



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

October 31, 2022

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

Re: Docket No. W-354, Sub 396 – Application by Carolina Water Service, Inc. of North Carolina, 4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217 and Water Resource Management, Inc., 151 Mr. Bish Boulevard, Boone, North Carolina 28607, for Authority to Transfer the Echota Water Utility System, the Seven Devils Wastewater Utility System and Public Utility Franchise in Watauga County, North Carolina, and for Approval of Rates

Dear Ms. Dunston:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the following:

1. Direct Testimony and Exhibit D. Michael Franklin, Public Utilities Engineer, Water, Sewer, and Telephone Division; and
2. Direct Testimony of Lynn Feasel, Financial Analyst III, Accounting Division.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely,

Electronically submitted  
s/ John D. Little  
Staff Attorney  
[john.little@psncuc.nc.gov](mailto:john.little@psncuc.nc.gov)

**Attachments**

Executive Director  
(919) 733-2435

Accounting  
(919) 733-4279

Consumer Services  
(919) 733-9277

Economic Research  
(919) 733-2267

Energy  
(919) 733-2267

Legal  
(919) 733-6110

Transportation  
(919) 733-7766

Water/Telephone  
(919) 733-5610



**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

**DOCKET NO. W-1073, SUB 7**

**DOCKET NO. W-354, SUB 396**

In the Matter of  
Application by Carolina Water Service, )  
Inc. of North Carolina, 4944 Parkway )  
Plaza Boulevard, Suite 375, Charlotte, ) **TESTIMONY OF**  
North Carolina 28217 and Water ) **D. MICHAEL FRANKLIN**  
Resource Management, Inc., 151 Mr. ) **PUBLIC STAFF –**  
Bish Boulevard, Boone, North Carolina ) **NORTH CAROLINA**  
28607, for Authority to Transfer the ) **UTILITIES COMMISSION**  
Echota Water Utility System, the Seven )  
Devils Wastewater Utility System and )  
Public Utility Franchise in Watauga )  
County, North Carolina, and for )  
Approval of Rates )

**OCTOBER 31, 2022**

1 **Q. Please state your name, business address, and present**  
2 **position.**

3 A. My name is D. Michael Franklin. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 Public Utilities Engineer with the Water, Sewer, and Telephone  
6 Division of the Public Staff – North Carolina Utilities Commission  
7 (Public Staff).

8 **Q. Briefly state your qualifications and duties.**

9 A. My qualifications and duties are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide the North Carolina Utilities  
12 Commission (Commission) with the results of my investigation of  
13 specific areas of the application filed on April 22, 2022, by Carolina  
14 Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-  
15 354, Sub 396 and Water Resource Management, Inc. (Water  
16 Resource) in Docket No. W-1073, Sub 7, for transfer of public utility  
17 franchise and for approval of rates (the Joint Application) and  
18 whether the transfer is in the best interest of the using and  
19 consuming public. The specific areas of my investigation include  
20 customer complaints, Notices of Violation and Notices of Deficiency  
21 issued by the North Carolina Department of Environmental Quality  
22 (NCDEQ) and assisting the Public Staff Accounting Division in  
23 reviewing expenses and plant in service.

1 **Q. Are the Echota water system and Seven Devils wastewater**  
2 **system included in CWSNC's rate case currently before the**  
3 **Commission in Docket No. W-354, Sub 400?**

4 A. In the Sub 400 rate case application, CWSNC proposed both the  
5 Echota water system and Seven Devils wastewater system be  
6 incorporated into uniform rates. However, due to the evidentiary  
7 hearing in the Sub 396 transfer proceeding scheduled after the  
8 evidentiary hearing in the rate case proceeding, the Public Staff  
9 determined Echota and Seven Devils service areas could not be  
10 included in the rate case proceeding since CWSNC would not have  
11 ownership of the Echota water and Seven Devils wastewater  
12 systems. This decision was communicated to CWSNC.

