

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 360

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service,) Inc. of North Carolina, 4944 Parkway) Plaza Boulevard, Suite 375, Charlotte,) North Carolina 28217, for Authority to) Adjust and Increase Rates for Water) and Sewer Utility Service in All of Its) Service Areas in North Carolina)	REPORT ON CUSTOMER COMMENTS FROM PUBLIC HEARINGS IN NEW BERN AND WILMINGTON, NORTH CAROLINA, HELD ON AUGUST 28TH AND 29TH, 2018
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NOW COMES Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”) and files this report in response to customer concerns raised at the New Bern and Wilmington public hearings.

The New Bern hearing was convened at 7:00 p.m. on August 28, 2018 at the Craven County Courthouse. Chairman Edward S. Finley, Jr., presided, joined by Commissioners ToNola Brown-Bland, Jerry C. Dockham, James G. Patterson, Lyons Gray, and Charlotte A. Mitchell.

Staff Attorney Gina Holt appeared for the Public Staff on behalf of the using and consuming public, accompanied by Public Staff Water Engineer Gina Casselberry. Matthew Klein, President of CWSNC, was joined by other Company personnel who were present and available to assist customers with questions or requests. They included: Bryce Mendenhall, Vice-President of Operations;

Deborah Clark, Communications Coordinator; Eddie Baldwin, Area Manager; Stacy Goff, Lead Operator; and Renee Guay, Health, Safety & Environmental Compliance Manager. Robert H. Bennink of the Bennink Law Firm appeared as counsel for CWSNC.

The Wilmington public hearing was held on August 29, 2018 at 7:00 p.m. at the New Hanover County Courthouse, on Princess Street in Wilmington. Chairman Finley again presided, and was joined by Commissioners Brown-Bland, Dockham, Patterson, Gray and Mitchell. Ms. Holt and Ms. Casselberry appeared for the Public Staff, and Mr. Klein, Mr. Mendenhall, Ms. Clark, Mr. Baldwin, Ms. Goff, and Ms. Guay were there for CWSNC. Jo Anne Sanford appeared as counsel for CWSNC.

GENERAL RESPONSES TO CUSTOMER ISSUES

CWSNC believes it is important to explain some principles and facts that impact both the Company's service obligation and the rules that apply to the rate-setting process for public utilities such as CWSNC, assuring protections to customers. The Company appreciates this opportunity to speak to its concerned customers and to its regulators.

1. Proposed Rates – The legal principles that govern ratemaking are set forth in North Carolina General Statutes, Chapter 62, and in rules promulgated by the North Carolina Utilities Commission under those statutes. By law, CWSNC receives a rate increase only if it proves, in the face of an

investigation by the Public Staff (and any Intervenor opposition), that such an increase is authorized under the law, based on the actual cost and level of prudent and reasonable investment in plant and operation. Further, investment in plant is *only* recoverable after it has been made, placed into service, and audited by the Public Staff. This principle—referred to as the “used and useful” requirement—applies whether costs are recovered in a general rate case or under a system improvement charge.

2. Rate Comparisons – An attempt to make meaningful comparisons between statewide average costs for all water and wastewater service providers and the costs of a provider like CWSNC often results in an “apples to oranges” assessment. The core distinction is found in the concept of “economies of scale.” The costs of serving an individual customer in Raleigh or Charlotte, by a governmental utility enterprise, will likely on average be less than the cost of serving the typical CWSNC customer. The urban areas are densely populated, they generally source water from large surface impoundments or rivers, they treat waste in large central treatment facilities, governmental entities tax their citizens, and they are often not required to utilize “cost-of-service” ratemaking, as are the utilities regulated under Chapter 62 of the General Statutes. Contrast this to the areas served by CWSNC and others like it: often rural, far less densely populated, and frequently served by smaller waste treatment plants and by hundreds of wells, drawing water up

from rock and dispersed across the state. The difference in cost attributes are obvious and should inform any conversation about comparisons in respective average costs.

