

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 396
DOCKET NO. W-1073, SUB 7

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In the Matter of:)
)
Application by Carolina Water Service, Inc. of)
North Carolina (CWSNC) and Water Resource)
Management for Authority to Transfer the)
Echota Water Utility System and Public Utility)
Franchise and the Seven Devils Wastewater)
Utility System and Public Utility Franchise in)
Watauga County, North Carolina, and for)
Approval of Rates)

**Direct Testimony of
Edward B. Winn, Jr. and
James D. Moore III**

October 31, 2022

1 **Q. MR. WINN, WOULD YOU PLEASE STATE YOUR NAME AND**
2 **ADDRESS FOR THE RECORD.**

3 A. My name is Edward B. (Barrie) Winn, Jr. My address is 281 Seventh
4 Ridge Drive, Seven Devils, NC 28604. I am currently Treasurer of the
5 Board of The Lakes Community POA.

6 **Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND**
7 **AND WORK EXPERIENCE FOR THE RECORD.**

8 A. I received a B.Sc. (Eng) Degree in Chemical Engineering from
9 Imperial College of Science and Technology. My subsequent chemical
10 engineering career included 8 years as an employee of a consulting
11 company in London and 32 years in the world's largest vertically
12 integrated phosphate mine and manufacturing complex in Aurora, NC.
13 At the time of my retirement, I was responsible for quality control,
14 customer support and process improvements at Aurora and a similar
15 complex in Florida.

16 My career gave me broad knowledge of designing and operating
17 continuous processes, including process water systems. I was deeply
18 involved in the development of operating and capital budgets.

19 I am a licensed professional engineer in North Carolina (license
20 number 014600).

21 **Q. IS ANY OF YOUR PROFESSIONAL EXPERIENCE RELATED**
22 **TO THE ISSUES INVOLVED IN THIS PROCEEDING?**

1 A. Yes. I believe it is. Part of my experience at Aurora was serving as
2 the complex's Senior Environmental Engineer, responsible for the
3 surface water, groundwater, solid & hazardous waste and Community
4 Right-to-Know programs. This involved updating and ensuring
5 compliance with an NPDES permit. As Manager, Technical Services,
6 some of my staff were responsible for responding during nights and
7 weekends to alarms from the complex's wastewater treatment plant.
8 Relevant experience gained since retiring includes service on the
9 Seven Devils Public Works Committee from 2019-2021. This
10 committee provides oversight for the town's water supply system as
11 well as other infrastructure.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
13 **COMMISSION?**

14 A. No. I have not.

15 **Q. MR. MOORE, WOULD YOU PLEASE STATE YOUR NAME**
16 **AND ADDRESS FOR THE RECORD.**

17 A. My name is James D. Moore III. My address is 205 Little Boulder
18 Lane, Seven Devils, NC 28604. I am currently President of the Board
19 of The Lakes Community POA.

20 **Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND**
21 **AND WORK EXPERIENCE FOR THE RECORD.**

22 A. I received a B.S. and M.S in Civil Engineering from Virginia Tech.
23 Previous work experience relevant to this case includes staff

1 environmental / utility engineer with Mead Paper and 24 years with
2 Collins & Aikman serving as Vice President Corporate Engineering
3 for over 10 years. Expertise relevant to this case includes 1) broad
4 knowledge of utility systems and cost of service (water, stormwater,
5 wastewater, electricity, natural gas) 2) annual capital and maintenance
6 budget preparation and management. Long range capital planning to
7 support the business plan and 3) broad knowledge of State and Federal
8 environmental regulations (water, wastewater, stormwater, air, solid
9 waste, FERC, etc.). I also have served as Chairman of the American
10 Textile Manufacturing Institute (ATMI) Environmental Preservation
11 Committee and Chairman of the Carolina Utilities Customer
12 Association's (CUCA) Electrical Committee. While involved with
13 CUCA, I was exposed to the work of this Commission because of
14 CUCA's intervention in numerous proceedings.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
16 **COMMISSION?**

17 A. No. I have not.

18 **Q. WHY ARE YOU SUBMITTING JOINT TESTIMONY?**

19 A. We are submitting joint testimony to minimize duplication and
20 maximize efficiency in the Commission hearing.

21 **Q. HOW ARE RESIDENTS OF THE LAKES COMMUNITY POA**
22 **BILLED FOR WASTEWATER TREATMENT SERVICES?**

1 A. They receive a coupon book on an annual basis, which provides for
2 quarterly payments of \$84.60.

3 **Q. IN YOUR OPINION, DO EITHER OF YOU BELIEVE THE**
4 **RATES PROPOSED BY CWSNC FOR WASTEWATER**
5 **TREATMENT ARE REASONABLE?**