13 **Q. Please describe the service area and water and wastewater utility**  
14 **systems.**

15 A. The service area is located in Watauga County and is comprised of the  
16 Echota water system serving approximately 613 water customers and  
17 the Seven Devils wastewater system serving approximately 149  
18 wastewater customers. The Echota water system is comprised of nine  
19 active wells with three water treatment locations. Each water treatment  
20 location serves three wells with the first water treatment location  
21 serving wells 1 through 3, the second serving wells 4 through 6, and  
22 the third serving wells 7 through 9. The Echota water utility system also  
23 has four ground storage tanks with two having a capacity of 30,000

1 gallons each, one with a capacity of 75,000 gallons and another with a  
2 capacity of 83,000 gallons. The Echota water system is currently  
3 unmetered.

4 The Seven Devil wastewater system is comprised of three lift stations  
5 and a 20,000 gallons per day wastewater treatment plant that  
6 discharges to a Watauga River tributary.

7 **Q. Have you inspected the Echota water system and the Seven**  
8 **Devils wastewater system and, if so, what were your**  
9 **observations?**

10 A. At this time, I have not inspected either utility system, but a site visit of  
11 both utility systems is scheduled to occur on the date of the Public  
12 Witness Hearing, November 1, 2022. The Public Staff may file  
13 supplemental testimony based on observations from the site visit.

14 **Q. Briefly describe the results of your investigation of North Carolina**  
15 **Department of Environmental Quality Notices of Violation and**  
16 **Civil Penalties.**

17 A. Since January 1, 2019, the Echota water system (System No.  
18 NC3095002) has received seven Notices of Violation (NOV). One  
19 NOV was issued on October 27, 2020 for failure to submit a  
20 Consumer Confidence Report. The report provides information on  
21 local drinking water quality and the Environmental Protection Agency

1 requires water providers to deliver the report to customers by July 1  
2 of each year.

3 Two of the six remaining NOV's were due to test results from samples  
4 collected from two sample points on July 30, 2021. The samples from  
5 each sample point exceeded the arsenic maximum contaminant  
6 level (MCL) with one NOV issued for the MCL exceedance for each  
7 sample point. The arsenic MCL exceedance from the samples  
8 collected on July 30, 2012 resulted in four additional NOV's for  
9 continuing violations of arsenic MCL based on a running annual  
10 average. The annual running average for arsenic MCL continued to  
11 be exceeded although the samples collected since July 30, 2021  
12 were non-detect for arsenic. In the April 11, 2022 NOV on the  
13 continuing violation of arsenic MCL, NCDEQ states that, "In the most  
14 recent quarterly report, Carolina Water Service, Inc. of NC expressed  
15 the samples from July 30, 2021 were erroneous due to sampling or  
16 laboratory error and because the results from fourth quarter 2021  
17 and first quarter 2022 were below the detection limit." No penalties  
18 were assessed for any of the seven NOV's.

19 The last inspection of the Echota water system was performed on  
20 March 16, 2022 with no deficiencies identified.

21 The Seven Devils wastewater utility system (Permit No. NC0035149)  
22 has received two NOV's since January 1, 2019. Both violations were

1 for fecal daily maximum exceedances with the first occurring on  
2 March 9, 2021 and the second on January 1, 2022. No penalties  
3 were assessed for either NOV. The last Compliance Evaluation  
4 Inspection of the Seven Devils wastewater treatment plant was  
5 performed on October 30, 2019 with the results reported as  
6 satisfactory.

7 **Q. Did CWSNC provide Notice to Customers?**

8 A. Yes. On September 2, 2022, the Commission issued the Order  
9 Scheduling Hearing, Establishing Discovery Guidelines, and  
10 Requiring Customer Notice. The Order directed CWSNC to provide  
11 the Notice to Customers no later than 10 days after the date of the  
12 Order and submit a signed and notarized certificate of service not  
13 later than 20 days after the date of the Order. On September 14,  
14 2022, CWSNC filed a Certificate of Service stating the Notice to  
15 Customers was mailed or hand delivered one day after the date  
16 specified in the Order. The Certificate of Service was accompanied  
17 by the Company's request that the Commission accept the filing nunc  
18 pro tunc.

19 On October 4, 2022, the Public Staff was contacted by the property  
20 manager of the Villas at Hawks Peak, an eight-unit condominium  
21 building in Seven Devils. The property manager stated that while the  
22 condominiums receive wastewater utility service from Water



1 Resource, the residents did not receive the Notice to Customers. As  
2 a result, the Public Staff contacted Water Resource and confirmed  
3 the Villas at Hawks Peak was included in the customer address list  
4 provided to CWSNC. Upon notification of the non-receipt of the  
5 Notice to Customers, CWSNC confirmed the Notice to Customers  
6 was sent to the Villas at Hawks Peak based on the address list  
7 provided by Water Resource, but out of extreme caution sent an  
8 individual to the condominiums to attach the Notice to Customers on  
9 the door of each condominium unit.

