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March 14, 2024

Ms. Shonta Dunston, Chief Clerk  
North Carolina Utilities Commission  
Mail Service Center 4325  
Raleigh NC 27699 -4300

RE: Docket Nos. W-1034, Sub 13

Dear Ms. Dunston:

Please accept for filing the following document in the above captioned dockets: Direct  
Testimony of Dennis Abbott on behalf of Water Resources, Inc.

Thank you for your attention to this matter.

Sincerely,  
Edward S. Finley, Jr.  
Counsel for Water  
Resources, Inc.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and exact copy of the foregoing direct testimony of Dennis Abbott on behalf of Water Resources, Inc. was duly served upon parties of record either by depositing same in a depository of the United States Postal Service, first class postage prepaid, or by electronic delivery.

This the 14th day of March, 2024.

Edward S. Finley, Jr.,

/s/ Edward S. Finley, Jr.

Edward S. Finley, Jr., PLLC  
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COUNSEL FOR APPLICANT

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

Docket No. W-1034, Sub 13

In the Matter of	)	
Application of Water Resources, Inc.	)	Testimony of
For Approval of Rates for the Rocky River	)	Dennis Abbott
Subdivision in Mecklenburg County and	)	for Water Resources
the River Walk service area in	)	Inc.
Cabarrus County North Carolina	)	

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-1034, SUB 13**

**Direct Testimony of Dennis Abbott**

**On Behalf of Water Resources, Inc.**

**March 14, 2024**

**OFFICIAL COPY**

**Mar 14 2024**

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

2  
3 A. Dennis C. Abbott. 6201 Fairview Rd. Suite 200, Charlotte, North Carolina 28210

4  
5 **Q. WITH WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6  
7 A. I am President of Water Resources, Inc.

8  
9 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT PREFILED TESTIMONY?**

10  
11 A. The purpose of my direct prefiled testimony is to sponsor the Application for a rate  
12 adjustment for the Rocky River service area in Mecklenburg County, and the River  
13 Walk service area in Cabarrus County, that Water Resources (WRI or The  
14 Company) has submitted in this docket and to provide background and other  
15 information to place into context Water Resource's need for rate relief.

16  
17 **Q. WHEN WERE CURRENT RATES PLACED INTO EFFECT, AND HAVE**  
18 **EXISTING RATES BEEN ADEQUATE DO SUPPORT NECESSARY**  
19 **IMPROVEMENTS, MAINTENANCE AND OPERATION OF THE SYSTEM?**

20  
21 A. Current rates were placed into effect in Docket No. W-1034, Sub 8 in 2018. For  
22 most of that period those rates have been in effect the rates have been insufficient  
23 to support necessary improvements, maintenance and operations of the system.

24  
25 **Q. AN ISSUE IN THE PAST HAS BEEN THE NEED FOR INSTALLATION OF**  
26 **METERS IN THE SYSTEM AND OTHER SERVICE-RELATED ISSUES.**  
27 **PLEASE DESCRIBE THE EFFORTS OF THE COMPANY TO INSTALL THE**  
28 **METERS AND ADDRESS OTHER SUCH ISSUES.**

29  
30 A. In the Commission's November 21, 2018 *Recommended Order Approving Agreed*  
31 *Upon Rates and Requiring Customer Notice, Application by Water Resources, Inc,*  
32 *for Authority to Increase Rates for Water Utility Service in the Rocky River*  
33 *Plantation Subdivision in Cabarrus County and River Walk Subdivision in*

1            *Mecklenburg County, North Carolina*, Docket No. W-1034 Sub 8, the Commission  
2 required the Company to make system improvements such as the replacing of  
3 aging water meters.