3. Legal Compliance Regarding Notice – In a general rate case, the Public Notice to customers is prescribed by the requirements of statute and is issued by the Commission, based upon the input of CWSNC and the Public Staff. It is a joint effort to provide specific information to all customers about current and proposed rates. In a general rate case like this, the length and complexity of the Public Notice serves the purpose of detail and transparency yet is likely daunting to many customers who attempt to understand all its contents and the personal impact.
4. Level of Service Inquiries – The Company notes that no customer service complaints (as opposed to water quality concerns) were raised by any of the witnesses. More specifically, based upon the Company’s review of its records, only one of the witnesses who testified—Mr. Joffre—contacted a CWSNC Customer Service Representative during 2018—once about a billing question and once about a claim of “no water.” Finally, according to the Company’s records, five (5) of the ten (10) witnesses have never contacted the Company to discuss any billing, service, or other issue.
5. Investment in Replacing Aging Infrastructure – As documented by the U.S. Environmental Protection Agency (“EPA”) and the American Water Works

Association (“AWWA”), significant investment is needed throughout North Carolina—more than \$20 billion—to replace aging water and wastewater infrastructure, including drinking water pipes, wastewater collection pipes, lift stations, and wastewater treatment facilities.

6. Water Quality – Water quality can be impacted by, among other things, unplanned water main breaks, unexpected malfunctioning of equipment, and challenges when implementing capital projects. CWSNC’s primary focus is on providing the highest level of service related to compliance with primary drinking water quality standards. The Company’s latest Annual Water Quality Reports (2017) for Fairfield Harbour and Brandywine Bay reflect “no violations.”
7. Secondary Water Quality – The Company is also committed to a high level of service regarding secondary water quality standards. Secondary water quality standards address substances that may impact the taste, odor, or color (i.e., the “aesthetics”) of a customer’s drinking water.
 - a. Iron – As reflected within the referenced Company’s latest Annual Water Quality Reports, the Company’s latest testing for Iron reveals levels below the Maximum Contaminant Level (“MCL”) of 0.3 parts per million (“ppm”). Specifically, the sampling results for Fairfield Harbour and Brandywine Bay reveal Iron concentrations of 0.132 ppm and 0.144 ppm, respectively.

- b. Hardness – Hardness reflects the relative amounts of calcium and magnesium ions within drinking water. Generally, “hard water” can be found throughout North Carolina, including the coastal areas served by groundwater. It is not uncommon for homeowners served by public and private drinking water systems to own and deploy drinking water softeners. The Company measured the hardness for the Brandywine Bay system at 282 ppm, which is considered to be “very hard.” However, hardness is not regulated by the North Carolina Department of Environmental Quality (“DEQ”). The Company’s experience is that many drinking water customers possess their own drinking water softeners. Historically, the Company has heard from customers with in-home drinking water softeners that they do not wish to pay for—i.e., subsidize—an expensive system-wide water softener to support other customers within the community who do not have an in-home water softening system. In summary, traditionally, the Company leaves drinking water hardness solutions to the individual preferences of its customers, unless a clear and substantial demand for such a capital investment is made by a community.
- c. Hardness & Fairfield Harbour Community – Concerns about hardness were raised by testifying customers residing within the

Fairfield Harbour community. Previously, in early 2011, the Company responded to customer concerns expressed during a public hearing about the hardness of the drinking water. The Company timely and appropriately responded to the concerns of the Fairfield Harbour customers by preparing a “Water Softening System” proposal and cost estimate for review and discussion with the Public Staff of the North Carolina Utilities Commission. It is the Company’s recollection and belief that this proposal was soundly rejected by the customers of Fairfield Harbour community.

- d. The Company’s On-Going Commitment to Water Quality – The Company is committed to providing the highest level of service to customers, especially regarding water quality. First, the Company continues to implement its flushing program. For example, in 2018, the Company has flushed Fairfield Harbour on five (5) different days over several months and recently flushed Brandywine Bay in July. Second, the Company has explored purchasing automatic flushing hydrants to install throughout the Fairfield Harbour, Brandywine Bay, and other systems.

