

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1266, SUB 4

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Fairfield Water Company)	
for Authority to Adjust and Increase)	SETTLEMENT AGREEMENT
Rates for Water Utility Service in)	AND STIPULATION
Fairfield Water's Service Area in)	
Henderson County, North Carolina)	

Fairfield Water Company (Fairfield or the Company) and the Public Staff - North Carolina Utilities Commission (Public Staff) (collectively the Stipulating Parties) pursuant to N.C. Gen. Stat. § 62-69 and Rule R1-24(c) of the Rules and Regulations of the North Carolina Utilities Commission (Commission), respectfully submit the following Settlement Agreement and Stipulation (Stipulation) for consideration by the Commission in this proceeding. The Stipulating Parties hereby stipulate and agree as follows:

I. BACKGROUND

A. On January 16, 2024, Fairfield filed an application with the Commission seeking authority to increase its rates for providing water utility service in Fairfield Water's service area in Henderson County, North Carolina (Application). The Application states that Fairfield serves 12 customers (11 quadrplexes and one church) in the Fairfield service area.

B. On February 12, 2024, the Commission issued an Order Establishing General Rate Case and Suspending Rates, which declared this proceeding to be a general rate case and suspended the proposed new rates for up to 270 days pursuant to N.C.G.S. §§ 62-137 and 134, respectively.

C. On March 12, 2024, the Company filed an amendment to page 1 of its Application.

D. On April 5, 2024, the Commission issued an Order Scheduling Hearings, Establishing Discovery Guidelines, and Requiring Customer Notice (Scheduling Order).

E. Subsequent to the filing of the Company's Application in this docket, the Public Staff engaged in substantial discovery regarding the matters addressed in the Company's Application, including, but not limited to, examining the relevant books and records of Fairfield, and sending out data requests and reviewing the responses thereto. The Public Staff also conducted a field inspection of Fairfield's water system and a field audit of Fairfield's accounting system.

F. On May 21, 2024, a public witness hearing was held on the date and in the location set out in the Scheduling Order. Three Fairfield customers testified at the public witness hearing. The testifying witnesses expressed concerns regarding the Company's requested rate increase.

G. After the Public Staff's investigation and discussions with the Company, the Stipulating Parties were ultimately able to arrive at a joint settlement

proposal, the terms of which are reflected in the following sections of this Stipulation and supported by the Joint Settlement Testimony of Public Staff witnesses Kuei Fen Sun, Shashi M. Bhatta, and Partick A. Fahey.

II. STIPULATION AND AGREEMENT OF THE STIPULATING PARTIES

The Stipulating Parties have reached an agreement regarding resolution of all issues in this case, and they hereby agree and stipulate as follows:

A. Rate Case Expense

1. The Stipulating Parties agree to recovery of total rate case expense in the amount of \$121, which specifically consists of the application filing fee and customer notice mailing postage fees. The Stipulating Parties agree that the rate case expense in the current proceeding will be amortized over a three-year period, thus resulting in an annual amount of \$40.

B. Expenses

1. The Company agrees to the following adjustments made by the Public Staff as discussed in the Joint Settlement Testimony of Public Staff witnesses Sun, Bhatta, and Fahey:

- Reclassification of the meter reading expense in the amount of \$396.04 to administrative and office expenses.
- Maintenance and repair expense of \$1,200.
- Testing expense of \$1,220.

- Adjustments to contract labor expense totaling \$8,381.
- Adjustments to purchased water expense, totaling \$10,528.

C. Rate Base

1. The Stipulating Parties agree to total plant in service in the amount of \$44,557, which was approved in the Company's last general rate case in Docket No. W-1226, Sub 3, given that there is no additional plant in service since the last general rate case.

2. The Company agrees to the Public Staff's determination of service lives and methodology used to calculate the associated depreciation expense, and the accumulated depreciation through December 31, 2023.

D. RATE OF RETURN

1. The Stipulating Parties agree upon an authorized return on equity of 9.8%, a hypothetical capital structure composed of 50% debt and 50% equity, and an embedded cost of debt of 4.2%. The foregoing factors produce an overall rate of return of 7.0%.

E. REVENUE REQUIREMENT AND RATES

1. The Company accepts the Public Staff's calculation of annual service revenue requirement of \$30,307.

2. The Stipulating Parties also agree to rates consisting of a base charge for the church and the quadruplexes of \$39.22 and \$156.88 per

month, respectively, with the usage charge of \$6.12 per 1,000 gallons being the current usage charged by the City of Asheville.

