

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 399

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service, Inc. of North Carolina, 5821 Fairview Road, Suite 401, Charlotte, North Carolina 28209, for a Certificate of Public Convenience and Necessity to Provide Water Utility Service to the Carteret County Water System, and for Approval of Rates)	REBUTTAL TESTIMONY OF DONALD H. DENTON III ON BEHALF OF CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
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March 29, 2023

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Donald H. Denton III, and my business address is 5821 Fairview
4 Road, Suite 401, Charlotte, North Carolina 28209.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Senior Vice President, East Operations for Corix. I oversee the
7 operations of Carolina Water Service, Inc. of North Carolina (“CWSNC” or
8 “Company”), Blue Granite Water Company (“BGWC”) in South Carolina,
9 and Sunshine Water Services in Florida, all of which are subsidiaries of
10 Corix Regulated Utilities (“CRU”). In addition, I serve as President of
11 CWSNC and BGWC.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND.**

14 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of
15 Technology as well as an Executive Masters in Business Administration
16 from Queens University in Charlotte, North Carolina. I have worked in the
17 utility sector for over 24 years in multiple capacities ranging from
18 engineering to strategic planning and major project execution.

19 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CAROLINA WATER**
20 **SERVICE, INC. OF NORTH CAROLINA?**

1 A. I am responsible for the Company’s regulated water and sewer operations
2 in North Carolina, including facility operations, finance, business
3 development, safety, compliance, regulatory affairs, and customer service.

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. In order to rebut the Public Staff testimony filed by witness Charles Junis on
7 March 10, 2023, I must first explain the object and purpose of this
8 Application for a Certificate of Public Convenience and Necessity (“CPCN”)
9 and for Approval of Rates, which was filed with the Commission on August
10 2, 2022, and about which additional filings were made by CWSNC on
11 August 26, 2022 and September 2, 2022. I address the Application, the
12 inter-relationship between NCUC Docket Nos. W-354, Sub 398 (the “Fair
13 Value” case, or “Sub 398”) and W-354, Sub 399, and I focus on how the
14 public interest is served by this transfer.

15 **Q. PLEASE DESCRIBE THE OBJECT AND PURPOSES OF THIS CPCN**
16 **APPLICATION.**

17 A. The purpose of the filing is to comply with the statutory and rule-based
18 requirements for transfer of a regulated water system and the right to serve
19 its territory from one provider to another. In this case, the transfer is from a
20 governmental system, owned and operated by Carteret County, to CWSNC,
21 a provider of water service to the public that is regulated by the North

1 Carolina Utilities Commission (“NCUC” or “Commission”) under North
2 Carolina General Statutes, Chapter 62.

3 **Q. DID YOU PARTICIPATE IN COMMISSION DOCKET NUMBER W-354**
4 **SUB 398? IF SO, PLEASE EXPLAIN THE PURPOSE OF THAT DOCKET**
5 **AND THE RELATIONSHIP BETWEEN SUB 398 AND THIS DOCKET.**

6 A. Yes, I did, and we have described these two dockets as “companion cases.”
7 Sub 398 is captioned as an *Application by Carolina Water Service, Inc. of*
8 *North Carolina for Determination of Fair Value of Utility Assets Pursuant to*
9 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for Acquisition of*
10 *the Carteret County Water System*. The purpose of that case of first
11 impression under N.C. Gen. Stat. § 62-133.1A was to determine the rate
12 base value of a governmental utility, when it is being acquired by a regulated
13 public utility, by use of a “Fair Value” based methodology, rather than by
14 use of the “original cost” method. The Fair Value statute, N.C.G.S. § 62-
15 133.1A, was adopted by the General Assembly as an alternative to the
16 “original cost” methodology, and it seems clear that the legislative policy
17 decision underlying the new statute is intended to facilitate transactions
18 between governmental and regulated providers.