6 A. No.

7 **Q. ON WHAT DO YOU BASE THAT OPINION?**

8 A. The basis for the proposed wastewater rate is from a 2022 CWSNC
9 state-wide rate case: Docket No. W-354, Sub 384. The Seven Devils
10 system was not part of the CWSNC system at that time and none of
11 those operations were included in this case. The CWSNC uniform
12 wastewater flat rate for customers using 4000 gallons per month
13 increased from \$74.36 to \$85.12, the rate which CWSNC has
14 requested for the Seven Devils system. If approved, Seven Devils
15 customers would begin paying over 3 times as much as the current rate
16 of \$28.20 per month.

17 On Page 6 of his testimony, Mr. Denton states that the transfer of the
18 water and sewer systems are being made at a price that is fair and
19 reasonable to both the seller and buyer. He goes on to say that, in his
20 opinion, the terms are beneficial and not detrimental to the current
21 customers of Water Resources. However, it is hard for us to conclude

1 that an immediate increase in rates of approximately 200% is not
2 detrimental to customers.

3 The current wastewater rate was decreased from \$30 per month to
4 \$28.20 per month in 2015 and has remained at that level up to the
5 present. This has apparently been sufficient to maintain and operate
6 the wastewater collection and treatment system in an environmentally
7 responsible manner.

8 Also, the Town of Seven Devils provides metered water service for the
9 Lakes Community. In 2004 the base rate was \$30 per month and today
10 the rate is \$40 per month. The \$40 per month includes \$5 per month
11 for a capital reserve. While our water rate has increased by a third in
12 18 years, CWSNC is requesting a shocking and immediate three-fold
13 increase in our wastewater rate.

14 We would like to emphasize that all wastewater collection and
15 treatment systems are not the same, and we strongly disagree that a
16 uniform rate from a previous case be applied to the Seven Devils
17 system.

18 To support our position, we would point out that, in addition to the
19 uniform rates, ten individual service area wastewater rates were
20 approved in the Docket No. W-354, Sub 384 rate case. The individual
21 system nearest in customer base size to the Seven Devils system is

1 Kings Grant-Charlotte with 177 customers. The monthly rate for this
2 system decreased from \$57.65 to \$46.28. The fact that ten individual
3 rates were approved demonstrates that both the North Carolina
4 Utilities Commission and CWSNC recognize that a uniform rate is
5 neither mandatory nor applicable across the CWSNC system.
6 Although individual circumstances may differ, the Commission clearly
7 has the authority to provide for different rates when conditions require
8 it.

9 **Q. HAVE YOU HAD THE OPPORTUNITY TO REVIEW ANY OF**
10 **THE FINANCIAL INFORMATION FILED BY CWSNC IN**
11 **THIS DOCKET?**

12 A. Yes, we have. The "Statement of Cash Flows - Sewer Operations"
13 on the Addendum to Application for Transfer of Public Utility
14 Franchise and for Approval of Rates indicates a purchase price of
15 \$69,720 for the system with no assumption of any debt. According to
16 the Application to Transfer, no capital expenditures are forecasted by
17 CWSNC in years 0-5 for major improvements/additions or
18 replacements. In this context it is important to note that the current
19 treatment system is in material compliance with the NCDENR
20 wastewater discharge permit.

1 Based on the proposed rates, the cash flows show that CWSNC will
2 realize a 1-year payback of their investment. This rate of return and
3 complete recovery of the purchase price in one year is clearly
4 excessive. There are few businesses cases that contemplate a complete
5 recovery of an investment within one year.

6 If the rates that are proposed by CWSNC in the upcoming 3-year rate
7 case under Docket No. W-354, Sub 400 are approved and the
8 incremental increases are applied to the Seven Devils Wastewater
9 Utility System, the Seven Devils monthly wastewater bill will exceed
10 \$110 per month in 3 years. This nearly four-fold increase from the
11 current rate would occur even though CWSNC, according to its
12 application, does not plan to invest in any capital improvements in the
13 Seven Devils system for the next 5 years.