3. The Company accepts the Public Staff's calculations and adjustments as reflected in Settlement Exhibit I.

III. AGREEMENT TO SUPPORT SETTLEMENT; NON-WAIVER

A. The Stipulating Parties will act in good faith to support the reasonableness of this Stipulation in any hearing before the Commission and any proposed order or brief in this docket. The Stipulating Parties further agree that this Stipulation is in the public interest because it reflects a reduction of total revenue requirement from the level requested in the Company's rate case application.

B. The provisions of this Stipulation do not reflect any position asserted by any of the Stipulating Parties but reflect instead the compromise and settlement between the Stipulating Parties as to all issues covered hereby. No Stipulating Party waives any right to assert any position in any future proceeding or docket before this or any other Commission and in any court except insofar as the Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not be cited as precedent by any of the Stipulating Parties regarding any issue in any other proceeding or docket before this Commission or in any court.

- C. No provision of this Stipulation shall be strictly construed in favor of

or against any Party.

IV. INTRODUCTION OF TESTIMONY AND WAIVER OF CROSS-EXAMINATION

The settlement testimony and exhibit of the Public Staff may be received in evidence without objection, and each party waives all right to cross-examine any witness with respect to such testimony and exhibit. If, however, questions are asked by any Commissioner or Hearing Examiner, or if questions are asked or positions are taken by any person who is not a Stipulating Party, then any Stipulating Party may respond to such questions by presenting testimony or exhibits and examining any witness with respect to such testimony and exhibits.

V. STIPULATION BINDING ONLY IF ACCEPTED IN ITS ENTIRETY

This Stipulation is the product of negotiation and compromise of a complex set of issues, and no portion of this Stipulation is or will be binding on either of the Stipulating Parties unless the entire Settlement Agreement and Stipulation is accepted by the Commission. If the Commission rejects any part of this Stipulation or approves this Stipulation subject to any change or condition, or if the Commission's approval of this Stipulation is rejected or conditioned by a reviewing court, the Stipulating Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Stipulating Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Stipulating Party withdraws from the

Stipulation, each Stipulating Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and shall not be bound or prejudiced by the terms and conditions of the Stipulation.

VI. COUNTERPARTS

This Stipulation may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. Execution by facsimile signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed and stipulated to this the 31st day of May, 2024.

FAIRFIELD WATER COMPANY

/s/ George W. Morosani

George W. Morosani
Owner

Public Staff – North Carolina Utilities Commission

/s/ Lucy E. Edmondson

Lucy E. Edmondson
Chief Counsel

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
RETURN ON ORIGINAL COST RATE BASE
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 1

Line No.	Item	Capitalization Ratio [1]	Original Cost Rate Base [2]	Embedded Cost [3]	Overall Cost Rate [7]	Net Operating Income [8]
		(a)	(b)	(c)	(d)	(e)
	<u>Present rates:</u>					
1.	Debt	50.00%	\$19,575 [2]	4.20% [1]	2.10%	\$822 [8]
2.	Equity	50.00%	\$19,575 [2]	-22.11% [6]	-11.06%	(4,327) [9]
3.	Total (L1+L2)	<u>100.00%</u>	<u>\$39,150</u> [3]		<u>-8.96%</u>	<u>(\$3,505)</u> [10]
	<u>Company proposed rates:</u>					
4.	Debt	50.00%	\$19,575 [4]	4.20% [1]	2.10%	\$822 [8]
5.	Equity	50.00%	19,575 [4]	48.74% [6]	24.37%	9,542 [11]
6.	Total (L4+L5)	<u>100.00%</u>	<u>\$39,150</u> [3]		<u>26.47%</u>	<u>\$10,364</u> [12]
	<u>Public Staff recommended rates:</u>					
7.	Debt	50.00%	\$19,575 [5]	4.20% [1]	2.10%	\$822 [8]
8.	Equity	50.00%	19,575 [5]	9.80% [1]	4.90%	1,918 [8]
9.	Total (L7+L8)	<u>100.00%</u>	<u>\$39,150</u> [3]		<u>7.00%</u>	<u>\$2,740</u>

- [1] Provided by Public Staff Witness Fahey.
[2] Column (a) x Line 3, Column (b).
[3] Public Staff Accounting Exhibit I, Schedule 2, Line 10, Column (c).
[4] Column (a) x Line 6, Column (b).
[5] Column (a) x Line 9, Column (b).
[6] Column (e) divided by Column (b).
[7] Column (a) x Column (c).
[8] Column (b) x Column (c).
[9] Column (e), Line 3 - Line 1.
[10] Public Staff Accounting Exhibit I, Schedule 3, Line 33, Column (c).
[11] Column (e), Line 6 - Line 4.
[12] Public Staff Accounting Exhibit I, Schedule 3, Line 33, Column (e).