10 The Public Staff finds that while the delay in receipt of the Notice to  
11 Customers is unfortunate, due to the small number of condominium  
12 units affected and the prompt response by CWSNC, the overall  
13 impact is minor and does not adversely affect this proceeding's  
14 schedule.

15 **Q. Has the Public Staff received any customer complaints?**

16 A. From July 1, 2019 through August 31, 2022, the Public Staff  
17 Consumer Services Division has not received any customer  
18 complaints on the Echota water utility or Seven Devils wastewater  
19 utility systems.

20 As of October 31, 2022, 35 customers filed consumer statements in  
21 these dockets. All consumer statements objected to the rates  
22 proposed by CWSNC. None of the consumer statements identified

1 concerns or complaints with the water or wastewater utility services  
2 provided by Water Resource.

3 **Q. Is Water Resource providing safe and reliable service?**

4 A. Yes. Based on review of NOVs and penalties issued by NCDEQ and  
5 the lack of significant customer complaints on water quality and  
6 customer service issues, I have determined that Water Resource is  
7 providing safe and reliable service to its customers of the Echota  
8 water system and the Seven Devils wastewater system.

9 **Q. What are the existing and proposed water and wastewater utility  
10 service rates?**

11 A. The present water utility rates for the Echota service area were  
12 approved in Docket No. W-1073, Sub 4 on December 16, 2013 and  
13 Docket No. W-1073, Sub 6 on March 26, 2021. The present  
14 wastewater utility rates for the Seven Devils service area were  
15 approved in Docket Nos. W-1073, Sub 5 and M-100, Sub 138, and  
16 have been in effect since February 13, 2015. Upon acquisition of the  
17 system, CWSNC proposes to charge CWSNC Uniform Rates for flat  
18 rate residential service for both water and wastewater utility service.  
19 CWSNC Uniform Rates were approved by the Commission in Docket  
20 No. 354, Sub 384 on April 8, 2022. The present and proposed rates  
21 for Echota are as follows:

22 Monthly Flat Rate Service:                      Present                      Proposed

1	Water	\$20.00	\$68.71
2	Wastewater	\$28.20	\$85.12
3	<u>Tap-on Fees</u>		
4	Water	\$300	\$0 <sup>1</sup>
5	Wastewater	\$200	\$100
6	<u>Reconnection Charge</u>		
7	If water service cut off by		
8	utility for good cause	Actual Cost	Actual Cost <sup>2</sup>
9	If water service is discontinued		
10	at customer's request	Actual Cost	\$42.00
11	If sewer service cut off by		
12	utility for good cause	Not identified <sup>3</sup>	Actual Cost

13 Presently the Echota service area customers are not metered. Upon  
 14 acquisition, CWSNC plans to install water meters and provide  
 15 metered service to the 613 Echota water utility system customers.  
 16 Once meters are installed, CWSNC intends to charge the metered  
 17 water customers the Sub 384 CWSNC Uniform Rates for monthly  
 18 metered water service (residential and commercial). Assuming the  
 19 size of each installed meter will be less than one inch and the  
 20 average monthly usage is 3,837 gallons, the proposed monthly  
 21 metered water bill will be \$69.46, based on a base facility charge of

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<sup>1</sup> In response to Public Staff Data Request No. 4, CWSNC provided that the proposed tap on fees for the Echota service area is \$0.

<sup>2</sup> This reconnection charge amount is for flat-rate water customers. Once metered, this reconnection charge is \$42.00.

<sup>3</sup> The present wastewater utility rates for the Seven Devils service area approved in Docket Nos. W-1073, Sub 5 and M-100, Sub 138 does not identify a reconnection charge for wastewater service.

1           \$24.53 and a usage charge of \$11.71 per 1,000 gallons of treated  
2           water.

3   **Q.    What is the result of the Public Staff's Revenue Calculations?**

4   A.    For water utility service, the resulting calculated service revenue  
5           requirement is \$247,709. For wastewater utility service, the  
6           calculated service revenue requirement is \$66,261. The service  
7           revenue requirements were calculated by Public Staff witness Lynn  
8           Feasel (Feasel direct testimony, page 7, line 4).