4  
5            The Commission required the Public Staff to investigate and file a report and  
6 recommendation. On September 20, 2021, the Public Staff submitted its report. In  
7 its report the Public Staff concluded that WRI was largely in compliance with the  
8 actions required by the 2018 rate case order, although WRI had failed to complete  
9 several items within the time frame specified by the Commission. The Public Staff  
10 concluded that most of the items identified by DEQ notices of violation had been  
11 addressed and thus had little or no impact on WRI's ability to adequately serve its  
12 customers. The Public Staff concluded that while WRI has not yet complied with  
13 the Consent Judgment by interconnection with the Town of Harrisburg water  
14 system or executing an alternative course of action to comply with the state  
15 drinking water laws, WRI has retained an experienced water engineer who was  
16 exploring a possible, lower cost method of compliance. The Public Staff concluded  
17 that given WRI's overall compliance with the 2018 rate case order and feedback  
18 received from DEQ personnel, an appointment of an emergency operator should  
19 not be ordered at that time. In this report the Public Staff listed items Water  
20 Resources needed to address for complete for full compliance.

21  
22    **Q.    BY ORDER DATED JULY 29, 2022, THE COMMISSION ISSUED AN ORDER**  
23    **REQUIRING COMPLIANCE WITH 2018 RATE CASE ORDER AND DEQ**  
24    **NOTICES OF VIOLATION AND CONSENT JUDGMENT AND REQUIRING**  
25    **FILING OF FURTHER REPORTS. PLEASE DESCRIBE THE ACTION WATER**  
26    **RESOURCES TOOK IN RESPONSE TO THIS COMMISSION ORDER.**

27  
28    **A.**    On August 8, 2022, Water Resources submitted an updated report. In its report  
29 the Company submitted a chart that listed the items identified for its updated report  
30 and a status and narrative explanation. Except for the interconnection with the

1 Town of Harrisburg the Company reported that nearly all of the other items the  
2 Commission required it to address had been completed or corrected

3  
4 **Q. IN THE COMMISSION’S JULY 29 ORDER, THE COMMISSION REQUIRED**  
5 **WATER RESOURCES TO ADDRESS METHODS TO OBTAIN CUSTOMER**  
6 **FEEDBACK AND IMPROVE COMMUNICATIONS. PLEASE DESCRIBE THE**  
7 **COMPANY’S EFFORTS TO COMPLY WITH THAT REQUIREMENT.**

8  
9 A. Pursuant to decretal paragraph 4 of the Commission’s July 29 Order, Water  
10 Resources was required to file on or before January 30, 2023, a report on its efforts  
11 to create a website, form a customer advisory group, or otherwise institute means  
12 to obtain customer feedback and improve communications between WRI and its  
13 customers, specifically including notice of flushing activities.

14  
15 On January 30, 2023, Water Resources filed a report on efforts to create a website,  
16 form a customer advisory group, and other means to improve customer  
17 communications. Water Resources reported that it found that existing  
18 communications channels accomplished the function of a customer advisory  
19 group, although not named as such, by providing a means to poll the members of  
20 the representative customer groups regarding their experiences with water  
21 pressure, water quality, and other issues related to the Company's operations.

22  
23 With respect to River Walk, the Company reported that communications with the  
24 HOA leadership provides a representative group of customers that are presumably  
25 selected by other members of the HOA through a democratic process built into the  
26 HOA governance structure. With respect to Rocky River, the Company reported  
27 that it proactively contacts this group of customers to gain insight into their  
28 experience and those of their neighbors, and any concerns brought to the  
29 Company's attention are addressed and the Company follow up with the  
30 homeowners is provided.

31

1 **Q. WHAT DID THE COMPANY'S JANUARY 30, 2023, REPORT SAY ABOUT**  
2 **SYSTEM FLUSHING?**

3  
4 A. With respect to system flushing, the Company reported that it only performs  
5 system flushing on an as needed basis. The Company reported that the need for  
6 flushing during the prior six months, subsequent to the Commission's July 29 order,  
7 had been limited, and the Company had not received reports of discolored water  
8 from customers. Water Resources committed to continue to make every attempt  
9 to alert customers when flushing is necessary and to limit the disruption of  
10 customers that flushing activities may cause.