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
ORIGINAL COST RATE BASE
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 2

Line No.	Item	Amount Per Application (a)	Public Staff Adjustments [1] (b)	Amount Per Public Staff (c)
1.	Plant in service	\$32,759	\$11,798	\$44,557 [2]
2.	Accumulated depreciation	(4,300)	(4,342)	(\$8,642) [3]
3.	Contributions in aid of construction (CIAC)	0	0	0
4.	Accumulated amortization of CIAC	0	0	0
5.	Customer advances	0	0	0
6.	Net plant in service	28,459	7,456	35,915
7.	Customer deposits	0	0	0
8.	Cash working capital	0	3,235	3,235 [4]
9.	Average tax accruals	0	0	0
10.	Original cost rate base (Sum L1 thru L9)	<u>\$28,459</u>	<u>\$10,691</u>	<u>\$39,150</u>

[1] Column (c) - Column (a).

[2] Public Staff Accounting Exhibit I, Schedule 2-1, Line 9, Column (a).

[3] Public Staff Accounting Exhibit I, Schedule 2-1, Line 9, Column (f).

[4] Calculated at one-eighth of total O&M expenses.

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
**CALCULATION OF PLANT IN SERVICE, ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE**
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 2-1

Line No.	Item	Plant In Service [1] (a)	Year Acquired [1] (b)	Life [1] (c)	Years In Service [2] (d)	Annual Depreciation [3] (e)	Accumulated Depreciation [4] (f)
<u>Per W-1226, Sub 3 General Rate Case proceeding:</u>							
1.	Water treatment and improvement	\$1,638	2003	20	20.50	\$0	\$1,638
2.	Topographic survey - Riverstone & Fairfield	1,350	2016	40	7.50	34	255
3.	Water and sewer line extension, design, and permitting	11,375	2017	40	6.50	284	1,846
4.	Water connection to Asheville	690	2017	40	6.50	17	111
5.	David Burleson - land clearing	450	2017	40	6.50	11	72
6.	Waterline installation project	27,319	2017	40	6.50	683	4,440
7.	Survey	1,735	2017	40	6.50	43	280
8.	Total plant in service per Sub 3 proceeding (Sum of L1 thru L7)	<u>44,557</u>				<u>1,072</u>	<u>8,642</u>
9.	Total plant in service	<u><u>\$44,557</u></u>				<u><u>\$1,072</u></u>	<u><u>\$8,642</u></u>

[1] Per prior rate cases and the examination of Company's financial records

[2] Calculated based on the year placed in service using the half year convention through 12/31/2023.

[3] Column (a) divided by Column (c), unless fully depreciated.

[4] Column (d) multiplied by Column (e), unless fully depreciated.

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
NET OPERATING INCOME FOR A RETURN
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 3
Page 1 of 2

