for water testing fees and an amortized expense of $28,520. In this adjustment the Company utilized a whole year for both the expense and the unamortized rate base portion of $114,080 as shown as Wenz Rebuttal Exhibit #2. The Company utilized the same methodology as the Public Staff.

Witness Wenz also discussed the fact that neither the Company nor the Public Staff had originally included the unamortized portion of the VOC tests in rate base. The Public Staff treated the cost of these tests the same as regular testing fees. Witness Demaree stated that most of the costs related to VOC testing will not be incurred until sometime in 1991. Witness Lee also allowed for VOC testing expenses in this proceeding. In addition, the Commission notes that this water testing cost should not be included in deferred charges at all. These are regular tests and should not be allowed to be included in deferred charges. Witness Lee has already made allowances in the Public Staff's calculation of recommended testing fees for all subdivisions. The Commission also notes that an $8,325 expense was incurred by

the Company for water testing. Of this amount, $5,550 was included in deferred charges by the Company.

Based on the foregoing, the Commission finds that water testing and VOC testing should not be included in deferred charges as an addition to rate base. Therefore, rate base should be reduced by a total of $119,630 for VOC testing.

Another area of difference between the parties concerns the tank painting of a sewer treatment plant. The Company reflects that this charge occurred in 1989 whereas the Public Staff reflects that it occurred in 1987. Neither party offered any testimony concerning this matter. The Commission has no reason to believe that the time that this occurred is other than that shown on the Company's exhibit, and, therefore, the Commission concurs with the Company. Accordingly, the Commission concludes that the proper level of miscellaneous deferred charges to include in rate base is $14,842.

Regulatory Costs

The next difference between the parties with respect to deferred charges relates to regulatory costs. The Company advocates inclusion of $228,730 as regulatory costs, and the Public Staff advocates $147,232 for a difference of $81,498. The differences between the parties arise from a disagreement as to when the amortization should begin, differences as to the total amount of costs recoverable with respect to several of the cases, the amortization period over which the costs should be recovered, and the classification of certain costs.

The parties differ over the treatment of the costs for the Company's last general rate case, Docket No. W-354, Sub 69. The Company budgeted $102,392 as rate case expense in that case, and the Commission authorized amortization of that amount over a three-year period. The Company has now determined that the actual rate case expense in that case was 127,847 and seeks to increase the authorized amortization associated with the Sub 69 rate case costs. Public Staff witness Haywood asserted that an allowance for additional expenses related to a prior rate case would constitute retroactive ratemaking.

In this regard, the Commission agrees with the Public Staff that it would be improper to go back in time and allow these additional regulatory costs. The Commission has already authorized recovery of a level of rate case expenses associated with the Sub 69 rate case that was believed, based on the evidence at the time, to be a fair and representative level. Just because the rate case costs turned out to be higher than the Commission found to be reasonable is not sufficient reason to undermine the finding of reasonableness in the earlier proceeding. If the Commission were to true-up past expenses to guarantee utilities exact recovery, the past procedure of setting rates prospectively for a representative level of expenses would be negated. The Commission's decision on this item is consistent with the treatment of additional Sub 39 rate case costs in the last general rate case proceeding.

The parties likewise differ over the beginning point of the amortization of the rate case costs for Sub 69 and the period over which these costs should be recovered. The Public Staff begins amortization on January 1, 1987, the beginning of the test year, and advocates amortization over three years. The Company advocates amortization beginning in February 1989, the time that the

rates approved went into effect, and argues that the amortization period should be two years.

The Commission agrees with the Company on the beginning of the amortization period. To assume amortization of the rate case expense begins on January 1, 1987, eliminates any possibility that a large percentage of the costs can be recovered. The Commission addressed this issue in its order in the Company's last rate case and determined that amortization should begin at the time the rates are approved to go into effect. The Commission reaffirms its decision in this case.

Public Staff witness Haywood testified that a three-year amortization period has been previously accepted in rate proceedings for this Company. Additionally, the Public Staff noted that if the Company comes in for another rate proceeding before that time period has elapsed, then the recovery of costs incurred is realized through the unamortized balance in the deferred account. Since the Company will not be harmed by utilizing a three-year amortization period, and in order to be consistent with past decisions on this matter, the Commission concludes that a three-year amortization period is appropriate in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of unamortized costs for Sub 69 to be included in this case is $37,923, and the level of rate case amortization expense for Sub 69 is $18,961.

Another item of difference was the appeal costs for Sub 69. Public Staff witness Haywood testified that while the $57,650 for the Company's appeal of Sub 69 appeared to be "an extremely large fee for an appeal," she accepted the amount due to lack of comparative data. However, after she testified, Company witness Wenz was asked about a late-filed exhibit showing invoices for legal services from the law firm of Hunton & Williams to CWS. Witness Wenz admitted that he had taken two of the invoices for December 1988 and January 1989 and allocated 25% of the invoice costs to the Sub 69 appeal, even though the Commission's order for Sub 69 was not issued until February 1989.

The Commission finds that the allocation of $10,777 to appeal costs on the December 1988 and January 1989 invoices is a result of misallocation on the Company's part. Based on the dates on the invoices, the 25% of the invoices in question really relate to Sub 69 rate case expense, not appeal expense. The proper level of legal costs incurred for the Sub 69 rate case has already been decided by the Commission in the Sub 69 Final Order, as spoken to above. Therefore, the amount of legal expense misallocated by CWS to the Sub 69 appeal should be deducted from unamortized deferred charges. Therefore, the Commission concludes that the proper level of unamortized Sub 69 appeal costs is $37,498, after deducting one year's amortization expense of $9,375. This level of amortization expense is based on a five year amortization period.

The next difference between the parties with respect to the deferred charges involves the recovery of the costs incurred by the Company in Docket No. M-100, Sub 113. With these costs, the issue again is the beginning point of the amortization period. The Public Staff advocates that amortization should begin on January 1, 1987. The Company indicates that amortization should begin on February 7, 1989, at the time the Company's rates were first changed after it incurred the costs in this docket.

Consistent with its ruling on the Sub 69 costs, the Commission again reaffirms its position that amortization of these regulatory expenses should begin on the date that the Company's rates are first altered so as to begin to recognize recovery of these costs. Any other procedure results in an inability of the Company ever to recover the full amount of these costs. The amortization period approved for recovery of these costs in Sub 69 was five years. Based on the foregoing, the Commission concludes that the appropriate level of unamortized costs related to M-100, Sub 113 is $9,071, and that the appropriate level of related amortization expense is $2,474.

The parties differ as to the amount of the cost to be recovered for this case, Docket No. W-354, Sub 81. The Company has updated the final estimate to $243,791.20 from its original estimate of $138,258.26. Although the Public Staff was critical of the level of the original estimate, no adjustment was made to said level. The Public Staff did not accept the Company's updated estimate.

The following is a chart summarizing both the initial and revised estimate the Company made to calculate the regulatory expense for this docket:

Sub 81	Final Estimate	Initial Estimate
Water Services Personnel	$ 74,972.00	$ 39,119.00
Legal Fees	100,000.00	60,000.00
Customer Notices	26,782.67	20,000.00
Travel	16,956.27	15,000.00
Outside Witnesses	20,700.00	-0-
Audit and Filing Fee	4,139.26	4,139.26
Other	241.00	-0-
Total	$243,791.20	$138,258.26

The updated estimates for customer notices, travel, and audit and filing fees total $47,878. These are expenses over which the Company has almost no control. The Commission concludes that these expenses should be recovered from the Company's customers.

The Public Staff expressed concern with the high level of the Company's rate case legal expenses. A late filed exhibit filed in response to Commission inquiry at the hearing shows that the bulk of these costs were estimated at the time of the hearing. Hence, like all estimates, the Company's projected legal costs are subject to the risk that the estimate may be too high or low. The Commission is concerned with the level of the proposed legal expenses, and the lack of evidence to support said costs. After a careful review of this matter, the Commission concludes that $50,914 is the appropriate level of legal expenses to be recovered from customers for the current proceeding. The Commission notes that this level is substantially greater than that allowed in the Company's last general rate case. This increased amount is found to be appropriate in recognition of the complexity of this case. The Commission will continue to monitor these costs in future general rate cases. Likewise, the Commission is concerned with the revised estimate of water service personnel costs. The Company's updated estimate increases the projected level of this item by nearly 92%. The record simply does not justify this increased level of costs. Based on the foregoing, the Commission concludes that the proper level

of water services personnel costs to be included in this proceeding is $39,119, as initially projected by the Company.

The Public Staff excluded the Company's rate case costs associated with outside witnesses. Generally, the Public Staff asserts that these costs were unnecessary. The Commission disagrees. The outside witnesses testified on important matters in this case, and provided added expertise to the Company's case. The Commission concludes that these costs should be recovered in this proceeding.

The Company has provided no support for the $241 of other costs and therefore these costs must be rejected. Therefore, the Commission concludes that the appropriate level of costs to be recovered for this rate case is $158,611. Annual amortization of this amount based on a 3 year amortization period is $52,870 and the unamortized balance to be included in the Company's rate base is $105,741.

Hugo Costs

The next difference between the parties with respect to deferred charges involves the amount that should be included in rate base representing the deferred portion of the cost incurred by the Company in restoring service after damages caused by Hurricane Hugo. The Company has included $63,016 for Hugo costs; the Public Staff $52,162, for a difference of $10,854. The differences between the parties arise because the Company seeks to include as a portion of the Hugo costs overtime paid to supervisors and the pay to employees from out-of-state affiliated companies. Also, the inclusion of Beatties Ford by the Public Staff results in a different level of Hugo costs.

The Public Staff seeks to disallow $5,558 for the North Carolina supervisory overtime, $5,500 for out-of-state supervisory overtime, and $5,126 for out-of-state regular pay, for a total of $16,184.