9   **Q.    What is your recommendation regarding the requested**  
10       **approval of rates?**

11   A.    The Public Staff recommends that in this transfer and rate increase  
12           proceeding, the Echota and Seven Devils service areas should not  
13           be charged CWSNC's Uniform Rates and instead be subject to a  
14           standalone rate schedule. The basis for standalone rates is that the  
15           expected revenues to be collected by CWSNC's proposed rates  
16           would significantly exceed the recommended revenue requirements.

17   **Q.    What is your recommendation regarding rates for the service**  
18       **areas?**

19   A.    As previously stated, the Echota service area is currently unmetered  
20           with the Company planning to install Advanced Metering  
21           Infrastructure (AMI) meters in the two years following approval of the  
22           acquisition (Denton direct testimony, page 10, lines 9 through 11).

1 As a result, flat rates are appropriate for the Echota service area until  
2 meters are installed, at which time metered rates are appropriate.  
3 The rates are designed to meet Public Staff Accounting Manager  
4 Feasel's recommended service revenue requirements with the intent  
5 of equitably bridging the gap between the present and proposed  
6 rates.

7 In determining the appropriate monthly metered water utility service  
8 rates, the Public Staff used a revenue split of 40% provided by the  
9 base charge and 60% provided by the usage rate. This is consistent  
10 with CWSNC's most recent approved rates in Docket No. W-354,  
11 Sub 384. Further, since the Echota service area is unmetered, the  
12 monthly usage amount upon which the usage rate is based is an  
13 average monthly usage, rounded to the nearest hundred, for three  
14 service areas considered similar to the Echota Service Area with a  
15 combination of seasonal and full-time residents. Two of the service  
16 areas are Mountain Air Country Club (W-1148, Sub 9) and  
17 Springdale Estates (Docket No. W-1324, Sub 1). The third is the  
18 Lake Royale Subdivision with monthly usage determined by the  
19 Public Staff as part of the transfer proceeding in Docket No. W-1146,  
20 Sub 13; although a proposed Order providing Notice to Customers  
21 has not been filed with the Commission. This resulted in an average  
22 monthly water usage of 2,600 gallons.

1 The Seven Devils wastewater usage will remain unmetered and as  
2 a result, flat rates are appropriate.

3 The Public Staff's recommended water and wastewater service rates  
4 are as follows:

	<u>Recommended</u>
5	
6	Monthly Flat Rate Utility Service:
7	Water \$33.67
8	Wastewater \$37.06
9	
10	Monthly Metered Water Utility Service
11	Base Charge, zero usage \$13.50
12	Usage Charge, per 1,000 gallons \$ 7.80
13	Reconnection Charges
14	If water service cut off by utility for good cause \$42.00
15	If water service is discontinued at customer's
16	request \$42.00
17	If sewer service cut off by utility for good cause Actual Cost
18	My rate design calculations are shown in <b>Franklin Exhibit 1</b> .

19 **Q. What is your recommendation concerning the purchase price?**

20 A. On October 12, 2021, Water Resource and CWSNC entered into a  
21 Utility Asset Purchase Agreement (APA) for the Echota water system  
22 and the Seven Devils wastewater system. Section 2.04. of the APA  
23 provides that the purchase price for purchase assets is \$70,000  
24 subject to prorations and adjustments set forth in the APA. In  
25 response to Public Staff Data Request No. 3, the Company stated  
26 the \$70,000 purchase price is comprised of \$57,599 for the Echota  
27 water utility system and \$12,401 for the Seven Devils wastewater

1 utility system. As stated in Public Staff Financial Manager Lynn  
2 Feasel's direct testimony (page 5, line 7), the original cost net  
3 investment of the Echota water utility system is \$53,651 and \$13,549  
4 for the Seven Devils wastewater utility system or a total of \$67,200.  
5 As a result, the purchase price amount that can be included in rate  
6 base is \$67,200.

7 The APA also stipulates that in addition to the purchase price of  
8 \$70,000, additional payments will be paid for lots in a future Phase  
9 IV development at a rate of \$706 per new customer connection up to  
10 184 connections as an "Incentive Payment" following transfer  
11 closing. Review of Exhibit A to the APA indicates the incentive  
12 payment applies to additional lots located in the proposed Echota  
13 Phase IV development.