OVERVIEW OF THE NEW BERN PUBLIC HEARING

Ten (10) witnesses testified, including eight (8) witnesses from the Fairfield Harbour community and one witness each from the Brandywine Bay and Carolina

Pines communities. Generally, each customer who testified expressed concern about: (1) the proposed percentage increase in rates; and (2) water quality in terms of particulate and hardness issues.

SPECIFIC RESPONSES TO CUSTOMER TESTIMONY FROM NEW BERN

Ted Warnock, 5002 Plymouth Court, Fairfield Harbour. *Tr. Vol. 1, pp. 10-13.*

Mr. Warnock spoke to several concerns:

- he opposed a rate increase so soon after the one ordered within the last year;
- he had received no information about the intended projects for this pending rate case;
- he discussed the need for installation of personal water softeners/purification systems for the water to be enjoyable;
- he presented a petition that he submitted was signed by the Fairfield Harbour community in opposition to the rate increase; and
- he compared the rates to the municipal water in the adjacent communities.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues." Additionally, the Company has presented for review to the Public Staff its "intended projects" and is willing and able to discuss specific capital projects with Mr. Warnock.

Simon Locke, 6014 Cardinal Drive, Fairfield Harbour. Tr. Vol. 1, pp. 14-18.

Mr. Locke opposed a rate increase due to the back-to-back rate cases. He noted that CWSNC is privately-held and thus not required to post earnings as a determinant of whether rates are appropriate; he contended that all the water providers use the same aquifer and should thus charge approximately the same price for viable water; and he submitted that customers should only pay for the water used and not for any fixed costs, since those costs are excessive, in his view.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

Dianne Viglianese, 208 Tree Fern Drive, Brandywine Bay. Tr. Vol. 1, pp. 18-23.

Ms. Viglianese opposed a rate increase due to the back-to-back rate cases, and she complained about being penalized for conserving water and lowering consumption of water. She argued there has been no improvement in water quality since the rates were increased, complained of having to use bottled water for cooking and consumption, and objected to having to replace filters and deal with stains in the toilet and sinks. Upon questioning by the Public Staff, Ms. Viglianese stated she never called the Company to complain about any of the above-noted issues.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

Jim Brown, 801 Navidad Bank Court, Fairfield Harbour. Tr. Vol. 1, pp. 23-25

Mr. Brown opposed a rate increase and he stated that the bills are too high in the community in comparison to the cities in which he previously lived. He had to put in a new water filter system because the water is not drinkable and there is black "crud" in the water. Finally, Mr. Brown would like to see more transparency in the profits.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

Mike Shannon, 1033 Barkentine Drive, Fairfield Harbour, Tr. Vol 1, pp. 25-27.

Mr. Shannon opposed a rate increase due to the short interval between and frequency of rate cases. He noted that there are fixed income customers, and he objected to paying "availability charges" for three other undeveloped lots he owns.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues." An additional explanation of availability charges is the following: the Company is obligated to have infrastructure available to serve these undeveloped lots, should the demand occur. A cost is imposed on the Company for installing and maintaining this ability to serve.

Ralph Tridico, 1100 Kea Court, Fairfield Harbour. *Tr. Vol 1, pp. 28--38.*

Mr. Tridico opposed an additional rate increase, having experienced others. He disputed the need for an increase, asserting that pumps and parts do not cost that much, and the Company is already making a lot of money. He protested the water quality and the need to change filters monthly due to iron, complaining of black mold on the toilet and his requirement to replace his water heater 8 times. His water pressure is good, he confirmed by his own testing methodology that the Company has not flushed, and he stated there is a sinkhole in front of his house which is getting larger.

