

PLACE: Dobbs Building, Raleigh, North Carolina  
DATE: Monday, October 2, 2023  
TIME: 1:04 p.m. to 4:58 p.m.  
DOCKET: W-1300, Sub 60  
BEFORE: Commissioner ToNola D. Brown-Bland, Presiding  
Commissioner Daniel G. Clodfelter  
Commissioner Kimberly W. Duffley  
Commissioner Jeffrey A. Hughes  
Commissioner Floyd B. McKissick, Jr.

IN THE MATTER OF:

Application of

Old North State Water Company, LLC,

3212 6th Avenue South, Suite 200,

Birmingham, Alabama 35222, for Authority to

Adjust and Increase Rates for Water Utility Service

in All Its Service Areas in North Carolina

VOLUME 3



1    A P P E A R A N C E S:  
2    FOR OLD NORTH STATE WATER COMPANY, LLC:  
3    Gray Styers, Esq.  
4    Elizabeth Sims Hedrick, Esq.  
5    Fox Rothschild, LLP  
6    434 Fayetteville Street  
7    Raleigh, North Carolina 27601

8  
9    FOR THE USING AND CONSUMING PUBLIC:  
10   Reita D. Coxton, Esq.  
11   Public Staff - North Carolina Utilities Commission  
12   4326 Mail Service Center  
13   Raleigh, North Carolina 27699-4300

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E X H I B I T S

IDENTIFIED/ADMITTED

- ONSWC Motion to Correct Ownership ..... -/14  
filed March 16, 2023
- ONSWC Objection to Discover and ..... -/14  
Attachments A through C filed  
July 22, 2022,
- Public Staff's Motion to Compel ..... -/14  
and Exhibits A through C Filed  
August 2, 2022  
(Confidential filed under seal)
- Public Staff Report on ONSWC's ..... -/14  
Compliance with Laws and  
Recapitalization Plan and Exhibits  
1 through 7, filed  
December 12, 2022  
(Confidential filed under seal)
- ONSWC Response to the Public ..... -/14  
Staff Report filed January 11, 2023  
(Confidential filed under seal)
- ONSWC Confidential Attachment 1 to .... -/14  
ONSWC's Response to the Public  
Staff's Report filed  
January 12, 2023, and Confidential  
Attachment 1  
(Confidential filed under seal)
- ONSWC Report on Accounting ..... -/14  
Staff and Motion for Extension of  
Time and Confidential Attachments 1  
through 5, filed May 25, 2023  
(Confidential filed under seal)
- ONSWC Amended Motion to ..... -/14  
Reschedule the Hearing filed  
May 30, 2023
- ONSWC Supplement to Amended Motion .... -/14  
to Reschedule the Hearing and  
Attachment 1, filed June 7, 2023

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1 ONSWC Confidential Outside ..... -/14  
 Accounting Review and Items 1  
 2 Through 3, Filed August 4, 2023  
 (Confidential filed under seal)  
 3  
 4 Public Staff's Letter Regarding ..... -/14  
 Outside Accounting Review filed  
 September 5, 2023  
 5  
 6 ONSWC Confidential Financial ..... -/14  
 Statement as of June 30, 2023,  
 Filed September 19, 2023  
 7 (Confidential filed under seal)  
 8 ONSWC Motion for Approval of Asset .... -/14  
 Transfer and Attachments 1 through  
 9 4, filed September 25, 2023,  
 (Confidential filed under seal)  
 10  
 11 Confidential Public Staff Direct ..... 28/144  
 Exhibit Number 1  
 12 Confidential Public Staff Direct ..... 35/144  
 Exhibit Number 2  
 13  
 14 Public Staff Direct Exhibit ..... 137/144  
 Number 3  
 15 Confidential Public Staff Direct ..... 142/144  
 Cross Exhibit 4  
 16  
 17 Confidential Public Staff Direct ..... 143/144  
 Exhibit 5  
 18 ONSWC McDonald Mitchell Joint Direct .. 154/-  
 Exhibit 1  
 19  
 20 ONSWC McDonald Mitchell Joint Direct .. 156/-  
 Exhibit 1a  
 21 ONSWC McDonald Mitchell Joint Direct .. 157/-  
 Exhibit 2  
 22  
 23 ONSWC McDonald Mitchell Joint Direct .. 158/-  
 Exhibit 3  
 24

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## P R O C E E D I N G S

1  
2 COMMISSIONER BROWN-BLAND: Good  
3 afternoon. Let's come to order and go on the  
4 record.