11  
12 **Q. IN ITS JANUARY 30, 2023, REPORT WHAT INFORMATION DID THE**  
13 **COMPANY PROVIDE WITH RESPECT TO QUARTERLY CUSTOMER**  
14 **CONTACT LOGS?**

15  
16 A. The Company reported that it continues to file quarterly customer contact logs with  
17 the Commission in Docket No. W-1034, Sub 8. The Company maintained that its  
18 customer contact logs demonstrate a continued improvement in customer service  
19 and an increasing level of satisfaction with the Water Resource responsiveness  
20 and resolution of concerns.

21  
22 **Q. WHEN WAS THE LAST CUSTOMER LOG FILED WITH COMMISSION IN**  
23 **DOCKET NO. W-1034, SUB 8?**

24  
25 A. January 17, 2024.

26  
27 **Q. HOW WOULD YOU DESCRIBE CUSTOMER REACTION AND**  
28 **COMMUNICATION TO THE SERVICE THEY RECEIVED DURING AND**  
29 **SUBSEQUENT THE TEST PERIOD IN THIS DOCKET?**

30



1 A. For the most part, the Company records do not indicate a substantial number of  
2 complaints.

3

4 **Q. IN YOUR OPINION HAS WATER RESOURCES COMPLIED WITH THE**  
5 **REQUIREMENTS LISTED BY THE COMMISSION IN ITS JANUARY 29, 2022,**  
6 **ORDER?**

7

8 A. Yes.

9

10 **Q. IS THE TIMING OF THE COMPANY'S REQUEST TO INCREASE ITS RATES**  
11 **BASED UPON THE COST OF CAPITAL IMPROVEMENTS THAT HAVE BEEN**  
12 **NECESSARY TO RECTIFY THE NEED TO TAKE THE COMPANY'S WELL #1**  
13 **OFFLINE?**

14

15 A. Yes.

16

17 **Q. PLEASE EXPLAIN WHY IT WAS NECESSARY TO DISCONTINUE USE OF**  
18 **WELL #1 AND WHAT ACTION THE COMPANY WAS REQUIRED TO TAKE IN**  
19 **RESPONSE TO THE DISCONTINUANCE.**

20

21 A. The water system serving the Rocky River subdivision initially had two wells  
22 installed in accordance with state requirements to be enforced by the Public Water  
23 Supply Section of the Department of Environmental Quality. Two wells are  
24 necessary in case one must be taken down or is inoperable. North Carolina  
25 Administrative Code, Title 15A, Subchapter 18C, Rule .0402(g)(5) [15A NCAC 18C  
26 .0402(g)(5)] requires that a residential community water system, using well water  
27 as its source of supply and designed to serve 50 or more connections, must  
28 provide at least two wells. If a second well cannot be provided, another approved  
29 water supply source may be accepted.

30

1 In 2021 required periodic test results revealed that the groundwater source from  
2 which one of the Company's two wells drew water displayed excess levels of  
3 radium, above standard thresholds established by the environmental agency. That  
4 finding led Water Resources voluntarily to take the well offline. The problem was  
5 the natural elements in the groundwater as opposed to inappropriate treatment or  
6 improper operation by the utility at the well. The Company had to take Well #1 out  
7 of service to protect the health and safety of its customers, because it was  
8 contaminated due to the Combined Radium Maximum Contaminant Level in three  
9 consecutive quarters. Taking Well #1 out of service was based on the  
10 recommendation of staff at NC DEQ. Water Resources was aware at the time that  
11 Well #1 was taken out of service that doing so would trigger a violation of 15A  
12 N.C.A.C. 18C .0402(g)(5) and has sought to resolve that violation since that action  
13 was taken. In August 2019, the Company informed the staff at the NCDEQ, that  
14 Well #1 was going to be taken out of service. . On August 12, 2019, the Company  
15 presented its plan of action to NCDEQ to install a new connection with the Town  
16 of Harrisburg in response to the required deactivation of Well #1. In addition, the  
17 Company has had ongoing conversations with NC DEQ and the Public Staff  
18 regarding this situation, including compliance filings filed with the Commission in  
19 Dockets Nos. W-1034, Sub 8 and 10.