With respect to the overtime paid to North Carolina supervisory employees, Public Staff witness Haywood states that, based on Company policy, supervisors are not paid overtime, and therefore, the Public Staff feels that North Carolina ratepayers should not have to pay rates which reflect decisions made by management that go against company policies. Witness Haywood states that these overtime payments are really bonuses that should be paid by the stockholders. She states that Company employees are normally given time off as a compensation for overtime.

Witness Wenz for the Company testified in rebuttal that although the Company does not generally pay overtime, the Company felt compelled to make such payments in this case because of the tremendous effort put forth by all levels of personnel in the aftermath of Hugo. He stated that an exception was made to the normal overtime policy. Witness Wenz testified that all of the Company's employees performed over and above any reasonable expectations. One supervisor logged 146 overtime hours in a 10 day period. Witness Wenz testified that this is an extraordinary amount of time and would not be expected under any normal circumstances.

The Commission has analyzed the issue with respect to the overtime pay for North Carolina supervisors. The Commission agrees with the Company that this

overtime payment is an appropriate increment to be included in the cost of the Hugo expense. The Public Staff does not question the necessity of the work performed. Obviously, the customers benefited substantially from the willingness of the Company's employees to work nearly around the clock to restore service and to assist customers in recovering from the emergency. The Commission finds no fault with the Company in deviating from its customary policy in paying overtime to supervisors in order to restore service in an emergency. The Commission commends the Company's supervisory employees for their response in this emergency. This Commission deems that it would be sending an inappropriate signal to the Company if it chose to disallow the overtime paid to the employees in meeting this emergency.

With respect to the adjustment to remove the cost of labor brought in from out-of-state, Public Staff witness Haywood argues that the salaries of these employees are included in rates paid by ratepayers in other states. She argues that Carolina Water Service should not be allowed also to include in rates established for North Carolina ratepayers any pay for these employees.

In rebuttal, Company witness Wenz stated that these employees came from Louisiana, Illinois, Mississippi, Virginia, South Carolina and Maryland to assist in restoring service to the Charlotte area customers. Witness Wenz stated that to the extent that these employees were not in their home states providing service in those jurisdictions, the ratepayers in those other states should be reimbursed. The record also shows that North Carolina employees contributed to the clean up effort in other states.

Since the Hugo clean up costs were incurred subsequent to the end of the test period, an adjustment would need to be made to reduce the cost of service by the regular pay of North Carolina employees performing clean up services in other states. This adjustment was not made by the Company, only the opposite one including in the cost of service out-of-state regular pay devoted to clean up operations in North Carolina. This inconsistency compels the Commission to accept the Public Staff's position on this matter regarding out-of-state regular pay.

The Commission agrees with the Company to include the out-of-state overtime pay. There is no evidence in the record that these charges have been recovered from other jurisdictions or that overtime pay is normally built into rates in these other jurisdictions.

Based on the foregoing, and the Commission's decision to include Beatties Ford as spoken to elsewhere, the Commission concludes that the amount of unamortized deferred charges related to Hugo costs is 67,226. The annual amortization of Hugo costs, over a six year amortization period, is $13,445. Additionally, the Commission's total deferred charges for all the items discussed above is $404,509.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 47

The parties differ on the level of revenues. The Company calculates total net revenues of $5,076,520; the Public Staff calculates total net revenues of $5,298,878. The Company calculates service revenues of $5,032,659, miscellaneous revenues of $124,886 and uncollectables of $81,025. The Public Staff calculates service revenues of $5,252,739, miscellaneous revenues of

$129,613 and uncollectables of $83,474. The differences between the parties result from the difference on the treatment of the Beatties Ford system. The Commission has concluded that Beatties Ford should be included. Therefore, the total net revenues under present rates for use in this case are $5,298,878.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 48 - 55

The evidence for Findings of Fact Nos. 48 - 55 is found in the testimony and exhibits of Company witnesses Wenz, O'Brien and Demaree and Public Staff witnesses Lee, Haywood and Hering.

The Company contends that a reasonable level of intrastate operating revenue deductions after accounting, pro forma, end of period adjustments is $4,588,949. The Public Staff's testimony supports operating revenue deductions of $4,516,803. There is a difference of $72,146 between the amounts recommended by the Company and the Public Staff.

Many of the differences in the accounts comprising operating revenue deductions result from the parties' disagreement over the inclusion of the Beatties Ford system in this case. As discussed in the Evidence and Conclusions for Finding of Fact No. 8, the Commission has determined that the Beatties Ford system should be included for the purposes of this case. As a result, all of the differences regarding operating revenue deductions resulting from the Public Staff's inclusion of the Beatties Ford system are decided in favor of the Public Staff. The Commission, therefore, need only address those operating revenue deduction differences that remain between the Company and the Public Staff after consideration of the Beatties Ford issue. The chart below summarizes the differences between the parties regarding operating revenue deductions, before income taxes.

Item	Public Staff (With Beatties Ford)	Public Staff (Without Beatties Ford)	Company	Difference Between Company and Public Staff (Without Beatties Ford)
OPERATION & MAINTENANCE				
1) Operations Salaries and Wages	$931,967	$ 918,467	$1,053,772	$135,305
2) Purchased Power	633,360	614,643	614,475	(168)
3) Purchased Water	52,080	52,080	52,058	(22)
4) Maintenance and Repair	583,894	554,498	584,264	29,766

ATTACHMENT 1 - PART 2
TO PROPOSED ALTERNATIVE FINDING OF FACT
NCUC A-41 SUB 22

Item	Public Staff (With Beatties Ford)	Public Staff (Without Beatties Ford)	Company	Difference Between Company and Public Staff (Without Beatties Ford)
5) Maintenance Testing	99,185	94,888	99,578	4,690
6) Chemicals	92,795	89,179	89,211	32
7) Transportation Expense	136,064	130,270	140,897	10,627
8) Operating Expense Charged to Plant	(252,141)	(250,012)	(263,421)	(13,409)
9) Outside Services - Other	140,775	135,124	135,174	50
10) Water Services Charges-O&M	122,394	117,481	117,525	44
GENERAL EXPENSES				
11) Salaries	201,018	194,038	194,038	-0-
12) Office Supplies & Other Office Expenses	111,716	107,232	112,205	4,973
13) Regulatory Commission Expense	$ 63,623	$ 62,468	$ 194,140	$131,672
14) Uncollectible Accounts	-0-	-0-	-0-	-0-
15) Pension & Other Employee Benefits	262,564	258,682	281,132	22,450
16) Rent	91,272	87,916	87,997	81
17) Insurance	7,771	179,111	179,195	84
18) Office Utilities	123,259	118,311	122,740	4,429

Item	Public Staff (With Beatties Ford)	Public Staff (Without Beatties Ford)	Company	Difference Between Company and Public Staff (Without Beatties Ford)
19) Meter Reading	1,960	1,906	1,985	79
20) Misc.	53,635	50,820	50,872	52
21) Water Services Charges - GA	122,394	117,481	117,525	44
22) Other Operating Expenses	(10,352)	(10,352)	(2,561)	7,791
23) Interest on Customer Deposits	6,495	6,234	6,234	-0-
24) Depreciation - net	304,151	300,695	449,151	148,456
25) Taxes - Other than Income	388,158	374,784	390,262	15,478

Operations Salaries

The first expense item upon which the parties disagree is operations salaries. Carolina Water Service offered testimony of witnesses O'Brien and Wenz to support its payroll expense request. The Public Staff offered the testimony of witnesses Lee and Haywood. In its filing, the Company requested pro forma payroll expense of $1,082,960. This expense level was obtained by annualizing actual September 15, 1989 payroll. The Public Staff's pro forma payroll level was $931,967, including Beatties Ford, and $918,467 excluding Beatties Ford. In its final position, the Company included an end of period level of operator salaries of $1,053,772.

The Public Staff, during the course of discovery, obtained an organizational chart from the Company used within the operations area to permit visualization of the management structure. The Public Staff was unable to identify more than 43 manager/operators from the organizational chart dated as of December 12, 1989. Public Staff witness Lee stated that the 49 manager/operators at September 14, 1989, had decreased to 43 in January 1990. Witness Lee stated that the 43 compared to 42 operators employed in September 1988. Witness Lee stated that Carolina Water Service had added only four systems since September 1988, had a low system per operator ratio and that 43 operators should be sufficient to service the Company's systems.

Company witness Wenz addressed the Public Staff payroll adjustment on rebuttal. Witness Wenz stated that the payroll expense level should be $1,053,772. Witness Wenz testified that the chart relied upon by Public Staff witness Lee was not prepared to show the level of payroll and failed to include all the operators who were on the payroll. Also, the chart omitted operators who had left the Company but whose positions had not yet been filled by the time the chart was prepared.

The Commission has analyzed the evidence presented by the parties on the issues relating to the pro forma payroll expense for operators. The Commission determines that the level requested by the Company is appropriate. The Commission cannot accept the adjustments advocated by the Public Staff. It is apparent that the Public Staff has relied upon inappropriate information to determine the level of field employees at December 12, 1989. The chart omits employees who actually were on the payroll at December 12, 1989. David Hetterich left the Company on November 27, 1989, prior to the date the chart was prepared. His replacement, Kevin Mullineaux, did not start to work until January 3, 1990, after the chart was prepared. Reliance upon the chart in this instance omits the entire salary for a position that has existed for some time, and will continue to exist while the rates established here will be charged, simply because the position was vacant on the date the chart was prepared.

The December 12, 1989, organizational chart relied upon by the Public Staff includes two employees, Ned Worstall and Charles Gillespie, who are not operators at all as the Public Staff assumed. Mr. Gillespie is general laborer, who paints, cuts grass and performs general maintenance. Mr. Worstall is a full time meter reader. The chart contains three operators whose primary responsibilities involve operations in South Carolina and Tennessee. The chart was not prepared to compute payroll expense and provides inadequate information upon which to determine the level of employees even at the date the chart was prepared, much less for a representative level of end-of-period employees. The Public Staff made no effort to determine why the level of employees on the chart differed from the level relied upon by the Company at September 15, 1989.