5 I am Commissioner ToNola D. Brown-Bland  
6 with the North Carolina Utilities Commission,  
7 Presiding Commissioner for this hearing.

8 With me this afternoon are Commissioners  
9 Daniel G. Clodfelter, Kimberly W. Duffley,  
10 Jeffrey A. Hughes, and Floyd B. McKissick, Jr.

11 I now call for hearing Docket Number  
12 W-1300, Sub 60 In the Matter of Application By Old  
13 North State Water Company, LLC, also referred to  
14 hereafter as ONSWC or the Company, for Authority to  
15 Adjust and Increase Rates Pursuant to General  
16 Statute § 62-137. That's a North Carolina General  
17 Statute.

18 On June 29, 2021, Old North State Water  
19 Company filed an Application for a rate increase.

20 On June 13, 2022, the Commission issued  
21 its Order Approving Settlement Agreement and  
22 Stipulation Granting Partial Rate Increase and  
23 Requiring Customer Notice.

24 As part of that Order, the Commission

1 directed the Public Staff to conduct an  
2 investigation pursuant to North Carolina General  
3 Statute § 62-34 into the Company's funding, its  
4 dealings with other business entities sharing  
5 common ownership with the Company, and whether  
6 those dealings complied with the North Carolina law  
7 and Commission rules.

8 Further, the Commission ordered the  
9 parties to work together to create a plan to  
10 improve the capitalization of the Company.

11 On December 12, 2022, the Public Staff  
12 filed a report on ONSWC's compliance with the laws  
13 and recapitalization plan.

14 On January 11, 2023, ONSWC filed a  
15 response to Public Staff's report.

16 Both the Public Staff's report and  
17 ONSWC's response included material labeled  
18 "Confidential."

19 On May 19, 2023, the Commission issued  
20 an Order Requiring Further Reporting and Directing  
21 Old North State Water Company, Inc., to  
22 Refrain From Certain Actions.

23 This Order scheduled an evidentiary  
24 hearing for July 25, 2023.

1           On May 25, 2023, the Company filed a  
2           confidential report on accounting staff, motion on  
3           accounting review, and motion for extension of  
4           time, which included five confidential attachments.

5           The Company filed an amended motion to  
6           reschedule the hearing on May 30, 2023, and a  
7           supplement to that motion on June 7, 2023.

8           On June 9, 2023, the Commission issued  
9           an Order granting the motion of Old North State  
10          Water Company, Inc., for extension of time to file  
11          a report and reschedule a hearing.

12          This Order required the Company to file  
13          its outside accounting review by August 4, 2023;  
14          clarified the scope of the review; directed the  
15          Public Staff to notify the Commission of any  
16          updates on modifications to the recommendation made  
17          in its report, or in its initial report, by  
18          September 5, 2023; and rescheduled the evidentiary  
19          hearing for October 2nd, which is today, 2023.

20          On August 4, 2023, Old North State Water  
21          Company, Inc., made a confidential filing of  
22          various materials provided in compliance with the  
23          Commission's orders of May 19th and June 9, 2023.

24          On September 5, 2023, the Public Staff



1 filed a letter responding to the Company's  
2 August 4, 2023, submission, as required by the  
3 Commission's June 9, 2023, Order.

4 On September 19, 2023, the Company filed  
5 a confidential financial statement for the period  
6 ending June 30, 2023.

7 On September 25, 2023, the Company filed  
8 a motion for approval of asset transfer, which  
9 included confidential information.

10 That brings us to today.

11 Pursuant to the Orders issued by this  
12 Commission on May 19th and June 9, 2023, the  
13 purpose of this hearing is to receive evidence on  
14 the issues raised and the relief sought in the  
15 Public Staff's December 12, 2022, report, as well  
16 as in the Company's response and all subsequent  
17 reports made in this docket, with a focus on  
18 whether the management, operation, and financing of  
19 Old North State Water Services, Inc., is consistent  
20 with the public interest and the interest of its  
21 customers.