20  
21 Even though the Company's decision to take Well #1 offline was the result of  
22 conditions beyond the Company's control, the discontinuance nevertheless placed  
23 the Company in technical violation of the requirements of the Division of Water  
24 Resources. As a result, an action was filed in the Superior Court through which the  
25 Division of Water Resources sought to obtain an injunction to force the Company  
26 to rectify the fact that only one well was available. The State asked for authority to  
27 hold the Company in contempt for its failure to rectify the problem. After the action  
28 was filed, on November 7, 2022, the parties entered into an Amended Consent  
29 Decree that set forth requirements Water Resources was obligated to meet.  
30 Failure could have resulted in a finding of contempt. However, the standard for  
31 imposition of sanctions for failure to comply with the Amended Consent Decree

1 was that the Company would have been shown to be willfully out of compliance.  
2 No showing or finding of willful noncompliance was made.

3  
4 **Q. WHAT EFFORTS DID THE COMPANY TAKE TO RECTIFY THE SITUATION**  
5 **RISING FROM THE DISCONTINUATION OF THE SECOND WELL?**

6  
7 A. Efforts were made to identify any available alternatives. It was not possible to drill  
8 and install a new well. One potential alternative was to interconnect with the Town  
9 of Harrisburg water system. An initial obstacle encountered in pursuing that option  
10 was that the property owner along the route for the needed interconnection piping  
11 refused to provide an easement. After substantial time-consuming negotiation and  
12 efforts to persuade her to agree, including a threat of condemnation, she finally did  
13 agree to supply the easement in exchange of a payment.

14  
15 **Q. AFTER ENCOUNTERING DELAYS AND OBSTACLES IN THE COMPANY'S**  
16 **EFFORTS TO INTERCONNECT WITH THE TOWN OF HARRISBURG, DID THE**  
17 **COMPANY INVESTIGATED OTHER ALTERNATIVES?**

18  
19 A. Yes. Water Resources hired an additional expert engineer to attempt to identify  
20 other alternatives that possibly could have resulted in a quicker and less costly  
21 remedy. He suggested that perhaps the situation could be rectified by an enhanced  
22 or enlarged green sand filter for the well that had been taken offline. Tests were  
23 undertaken to see if this option was available. This would have been much quicker  
24 and less expensive. Ultimately the tests indicated that this expanded green sand  
25 filter option was not available.

26  
27 Water Resources then returned to pursuing the option of interconnection with the  
28 Town of Harrisburg.

29

1 **Q. IN ADDITION TO THE OBSTACLE OF INABILITY TO OBTAIN AN EASEMENT,**  
2 **WHAT OTHER OBSTACLES DID THE COMPANY ENCOUNTER IN ITS**  
3 **EFFORT TO INTERCONNECT WITH THE TOWN OF HARRISBURG?**

4  
5 A. One obstacle and delay involved approval of NC Department of Transportation  
6 and the effort to obtain a meeting on the site to authorize a bore under a road. After  
7 a delay the bore was approved.

8  
9 **Q. DID THE COMPANY ENCOUNTER SUPPLY CHAIN ISSUES?**

10  
11 A. Yes. An issue arose over the appropriate valve to be installed at the  
12 interconnection point with the Town of Harrisburg. Purchase of water from the  
13 Town of Harrisburg would be needed at times when capacity from the single  
14 operating well was inadequate. There were supply chain issues to deal with in  
15 obtaining this valve. The valve is a Zurn valve.

16  
17 **Q. WHAT ACTIONS DID WATER RESOURCES TAKE WHILE AWAITING THE**  
18 **AVAILABILITY AND DELIVERY OF THE ZERN VALVE?**

19  
20 A. Water Resources purchased nearly all the materials for installation of piping and  
21 other materials while awaiting the delivery of the Zern valve.

22  
23 **Q. DID WATER RESOURCES ENCOUNTER OBSTACLES IN THE DESIGN AND**  
24 **INSTALLATION OF THE VAULT IN WHICH TO PLACE THE VALVE**  
25 **NECESSARY FOR THE INTERCONNECTION WITH THE TOWN OF**  
26 **HARRISBURG?**

27  
28 A. Yes. The initial plans and specifications called for a vault in which the valve was to  
29 be placed that met the specifications of the City of Charlotte (CMUD). The Town  
30 had approved these specifications. However, when the Water Resources  
31 contractor contacted the Town of Harrisburg to make sure that the Town was still

1 agreeable to the vault that met those specifications, the Town replied instead that  
2 the vault specifications had to meet the requirements of Cabarrus County. That  
3 resulted in additional delay.