> Q. Well, is it your view that there are fewer employees, adding them all together, let's set aside the management, let's take the operators and the part-time people, is it your view after analyzing the data that the Company has fewer people on line all told, top to bottom, aside from the management folks, January, 1990, that existed end of June, 1989?
>
> A. I can only address the operators that were presented to me. (Tr. Vol. XVIII, p. 9.)

The Commission determines that there is no basis to find that the September 15, 1989, level of employees is excessive. No employee has been identified who is not needed. The Public Staff has failed to support its position that the Company can or does provide service with fewer employees than were on the payroll at September 15, 1989. With the growing demand for more highly qualified operators to meet higher standards, the Commission would be sending the wrong signal by disallowing salary expense at this time.

Another area of difference between the Company and the Public Staff involves the payroll expense that should be allocated to outside operation of

sewage treatment plants under contract with owners of nonregulated systems. The Public Staff has excluded the full salary of Mr. John Cunningham who is an operator in the coastal region of the state. The Public Staff, likewise, has removed one-fourth of the salary of Joe Lawrence. The Public Staff reasons that Mr. Lawrence's duties are split equally between operations and supervision and that if the entire duties of Mr. Cunningham are devoted to the operation of the contract sewage treatment plants, then one-fourth of Mr. Lawrence's salary should be allocated to operation of the contract sewage treatment plants also. One basis for the Public Staff's adjustment is that on the December 12, 1989, organizational chart, Mr. John Cunningham is listed under sewage contract treatment plant operations. Public Staff witness Lee also testified on cross examination that it is his belief that more than 1.5 operators are necessary to operate the contract sewage treatment plants.

Company witness Wenz addressed these adjustments on rebuttal. Witness Wenz stated that in the Company's last case, Docket No. W-354, Sub 69, based on a similar dispute, the Commission determined that 1.5 employees should be allocated to operation of the contract plants. In this case, the Company has allocated 100% of Jeff Pruitt's salary, benefits, payroll taxes and vehicle to operation of these plants. In keeping with the decision made in the last case, the Company has also allocated 50% of John Cunningham's salary and benefits. Witness Wenz stated that the December 12, 1989 organizational chart was not prepared with the accuracy needed to compute payroll costs. The number of contract sewage treatment plants operated by the Company has decreased slightly from the last case. Witness Wenz testified that the 1.5 employee allocation incorporated in the filing was appropriate. Also, because only 1.5 operators should be allocated to the plants, only 3/16 of the salary of Mr. Lawrence, the manager, should be allocated. The 3/16 allocation for the manager payroll expense equals $5,625.

The Commission has analyzed the testimony on this issue. The Commission thoroughly addressed this issue in the Company's last case and ruled that only 1.5 field operators should be required to operate the 12 contract sewage treatment plants in the Pine Knoll Shores area at that time. The Commission notes that as of the close of the test year in this case, the number of contract sewage treatment plants operated by the Company had slightly decreased. If any change has occurred since the last case, this change would indicate that fewer payroll costs should be allocated to operation of the contract sewage treatment plants, not greater. In the last case, the Commission found:

> The Commission agrees with the Company that it is appropriate to allocate only 1.5 employees to the 14 noncompany owned sewage treatment plants in the Pine Knoll Shores area. The Company bases its allocation on the work actually undertaken by the employees in the area and the actual time they spend on operating Company owned plants and noncompany owned plants. In defending the Public Staff adjustment in this area, Public Staff witness Lee testified that he made the allocation based on his knowledge of the amount of time it takes to operate certain plants and on his general knowledge of the duties and responsibilities of the Company's employees in the Pine Knoll Shores area as set forth in the following question/answer at the hearing:

Q. Did you make any independent analysis, Mr. Lee, of how much time it actually takes actual employees to operate the 14 sewer plants in Carteret County or thereabouts?

A. I did not do an individual inspection or evaluation of each of those plants. I relied basically on my general knowledge I've picked up of sewer plant operations....

Company witness Demaree explained that due to the seasonal nature of load placed on the 14 plants, the size of the plants, and the actual experience the Company has in operating the plants, the assumptions relied upon by Public Staff witness Lee are inaccurate in this case.

The Commission believes that the actual employee time as testified to by witness Demaree to operate these plants appears to be reasonable. The Commission, therefore, agrees with the Company that the allocation should be 1.5 employees to the noncompany owned sewage treatment plants in the Pine Knoll Shores area.

N.C.U.C. Docket No. W-354, Sub. 69, Order Approving Partial Rate Increase and Requiring Improvements, (February 2, 1989) 79 N.C.U.C.R. 482, 519.

There is nothing in the record in this case that indicates that the Public Staff adjustment is based on any more analysis or first-hand information than was the recommendation in the last case.

Q. Do you have any testimony today that anything has changed with respect to Mr. Cunningham's duties to change him from part-time contract operator to full-time operator?

A. I have the organizational chart that was presented by the Company as we requested that shows on the Exhibit 3 - on page 2 of Exhibit 3 provided by the Company, it has on that operator - Jeff Pruitt, contract sewer plant. It has a system number that is designated and corresponds with the booking entries made on Utilities, Inc.'s, ledger. It also has there John Cunningham, contract sewer plant operator and the system number that corresponds with entries made on Utilities, Inc., for the management fees.

Q. So that's the basis of your adjustment, that chart?

A. That along with my argument last year that when you compare the ratio of systems for operators that the Company is claiming it needs in its other areas versus what it was claiming you could operate those systems on the coast, then I feel that my adjustment last year was more appropriate than what the Commission allowed, and I feel that what I recommended this time is more appropriate than what the Company is proposing. (Tr. Vol. XVIII, p. 17.)

The Commission, therefore, reaffirms the decision it entered in Docket No. W-354, Sub 69, and will allocate only one-half of the salary and benefits of

Mr. John Cunningham to the contract plants. It will, likewise, allocate only 3/16 of the salary and expenses of Joe Lawrence, Mr. Cunningham's manager, to the contract sewage treatment plants.

The next difference between the parties arises from the Public Staff's adjustment to eliminate the salary of Clyde McCall from the test year payroll expense. Witness Lee testified that Mr. McCall, who was hired on August 7, 1989, had been hired as a project manager. According to Public Staff witness Lee, a project manager's time is devoted primarily to projects that will be capitalized, so that the salary should not be included in the test year operating and maintenance expense.

Company witness Wenz offered rebuttal testimony on the issue of the appropriateness of including Mr. McCall's salary in the test year in this case. Witness Wenz testified that Mr. McCall was hired to replace Mr. Lee Kiser, who left the Company on May 24, 1989. Mr. Kiser's salary was included in the last case. Witness Wenz testified that Mr. McCall will be undertaking the same duties as Mr. Kiser, the employee whose position he took. A percentage of Mr. McCall's salary has been capitalized for test year purposes. This is accomplished by a pro forma adjustment to the "operating expenses charged to plant" expense category.

After examining the testimony on this issue, the Commission determines that the adjustments proposed by the Public Staff to eliminate Mr. McCall's salary from operation and maintenance expense should be denied. There is no testimony to contradict the assertion advanced by the Company that Mr. McCall has taken Mr. Kiser's job and will undertake the same duties.

The Commission determines that the appropriate level of salaries and wages is $1,067,272, after inclusion of Beatties Ford.

Customer Growth

The Company and the Public Staff initially disagreed on the customer growth adjustment as applied by the Company. In its final position, the Company accepted the methodology employed by the Public Staff for customer growth to chemicals and purchased power. As spoken to further below, the Company's final position includes customer growth to four additional accounts, repairs and maintenance, transportation, office supplies and other office expenses, and office utilities. In calculating its cost of service, the Public Staff has removed from many accounts a greater level of customer growth than initially proposed by the Company. The Commission concludes that this is inappropriate and has made the proper adjustment. For example, this mechanical difference results in the $168 difference in purchased power.

The differences between the Company and the Public Staff regarding expenses for maintenance and repair, office supplies, transportation and office utilities, (items 4, 7, 12 and 18 above) result in whole or in part from the parties' disagreement over the customer growth adjustment included in the Company's final position. The Company, in its direct case, proposed to make adjustments to expense items to bring the test year expense level to an end of period level through application of a growth adjustment based on the growth in number of customers during the test year.

Witness Lee testified that maintenance and repair expenses do not vary directly with customer growth. He testified that transportation expense is related to the number of field employees rather than customers.

In rebuttal testimony, Company witness Wenz advocated that the growth adjustment be limited to expense categories of power for pumping, chemicals, maintenance and repair, transportation expense, office supplies, and the telephone component of utilities expense. Witness Wenz recommended a total growth adjustment of $48,416. Witness Wenz testified that the Company's decision to advocate a growth adjustment resulted from an examination of the Commission's order in the last Mid South rate case, Docket No. W-720, Sub 94. In his rebuttal testimony, witness Wenz limited the growth adjustment to items that had been approved for such an adjustment in the Mid South case. Witness Wenz testified, "The Commission has previously recognized that maintenance and repair, transportation, office supplies, and telephone are variable expenses that increase as customers increase." Tr. Vol. XXII, p. 161.

Company witness Wenz stated that as more customers use the system, pumps will wear out faster, more sludge will be hauled, more customer service time is spent on the phone, more postage and forms are consumed for billing, etc.

The Commission has analyzed in detail the recommendations by the parties with respect to the growth adjustment. Before resolving these differences, the Commission deems it appropriate to discuss the theory behind making a growth adjustment to expenses. In establishing the rates that will be charged as a result of the cost of service approved in this case, the Commission will divide the gross level of revenues approved by the number of end of test year customers and end of test year consumption. By establishing rates on this basis, the Commission will, in effect, determine revenues as of the last month in the test year in order to bring the revenues to a go-forward level.

Because the expenses used to establish the revenue requirement are unadjusted test year expenses, they are set at levels as of the mid-point of the test year, December 31, 1988. If expense levels have been increasing throughout the course of the test year and are anticipated to increase at a similar rate during the period when the rates approved in this case will be in effect, failure to adjust the test year expenses will result in a mismatch between revenues and expenses. The failure will also build in attrition and accelerate regulatory lag. The purpose of a growth adjustment, therefore, is to bring expenses as well as revenues to a go-forward level and to match revenues and expenses at the same point in time.