22 Pursuant to the State Government Ethics  
23 Act, I remind members of the Commission of our duty  
24 to avoid conflicts of interest and inquire at this

1 time as to whether any Commissioner present has any  
2 known conflict of interest with respect to this  
3 docket.

4 (No response.)

5 COMMISSIONER BROWN-BLAND: Let the  
6 record reflect that no conflicts were identified  
7 and that Commissioner Karen M. Kemerait will not be  
8 participating in this matter.

9 I now call upon counsel for the parties  
10 to announce their appearances for the record, and I  
11 will start with the Public Staff.

12 MS. COXTON: Reita Coxton appearing on  
13 behalf of the Public Staff.

14 MS. HEDRICK: Elizabeth Hedrick with my  
15 partner, Gray Styers, appearing on behalf of the  
16 Company.

17 COMMISSIONER BROWN-BLAND: Good  
18 afternoon.

19 MR. STYERS: Good afternoon.

20 COMMISSIONER BROWN-BLAND: All right.  
21 For the record -- and we discussed it momentarily  
22 before we began -- we understand that a number of  
23 documents have been filed in this docket that have  
24 been designated by the Company as confidential and

1 that it -- pertaining to a lot of financial and  
2 loan information.

3 And for that reason, we will conduct  
4 portions of the hearing in closed session, and at  
5 that time when we go into closed session, we will  
6 come off of the streaming. And I would hope that  
7 the Company, at any time that it thinks we're  
8 delving into anything confidential and we don't  
9 have the room closed, that the Company will then  
10 notify us immediately so we can act in accordance  
11 with trying to maintain the confidentiality of  
12 those -- all those records and all that  
13 information.

14 The Commission contemplates that the  
15 majority of this hearing will be in closed session.

16 All right. The Commission wishes to  
17 ensure that the relevant filings the parties have  
18 made in this docket to date are included in the  
19 evidentiary record.

20 And if there are no objections, the  
21 Commission will admit into the evidentiary record  
22 the following filings, including the exhibits and  
23 attachments thereto:

24 The Motion to Correct Ownership dated --

1 well, filed March 16, 2022, and that document had  
2 no attachments.

3 The Old North State Water Company  
4 Objection to Discovery, which was a verified  
5 filing, dated July 22, 2022, with Attachments A, B,  
6 and C.

7 The Motion to Compel of the Public Staff  
8 filed August 2, 2022, with Exhibits A; Exhibit B,  
9 which is marked confidential; and Exhibit C.

10 The Public Staff Report on ONSWC's  
11 Compliance with Laws and Recapitalization Plan,  
12 filed December 12, 2022, with Confidential  
13 Exhibit 1, and Confidential Exhibit 2, Confidential  
14 Exhibit 3, Confidential Exhibit 4, Confidential  
15 Exhibit 5, Confidential Exhibit 6, and Confidential  
16 Exhibit 7.

17 ONSWC Response to the Public Staff  
18 Report, which is also verified document, filed  
19 January 11, 2023, with no attachments.

20 Confidential Attachment 1 to ONSWC's  
21 Response to the Public Staff's Report, filed  
22 January 12, 2023, with Confidential Attachment 1.

23 The Company's Report on Accounting Staff  
24 and Motion For Extension of Time filed

1 May 25, 2023, with Confidential Attachment 1,  
2 Confidential Attachment 2, which are the  
3 credentials and experience of Kate Fox; the  
4 Confidential Attachment 1, Attachment 3;  
5 Confidential Attachment 1, Attachment 4; and  
6 Confidential Attachment 1, Attachment 5.

7 The Company's Amended Motion to  
8 Reschedule the Hearing, filed May 30, 2023, with no  
9 attachment.

10 The supplement to the Company's Amended  
11 Motion to Reschedule the Hearing, filed  
12 June 7, 2023, with Attachment 1.

13 The Confidential Outside Accounting  
14 Review, filed on August 4, 2023, along with Item 1,  
15 Item 2, and Item 3, and Item -- each one of the  
16 items has confidential information.