19 Use of the Fair Value based methodology was an integral part of the
20 process employed by CWSNC in our attempt to purchase the Carteret
21 County (“Carteret” or “County”) water system. In order to make the

Docket No. 354, Sub 399

1 transaction feasible, the Company determined that the "Fair Value"
2 methodology must be employed in order to capture the reasonable, realistic
3 value of this system as it migrates from ownership by a governmental entity
4 to ownership by a utility regulated by the North Carolina Utilities
5 Commission. The Company concluded that, absent the ability to establish
6 a realistic level of "market" value of such assets, CWSNC could not justify
7 as prudent an original cost-based purchase price as reflecting a fair,
8 reasonable, or realistic value for the system. CWSNC is eager to enter
9 municipal, county and other governmental markets, is eager to effectively
10 use this new statutory tool, and was pleased to bring this case of first
11 impression in the use of N.C.G.S. § 62-133.1A.

12 This docket seeks approval of the transfer of the system from
13 Carteret County to CWSNC, and establishment of rates. It is the regulatory
14 effort to complete the transaction, an effort that was begun in the Sub 398
15 docket.

16 **Q. PLEASE DESCRIBE THE COMMON ISSUES BETWEEN NCUC**
17 **DOCKET NO. W-354, SUB 398 AND THIS DOCKET.**

18 **A.** The determination of rate base under the Fair Value statute was a condition
19 precedent to the pursuit of a CPCN by CWSNC. Quite simply, the Company
20 had to know what the price and the rate base implications are, in order to
21 determine how and if to proceed in this transaction. The dockets were

1 inextricably related from the beginning, and therefore both determinations
2 were required in order to facilitate the transfer.

3 Furthermore, the procedures established for both dockets have
4 reflected their commonality. The Commission addressed them both in the
5 same Order Scheduling Hearings, Establishing Discovery Guidelines, and
6 Requiring Customer Notice, issued on September 13, 2022; the public
7 hearings for both dockets were combined on October 18, 2022 in Beaufort
8 and for purposes of filing a report on customer concerns; the Scheduling
9 Order directed that an officer or representative from both CWSNC and the
10 County is required to appear before the Commission at the time and place
11 of the expert witness hearings to testify concerning any of the information
12 contained in the Applications; in both dockets the Commission expressly
13 provided that CWSNC and the County “may file rebuttal testimony and
14 exhibits on or before” a date certain; and one Notice to Customers, a part
15 of the Scheduling Order of September 13, 2022, was issued with the
16 combined dockets.

17 **Q. HOW DO YOU RESPOND TO MR. JUNIS’ ANALYSIS OF THE**
18 **COMMISSION’S ORDER IN THE SUB 398 DOCKET?**

19 A. Mr. Junis highlighted certain Findings of Fact at pp. 5-7 of his testimony of
20 March 10, 2023. Particularly relevant to the decision to be made in this
21 docket are those Findings which support a fair value - and, by extension, a

1 rate base value for the Carteret County water system - of \$8,416,000. The
2 crux of the decision, as reflected in these Findings, is that a fair value of
3 \$8,416,000 (plus reasonable expenses and fees) is in the public interest;
4 that a rate base of the agreed-upon purchase price of \$9,500,000 is not;
5 that it is difficult to predict the impact on rates of granting the Application,
6 particularly since the next rate case is anticipated to be four years out; that
7 utilization of the Fair Value Statute is in the public interest, with the adjusted
8 fair value; and that the agreed-upon four-year rate freeze for the acquired
9 Carteret County Water System customers is “appropriate and beneficial to
10 the System customers.” The referenced conditions follow: paragraph
11 references are to certain of the Commission’s Findings of Fact in its Order
12 of February 10, 2023 at pp. 7-8. (emphasis is added below)

13 **19. In the public interest, it is appropriate for the Commission to**
14 **adjust the fair value to \$8,416,000.**

15 **20. Acquisition of the System will spread certain of CWSNC’s**
16 **costs over a larger customer base, although it is not possible on**
17 **the present record to quantify the extent to which this will**
18 **benefit CWSNC’s existing customers or affect CWSNC’s future**
19 **rates.**

20 **22. At the fair value, as adjusted by the Commission in its**
21 **discretion, utilization of the Fair Value Statute is in the public**
22 **interest.**

23 23. CWSNC’s Revised Form Application 2 Exhibit 8, filed on August
24 11, 2022, provided a list of the actual costs and fees incurred through
25 August 9, 2022, and the estimated costs and fees through closing
26 totaling \$174,439.74. The Update to Revised Form 6 Application
27 Exhibit documents reasonable fees paid to the utility valuation

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experts in addition to reasonable transaction and estimated closing costs incurred by CWSNC of \$312,039.