4  
5 **Q. WHAT ACTION DID WATER RESOURCES TAKE IN RESPONSE?**

6  
7 A. Tyler Truxell of Core and Main, which was responsible for supplying the materials  
8 for the project, e-mailed Water Resources and its contractor, and said that the 4-  
9 inch meter vault lid and hatch to meet the Town's requirements had to be custom  
10 made. The lid could not be poured until Dellinger Precast had the hatch. Water  
11 Resources was informed that the lid and hatch was estimated to be shipped from  
12 the US Foundry on August 29, 2023. Core and Main reported "So, once it arrives  
13 and is cast-in the lid I would estimate the delivery date of August/first week of  
14 September 2023."

15  
16 **Q. WERE INSPECTIONS AND APPROVALS OF THE TOWN AND THE DIVISION  
17 OF WATER RESOURCES REQUIRED BEFORE THE COMPANY COULD  
18 ACTIVATE THE INTERCONNECTION WITH THE TOWN?**

19  
20 A. Yes. Scheduling these inspections approvals resulted in additional delays.

21  
22 **Q. WAS THE IN INTERCONNECTION ULTIMATELY APPROVED AND  
23 ACTIVATED?**

24  
25 A. Yes. The interconnection was ultimately approved and activated, and on  
26 December 6, 2023 Water Resources informed the Public Water Supply Section of  
27 the Division of Water Resources of the North Carolina Department of  
28 Environmental Quality that the project had been completed in accordance with the  
29 engineering plans and specifications approved and has resulted in an Operation  
30 and Maintenance Plan and Emergency Management Plan which has a certified

1 operator with access to aforementioned plans and is available to the Department  
2 upon request.

3  
4 Water Resources will rely upon this interconnection at a time when the output of  
5 its remaining well proves inadequate to meet the demand on the system. It will be  
6 necessary for Water Resources to compensate the Town for water it purchases  
7 through the interconnection.

8  
9 **Q. BETWEEN THE PERIOD WHEN THE WELL #1 WAS DISCONTINUED AND**  
10 **THE INTERCONNECTION WITH THE TOWN OF HARRISBURG WAS**  
11 **ACTIVATED, WAS SERVICE TO CUSTOMERS IMPAIRED?**

12  
13 A. No. But for a brief encounter that did not arise from inability to meet demand from  
14 the remaining well, service to customers was not interrupted. Fortunately the  
15 customers in the subdivision have not actually experienced a lack of water supply  
16 resulting from the discontinuation of the second well. Still, Water Resources has  
17 continued to undertake efforts to rectify the fact that there is only one well was in  
18 operation and did not minimize the seriousness of the situation.

19  
20 **Q. DURING THE PERIOD THAT THE WELL #1 WAS DISCONNECTED, AND THE**  
21 **COMPANY ENGAGED IN ACTIVATING THE INTERCONNECTION WITH THE**  
22 **TOWN OF HARRISBURG, WHAT EFFORTS WERE REQUIRED ON THE**  
23 **COMPANY'S BEHALF TO RESPOND TO THE REQUIREMENTS OF THE**  
24 **DIVISION OF WATER RESOURCES?**

25  
26 A. Water Resources provided the Water Supply Section with a weekly report of its  
27 activities in seeking to resolve these pending issues. Water Resources was  
28 required to report to the Superior Court to explain its efforts to address the State's  
29 action seeking to hold the Company in contempt should the Company fail to  
30 adequately comply with the Amended Consent Decree.

31

1 **Q. WHAT IS THE STATUS OF THE ACTION IN SUPERIOR COURT?**

2

3 A. The Division of Water Resources is now satisfied that Water Resources has taken  
4 the appropriate steps to rectify the loss of Well #1, and the action before the  
5 Superior Court has concluded.