14 In response to Public Staff Data Request No. 3, CWSNC provided  
15 additional information related to the incentive payment stating the  
16 developer will be installing all infrastructure for new development.  
17 The incentive payment allows the developer to recoup some costs  
18 associated with installing infrastructure for new customers while  
19 providing CWSNC additional customers. The additional CWSNC  
20 customers provide a benefit to existing customers by spreading  
21 expense and water utility costs among more customers. The rate  
22 base per customer in the transfer and new customers subject to the

1 incentive payments are below the rate base per customer of the  
2 CWSNC Uniform Rate divisions. The Public Staff agrees with  
3 CWSNC's position; however since the incentive payment is for future  
4 connections, it should not be included in the rate base until the  
5 connections to Echota Phase IV are implemented.

6 **Q. Briefly describe CWSNC's plans for capital improvements.**

7 A. On page 10, lines 3 through 6 of Company witness Denton's direct  
8 testimony, Mr. Denton states that CWSNC assumed operational  
9 responsibility of the Echota water and Seven Devils wastewater  
10 systems in September 2021. In the Joint Application, the only capital  
11 improvement the Company identified was \$300,000 for Advanced  
12 Metering Infrastructure (AMI) water meters for the Echota service  
13 area. No capital improvements were identified in the Joint Application  
14 for the Seven Devils wastewater system.

15 After more than a year of operating the Echota and Seven Devils  
16 utility systems and approximately six months after filing the transfer  
17 application with the Commission, CWSNC determined additional  
18 capital expenses were required. On page 10, lines 7 through 17 of  
19 Company witness Denton's direct testimony, Mr. Denton states  
20 "Over the six months since the transfer application was filed,  
21 CWSNC has identified capital needs at both the Echota water system  
22 and Seven Devils sewer system." He further states that CWSNC



1 plans to install AMI water meters at Echota with a current estimate  
2 of “approximately \$400,000 - \$500,000.” Mr. Denton states on page  
3 10, line 18 through page 11, line 3 of his direct testimony that “The  
4 Company also intends to invest approximately \$175,000 in sewer  
5 system improvements, including fence replacement (\$20,000);  
6 installation of safety rails/steps (\$50,000); painting (\$20,000);  
7 replacement of blowers (\$50,000); installation of bar screen influent  
8 line supports (\$15,000); installation of mission units on lift stations  
9 (\$10,000); and installation of shed/eye wash station for the safety of  
10 operators working at the treatment plant (\$10,000).” It is unclear why  
11 after more than six months of operating the Seven Devils wastewater  
12 utility system, that these capital improvements were not identified at  
13 the time the Joint Application was filed.

14 **Q. What is your recommendation concerning the bond for the**  
15 **water and wastewater utility systems?**

16 A. I recommend a bond of \$50,000 for the Echota service area and the  
17 Seven Devils wastewater service area consistent with the  
18 considerations identified in N.C. Gen. Stat. § 62-110.3. These  
19 considerations include the number of water and wastewater  
20 franchises CWSNC holds in North Carolina, CWSNC’s record of  
21 operation, the number of customers CWSNC serves in North  
22 Carolina and the condition of the Echota water utility and Seven

1 Devils wastewater utility systems. Currently CWSNC has \$190,000  
2 in unassigned bond filed with the Commission.

3 **Q. What is your recommendation regarding the requested transfer**  
4 **of public utility franchise?**

5 A. The Public Staff recommends the Commission approve the transfer  
6 of the Water Resource public utility franchise to CWSNC at the rates  
7 recommended by the Public Staff and not the Uniform Rates  
8 proposed by CWSNC. The Public Staff also recommends that  
9 CWSNC install water meters in the Echota service area within one  
10 year of taking ownership of the Echota water system.

11 **Q. Does this conclude your testimony?**

12 A. Yes, it does.



**QUALIFICATIONS AND EXPERIENCE**

D. MICHAEL FRANKLIN

I graduated from the University of South Carolina, earning a Bachelor of Science Degree in Engineering. I worked in the electric utility industry for 33 years prior to joining the Public Staff in June 2019. While employed by the Public Staff, I have worked on utility rate case proceedings, new franchise and transfer applications, customer complaints, and other aspects of utility regulation.