17 The Public Staff's Letter Regarding  
18 Outside Accounting Review with no attachments,  
19 filed September 5, 2023.

20 The Company's Confidential Financial  
21 Statement as of June 30, 2023, with no attachments,  
22 filed September 19, 2023.

23 The Company's Confidential Motion For  
24 Approval of Asset Transfer, which was a verified

1 document, filed September 25, 2023, with  
2 Attachments 1 and 2, Confidential Attachment 3,  
3 Confidential Attachment 4.

4 And if you followed me on that and there  
5 are no objections to any of that, those will be  
6 received into evidence.

7 MR. STYERS: No objections.

8 MS. COXTON: No objection.

9 COMMISSIONER BROWN-BLAND: All right.

10 Thank you.

11 (ONSWC Motion to Correct Ownership filed  
12 March 16, 2022; ONSWC Objection to  
13 Discover and Attachments A through C  
14 filed July 22, 2022; Public Staff's  
15 Motion to Compel and Exhibits A through  
16 C filed August 2, 2022, (Confidential  
17 filed under seal); Public Staff Report  
18 on ONSWC's Compliance with Laws and  
19 Recapitalization Plan, and Confidential  
20 Exhibits 1 through 7, filed December 12,  
21 2022, (Confidential filed under seal);  
22 ONSWC's Response to the Public Staff  
23 Report Filed January 11, 2023,  
24 (Confidential filed under seal); ONSWC

1 Confidential Attachment 1 to ONSWC's  
2 Response to the Public Staff's Report  
3 filed January 12, 2023, (Confidential  
4 filed under seal); ONSWC's Report on  
5 Accounting Staff and Motion for  
6 Extension of Time and Confidential  
7 Attachments 1 through 5 filed May 25,  
8 2023, (Confidential filed under seal);  
9 ONSWC's Amended Motion to Reschedule the  
10 Hearing Filed May 30, 2023; ONSWC  
11 Supplement to Amend Motion to Reschedule  
12 the Hearing and Attachment 1 filed June  
13 7, 2023; ONSWC Outside Accounting Review  
14 and Items 1 through 3 filed August 4,  
15 2023, (Confidential filed under seal);  
16 Public Staff's Letter Regarding Outside  
17 Accounting Review Filed September 5,  
18 2023; ONSWC's Confidential Financial  
19 Statement as of June 30, 2023, filed  
20 September 19, 2023, (Confidential filed  
21 under seal); and ONSWC Motion for  
22 Approval of Asset Transfer and  
23 Attachments 1 through 4, filed September  
24 25, 2023, (Confidential filed under

1 seal) were admitted into evidence.)

2 COMMISSIONER BROWN-BLAND: In addition  
3 to those filings and the evidence received during  
4 this hearing, the Commission will also consider the  
5 evidence received in connection with the Company's  
6 request for a general rate case as well as the  
7 Commission's records in this docket.

8 And those -- that's what will be  
9 considered on this.

10 And are there any preliminary matters  
11 that I haven't covered?

12 MS. HEDRICK: I don't think so.

13 COMMISSIONER BROWN-BLAND: All right. I  
14 understand that both parties would like to make a  
15 brief opening statement.

16 All right. We will hear from the Public  
17 Staff.

18 MS. COXTON: So I think the critical  
19 thing for the Public Staff today is expressing some  
20 concerns that we have regarding the scope of the  
21 accounting review that was completed as well as  
22 concerns about the Company in light of the ongoing  
23 litigation, where that leaves -- most importantly,  
24 where that will leave Old North State's customers.



1 That's essentially what we will be  
2 addressing.

3 COMMISSIONER BROWN-BLAND: All right.  
4 And the Company, Ms. Hedrick.

5 MS. HEDRICK: Thank you.

6 Just to introduce myself again, I'm  
7 Elizabeth Hedrick. My partner Gray Styers and I  
8 are representing Old North State in this case.

9 We have with us John McDonald, who's  
10 sitting here. He is the owner of Old North State.  
11 And then we have Joseph Mitchell, who is the  
12 Company's new CFO, as well as Max Campbell from  
13 Haynes Downard, who performed the outside  
14 accounting review.

15 To be -- I just want to be brief to  
16 address sort of why we're here today.

17 We really wish this hearing could have  
18 been avoided, and we're a little bit puzzled about  
19 what the ongoing concerns are, because they seem to  
20 be focused on issues that we thought had been  
21 resolved.