6

7 **Q. DID THE COMPANY ATTEMPT TO KEEP THE PUBLIC STAFF AND THE**  
8 **COMMISSION INFORMED OF ITS EFFORTS AS IT ATTEMPTED TO RECTIFY**  
9 **THE SITUATION ARISING FROM THE LOSS OF THE SECOND WELL?**

10

11 A. Yes.

12

13 **Q. HAS THE DIVISION OF WATER RESOURCES ATTEMPTED TO PENALIZE**  
14 **WATER RESOURCES FOR ITS FAILURE TO MAINTAIN THE TWO WELLS?**

15

16 A. The State initially imposed fines. However, after Water Resources explained and  
17 attempted to justify its actions in response to the loss of the second well, the State  
18 rescinded the fines.

19

20 **Q. IS THE TIMING OF THE COMPANY'S REQUEST FOR A RATE ADJUSTMENT**  
21 **INFLUENCED BY THE EFFORTS AND EXPENSE IT UNDERTOOK TO**  
22 **RECTIFY THE LOSS OF WELL #1?**

23

24 A. Yes. Now that the interconnection with the Town of Harrisburg has been placed in  
25 service and is online and available to serve customers, the Company has filed this  
26 rate request in order to adjust its rates to begin to recover the costs in the  
27 interconnection as well as the current cost of operating the system. Of course, in  
28 the meantime the Company has been operating at a loss and has been required  
29 to subsidize the costs and expenses incurred to maintain service to its customers.

30

1 **Q. PLEASE EXPLAIN HOW THE COMPANY OBTAINED THE CAPITAL TO MAKE**  
2 **THE APPROXIMATELY \$440,000 INVESTMENT IN THE INTERCONNECTION**  
3 **WITH THE TOWN OF HARRISBURG?**

4  
5 A. As owner of Water Resources, I provided those funds through my own personal  
6 resources as well as additional funds to support the utility operations until the  
7 Company could file for a rate increase. At the present time the Company has not  
8 obtained third party financing for the Harrisburg interconnection. However, third  
9 party financing is under consideration.

10

11 **Q. HAS WATER RESOURCES BEEN IN COMMUNICATION THE PUBLIC STAFF**  
12 **ON THE ISSUES INVOLVED IN THIS DOCKET, AND HAS THE COMPANY**  
13 **ATTEMPTED TO RESPOND TO PUBLIC STAFF DATA REQUESTS TO ASSIST**  
14 **THE PUBLIC STAFF IN AUDITING THE COMPANY'S BOOKS AND IN**  
15 **PREPARING THE PUBLIC STAFF TESTIMONY AND POSITION IN THIS**  
16 **DOCKET?**

17

18 A. Yes. The Company has responded and continues to respond to data requests.

19

20 **Q. DURING THE TIME WATER RESOURCES HAS OWNED AND OPERATED THE**  
21 **WATER SYSTEMS HAS THE COMPANY BEEN APPROPRIATELY**  
22 **COMPENSATED FOR THE IMPROVEMENTS AND REPAIRS THAT HAVE**  
23 **BEEN MADE OR FOR THE OPERATIONS OF THE SYSTEM THAT HAVE BEEN**  
24 **UNDERTAKEN ON THE COMPANY'S BEHALF?**

25

26 A. No. The revenues that have been received have been inadequate. Water  
27 Resources has operated this system during its ownership at a substantial loss.

28

29 **Q. ARE YOU SPONSORING THE APPLICATION SUBMITTED IN THIS DOCKET**  
30 **AND DO YOU WISH THE COMMISSION TO ACCEPT IT INTO THE RECORD?**



1 A. Yes. In addition, Peedin and Perry Consulting, LLC, was hired by the Company to  
2 prepare the Company's Exhibit I and Exhibit II as well as the Company's  
3 Application.