**RATE DESIGN**  
**Echota Water Utility System - Post Metered**

<b><u>Service Revenue Requirement<sup>1</sup></u></b>	\$ 247,709.00
End of Period Customers	613
Annual Billings	7,356
Annual Total Consumption (gallons)	19,125,600
Average Consumption	2,600

<b><u>Base Fee Calculation</u></b>	
Percentage of Service Rev. Req.	<u>40</u>
Amount to Recover in Base Fee	\$ 99,083.60
Calculated Base Fee	\$ 13.4698
Set Base Fee	\$ 13.50
Revenue From Base Fee	\$ 99,306.00

<b><u>Usage Fee Calculation</u></b>	
Amount to Recover in Usage Charge	\$ 148,403.00
Calculated Usage Fee (per 1,000 gallons)	\$ 7.7594
Set Usage Fee (per 1,000 gallons)	\$ 7.80
Revenue From Usage Fee	\$ 149,179.68

<b><u>Total Revenue</u></b>	\$ 248,485.68
Delta - Must Be Positive	\$ 776.68

<b>% Usage</b>	60.04%
<b>% Base</b>	39.96%

Notes:

- 1. See Feasel Direct Testimony.



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In the Matter of  
Application by Carolina Water Service, )  
Inc. of North Carolina, 4944 Parkway )  
Plaza Boulevard, Suite 375, Charlotte, ) **TESTIMONY OF**  
North Carolina 28217 and Water ) **LYNN L. FEASEL**  
Resource Management, Inc., 151 Mr. ) **PUBLIC STAFF –**  
Bish Boulevard, Boone, North Carolina ) **NORTH CAROLINA**  
28607, for Authority to Transfer the ) **UTILITIES COMMISSION**  
Echota Water Utility System, the Seven )  
Devils Wastewater Utility System and )  
Public Utility Franchise in Watauga )  
County, North Carolina, and for )  
Approval of Rates )

**OCTOBER 31, 2022**



1 **Q. Please state your name, business address, and present**  
2 **position.**

3 A. My name is Lynn L. Feasel. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 financial manager with the water, sewer and telecommunication  
6 section within the Accounting division of the Public Staff – North  
7 Carolina Utilities Commission (Public Staff).

8 **Q. Briefly state your qualifications and duties.**

9 A. My qualifications and duties are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide the North Carolina Utilities  
12 Commission (Commission) with the results of my investigation of  
13 specific areas of the application filed on April 22, 2022, by Carolina  
14 Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-  
15 354, Sub 396 and Water Resource Management, Inc. (Water  
16 Resource) in Docket No. W-1073, Sub 7, for transfer of public utility  
17 franchise and for approval of rates (the Joint Application) and  
18 whether the transfer is in the best interest of the using and  
19 consuming public.

20 **Q. Please discuss the areas you investigated in.**

21 A. I reviewed the company's application and associated documents,  
22 sent out data requests asking for the calculation supporting

1 documentation of the company's data, clarification of items that  
2 attracted my attention, amount of due diligent fees paid, justification  
3 and calculation of the proposed uniform rates, correcting and  
4 updating the capitalized costs, etc. Based on the company's  
5 responses to the data requests, I identified the amount of capitalized  
6 costs and expenses I should use to calculate the reasonable level of  
7 revenue requirements.

8 **Q. Please describe how you determine and calculate the revenue**  
9 **requirements for these two systems.**

10 A. I considered three factors to calculate revenue requirements: 1) Rate  
11 of return, including debt and equity structures, debt rate, and equity  
12 rate. The Company should recover reasonable forecasted or incurred  
13 expenses plus return on rate bases based on a fair rate of return; 2)  
14 Expenses, including operating and maintenance expenses (O&M  
15 expenses), general expenses, depreciation and amortization  
16 expenses, property taxes, and payroll taxes; 3) Rate base, including  
17 plant in service, accumulated depreciation, and due diligence closing  
18 costs.

19 **Q. Please describe how you determine rate of return.**

20 A. I used the rate of return from the most recent rate case W-354, Sub  
21 384 to calculate the return for rate base items.