14 Finally, the requested rate increase comes at a particularly challenging
15 time for customers who are senior citizens living on fixed incomes.
16 The Watauga County and Seven Devils tax bills that our community
17 recently received are of the order of 30% more than last year. We are
18 all having to navigate inflation rates that have not been seen in a
19 generation. A three-fold increase and perhaps ultimately a four-fold
20 increase in wastewater treatment rates would compound the financial
21 burdens we are already bearing.

1 **Q. Does Mr. Denton identify any service issues associated with**
2 **wastewater services to the Lakes Community area?**

3 A. No, he does not. Mr. Denton indicates that CWSNC became a
4 contract operator for the water and sewer systems of Water Resources
5 on September 16, 2021. During that time, he identifies only two
6 operational problems. One of these involved the Echota water system
7 and the other involved a single sewer manhole in Seven Devils that
8 was overflowing. He cited no service issues in the Lakes Community
9 area. We are also not aware of any service issues in our area, so the
10 system seems to be operating effectively with its existing level of
11 revenues.

12 **Q. Did Mr. Denton suggest a cause for these service issues?**

13 A. Mr. Denton seems to place a lot of the blame on what he contends are
14 exceptionally low rates. However, it should be noted that even with
15 what Mr. Denton contends are unusually low rates, the sewer system
16 still produced a small profit. He attributes the bulk of the alleged
17 losses to water system operations. Interesting, his testimony also
18 states that the low rates result because Water Resources chose not to
19 file for a general rate case. Of course, that decision was made by
20 Water Resources and not its captive customers. Water Resources
21 could have pursued rate relief if it had chosen to do so. Contrary to
22 the statements made by CWSNC in its original application, Mr.
23 Denton has modified the Company's position and now says that

1 CWSNC intends to invest approximately \$175,000 in sewer system
2 improvements. It should also be noted that nearly a quarter of this
3 amount appears to relate to what could be termed cosmetic
4 investments, which might increase the investment base for the
5 company but not improve service for customers. Even if such
6 investments are necessary, the exorbitant rate increases proposed for
7 the Lakes Community customers would still result in an unreasonably
8 short payback period.

9 **Q. Mr. Denton partially justifies the significant rate increases for**
10 **wastewater by stating existing customers have been paying what**
11 **Mr. Denton believes to be low rates, do you agree with Mr.**
12 **Denton's conclusion?**

13 A. No, we do not. The previous rates paid by Lakes Community
14 wastewater customers are unrelated to the operations of CWSNC and
15 do not justify exorbitant increases proposed by CWSNC. Although
16 uniform rates may be justifiable over time, they should not be imposed
17 in a vacuum without a thorough analysis in a CWSNC general rate
18 case if and after the transfer is approved. This ratemaking approach is
19 not in the best interest of customers and simply provides an unjustified
20 windfall to CWSNC. Our review of the rates charged by CWSNC
21 indicate that many of the areas it serves do not pay the "uniform" rates
22 that it proposes to impose upon customers in the Lakes Community
23 area. In the past the Commission has been mindful of customer rate

1 shock, and if the transfer is approved, the rate increases, if justified,
2 should be phased in over a period of time. As previously noted, under
3 the CWSNC proposal, it will recover its purchase price from
4 wastewater customers in approximately one year. That is a payback
5 period that is excessive under any rational economic or business case
6 analysis. Mr. Denton espouses the benefits of economies of scale, but
7 yet, the economics of scale that he discusses appear to provide no
8 synergies or economic benefits to the customers of the Lakes
9 Community.

10 **Q. DO YOU HAVE ANY SUGGESTIONS AS TO HOW TO**
11 **DEVELOP A FAIR AND EQUITABLE WASTEWATER**
12 **TREATMENT RATE?**

13 A. If the transfer is approved, the Commission should phase in any rate
14 increase over an extended period to avoid the possibility of customer
15 rate shock. At some point in the future, the cost of service of the Lakes
16 Community system should be rolled into the overall cost of service of
17 CWSNC. Even when that occurs, the Commission should continue the
18 roll in of rates for the Lakes Community to assure that customer rate
19 shock can be minimized.

20 **Q. ARE THERE ANY FURTHER RECOMMENDATIONS THAT**
21 **YOU HAVE FOR THE COMMISSION?**

1 A. To avoid rate shock, if the transfer application is approved, any
2 increase in the rate should be phased in over several years.

3 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A. Yes.