22 But the most important thing to the  
23 Company at this point is to get back on track and  
24 on a more constructive and productive relationship

1 with both Public Staff and the Commission and to  
2 address any concerns that may be outstanding.

3 We understand and appreciate the  
4 Commission's directive for review of the issues.  
5 There were problems plaguing the management. I  
6 don't think anybody disagrees with that. But we  
7 think the evidence that has come out of this review  
8 shows that those problems are actually getting  
9 better and that real progress is being made.

10 The Company has really rolled its  
11 sleeves up, and they've gone to work and put in  
12 hard work to improve the problems that they've had.

13 Old North State continues to have a  
14 steady source of funding from Integra. That was  
15 critical to the Public Staff's agreement to the  
16 settlement earlier in the rate case. And Old North  
17 State has taken significant steps to improve both  
18 its financial situation and its operations.

19 Mr. McDonald will testify today about  
20 how Old North State has brought all of its  
21 operations in-house and it's now employing here in  
22 North Carolina, boots on the ground, to get the  
23 work done.

24 It has also made a number of capital

1 investments in the last couple of years that  
2 have -- that are really starting to pay off.

3 In addition, the Company's hired  
4 numerous new accounting personnel, most  
5 importantly, a new CFO, Joseph Mitchell, who is  
6 here today and who was hired to come in and  
7 evaluate the problems that the Company was having  
8 from a financial perspective and to identify and  
9 implement solutions to those problems.

10 And that's what he's been doing, and  
11 he'll explain to you all the things that he has  
12 done to improve that situation.

13 And those efforts are really paying off.  
14 I think from both an operational and a financial  
15 situation, you'll see that the work that they have  
16 done have made significant improvements.

17 The Company's happy to answer any  
18 questions the Commission and the Public Staff have  
19 today, and hopefully we will satisfy any lingering  
20 concerns there are about the situation.

21 But the short story is that the Company  
22 is on the right track. They are a viable  
23 organization who is making vast improvements in  
24 their operations and would like to make -- you

1 know, address any concerns you-all may still have  
2 and hopefully implement solutions that work for all  
3 of the parties, including its customers.

4 But the Company does believe that the  
5 most important thing it can do to further improve  
6 its capital situation is to get in here for another  
7 rate case for its sewer rates, which have never  
8 been raised before.

9 And they can't -- they are ready to do  
10 that, ready to file, but they can't do that until  
11 any uncertainty involved in this proceeding gets  
12 resolved.

13 So thank you for your time today, and we  
14 look forward to answering your questions.

15 COMMISSIONER BROWN-BLAND: Thank you.

16 So there being nothing else, we will  
17 start with the Public Staff.

18 MS. COXTON: The Public Staff calls  
19 Michelle Boswell and Charles Junis to the stand.

20 COMMISSIONER BROWN-BLAND: Two who are  
21 familiar with the position and the witness stand.

22 Can you -- there you go. Left hands on  
23 the Bible. Raise your right.

24 Whereupon,

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MICHELLE BOSWELL AND CHARLES JUNIS,  
having first been duly sworn, were examined  
and testified as follows:

COMMISSIONER BROWN-BLAND: All right.

DIRECT EXAMINATION BY MS. COXTON:

Q. Ms. Boswell, please state your name, business address, and position for the record.

A. (Michelle Boswell) My name is Michelle Boswell. My business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director of Accounting for the Public Staff.

Q. Mr. Junis, please state your name, business address, and position for the record.

A. (Charles Junis) Yes. Charles Junis. 430 North Salisbury Street. I'm the Director of the Public Staff Water, Sewer, and Telephone Division.

MS. COXTON: Most of my questions today will be focused for Ms. Boswell. Mr. Junis is appearing based on feedback we received that the Commission might have questions of an operational nature.

Q. So, Ms. Boswell, are you familiar with the recommendations the Public Staff made related to the Company's accounting infrastructure?