Company's Response: CWSNC staff met with Mr. Tridico and performed flushing of the dead-end line. Staff also worked with customer by installing a temporary automatic flushing device to address water quality concerns. Staff is monitoring volume of water and total time flushed so that customer does not incur property damage from flushing efforts. Finally, CWSNC is addressing the "sink hole" via testing procedures and will "skim patch" the area when the Company has a paving contractor available in the area.

Irving Joffee, 1014 Pelican Drive, Fairfield Harbour. *Tr. Vol. 1, pp. 38—43.*

Mr. Joffee opposed a rate increase. He noted that the price of his water in Long Island, New York, was lower than here, despite the higher cost of living in New

York. He also objected to what he calls poor water quality—including the yellow color and the particles

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

Michael Kaplan, 1213 Santa Lucia Road Fairfield Harbour. *Tr. Vol. 1, pp. 43--46*

Mr. Kaplan was concerned about the rate increase and asserted that the pricing is "over the top."

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

John Gumbel, 107 Boros Landing, Carolina Pines. *Tr. Vol. 1, pp. 46—50.*

Mr. Gumbel objected to the rate increase.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

Benny Thompson, 909 Jewel Court, Fairfield Harbour. *Tr. Vol 1, pp. 50—55.*

Mr. Thompson opposed the rate increase and spoke as a realtor in this community and a resident. He also objected to the water quality, which he said was bad. He testified to having seen stopped up screens and crusting around the faucets and

water sources that come into the house. To address his issues, he installed a water softening system and multiple filters, including ones specific to his sink and his refrigerator. He has not had any direct communication with anyone with the Company, and he acknowledged that flushing occurred in the past.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues." Additionally, Mr. Mendenhall met with Mr. Thompson the night of the hearing to discuss his issues, offering to personally meet with him at a time of his choosing to perform isolated testing at his home. Mr. Mendenhall explained to Mr. Thompson that the use of multiple filters in his home system was most likely consuming any free chlorine residual in the water provided to facilitate disinfection to the end tap used in the residence. Mr. Thompson was provided Mr. Mendenhall's business card with company contact, including cell phone.

WILMINGTON HEARING

Mr. David Holsinger (Belvedere Subdivision) was the sole witness to appear to testify in Wilmington, and he expressed surprise that CWSNC was asking for a rate increase so soon after the last one, particularly in light of the federal tax reduction. He noted that his rates had gone up significantly, with no changes in his household, and that flushing had sometimes resulted in staining to his belongings.

Company's Response: The Company refers to and incorporates by reference its "General Responses to Customer Issues."

CWSNC appreciates the willingness of its customers to participate in this process, and the Company understands customers' opposition to rate increases. However, this is a capital-intensive industry and since the last rate case, CWSNC has spent \$18,235,630 in North Carolina. Therefore, if the investments made by CWSNC are proved to be necessary and prudent, recovery of those costs is required in order for the Company to continue to provide good service. The public's assurance of fairness is found in the strict, highly skilled oversight of the Public Staff and the Commission.

Respectfully submitted, this the 18th day of September 2018.

SANFORD LAW OFFICE, PLLC

Electronically Submitted

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**ATTORNEYS FOR CAROLINA WATER SERVICE, INC.
OF NORTH CAROLINA**



VERIFICATION

Deborah Clark, being duly sworn, deposes and says:

That she is the Communications Coordinator for Carolina Water Service, Inc. of North Carolina; that she is familiar with the facts set out in this **REPORT ON CUSTOMER COMMENTS FROM NCUC PUBLIC HEARINGS IN NEW BERN and WILMINGTON, NORTH CAROLINA**, filed in Docket No. W-354, Sub 360; that he has read the foregoing Report and knows the contents thereof; and that the same is true of her knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

Deborah Clark

Deborah Clark

Sworn to and subscribed before me this
the 18 day of September 2018.

Donna Stegall

Notary Public



My commission expires: 01/08/2019

CERTIFICATE OF SERVICE

I hereby certify that on this the 18th day of September 2018, a copy of the foregoing **REPORT ON CUSTOMER COMMENTS** has been duly served upon all parties of record by electronic service, as follows:

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