Public Staff witness Lee does not argue that expense levels did not increase during the test year or that expenses will not increase during the period rates approved in this case will be in effect. Rather, Public Staff witness Lee argues that a growth adjustment calculated by reliance on the test year growth in customers is imprecise because many of the expense categories do not vary directly with the growth in customers.

The Commission will address witness Lee's argument. First, the Commission notes that regardless of whether expenses vary directly with growth in customers, if expenses increase and are anticipated to continue to increase, it is still appropriate to make a growth adjustment. Furthermore, the Commission is unpersuaded by witness Lee's logic that expenses do not increase at least at

the rate of increase in customers. Although water testing may depend on the number of wells as opposed to the number of customers on a system, obviously as the number of customers increase the more wells the Company will need to provide service to the additional customers. Witness Lee argues that transportation expense varies with the number of employees rather than with the number of customers. However, the more customers that the Company adds, the more meters there are to be read.

The Public Staff cross-examined Company witness Wenz on rebuttal on communications expense. Witness Wenz stated on redirect examination that the Company relies on toll free numbers for customers to reach the Company's employees. As customers increase, the number of toll free calls increase and the Company's communication expense increases.

The Commission is convinced that there are increases in the overall level of Company expenses and that it would be highly inappropriate to leave so many expenses at the December 31, 1988, level.

The Commission further concludes that the appropriate way to grow the expenses to an end of period level is through the customer growth adjustment. However the customer growth adjustment should be adjusted to reflect the methodology proposed by the Public Staff and accepted by the Company for the accounts grown by the Public Staff. This method gives proper weighting to systems added during the test period. Based on the foregoing, the Commission concludes that the proper customer growth adjustment for repairs and maintenance, office supplies, utilities, and transportation is $35,221.

Office Supplies and Utilities

The differences between the Company and the Public Staff regarding the expenses for office supplies and office utilities have been discussed above. Consistent with these decisions, the Commission finds that $115,871 should be allowed for office supplies and $126,962 should be allowed for office utilities.

Maintenance and Repair

The parties disagree on the level of maintenance and repair expense. The Company asserts that the proper level of this expense is $584,264. The Public Staff, on the other hand, contends that, setting aside the Beatties Ford difference, only $554,498 should be included for maintenance and repair expense. The differences between the parties regarding the level of maintenance and repair expense primarily stem from the Public Staff's removal of $26,801 related to the Company's growth adjustment and the disallowance of certain Hugo expenses discussed earlier.

As discussed above, the Commission has determined that repair and maintenance expense should be increased by the growth adjustment. Similarly, in the Evidence and Conclusions for Findings of Fact Nos. 10-46, the Commission adopted its position in regards to Hugo costs. Based on the above decisions, the Commission concludes that the appropriate level of end of period maintenance and repair expenses is $608,367, which includes the effects of including Beatties Ford.

Transportation

The parties disagree over the appropriate level of transportation expense. The Company states that $140,897 should be allowed as transportation expense, and the Public Staff contends that, setting aside the Beatties Ford difference, only $130,270 should be included in rates as transportation expense. The Public Staff reached its $130,270 figure by taking the Company's pro forma application transportation expense of $144,896 and dividing it by the number of operators as of June 30, 1988 (35) to get an average cost per operator of $4,140. The Public Staff then deducted the average cost of #1 contract sewer plant operator ($4,140), the average cost of #2 contract sewer plant operator ($4,140). The Public Staff also removed the Company's customer growth adjustment to transportation, as discussed above.

The Company calculated the transportation expense by dividing the per book test year expense ($138,602) by the number of vehicles owned (51) to get the average cost per vehicle ($2,718). The Company then subtracted the average cost for #1 contract sewer operator ($2,718), 50 percent of the average cost for sewer operator #2 ($1,359), and added customer growth ($6,372) to the test year expense ($138,602) to get a total pro forma transportation expense of $140,897.

The Commission has carefully examined the calculations and arguments of both the Company and the Public Staff. Consistent with its decision above, the Commission concludes that transportation expense should be adjusted for 1.5 operators, as proposed by the Company. However, this adjustment to transportation expense for the 1.5 operators should be calculated based on the methodology proposed by the Public Staff. This methodology was accepted by the Commission in the Company's last general rate case. As discussed above, the Commission has determined that transportation expense should be increased by the customer growth adjustment found to be reasonable herein above. The Commission, therefore, concludes that the proper level of transportation expense is $143,273.

Maintenance Testing

The next expense item about which the parties disagree is the maintenance testing expense. The Company has calculated that $99,578 should be included for maintenance testing, whereas the Public Staff recommends allowance of $94,888 without Beatties Ford for this expense item. The discrepancy between the final maintenance testing figures of the parties results from their differences regarding Beatties Ford and calculation of water testing fees.

The Company has calculated that $53,809 should be allocated for water testing expense. Exhibit 15 to David Demaree's rebuttal testimony demonstrates the calculations made by the Company in arriving at the $53,809 figure. The Company calculated that coliform testing would require $17,136 per year. In addition, the Company estimated that inorganic chemical testing which is required once every three years would amount to $4,399 per year. Radiological testing which is required every four years would require $3,984 per year according to the Company's calculations. The Company also calculated that the volatile organic chemical (VOC) testing which is required every five years would cost $28,290 per year.

The Public Staff calculated that water testing would amount to $50,675 per year and rounded this figure up to $52,500 to allow for miscellaneous testing.

The Commission has thoroughly examined the evidence presented by both parties regarding maintenance testing.

After adjusting for Beatties Ford, the Commission concludes that the appropriate level of water testing fees to be $55,352. This amount is based on the Company's methodology for coliform testing and inorganic testing and on the Public Staff's methodology for radiological testing and VOC testing. In addition, the Commission concludes that the Public Staff's inclusion of miscellaneous testing is unsupported by evidence of record, and therefore should not be included in the Company's cost of service.

When the water testing fees found to be reasonable above are added to test period sewer testing fees, adjusted for Beatties Ford, the Commission derives an appropriate end-of-period maintenance testing expenses of $104,577.

Capitalized Operating Time

The next point of disagreement between the Company and the Public Staff relates to the appropriate level of capitalized operating time. The Public Staff believes that $252,141 in operating expenses should be charged to plant, whereas the Company would charge $263,421 to plant. Both the Company and the Public Staff have agreed that as operating payroll costs increase the contra-expense should increase proportionally. The Public Staff methodology to allocate said expenses is more exact than that of the Company, and was approved in the last general rate case. The Commission accepts this methodology for use in this proceeding. Consistent with the Commission's decision in regards to operator salaries, the Commission determines that $205,804 of operating expenses should be charged to plant.

Regulatory Commission

The differences related to regulatory commission expense arise from disagreements between the parties that the Commission discussed earlier in its Evidence and Conclusions for Finding of Fact Nos. 10-46. The Commission, therefore, determines that the proper level of regulatory expense is $83,680.

Pension and Employee Benefits

The differences related to the appropriate level of pension and employee benefits arise from disagreements between the parties regarding operations payroll and Beatties Ford. Because the Commission has accepted the position of the Company regarding the level of operations payroll, and the Public Staff's position on Beatties Ford, the Commission determines that the appropriate level of pension and employee benefits expense is $285,014.

Other Operating Expense

The parties differ on the proper level of other operating expense. The Public Staff contends that $10,352 should be removed from this expense category, whereas the Company advocates the removal of only $2,561 from this category. The $7,791 difference between the parties relates to the Public

Staff's proposed disallowance of $1,675 for flowers, $3,718 for coffee and grocery items, $1,214 for a Company picnic and $1,184 in bank deficiency charges.

Public Staff witness Haywood testified that the expenses for flowers, grocery items and the Company picnic should be disallowed because they are not necessary for the provision of water and sewer service and provide no benefit to the rate payers. Witness Haywood argued that shareholders should bear the cost of these items.

Witness Haywood testified that she had also made an adjustment to decrease bank service charges by 50%. According to witness Haywood, one-half of the bank expense apparently resulted from deficiency charges. Witness Haywood argued that the deficiency charges resulted from management's inability to maintain sufficient funding and should be disallowed.

In rebuttal testimony, Company witness Wenz stressed that the charges for flowers, grocery items and an office picnic were minimal. According to witness Wenz, the manner in which a utility treats its employees has a direct bearing on how the employees treat the customers. Witness Wenz testified that as a result of the Company's fair treatment of its employees the Company's customers receive extraordinary service from the Company's employees.

Regarding the deficiency charges, witness Wenz argued that the deficiency charges were not a result of management's inadequacy but rather were a result of management's expertise. Witness Wenz testified that in order to avoid a deficiency charge under the Company's loan agreement with the bank, the Company must maintain a minimum cash balance of $150,000.

The Commission has carefully reviewed the adjustments proposed by the Public Staff to other operating expenses. The Commission concludes that the costs related to coffee and groceries are proper utility business expenditures to be included in the Company's cost of service in this proceeding. In contrast, the Commission concludes that the costs related to the picnic and flowers should not be included in the Company's cost of service and, therefore, should not be supported by the Company's customers. Likewise, the Commission concludes that deficiency charges should not be included in the Company's cost of service. The Commission notes that the allowance for working capital provides the Company adequate recognition of the cost of any compensating bank balances. Based on the foregoing, the Commission concludes that the proper level of other operating expenses is ($6,634).

Depreciation Expense

The Public Staff and the Company disagree about the appropriate level of depreciation expense. The Public Staff has calculated the expense to be $304,151 and the Company has calculated the expense to be $449,151. The Public Staff has accepted the Company's methodology in determining the appropriate test year depreciation. Similarly, for the purposes of this case, the Company agreed to use the Public Staff's composite depreciation rates for water and sewer plant, respectively.