24. The water rates reflected in CWSNC’s Revised Form Application Exhibit 12 are the existing Carteret County rates. CWSNC has agreed with Carteret County that the customers of the System will remain at Carteret County’s current water rates for the next four years. **The agreed-upon rate freeze is appropriate and beneficial to the System customers.**

See Order Establishing Rate Base of Water System Acquired from Carteret County, Application by Carolina Water Service, Inc. of North Carolina for Determination of Fair Value of Utility Assets Pursuant to N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for Acquisition of the Carteret County Water System, Docket No. W-354, Sub 398 (N.C.U.C. February 10, 2023) (Sub 398 Order).

Q. DO YOU ACKNOWLEDGE THAT THE COMMISSION DETERMINED IN THE SUB 398 ORDER THAT, FOR USE IN THE CURRENT CASE, THE FAIR VALUE IS \$8,416,000 PLUS REASONABLE FEES AND TRANSACTION COSTS OF \$312,039, THAT THE RATE FREEZE IS APPROPRIATE AND BENEFICIAL, AND THAT THE COMMISSION HAS AUTHORITY - DURING A RATE CASE - TO SET RATES AND TO DETERMINE WHETHER PROPERTY IS USED AND USEFUL?

A. Yes.

Q. WHAT IS YOUR RESPONSE TO MR. JUNIS’ DISCUSSION CONCERNING CUSTOMER CONCERNS ABOUT SERVICE?

A. My response is that these issues have been thoroughly and comprehensively answered and discussed in the Sub 398 docket, that the two filed reports and other correspondence and testimony from that docket

1 be incorporated herein by reference in response to the recitation by Mr.
2 Junis, and that - should this transfer be granted - customer service
3 responsibilities are understood to migrate with the CPCN responsibilities to
4 CWSNC. CWSNC's discharge of its operational and customer service
5 responsibilities has often been the subject of praise and appreciation by the
6 Public Staff. Though the past record does not substitute for future
7 performance, I submit it is a solid indicator of what has been experienced
8 and can be expected from the Company, and all stakeholders here are clear
9 that the Commission's jurisdiction over customer service is statutorily
10 prescribed and firmly exercised.

11 **Q. DO YOU HAVE AN OPINION ABOUT THE COUNTY'S ABILITY TO**
12 **REASONABLY - WITH RESPECT TO RATES AND OPERATIONAL**
13 **FACILITY - CONTINUE TO OWN AND OPERATE THIS SYSTEM?**

14 **A.** My opinion is that these matters are for determination by the County's duly
15 elected officials, that they have made that decision after extensive
16 deliberation, through careful examination of the issues, and via a lengthy,
17 competitive, statutorily authorized upset bid process. It is also unclear to me
18 whether the Public Staff possesses the statutory authority to attempt to
19 arrogate to itself those policy, financial, and operational decisions. The
20 Public Staff's position appears predicated on an attack on the basis and
21 merits of the County's decision that it and its current water customers are

1 best served by a sale of the water system. The rebuttal testimonies of Ms.
2 Meshaw and Mr. Burns address these issues.

3 **Q. DO YOU HAVE ANY COMMENTS ON THE PROJECTION OF THE**
4 **RATES THAT WILL BE APPLIED TO THESE CARTERET COUNTY**
5 **CUSTOMERS BETWEEN NOW AND THE NEXT CWSNC RATE CASE,**
6 **AND THEREAFTER?**

7 A. Yes. First of all, if our proposal is accepted, the rates will be frozen for four
8 years. That is an extraordinary degree of rate stability that is virtually never
9 afforded to any water and wastewater customer, and to which the Public
10 Staff, curiously, seems to attribute little value. Secondly, the projection of
11 future rates, after a rate case that is in the future and which will be
12 thoroughly reviewed before the Commission, can be reasonably estimated
13 based on realistic, reasonable assumptions, as demonstrated in the rebuttal
14 testimony of Mr. Schellinger.