		Public Staff						
		Present Rates		Company Proposed Rates		Recommended Rates		
Line No.	Item	Amount Per Company Application	Public Staff Adjustments [1]	Amount Per Public Staff [2]	Net Company Increase [9]	Operations After Rate Increase [10]	Net Public Staff Increase [13]	Operations After Rate Increase [14]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>Operating Revenues:</u>								
1.	Service revenues	\$23,468	\$12	\$23,480 [3]	\$16,739	\$40,219 [3]	\$6,827	\$30,307 [15]
2.	Miscellaneous revenues	0	0	0	\$0	0	0	0
3.	Uncollectibles	0	0	0	\$0	0	0	0
4.	Total operating revenues (Sum L1 thru L3)	23,468	12	23,480	16,739	40,219	6,827	30,307
<u>Operating and Maintenance Expenses:</u>								
5.	Salaries and wages	0	0	0	0	0	0	0
6.	Salaries and wages - Contractor	0	0	0	0	0	0	0
7.	Administrative and office expense	2,618	396	3,014 [3]	0	3,014	0	3,014
8.	Maintenance and repair expense	0	1,200	1,200 [3]	0	1,200	0	1,200
9.	Landscape, Mowing, and Effluent	0	0	0	0	0	0	0
10.	Utilities	0	0	0	0	0	0	0
11.	Chemicals	0	0	0	0	0	0	0
12.	Testing	3,545	(2,325)	1,220 [3]	0	1,220	0	1,220
13.	Permit fees	276	0	276 [3]	0	276	0	276
14.	Sludge removal	0	0	0	0	0	0	0
15.	Contract Labor/ORC	9,602	(1,221)	8,381 [3]	0	8,381	0	8,381
16.	Purchased Water	10,713	(185)	10,527 [3]	0	10,527	0	10,527
17.	Other Expenses: Professional expenses	0	0	0	0	0	0	0
18.	Other Expenses: Insurance expense	1,014	0	1,014	0	1,014	0	1,014
19.	Other Expenses: Bad Debt expense	0	0	0	0	0	0	0
20.	Other expenses: Miscellaneous expense	205	0	205	0	205	0	205
21.	Regulatory expense	0	40	40 [4]	0	40	0	40
22.	Total operating and maintenance expenses (Sum L5 thru L21)	27,973	(2,095)	25,878	0	25,878	0	25,878
<u>Depreciation and Taxes:</u>								
23.	Depreciation expense	819	253	1,072 [5]	0	1,072	0	1,072
24.	Amortization expense - CIAC	0	0	0	0	0	0	0
25.	Property taxes	0	0	0	0	0	0	0
26.	Payroll taxes	0	0	0	0	0	0	0
27.	Other taxes	0	0	0	0	0	0	0
28.	Regulatory fee	0	35	35 [6]	24	59 [6]	10	45 [6]
29.	State income tax	0	0	0 [7]	310	310 [11]	62	62 [16]
30.	Federal income tax	0	0	0 [8]	2,536	2,536 [12]	510	510 [17]
31.	Total depreciation and taxes (Sum L23 thru L30)	819	288	1,107	2,870	3,977	582	1,689
32.	Total operating revenue deductions (L22 + L31)	28,792	(1,807)	26,985	2,870	29,855	582	27,567
33.	Net operating income for return (L4 - L32)	(\$5,324)	\$1,819	(\$3,505)	\$13,869	\$10,364	\$6,245	\$2,740

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
FOOTNOTES TO SCHEDULE 3
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 3
Page 2 of 2

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Per Public Staff Witness Bhatta.
- [4] Public Staff Accounting Exhibit I, Schedule 3-1, Line 8.
- [5] Public Staff Accounting Exhibit I, Schedule 2-1, Line 9, Column (e).
- [6] Line 4 x 0.1475%.
- [7] Public Staff Accounting Exhibit I, Schedule 3-2, Line 12, Column (a).
- [8] Public Staff Accounting Exhibit I, Schedule 3-2, Line 14, Column (a).
- [9] Column (e) minus Column (c), unless otherwise footnoted.
- [10] Column (c) plus Column (d), unless otherwise footnoted.
- [11] Public Staff Accounting Exhibit I, Schedule 3-2, Line 12, Column (b).
- [12] Public Staff Accounting Exhibit I, Schedule 3-2, Line 14, Column (b).
- [13] Column (g) minus Column (c), unless otherwise footnoted.
- [14] Column (c) plus Column (f), unless otherwise footnoted.
- [15] Revenue requirement as calculated by the Public Staff.
- [16] Public Staff Accounting Exhibit I, Schedule 3-2, Line 12, Column (c).
- [17] Public Staff Accounting Exhibit I, Schedule 3-2, Line 14, Column (c).

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
ADJUSTMENT TO REGULATORY EXPENSE
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 3-1

Line No.	Item	Amounts
1.	Rate case application filing fee	\$100 [1]
2.	Legal fees	0
3.	Miscellaneous costs (mailing customer notices)	21 [2]
4.	Total Regulatory Expenses (Sum of L1 thru L3)	\$121
5.	Amortization Period	3
6.	Regulatory Expense per Public Staff (Line 4 / Line 5)	40
7.	Regulatory Expense per Company	0
8.	Adjustment to Regulatory Expense (Line 6 - Line 7)	<u>\$40</u>

[1] Statutory filing fee for Class C water and sewer companies.

[2] Based on two mailings of 12 notices at a cost of \$0.88 per notice consisting of \$0.68 for postage and \$0.20 for envelopes and printing.