One of the differences between the Public Staff and the Company in calculating depreciation expense relates to the method used to calculate

offsets to plant depreciation. The Public Staff uses a composite rate, including automobiles and computers, to calculate these offsets. The Company, on the other hand, uses the utility plant only composite rates. The other difference, besides Beatties Ford, between the Company and the Public Staff regarding calculation of depreciation expense results from differences between the parties regarding items in rate base.

The Commission has thoroughly examined the calculations of the parties and the arguments presented in support thereof and has determined that the proper level for depreciation expense is $434,514. The Commission is persuaded that since the items that offset plant depreciation relate solely to the acquisition of utility plant, these offsets should be calculated using the utility plant only composite rate, as proposed by the Company. In addition, the depreciation expense approved herein is based on the plant found to be reasonable under Evidence and Conclusion for Findings of Fact Nos. 10 - 46, and also the inclusion of Beatties Ford.

Taxes Other Than Income

The next item of disagreement between the Company and the Public Staff relates to taxes other than income. The differences between the parties related to this expense item result from their differences regarding payroll and revenues and Beatties Ford. Consistent with the Commission's decision in regards to these matters, the Commission finds that the proper level of taxes other than income is $403,636.

State and Federal Income Taxes

The last two differences between the Company and the Public Staff concern the proper levels of state and federal income taxes. These differences arise from the parties' disagreement over revenues and expenses. The Commission has not accepted the position of the Company or the Public Staff on the levels of cost of service that dictate the level of income tax expense. The Commission, therefore, determines that the appropriate levels of state and federal income taxes to be used in this proceeding under present rates are ($22,551) and ($101,865) respectively, based on the Commission's decision on the appropriate level of revenues and expenses.

The Commission determines that the appropriate level of total operating revenue deductions is $4,741,687.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 56 - 59

The evidence relied upon to support Findings of Fact Nos. 56 - 59 is contained in the testimony of Company witnesses O'Brien and Erickson and Public Staff witness O'Donnell.

In his initial testimony, witness O'Brien determined a weighted cost of capital of 11.50 percent. Witness O'Brien relied upon the Montclair method, which historically has been used to determine the cost of capital before this Commission for water and sewer companies. Witness O'Brien used a hypothetical capital structure of 50 percent debt and 50 percent equity. The cost of debt was assumed to be 10.25 percent, which is the cost of debt for Utilities, Inc., the parent company of the Applicant. The overall return under the Montclair

method was determined to be 11.50 percent by increasing the 26 week average yield on 5-year U.S. Government notes by a 3 percent premium or risk factor. To determine the equity return under the Montclair method, the Company subtracted the weighted cost of debt from the overall return to get a 12.75 percent equity return.

The 11.5 percent overall return yielded revenues greater than the Company requested. Witness O'Brien testified that the cost of Baa debt currently is 10 percent and that a 3-6 percent premium for equity is appropriate. Witness O'Brien stressed that securities of Carolina Water Service are less attractive to investors than those of larger companies because there is no market for Carolina Water Service's shares and, thus, no liquidity. Witness O'Brien stated that revenues for companies like Carolina Water Service are earmarked primarily for operating costs and taxes and that the stockholder must put cash into the Company or lend his credit so service may be maintained.

Public Staff witness O'Donnell recommended an overall return of 11.16 percent. Witness O'Donnell calculated a cost of common equity range for Utilities, Inc., of 12.25 percent to 12.75 percent and selected 12.5 percent. Witness O'Donnell determined cost of equity through application of the discounted cash flow (DCF) formula.

Because the common stock of Carolina Water Service is not publicly traded, witness O'Donnell had to perform the DCF on other companies as a proxy for Carolina Water Service. Witness O'Donnell obtained a "cross section of the water utility industry." Witness O'Donnell calculated the dividend yield by dividing the latest known dividend by the average of each company's week ending stock price over a 26 week time period from August 25, 1989, to February 16, 1990. This calculation produced a dividend yield of 6.6 percent.

Witness O'Donnell measured the growth component of the DCF in four ways. He measured the historical growth in dividends per share, earnings per share, and book value per share from 1978 to 1988 by employing a least squares regression. He also measured historical growth using a 10 and 5 year compound rate of change for the three measures of growth. Finally, witness O'Donnell used the Value Line forecasted compound annual rates for changes in earnings per share, dividends per share and book value per share for five of the 13 companies. This gave witness O'Donnell a growth rate of 5.65 percent to 6.15 percent.

Public Staff witness O'Donnell used the Utilities, Inc., capital structure of 59.7 percent debt and 40.3 percent equity for Carolina Water Service and the Utilities, Inc., embedded cost of debt of 10.25 percent to arrive at the 11.16 percent overall cost of capital.

Company witness Edward W. Erickson presented testimony in rebuttal to the cost of capital testimony sponsored by the Public Staff. Witness Erickson testified that if the DCF is used in this case, the rate of return on equity should be at least 15 percent and the overall weighted average cost of capital should be 12.20 percent. Witness Erickson testified that the DCF is a better technique than the Montclair method and that the 13 comparable water utilities relied upon by witness O'Donnell were perhaps the best companies available for DCF purposes, even though the degree of comparability was questionable.

Company witness Erickson testified that a flaw in Public Staff witness O'Donnell's DCF is that witness O'Donnell used a current dividend or "D_0" in determining dividend yield rather than the expected dividend or "D_1." Company witness Erickson also testified that witness O'Donnell relied too heavily on measurements of growth in earnings per share and book value per share in determining the growth component of the DCF formula. The DCF calls specifically for growth in dividends per share.

Company witness Erickson testified that the value for "g" should be 7.3 percent derived from the other three growth estimation methods other than Value Line. Witness Erickson asserted that the dividend yield should be increased from 6.6 percent to 6.7 percent to adjust for the fact that Southwest Water Company has no dividend history. Using D_1 as the numerator in the dividend yield fraction brings the 6.7 percent to 7.2 percent. Adding 7.3 percent for growth gives a 14.5 percent cost of equity capital before adjustment to recognize the additional risks to Carolina Water Service.

Witness Erickson testified that Carolina Water Service has greater financial risk than any of the comparable companies under the Public Staff analysis because of the pro forma 59 percent debt component in the capital structure. This is higher than the debt in the 5 Value Line "comparable companies." The high debt ratio results in greater financial leveraging and greater risk. Carolina Water Service's illiquidity is an additional financial risk not shared by any of the comparable companies. Neither the stock of Carolina Water Service nor Utilities, Inc., is publicly traded.

According to Company witness Erickson, Carolina Water Service has greater business risk than the other comparable companies. Both Utilities, Inc., and Carolina Water Service are smaller than the other companies with lower total revenues. Carolina Water Service is the smallest company within the group by any standard of measurement. Both Utilities, Inc., and Carolina Water Service have a small customer base. Carolina Water Service has no geographical diversity to avoid the adverse impact of severe drought and other weather related variables, such as Hurricane Hugo. Carolina Water Service has less business diversification.

Company witness Erickson testified that Carolina Water Service faces greater business risk from the potential increases in the cost to comply with new environmental regulations, such as the Safe Drinking Water Act. Carolina Water Service has a smaller cost and revenue base over which to spread fixed and operating costs of compliance. Also, Carolina Water Service operates smaller individual systems. Carolina Water Service has many small source supply points. Each must meet the new standards.

These increases in business and financial risk, according to Company witness Erickson, cause the cost of equity of Carolina Water Service to be 10 to 20 percent higher than the 14.5 percent the unadjusted DCF yields. Witness Erickson found that the cost of equity should be at least 16 percent, and he used 15 percent for purposes of determining the overall cost of capital.

The Commission has analyzed carefully the cost of capital testimony in this case and determines that the overall cost of capital for Carolina Water Service for use in this case is not less than 11.54% percent. The cost of equity is not less than 13.45 percent. Both the Company and the Public Staff

agree that it is appropriate to determine the cost of capital by reliance upon a capital structure of 59.7 percent debt and 40.3 percent equity. The capital structure of Carolina Water Service is 100 percent equity, and it is appropriate to use a pro forma capital structure that more closely resembles the capital structure for utilities capitalized in a more traditional manner. The capital structure of Utilities, Inc., is close to the traditional model, and the Commission deems it appropriate for use of this capital structure in this case.

Both parties likewise agree that the pro forma cost of long term debt should be 10.25 percent, the average embedded cost of debt for Utilities, Inc. Therefore, the Commission concludes that the appropriate cost of long term debt for the Company in this proceeding is 10.25 percent.

In deriving the 13.45%, the Commission has adopted the yield component of the DCF model advocated by the Public Staff, i.e., 6.6%. With respect to the dividend growth rate variable appropriate for inclusion in the model, the Commission believes that Public Staff witness O'Donnell's growth rate is too low and that the dividend growth rate variable recommended by witness Erickson is too high. After having carefully considered all of the evidence of record in this regard, the Commission concludes that the proper dividend growth rate for use herein is 6.85%. This rate of 6.85% is within the range of growth rates advocated by the witnesses and is reasonable for purposes of this proceeding. Finally, the Commission concludes that the 13.45 percent return on common equity herein found reasonable is fair both to the Company and its ratepayers.

It is well-settled law in this State that it is for the administrative body, in an adjudicatory proceeding, to determine the weight and sufficiency of the evidence and the credibility of the witnesses, to draw inferences from the facts and to appraise conflicting evidence. Commissioner of Insurance v. Rate Bureau, 300 N.C. 381, 269 S.E. 2d 547 (1980). State ex rel. Utilities Commission v. Duke Power Company, 305 N.C. 1, 287 S.E. 2d 786 (1982). The Commission has followed these principles in good faith in exercising its impartial judgment in determining the fair and reasonable rate of return in this proceeding. The determination of the appropriate rate of return is not a mechanical process and can only be made after a study of the evidence based upon careful consideration of a number of different methodologies weighed and tempered by the Commission's impartial judgment. The determination of rate of return in one case is not res-judicata in succeeding cases. Utilities Commission v. Power Company, 285 N.C. 377, 395 (1974). The proper rate of return on common equity is "essentially a matter of judgment based on a number of factual considerations which vary from case to case." Utilities Commission v. Public Staff, 322 N.C. 689, 694, 370 S.E. 2d 567, 570 (1988). Thus, the determination must be made based on the evidence presented (and the weight and credibility thereof) in each case.