15 **Q. DO YOU HAVE ANY COMMENTS ON THE PUBLIC STAFF DISCUSSION**
16 **ABOUT ORIGINAL COST, LESS DEPRECIATION, OF THE CARTERET**
17 **COUNTY WATER SYSTEM?**

18 A. Yes. I believe it to be irrelevant to this decision. The Commission has
19 determined the fair value of the system, in the public interest, and has thus
20 made a determination that addresses rate base.

1 Q. DO YOU BELIEVE THIS TRANSFER TO BE IN THE PUBLIC INTEREST
2 AND TO MEET STATUTORY AND CASE-BASED REQUIREMENTS FOR
3 APPROVAL?

4 A. Yes, I do, for the following reasons:

5 1. Although the Public Staff’s recitation of statutes and case law at
6 pp. 29-30 of Mr. Junis’s testimony, addresses the standards for
7 mergers, and not for a transfer, the Company believes the facts
8 of this case generally support even the standard they describe,
9 and which they request the Commission to apply.

10 N.C.G.S. § 62-110(a) provides that “no public utility shall
11 hereafter begin the construction or operation of any public
12 utility plant or system or acquire ownership or control thereof,
13 either directly or indirectly, without first obtaining from the
14 Commission a certificate that public convenience and
15 necessity requires, or will require, such construction,
16 acquisition, or operation.” Furthermore, N.C.G.S. § 62- 111(a)
17 provides that “no franchise now existing . . . shall be sold . . .
18 except after application to and written approval by the
19 Commission, which approval shall be given if justified by the
20 public convenience and necessity.”

21 2. CWSNC submits that there is an overall benefit in terms of
22 economies of scale and spreading of overhead and fixed costs
23 that inherently is produced by combinations. The Commission
24 has ruled that the adjusted Fair Value is in the public interest. The
25 rates for the County customers will be frozen **until a future rate**
26 **case** (emphasis added), and after that will be set under the

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careful oversight of the North Carolina Utilities Commission. The service quality will be regulated by the Commission.

3. Ratepayers will be protected as much as possible from potential costs and risks of the acquisition and transfer. The current County customers will avoid the risk of sharp adjustments to rates and imposition of taxes which are to support the water system. The Commission has a wide range of authority regarding rates, either as stand-alone or otherwise, in several years when it will be time to assess the then-current status for these Carteret County customers. More will be known then that is not known now, and the relevant information should be expected to be rigorously examined in a rate case.
4. This combination can clearly be expected to result in significant benefits to the customers of the Carteret system. The County speaks repeatedly of its inability to competently operate the system, and of the need to seek financial support from imposition of taxing mechanisms or sharp rate increases. I also submit that the advantages of increasing the CWSNC footprint and adding to the scope of our systems is real, and that this first step towards understanding how to complete and integrate acquisitions of

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governmental systems is an operational and financial advantage that is authorized, and is supported in this case.

5. Taken in its totality, the evidence presented in this case meets the test, proffered by the Public Staff, of establishing a “reasoned framework” on which utility mergers may be evaluated (Junis testimony, p. 30). I believe the evidence here supports that reasoned framework upon which this transfer can be evaluated. I believe that, due and subject to the regulatory oversight by the Commission and the Public Staff, there is the assurance that service quality will be maintained or improved and costs and rates can be set at the lowest possible level. That this is all done consistently with rates sufficient to support service and allow a reasonable return on investment, is the heart of the regulatory process and it ensures benefits for all stakeholders.

Q. DO YOU BELIEVE THAT EVIDENCE RECEIVED IN THE W-354, SUB 398 CASE IS RELEVANT TO THE DETERMINATION OF ISSUES CONCERNING PUBLIC INTEREST IN THIS CASE?

A. Yes, and I would request that the Commission incorporate by reference the record of that case into this one, as relevant and necessary to a decision.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THE PRESENT TIME?

A. Yes.