1 **Q. Please describe how you determine expenses.**

2 A. I used the estimated expenses provided by the Company and  
3 adjusted the depreciation expenses and amortization expenses to  
4 reflect the Public Staff recommended level of plant in service cost  
5 and the purchase acquisition adjustments.

6 **Q. Please describe how you determine rate bases.**

7 A. In response to one of the Public Staff's data requests, the Company  
8 indicated that the reason why the maintenance and repair expense  
9 and the purchased water/sewer treatment expense was significantly  
10 high was that many of the expenses were for repair and replacement  
11 of wells, which should have been capitalized instead of expensed.  
12 Based on the Company's responses, I sent out another two data  
13 requests, requiring the company to reclassify the wrongly classed  
14 O&M expenses to capitalized cost. The Company provided the  
15 reclassification documentation with the capitalized cost,  
16 accumulated depreciation, and depreciation expenses by system in  
17 response to data request eight and an updated version in response  
18 to data request nine. After reviewing the responses to these two data  
19 requests, I determined that the purchase price for these two systems  
20 were reasonable. Therefore, I used the purchase price as the plant  
21 in service costs. I calculated the accumulated depreciation and net  
22 book value under the WRM depreciation rates. I also included the  
23 due diligence fee paid by the Company under the purchase

1 acquisition adjustment (PAA) item and amortized it over composite  
2 rate of 2.73% for Echota Water.

3 **Q. What is the original cost net investment of the Echota water  
4 utility system and the Seven Devil wastewater utility system?**

5 A. The original cost net investment of the Echota water utility system  
6 and the Seven Devil wastewater utility system are listed as follows:  
7 Echota Water: \$53,651; Seven Devils: \$13,549.

8 **Q. Do you include any purchase acquisition adjustments?**

9 A. For Echota Water, I included transaction due diligence costs in the  
10 amount of \$8,229.39 in purchase acquisition adjustments and  
11 amortized it over 2.73% approved in the last rate case. In response  
12 to Public Staff data request four, the Company provided the  
13 calculation of estimated revenue requirement. In the calculation, it  
14 included \$70,000 purchase price, \$130,000 incentive payments,  
15 \$21,194 Fusion allocation, and \$300,000 AMI meter fees in the rate  
16 base. With the exception of \$70,000 purchase price, the rest of the  
17 expenses are estimated or will not incur until a later date. Per Public  
18 Staff witness Franklin, the Public Staff accepts the Company pay  
19 incentive payments to the developer for installing infrastructure for  
20 future development. However, the Company should only recover the  
21 costs paid when the infrastructure is put in service. The incentive  
22 payment will be paid in future phase IV, which means the new

1 infrastructure is not in service. Therefore, the incentive payment  
2 should not be included in the rate base until it occurs. For the same  
3 reason, estimated AMI meter fees should be not included in the rate  
4 base either. The Fusion allocation was overstated by the Company.  
5 If the Fusion costs are to be amortized through March 31, 2023, the  
6 estimated Fusion allocation per ERC should be \$22.28 calculated  
7 based on Fusion cost approved in the last rate case and the  
8 Company's estimated ERC counts. The unamortized portion of the  
9 Fusion cost included in rate base will be phased out in the future  
10 when Fusion costs are fully amortized. The ERC counts will change  
11 in the future, so the estimated Fusion cost allocated per ERC is not  
12 necessary representative. The estimated return related to Fusion is  
13 only about \$974 for Echota Water and \$240 for Seven Devils, which  
14 is immaterial. Based on the reasons listed above, I recommend not  
15 including Fusion allocation in the rate base.

16 **Q. What is the rate base amount under the WRM depreciate rates?**

17 A. The rate base for Echota Water under WRM rates is \$61,656. The  
18 rate base for Seven Devils under the WRM rates is \$13,549.

1 **Q. What are the Public Staff's recommendations revenue**  
2 **requirements?**

3 A. The recommended revenue requirements for the Echota water utility  
4 system and the Seven Devil wastewater utility system are listed as  
5 follows:

6 Echota Water: \$247,709; Seven Devils: \$66,261.

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.



**QUALIFICATIONS AND EXPERIENCE**

LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed by the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas utilities; filed testimony and affidavits in various general rate cases; calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc.; calculated quarterly earnings for various natural gas companies; calculated refunds to consumers from AH4R and Progress Residential; and reviewed franchise and contiguous filings for multiple water and sewer companies.