The Commission cannot guarantee that Carolina Water Service will, in fact, achieve the levels of return on rate base and common equity herein found to be just and reasonable. Indeed, the Commission would not guarantee the authorized rate of return even if we could. Such a guarantee would remove necessary incentives for the Company to achieve the utmost in operational and managerial efficiency. The Commission believes, and thus concludes, that the rates of return approved herein will afford the Company a reasonable opportunity to earn

a reasonable return for its stockholders while providing adequate and economical service to its ratepayers.

The following schedules summarize the gross revenues and rate of return that the Company should have a reasonable opportunity to achieve based upon the increases approved herein. Such schedules, illustrating the Company's gross revenue requirements, incorporate the findings and conclusions heretofore and herein found fair by the Commission.

SCHEDULE I
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 81
STATEMENT OF OPERATING INCOME AVAILABLE FOR RETURN
For the Twelve Months Ended June 30, 1989

Item	Present Rates	Increase Approved	After Approved Increase
Operating Revenues:			
Service Revenues	$5,252,739	$1,497,467	$6,750,206
Miscellaneous Revenues	129,613	6,440	136,053
Uncollectables	(83,474)	(24,110)	(107,584)
Total Operating Revenues	$5,298,878	$1,479,797	$6,778,675
Operating Revenue Deductions:			
Operation & Maintenance, and General Expenses	4,022,463	--	4,022,463
Depreciation & Amortization	434,514	--	434,514
Operating Taxes other than Income	403,636	71,275	474,911
State Income Taxes	(22,551)	98,596	76,045
Federal Income Taxes	(101,865)	445,375	343,510
Amortization of ITC	(1,005)	--	(1,005)
Interest on Customer Deposits	6,495	--	6,495
Total Operating Revenue Deductions	$4,741,687	$ 615,246	$5,356,933
Net Operating Income for Return	$ 557,191	$ 864,551	$1,421,742

SCHEDULE II
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 81
STATEMENT OF RATE BASE AND RATE OF RETURN
For the Twelve Months Ended June 30, 1989

Item	Amount
Plant in Service	$40,168,215
Add - Debit Balance in Deferred Taxes	406,919
Less - Accumulated Depreciation	(3,007,709)
Plant Acquisition Adjustment	(2,608,030)
Customer Deposits	(100,861)
Advances in Aid of Construction	(257,020)
Excess Book Value	(4,462,809)
Contributions in Aid of Construction	(17,795,400)
Deferred Taxes	(852,599)
Add - Deferred Charges	404,509
Working Capital Allowance	425,333
Total Rate Base	$12,320,548
Rates of Return	
Present	4.52%
Approved	11.54%

SCHEDULE III
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
DOCKET NO. W-354, SUB 81
STATEMENT OF CAPITALIZATION AND RELATED COSTS
For the Twelve Months Ended June 30, 1989

Item	Ratio %	Original Cost Rate Base	Embedded Cost Income	Net Operating Income
	Present Rates - Original Rate Base			
Long-term Debt	59.7	$ 7,355,367	10.25	$ 753,925
Common Equity	40.3	4,965,181	(3.96)	(196,734)
Total	100.0	$12,320,548	4.52	$ 557,191
	Approved Rates - Original Cost Rate Base			
Long-term Debt	59.7	$ 7,355,367	10.25	$ 753,925
Common Equity	40.3	4,965,181	13.45	667,817
Total	100.0	$12,320,548	11.54	$1,421,742

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 60

The evidence supporting this finding of fact is found in the testimony and exhibits of Public Staff witness Haywood, in the testimony and rebuttal direct of Company witness O'Brien, and in the Commission Orders and Company filings in Docket Nos. W-354, Sub 69 and Sub 81, and M-100, Sub 113.

The Public Staff recommended that the Company be required to refund the amounts collected in the deferred account related to the Tax Reform Act of 1986 (TRA-86). In the Company's last rate case, Docket No. W-354, Sub 69, this was a much debated issue; however, based on an opinion of the Court of Appeals of North Carolina, 92 N.C. App. 545 (1989), reversing certain Commission Orders in Docket No. M-100, Sub 113, the Commission deferred its ruling as to whether a refund would be made. The Public Staff appealed the decision of the Court of Appeals, and the N.C. Supreme Court reinstated the original Commission Orders.

Company witness O'Brien testified and stated in his rebuttal testimony that the amount in the deferred account should not be refunded but instead should be transferred to retained earnings to offset earnings deficiencies. In addition, witness O'Brien requested the Commission to recognize the actual tax savings before requiring the Company to make a refund. He discussed several reasons why water and sewer companies should be distinguished from other utilities with respect to refunds due to TRA-86.

On cross-examination, Company witness O'Brien stated that the M-100, Sub 113, guidelines for tax savings that were applied to other utilities should not be applied to CWS or other water companies. He agreed that one consideration he used to distinguish water companies, failure to earn a full return, had been rejected with respect to Nantahala Power & Light. (Tr. Vol. 24, P. 213.) Another factor he suggested could distinguish water companies was their capital intensity. (Tr. Vol. 24, pp. 156, 213-214.) Yet there was no evidence that water companies are more capital intensive than natural gas or electric companies. The Commission does not find the Company's reasons for treating it differently from nonwater utilities to be persuasive. The Commission believes that the most recent test year data available at the implementation of TRA-86 on which rates were set is the most reliable data to use in evaluating whether the company overcollected the tax component in rates. This methodology is consistent with the rate reductions and/or refunds, for natural gas, electric, and telephone companies in Docket No. M-100, Sub 113, and for CP&L specifically in Docket Nos. E-2, Subs 526 and 537. In its October 20, 1987, Order in Docket No. M-100, Sub 113, this Commission required electric, natural gas, and telephone companies to file tariffs for approval reflecting the tax savings of TRA-86 and stated such "tariff reductions should reflect the Public Staff's methodology of applying test-period tax savings to applicable test-period units or revenues." Rather than require immediate rate reductions and refunds, the Commission required water and sewer companies to continue deferral accounting for tax overcollections and to accrue interest at 10% on the amounts placed in the deferred account. That Order further stated that the balance in the deferred account would be considered in each water and sewer company's next general rate case. The tariff reductions did not apply to water and sewer companies subject to the provisions of that Order, because the revenue impact for the majority of those companies was generally small. However, the Commission feels that the revenue impact of the tax savings for CWS is significant and that said savings should be returned to the Company's customers. Based on the evidence presented at the hearings, the Commission remains unconvinced that it should deviate from its methodology in calculating tax savings.

The Commission has already determined in Docket No. M-100, Sub 113, that the TRA-86 changes must be applied to the same data on which the rates were

set. The Company is then placed in the same position as if the 34% federal income tax rate had been applied in the test year.

Based on the foregoing, the Commission concludes that the Company's rates should be reduced for the one year period after the date of this Order by $331,686. This amount is the Company's current estimate of the TRA-86 tax savings and related interest. The Company and Public Staff should work together to verify this number. Should the Public Staff conclude that this number is too low, then the Public Staff should file recommendations with the Commission concerning any additional rate reduction or refunds related to TRA-86 tax savings and interest.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 61

The evidence for this finding of fact is found in the testimony of Company witness O'Brien, Public Staff witnesses Lee and Haywood, Pine Knoll Shores/ Atlantic Beach/Brandywine Bay witness Perkerson and the public witnesses.

Several customers expressed concern that the existing uniform rate structure requires them to subsidize service costs in other areas. Public Staff witness Lee indicated that it is the Public Staff's position in this docket that the Commission should reevaluate the question of whether it is reasonable and equitable for customers of less costly systems to subsidize higher cost systems. Witness Lee further indicated that reevaluation would require the Company to provide new and additional information before the Commission could determine the desirability of separate rates. On cross-examination, witness Lee indicated that although he was not necessarily opposed to uniform rates, he wanted specific data that would allow a determination of whether the subsidies are reasonable. Similarly, Public Staff witness Haywood testified that the Company could isolate the systems for accounting purposes and thereby supply the appropriate data.

Company witness O'Brien testified that there may be some subsidization among CWS's various systems, but that it is allocated in a manner that is entirely reasonable and that customers statewide are paying appropriate prices for service. He noted that it is entirely likely that nonuniform rates could lead to dramatic swings in customer rates in selected subdivisions over time and this would not be in line with sound regulatory practice. Witness O'Brien emphasized that uniform rates have been in effect for CWS for many years. He cited the Commission's conclusions in a previous CWS rate case, Docket No. W-354, Sub 39, which partly relied on statements from Public Staff witness Lee that individual systems could be supported faster and more reliably when backed by the unified entity. Witness O'Brien also testified that the Commission again approved a uniform rate structure for CWS in the Company's last general rate case, Docket No. W-354, Sub 69.

Company witness O'Brien next testified that the Public Staff had too readily discounted the cost of providing system-separate information or changing accounting systems. He testified that the Company does not keep separate ledgers for rate purposes presently and that to create this sort of information would cost at least $100,000. The Public Staff indicated that the work done to set out the rate base in Beatties Ford is evidence of the Company's ability to break out costs. The Company agreed it can do this, but the question is whether the costs lead to a benefit worthy of the costs.

Company witness O'Brien testified that the Company's existing accounting system was based on a desire to accommodate the previous Orders of the Commission which have approved the uniform rate structure. In sum, it is the Company's position that it is unnecessary to require it to record separate system costs before determining whether to maintain the existing uniform rate structure.