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
CALCULATION OF INCOME TAXES
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 3-2

Line No.	Item	Present Rates [1] (a)	Company Proposed Rates [2] (b)	Public Staff Recommended Rates [3] (c)
1.	Operating revenue	\$23,480	\$40,219	\$30,307
	Operating revenue deductions:			
2.	Total O&M expenses	25,878	25,878	25,878
3.	Depreciation expense	1,072	1,072	1,072
4.	Amortization expense	0	0	0
5.	Property taxes	0	0	0
6.	Payroll taxes	0	0	0
7.	Other taxes	0	0	0
8.	Regulatory fee	35	59	45
9.	Interest expense	822	822	822
10.	Total deductions (Sum of L2 thru L9)	27,807	27,831	27,817
11.	Taxable income (L1 - L10)	(4,327)	12,388	2,490
12.	State income tax (L11 x 2.50%)	0	310	62
13.	Federal taxable income (L11 - L12)	(4,327)	12,078	2,428
14.	Federal income tax (L13 x 21.00%)	0	2,536	510
15.	Net amount (L13 - L14)	(4,327)	9,542	1,918
16.	Add: interest expense (L9)	822	822	822
17.	Net income for return (L15 + L16)	(\$3,505)	\$10,364	\$2,740

[1] Public Staff Accounting Exhibit I, Schedule 3, Column (c), unless footnoted otherwise.

[2] Public Staff Accounting Exhibit I, Schedule 3, Column (e), unless footnoted otherwise.

[3] Public Staff Accounting Exhibit I, Schedule 3, Column (g), unless footnoted otherwise.

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
CALCULATION OF REVENUE REQUIREMENT
For the Test Year Ended December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 4

Line No.	Item	Rate Base Method (a)	Retention Factor (b)	Revenue Requirement (c)	Operating Ratio Method (d)	Retention Factor (e)	Revenue Requirement (f)
	Operating revenue deductions:						
1.	Total O&M and G&A expense	\$25,878			\$25,878		
2.	Depreciation expense	1,072			1,072		
3.	Amortization expense	0			0		
4.	Property taxes	0			0		
5.	Payroll taxes	0			0		
6.	Other taxes	0			0		
7.	Regulatory fee	0			0		
8.	Total operating revenue deductions	<u>26,950</u>	0.998525	\$26,990	<u>\$26,950</u>	0.998525	\$26,990
9.	Net operating income for return:						
10.	Debt service return	822	0.998525	823			
11.	Equity return:	1,918	0.769114	2,494	1,887	0.769114	2,453
12.	Revenue requirement - Both Methods			<u>\$30,307</u>			<u>\$29,443</u>
13.	Revenue requirement recommended by Public Staff						<u>\$30,307</u>

FAIRFIELD WATER COMPANY
Docket No. W-1226, Sub 4
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year December 31, 2022

Public Staff
Settlement Exhibit I
Schedule 5

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Adjustment to Plant in service	1,000
2	Adjustment to accumulated depreciation	(368)
3	Adjustments to Cash Working Capital	274
4	Adjustments to Service Revenues	(12)
5	Adjustment to Administrative & Office Expense	397
6	Adjustment for Maintenance & Repair Expense	1,202
7	Adjustment for Testing Expense	(2,328)
8	Adjustment for Contractor Operator	(1,223)
9	Adjustment for Purchase Water	(186)
10	Adjustment for Regulatory Expenses	40
11	Adjustment to Depreciation Expense	253
12	Gross revenue impact of Public Staff adjustments	<u>(\$951)</u>

OFFICIAL COPY

May 31 2024

Fairfield Water Company
Docket No. W-1226, Sub 4
For 12 Months Ending December 2022

Settlement
Exhibit No. 2
Page 1 of 1

Fairfield Testing Annualized Cost After Recent Changes in DEQ Requirements

Water System No.: NC0145149

Parameter	DEQ Required Monitoring	No. of Samples per month	Samples per year	Unit Cost	Per Year Cost
Bacteriological	1 sample per month	1	12	\$50.00	\$600.00
Orthophosphate	2 samples per 6 months	0.33	4	\$25.00	\$0.00
TTHM	1 sample per year	0.083	1	\$420.00	\$420.00
Pb/Cu	5 samples per 3 years	0.139	1.667	\$100.00	\$166.67
Asbestos	1 sample every 9 years	0.009	0.111	\$300.00	\$33.33
Total					\$1,220.00

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing on all parties of record or to the attorney of record of such party in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 31st day of May, 2024.

Electronically submitted
/s/ Davia Newell
Staff Attorney