4 **Q. WHAT ACCOUNTING ADJUSTMENTS OR ITEMS OF INTEREST IN THE**  
5 **APPLICATION ARE NECESSARY FOR YOU TO BRING TO THE**  
6 **COMMISSION'S ATTENTION?**

7  
8 A. The Company's Exhibit I sets forth the following proforma adjustments for each of  
9 the Rocky River and River Walk service areas utilizing a test year in this  
10 proceeding of the twelve months ended December 31, 2022. I will briefly  
11 summarize the adjustments:

12  
13 1. Rate Base: The Company made updates to plant in service to reflect the  
14 additions to utility plant in service since the last rate case in Docket No. 1034,  
15 Sub 8, including corresponding adjustments to depreciation expense and  
16 accumulated depreciation; the calculation of cash working capital using one-  
17 eighth of operation and maintenance expenses and the calculation of average  
18 tax accruals using one-half of property taxes plus one-fifth of payroll taxes.

19 2. Miscellaneous revenues: The Company made adjustments to remove non-  
20 utility income related to the Verizon tower lease consistent with the Public Staff  
21 adjustments in the prior rate case.

22 3. Salaries: The Company made adjustments to include an ongoing annualized  
23 level of salaries for the owner and the office manager/bookkeeper. Due to cash  
24 flow concerns, Dennis Abbott, the Owner/ Manager of the Utility stopped taking  
25 a salary in 2022 but resumed his salary in 2023 as well as in 2024.

26 4. Administrative & office expense: The Company made an adjustment to include  
27 an annualized level of office rent, as well as provided updated office lease  
28 amounts for 2024.

- 1           5. Maintenance & repair expense: The Company made adjustments to reclassify  
2           certain expenses that should have been capitalized to plant in service during  
3           the test period.
- 4           6. Professional fees: The Company made adjustments to reclassify legal and  
5           engineering fees that relate directly to the Harrisburg Interconnection to plant  
6           in service for Rocky River that should have been capitalized when incurred.  
7           The remaining professional fees represent a normal ongoing level of legal and  
8           accounting expenses for regulatory proceedings that have been allocated to  
9           both the Rocky River and River Walk service areas.
- 10          7. Regulatory expenses: The Company included estimates for accounting  
11          consulting, legal and other expenses related to the mailing of customer notices  
12          and the filing fee and amortized these costs over a three-year period. The  
13          regulatory expenses will be trued up to actual as they become available.
- 14          8. Payroll taxes: The payroll taxes are based on the statutory rate of 7.65% and  
15          are applied to the payroll adjustments discussed earlier.
- 16          9. Income taxes: The state and federal income taxes are based on the statutory  
17          rates of 2.5% and 21%, respectively.

18  
19    **Q.    FOR RETURN PURPOSES, IS WRI A RATE BASE COMPANY OR AN**  
20    **OPERATING RATIO COMPANY?**

21  
22    **A.**    WRI is comprised of two separate service territories. The Rocky River service area  
23    qualifies as a rate base Company. The Company is recommending that Rocky  
24    River's return on rate base be based on 4.6% debt and 9.8% equity.

25  
26    The River Walk service area qualifies as an operating ratio company. The  
27    Company is recommending that River Walk's return be calculated using an overall  
28    7.2% return on operating revenue deductions. The basis for the return is founded  
29    on the similar returns for recent cases decided by the Commission for other water  
30    and sewer utilities in North Carolina.

1

2 **Q. PLEASE EXPLAIN THE COMPANY'S EXHIBIT II.**

3 A. The Company's Exhibit II sets forth the rate design proposed by the Company for  
4 the Rocky River and River Walk service areas. For Rocky River, the Company  
5 proposes a base rate of \$54.01 and a usage rate of \$15.04 per 1,000 gallons. For  
6 River Walk, the Company proposes a base rate of \$48.69 and a usage rate of  
7 \$17.50 per 1,000 gallons.

8

9 **Q. DOES WRI KNOW OF ANY ISSUES AT THIS TIME?**

10 A. No. Not at this time. Water Resources is unaware of what, if any, adjustments the  
11 Public Staff may recommend at the conclusion of its audit and investigation.  
12 However, Water Resources continues to respond to Public Staff data requests. To  
13 the extent that the parties have unresolved issues as this case proceeds, Water  
14 Resources will attempt to respond in its rebuttal testimony.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16

17 A. Yes.