The Commission has considered all the statements made by customers and other evidence and determines that it is appropriate at this time to continue establishing the Company's rates under the uniform rate structure. The Commission last examined this issue in its Order in Docket No. W-354, Sub 69, and it rejected suggestions that the uniform rate structure be changed. The Commission reasoned that

> No party has presented the Commission with sufficient justification for altering the policy that has been established for Carolina Water Service over many years. Even if the Commission were disposed to adopt a new rate structure for the Company, there is no evidence in this record that would warrant an alternate rate structure at this time.

The Commission is of the same opinion in this proceeding.

Although the present record does not justify any change in past practice, the Commission is of the opinion that the matter deserves more investigation. The Public Staff has brought this issue up in the last two rate cases of CWS, and customers in Pine Knoll Shores and other areas have raised the same issue. CWS indicated that keeping system-separate data would be very expensive and time consuming. Witness O'Brien stated in his direct testimony that breaking out the Beatties Ford Subdivision had taken approximately one man-month. It would appear, however, that CWS has in fact separated out the expenses for not only Beatties Ford, but also all the subdivisions it has applied to transfer in Docket No. W-354, Subs 86, 87, and 88, namely, Robin Lakes, Foxfire, South Haven, Rollingwood, Lakewood, Southern Plaza, Rita Pines, Raintree, Hickory Hills, Bellwood, and Riverbend Plantation Subdivisions. CWS may have also separated information for Mt. Carmel Subdivision since there was some evidence that CWS had negotiated for the sale of this system.

In light of the continued interest in cross subsidization presented by various customers and the Public Staff, the Commission is of the opinion that the issue of system-separate information should be more fully investigated. The Commission cannot adequately address the reasonableness of the subsidization resulting from uniform rates without system-separate information. The Commission, therefore, institutes Docket No. W-354, Sub 89, the purpose of which will be to investigate the reasonableness of requiring CWS to begin keeping system-separate information for CWS's various utility systems. The Commission will set a hearing and filing dates by further order. Such information, if ordered, will enable the Commission to decide the issue of keeping uniform rates or going to system-separate rates, should that issue arise in future CWS general rate cases.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 62

The evidence for Finding of Fact No. 62 is found in the official records of the Commission, including the Commission Orders in Docket Nos. W-354, Sub 79 and 81, and the Company's verified application in Docket No. W-354, Sub 79.

On August 7, 1989, the Company filed an application in Docket No. W-354, Sub 79, for authority to acquire the franchise and assets of the water system serving the Powder Horn Mountain Subdivision from Wachovia Bank & Trust Company, N.A., and for approval of rates. The Commission by Order dated September 12, 1989, declared the matter to be a general rate case, suspended the proposed rates, and scheduled a public hearing.

The Commission subsequently granted the Company temporary operating authority to provide water service in the Powder Horn Mountain Subdivision and approved interim rates in the amount of $15.50 per month. On November 8, 1989, the Commission issued an order cancelling the public hearing and consolidating the docket with the general rate case proceeding in Docket No. W-354, Sub 81.

On January 5, 1990, the Commission issued an Order approving the Company's application for transfer. In addition, the Commission ordered that the interim rates would remain in full force and effect until the Commission approved final rates for the water system in the consolidated general rate case docket.

The Public Staff has urged the Commission to exempt the Powder Horn Mountain Subdivision from uniform rates. Public Staff witness Haywood argued in her testimony that uniform rates are not necessarily beneficial to ratepayers and may be unreasonably discriminatory.

Having carefully reviewed the record in the consolidated dockets, the Commission concludes that the rates approved herein shall apply to the Powder Horn Subdivision. As discussed in the Evidence and Conclusions for Finding of Fact No. 61, the Commission has determined that uniform rates are warranted in this case and believes that the rates approved herein are justified. As noted above, the Commission has approved the transfer of the Powder Horn Mountain system to the Company and sees no reason why the uniform rates approved herein should not apply to this system.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 63

The evidence for Finding of Fact No. 63 is found in the record of Docket No. W-354, Sub 74, including the Commission Orders and the Company's application in that docket.

On July 27, 1989, the Company filed an application in Docket No. W-354, Sub 74, for a certificate of convenience and necessity to furnish water utility service in the Raintree Subdivision and for approved rates. By Order dated April 25, 1990 in Docket No. W-354, Sub 74, the Commission granted the Company a franchise to provide water utility service in the Raintree Subdivision and approved rates. As a result, there is no need to address further the issues raised regarding the provision of water service to the Raintree Subdivision.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 64 AND 65

The evidence for these Findings of Fact is found in the testimony of Public Staff witness Lee and the official records of the Commission, including the Company's application in this docket and the Company's contracts on file with the Commission.

The parties differ over certain elements of rate design that should be adopted in this case. The Company proposed to include in its rate schedules language allowing different, nonuniform water tap-on fees for the Hound Ears, Sherwood Forest and Wolf Laurel Subdivisions. Similarly, the Company proposed the inclusion of language allowing different sewer tap-on fees for the Hound Ears and Corolla Light Subdivisions.

The Public Staff opposed inclusion of the proposed language regarding tap-on fees in the Hound Ears, Sherwood Forest, Wolf Laurel and Corolla Light Subdivisions. Public Staff witness Lee testified that such language is unnecessary since the existing approved schedule of rates allows tap-on fees and impact fees to vary from the uniform fees if Company contracts approved by the Commission provide differently.

Regarding rate design, the Public Staff also urged the Commission to require the Company to file a report listing the subdivisions and tap-on fees that the Company believes to be approved for each subdivision. In addition, the Public Staff recommended that the final schedule of rates contain a detailed listing of the tap-on fees and impact fees per subdivision and by phase of subdivision. Witness Lee testified that the Public Staff receives numerous inquires each year regarding the applicable connection fees for particular service areas and that gathering the information to answer these inquires are time consuming for both the Public Staff and the Company personnel. He indicated that a compiled listing of all tap-on fee and impact fees would be of value to both the Public Staff and the Company.

Company witness O'Brien testified that an examination of the Company's contracts on file with the Commission for the Wolf Laurel, Hound Ears, Sherwood Forest, and Corolla Light Subdivisions would reveal that these contracts do not specify the amount of tap-on fees for these subdivisions but state that the amount of tap-on fees shall be determined by the Commission. Witness O'Brien pointed out that the language in the rate schedules allowing for nonuniform tap-on fees as set forth by contract would not apply to these subdivisions since the contracts related to the subdivisions do not set the amount of tap-on fees, and if the Company desires nonuniform tap-on fees for these subdivisions, language indicating this deviation must be specifically set forth in the Company's tariffs. There is no dispute between the parties over the amount of the non-uniform tap-on fees for the subdivisions at issue.

The Commission has carefully weighed the evidence regarding rate design and concludes that inclusion of tap-on fee language which allows different water tap-on fees for Hound Ears, Sherwood Forest, and Wolf Laurel Subdivisions and language allowing for different sewer tap-on fees for Hound Ears and Corolla Light Subdivisions, as proposed by the Company, should be included in the final rate schedules.

However, the Commission also accepts the Public Staff's recommendation that the Company submit a report detailing tap-on fees and impact fees in each subdivision by phase of subdivision. Said report should be filed no later than August 1, 1990.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 66

Based on the Commission findings hereinabove, concerning the Applicant's rate base, depreciation, and operating expenses, the Commission concludes that the Applicant should be allowed to increase its water service revenues by $975,937 and its sewer service revenues by $521,530 in order to achieve an overall rate of return of 11.54%, which is fair and reasonable. Consistent with Finding of Fact No. 60, these rates should be reduced for one year by approximately $331,686 for the flow through to customers of TRA-86 tax savings and interest.

IT IS, THEREFORE, ORDERED as follows:

1. That Carolina Water Service be, and is hereby, allowed to adjust its water and sewer rates and charges so as to produce, based upon the adjusted test year level of operations, an increase in water revenues of $975,937 and of sewer revenues of $521,530.

2. That the rate increase approved in Ordering Paragraph No. 1 above, be, and hereby is, reduced by approximately $331,686 for the period of one year in order to flow through tax savings and associated interest related to TRA-86.

3. That the Schedule of Rates, attached hereto as Appendix A, is hereby approved for water and sewer service rendered by Carolina Water Service. Such rates shall become effective for service rendered on and after the effective date of this Order. Such schedule of rates is deemed filed by the Commission pursuant to G.S. § 62-138.

4. That Carolina Water Service, to the extent it has not already done so, shall undertake and complete the improvements to service and water quality mandated in the Evidence and Conclusions for Finding of Fact No. 9 of this Order.

5. That a copy of Appendices A and B, attached hereto, shall be delivered by CWS to all its customers, except those in Beatties Ford/Hyde Park East and Mt. Carmel/Lee's Ridge Subdivisions; and said Appendices shall be delivered in conjunction with the next billing statement.

6. That a copy of Appendices A and C, attached hereto, shall be delivered by CWS to all its customers in Mt. Carmel/Lee's Ridge Subdivisions; and said Appendices shall be delivered in conjunction with the next billing statement.

7. That CWS shall file the attached Certificate of Service, properly signed and notarized, within 10 days of completing the requirement of Ordering Paragraph Nos. 5 and 6 above.

8. That Carolina Water Service shall undertake a feasibility study of metering its remaining unmetered customers. This study shall be filed with the Commission by August 1, 1990, and shall indicate the name and location of each

unmetered system, the age and material of the water laterals, whether or not there are cut-off valves and/or meter boxes on the customers' lines, the number of present and potential customers in each system, the possibility of each system being annexed by a county or municipality in the foreseeable future, whether or not the system is a seasonal system, and the estimated cost of metering each system. In the event such study is not filed with the Commission by August 1, 1990, as herein provided, the Commission will institute a show cause proceeding in order to determine any appropriate sanctions or penalities to be imposed.

9. That the Company shall submit a report detailing its tap-on fees and its impact fees applicable in each subdivision. If said fees vary within subdivision, the report shall indicate said fees by phases of subdivision. Said report shall be filed on or before August 1, 1990.

ISSUED BY ORDER OF THE COMMISSION.
This the 15th day of June 1990.