1 A. (Michelle Boswell) I am.

2 Q. Would you remind us what those  
3 recommendations were?

4 A. Yes. I believe we had concerns regarding the  
5 accounting -- or the Company's accounting needs and  
6 processes specifically related to Old North State and  
7 Integra and its affiliates: IntegraWater; Integra  
8 Madison County, LLC; IntegraWater Creola; IntegraWater  
9 Vinemont; and Chatham Holdings, Inc., and Old North  
10 State-Chatham Holdings -- Chatham North, LLC; as well  
11 as John McDonald.

12 Q. What did we recommend with respect to -- what  
13 did we recommend that the Company undertake as part of  
14 that?

15 A. We wanted a -- well, we requested a full  
16 management audit pursuant to General Statute § 62-37,  
17 Subsection (b), and a full forensic audit of Old North  
18 State's books and records, and a full forensic audit of  
19 the financial statements of IntegraWater, LLC and its  
20 subsidiaries.

21 Q. How did the Company respond to our  
22 recommendations?

23 A. They offered to do a review, but they did not  
24 think it was necessary -- and I'm paraphrasing -- to

1 involve Integra within the confines of that review.

2 Q. And what is the difference between the audit  
3 the Public Staff recommended and the review the Company  
4 offered to undertake?

5 A. An accounting review, by nature, provides a  
6 limited assurance and is substantially narrower in  
7 scope than an accounting audit would be.

8 The firm -- a CPA firm would be the processor  
9 of both and would design and perform analytical  
10 procedures, inquiries, and other procedures that it  
11 deemed necessary based off its understanding of the  
12 industry and the client in a review.

13 It wouldn't investigate any internal controls  
14 or any kind of risk of fraud, and it doesn't really  
15 state any assurance. It's also less costly because it  
16 doesn't do as much.

17 An audit, they are providing a reasonable  
18 assurance the financial statements are free from any  
19 kind of material misstatement.

20 They go about performing procedures to obtain  
21 an understanding of the internal control system and any  
22 kind of risks in addition to everything that they would  
23 have done within the confines of a review.

24 Q. Okay. Have you reviewed the Company filing

1 made on August 4, 2023?

2 A. I have.

3 Q. And does the review completed by Hayes  
4 Downard, LLP [sic] provide the information the  
5 Commission listed in paragraph 1 of the Order it  
6 issued on June 12, 2023?

7 A. I do not believe it does, no.

8 Q. What do you believe is missing?

9 A. Those assurances that their financial  
10 statements are free of material misstatement, that they  
11 have internal controls to make for sure that there  
12 aren't any misstatements or anything going on that  
13 would affect the financial statements.

14 Q. So is there -- I take it from that that we  
15 have -- that there are a number of concerns related to  
16 the financial statements. Would you go through those  
17 for us?

18 A. I will.

19 To start, we had -- the very first place that  
20 we went was actually comparing it to the annual report  
21 that was filed with the Commission as, realistically,  
22 those numbers should be pretty close to the same.  
23 There might be a slight difference in the things that  
24 they will title things.



1           And we found numerous differences that raised  
2     ire to us, as those numbers should have been the same.

3           Q.     Okay. Can you give us a preview of what some  
4     of -- the biggest outliers? Just sort of hit the high  
5     spots for us.

6           A.     Sure.

7           MR. STYERS: If this is going to be  
8     going into specific numbers, this is probably the  
9     right time to go ahead and go into confidentiality.

10          THE WITNESS: I will not do specific  
11     numbers, if that's helpful.

12          MR. STYERS: It is.

13          THE WITNESS: I can just do topics.

14          COMMISSIONER BROWN-BLAND: Well, we need  
15     to get into specific numbers, probably.

16                 So at this point we will go into closed  
17     session.

18                 And would Mr. McCoy please take down the  
19     live stream.

20                 (Due to the proprietary nature of the  
21     testimony found on pages 25 to 167, the  
22     full confidential transcript was filed  
23     under seal.)

24                 (The hearing was adjourned at 4:58 p.m.

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and set to reconvene at 1:00 p.m. on  
Tuesday, October 3, 2023.)

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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA )  
COUNTY OF WAKE )

I, Joann Bunze, RPR, the officer before whom the foregoing meeting was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties herein, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome.

This the 4th day of October 2023.

*Joann Bunze*



JOANN BUNZE, RPR

Notary Public #200707300112