(SEAL)

NORTH CAROLINA UTILITIES COMMISSION
Sandra J. Webster, Chief Clerk

APPENDIX A
PAGE 1 OF 4

FINAL SCHEDULE OF RATES
DOCKET NO. W-354, Sub 81
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

WATER RATE SCHEDULE

METERED WATER RATES
Residential:

(A) Base Facility Charge: $9.00 per dwelling unit. This $9.00 facility charge shall also apply where the service is provided through a master meter and each individual dwelling unit is being billed individually.

(B) Base Facility Charge: $8.00 per month per dwelling unit when service is provided through a master meter and a single bill is rendered for the master meter, as in condominium complexes.

(C) Commodity Charge: $2.60 per 1,000 gallons for all metered water usage. ($2.00 for untreated irrigation water in Brandywine Bay).

(D) Flat rate for unmetered single-family residence: $18.75

Flat rate for unmetered commercial customer: $18.75/single family equivalent.

Commercial and Other:

(A) Base Facility Charge:

5/8" x 3/4" meter	$ 9.00
1" meter	22.50
1 1/2" meter	45.00
2" meter	72.00
3" meter	135.00
4" meter	225.00
6" meter	450.00

(B) Commodity Charge: $2.60 per 1,000 gallons

AVAILABILITY RATES: $2.00 monthly charge per customer.

Applicable only to property owners in Carolina Forest and Woodrun Subdivisions in Montgomery County, until such time connection is applied for to the water system.

CONNECTION CHARGE (tap on fee): 5/8" meter - $100

($300 in Hound Ears Subdivision, $950 in Sherwood Forest Subdivision, $925 in Wolf Laurel, however, no water impact fee in these Subdivisions).

Meters larger than 5/8" - actual cost of meter and installation.

*PLANT IMPACT FEE: $400 for 5/8" meter

Multifamily or commercial customers - to be negotiated on basis of equivalence to a number of single-family customers, but not less than $400, payable by developer or builder.

TAP AND PLANT IMPACT FEE:

The Tap on Fee and Plant Impact Fee The Tap on Fee and Plant Impact Fee are subject to the Gross Up Multiplier provisions of the North Carolina Utilities Commission, Docket No. M-100, Sub 113.

NEW WATER CUSTOMER CHARGE: $22.00

RECONNECTION CHARGE:

If water service cut is off by the utility for good cause: $22.00

If water service is discontinued at the customer's request: $22.00
(Customers who ask to be reconnected within nine months of disconnection will be charged the base facility charge for the service period they were disconnected.)

* Unless provided differently by contract approved by and on file with this Commission.

SEWER RATE SCHEDULE

Residential:

Flat rate per month per dwelling unit: $25.10

Dwelling unit shall exclude any unit which has not been sold, rented, or otherwise conveyed by the developer or contractor erecting the unit.

Commercial and Other:

Based on water usage as follows: (subject to a minimum rate of $25.10/month. Customers who do not take water service will pay $25.10/single family equivalent.)

(A) Base Facility Charge:

5/8" x 3/4" meter	$ 9.00
1" meter	22.50
1 1/2" meter	45.00
2" meter	72.00
3" meter	135.00
4" meter	225.00
6" meter	450.00

(B) Commodity Charge: $3.90/1,000 gallons

NEW WATER AND SEWER CUSTOMER CHARGES:

New Sewer Customer Charge: $16.50
(If customer also receives water service, this charge will be waived.)

*CONNECTION CHARGE (tap on fee)

Residential:

$100 per single family dwelling unit. ($300.00 in Hound Ears Subdivision and $700.00 in Corolla Light Subdivision, however, no impact fees in these subdivisions).

Commercial:

Actual cost of connection.

*PLANT IMPACT FEES: $1,000 for single family customers
$1,456 in Brandywine Bay

Multifamily or commercial customers: to be negotiated on the basis of equivalence to a number of single family customers, but not less than $1,000, payable by developer or builder.

TAP AND IMPACT FEE:

The Tap on Fee and Plant Impact Fee are subject to the Gross Up Multiplier provisions of the North Carolina Utilities Commission, Docket No. M-100, Sub 113.

RECONNECTION CHARGE:

If sewer service is cut off by utility for good cause, the actual cost of disconnection and reconnection will be charged.

The utility will itemize the estimated cost of disconnecting and reconnecting service and will furnish this estimate to customers with cut-off notice.

This charge will be waived if customer also receives water service from Carolina Water Service.

OTHER MATTERS

BILLS DUE: On billing date.

BILLS PAST DUE: 21 days after billing date.

FINANCE CHARGE FOR LATE PAYMENTS:

1% per month for balance due 25 days after billing date.

CHARGE FOR PROCESSING OF NSF CHECK: $7.00

BILLING FREQUENCY:

Bills shall be rendered bi-monthly in all service areas except Carolina Forest, Woodrun, Misty Mountain, Crystal Mountain, Ski Mountain, Pine Knoll Shores, Sugar Mountain, High Meadows, Bear Paw, Hound Ears, Corolla Light, Powderhorn and Belvedere where bills shall be rendered quarterly. Availability charge in Carolina Forest and Woodrun will be billed semi-annually.

* Unless provided differently by contract approved by and on file with the Commission.

DOCKET NO. W-354, SUB 81

APPENDIX B

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Carolina Water Service, Inc., of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Increase Rates for Providing Water and Sewer Utility Service in Its Service Areas In North Carolina	)	NOTICE TO THE CUSTOMERS OF CAROLINA WATER SERVICE, INC., OF NORTH CAROLINA

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order granting increased rates for Carolina Water Service in the majority of its water and sewer systems in North Carolina. The increase approved has been reduced for a period of one-year in order to flow through to customers the tax savings and related interest associated with the Tax Reform Act of 1986. The rates are fully described in Appendix A, attached hereto.

The Commission issued its decision following hearings in Boone, Asheville, Charlotte, Winston-Salem, Wilmington, Carthage, Goldsboro, New Bern, Pine Knoll Shores, and Raleigh at which a number of customers appeared and offered testimony. The Commission Order found that the service provided by Carolina Water Service to its customers is adequate; however, the Order noted that problems exist in several of the Company's systems. The Commission ordered the Company to take appropriate steps to correct these problems.

ISSUED BY ORDER OF THE COMMISSION.
This the 15th day of June 1990.

(SEAL)

NORTH CAROLINA UTILITIES COMMISSION
Sandra J. Webster, Chief Clerk

DOCKET NO. W-354, SUB 81

APPENDIX C

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Carolina Water Service, Inc., of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Increase Rates for Providing Water and Sewer Utility Service in Its Service Areas In North Carolina	)	NOTICE TO THE CUSTOMERS IN MT. CARMEL/LEE'S RIDGE SUBDIVISIONS

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order granting increased rates for Carolina Water Service in the majority of its water and sewer systems in North Carolina. The rates are fully described in Appendix A, attached hereto.

The Commission issued its decision following hearings in Boone, Asheville, Charlotte, Winston-Salem, Wilmington, Carthage, Goldsboro, New Bern, Pine Knoll

Shores, and Raleigh at which a number of customers appeared and offered testimony. The Commission Order found that the service provided by Carolina Water Service to its customers is adequate; however, the Order noted that problems exist in several of the Company's systems. The Commission has ordered the Company to take appropriate steps to correct these problems.

These problem systems include Mt. Carmel/Lee's Ridge Subdivisions. The Commission ordered that the Company's existing water rates shall remain in effect in these subdivisions until the improvements ordered by the Commission have been made.

ISSUED BY ORDER OF THE COMMISSION.
This the 15th day of June 1990.

NORTH CAROLINA UTILITIES COMMISSION
Sandra J. Webster, Chief Clerk

(SEAL)

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notices to the Public issued by Order of the North Carolina Utilities Commission in Docket No. W-354, Sub 81, and said Notices to the Public were mailed or hand delivered by the date specified in the Order.
This the _____ day of _____ 1990.

By: _____
Signature

_____
Name of Utility Company

The above named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required public notices were mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket No. W-354, Sub 81.

Witness my hand and notarial seal, this the ____ day of _____ 1990.

_____
Notary Public

_____
Address

(SEAL) My Commission Expires _____
Date

DOCKET NO. W-354, SUB 82
DOCKET NO. W-354, SUB 86
DOCKET NO. W-354, SUB 87
DOCKET NO. W-354, SUB 88

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service, Inc. of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Transfer the Water and Sewer Utility Franchise Serving Beatties Ford Park and Hyde Park East Subdivisions in Mecklenburg County to the Charlotte Mecklenburg Utility District (Owner Exempt From Regulation)

Application by Carolina Water Service, Inc. of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Transfer the Water Utility Franchise to Provide Water Utility Service in Robin Lakes, Foxfire, South Haven, Rollingwood, Lakewood, Southern Plaza, and Rita Pines Subdivisions in Wayne County, North Carolina, to the Southeastern Wayne Sanitary District (Owner Exempt From Regulation)

Application by Carolina Water Service, Inc. of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Transfer the Water Utility Franchise to Provide Water Utility Service in Raintree, Hickory Hills, and Bellwood Subdivisions in Wayne County, North Carolina, to the Eastern Wayne Sanitary District (Owner Exempt From Regulation)

Application by Carolina Water Service, Inc. of North Carolina, 2335 Sanders Road, Northbrook, Illinois 60062, for Authority to Transfer the Water and Sewer Utility Franchise to Provide Water Utility Service in Riverbend Subdivision, in Craven County, North Carolina, to the City of New Bern (Owner Exempt From Regulation)

ORDER DETERMINING REGULATORY TREATMENT OF GAIN ON SALE OF FACILITIES

HEARD IN: Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina, on July 18-19, 1990

BEFORE: Commissioner Ruth E. Cook, presiding, Chariman William W. Redman, Commissioners Sarah Lindsay Tate, Robert O. Wells, Julius A. Wright, Charles H. Hughes, and Laurence A. Cobb