

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Tuesday, June 20, 2023
DOCKET NO.: W-354, Sub 399
TIME: 2:01 p.m. - 4:11 p.m.
BEFORE: Commissioner Jeffrey A. Hughes, Presiding
Chair Charlotte A. Mitchell
Commissioner ToNola D. Brown-Bland
Commissioner Daniel G. Clodfelter
Commissioner Kimberly W. Duffley
Commissioner Floyd B. McKissick, Jr.
Commissioner Karen M. Kemerait

IN THE MATTER OF:

Application by
Carolina Water Service, Inc. of North Carolina,
5821 Fairview Road, Suite 401,
Charlotte, North Carolina 28209,
for a Certificate of Public Convenience
and Necessity to Provide Water Utility Service
to the Carteret County Water System, and for
Approval of Rates

VOLUME: 3

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P R O C E E D I N G S

COMMISSIONER HUGHES: We're going to go back on the record. I did want to just make one -- one announcement/request, a couple Commissioners had some conflicts that they couldn't -- they couldn't rearrange. Commissioner Brown-Bland, it looks like, might miss some of the next hour but will be back with us, and depending on what happens today -- I hope it's not an issue, but there is some conflicts beyond a certain time today that -- so I just wanted to see if it was okay with the parties to -- if they would watch and read in and still participate if it's all right with you.

MS. SANFORD: Yes, absolutely.

MR. CREECH: No objection at all.

COMMISSIONER HUGHES: Okay. Great.

Well, I believe the Commissioner to my left had a question.

Whereupon,

LYNN FEASEL AND CHARLES JUNIS,

HAVING BEEN PREVIOUSLY SWORN, WERE EXAMINED

AND TESTIFIED AS FOLLOWS:

EXAMINATION BY COMMISSIONER CLODFELTER:

1 Q. Mr. Junis, I have a few for you, and I've
2 been listening to your testimony and the panel's
3 testimony and I'm trying to get a grasp on exactly what
4 the Public Staff's objection is, and when I think I
5 have it, it slips away from me. So I've got to ask a
6 couple of questions just to see if I can figure out the
7 basis for the position.

8 So I want to -- I want to do that by using
9 some hypotheticals. Let me start with this one: Let's
10 just assume all the facts are the way they are right
11 now with -- with one change in the facts and the change
12 is that the County financed this entire system through
13 the issuance of debt and that debt is still outstanding
14 in full, it hasn't been amortized. Would that make any
15 difference in the Public Staff's position on this
16 transaction?

17 A. (Mr. Junis) It does not change the
18 dollar-for-dollar comparison. Does it change the
19 magnitude of the potential benefit or harm here, it
20 would, but I don't think it changes the -- our final
21 recommendation.

22 Q. Say how it changes it, the magnitude?

23 A. So in terms of -- of the magnitude of the
24 harm, if -- if it was -- if you've already been paying

1 for, well, I'm glad you asked that because ultimately
2 it doesn't change it because if you paid for it or you
3 didn't, you're now having to pay for it either for the
4 first time or the second time. Either way, you
5 shouldn't have to pay for it this go around and so our
6 recommendation would not change.

7 Q. So even if what happens was the County just
8 took the purchase price proceeds and simply paid off
9 the debt, that wouldn't change your position?

10 A. I mean, it changes the possibility of how
11 much of this could be passed back as a benefiter or
12 protection to customers but it doesn't change our
13 ultimate recommendation.

14 Q. All right. I think then based on that answer
15 I'm going to ask you a second hypothetical, but I think
16 I know your answer based on what you've just told me.
17 But let me know try because again, I'm trying to figure
18 out what it is that's really wrong with this
19 transaction from the Public Staff's standpoint.

20 Let's assume all the facts are the way they
21 are right now except this change and let's assume that
22 under the federal and state programs that provided the
23 funding for this system, there were -- the rules of
24 those programs required clawbacks, so that if the

1 system were ever sold, those grants had to be repaid,
2 would that change the Public Staff's position?

3 A. Doesn't change our position. I will say it
4 makes added context on both of those scenarios.
5 Obviously, the County would not net as large of a
6 proceed and so then it would call into question whether
7 they would have done this transaction.

8 Q. Well, I'm assuming they would have done
9 it -- that's what -- the facts I asked you to assume
10 are that everything else is the same.

11 A. Fair enough.

12 Q. All right. Then let me go to this one and
13 this I think is the one that really will flesh out
14 where we are. Is -- let's make the following
15 assumptions, we've got a water system or a sewer
16 system, it doesn't matter, a water system, in this
17 case, that's owned by a local government entity and,
18 therefore, it doesn't pay, have to earn or pay a return
19 on equity and it's not rate regulated by this
20 Commission or by anybody else. And let's assume that
21 it's value for purposes of the purchase transaction
22 that the purchase price is any number in excess of the
23 net book value of the assets of the system. It doesn't
24 matter, it's just a dollar or a million dollars or 10

1 million dollars, it's north of the net book value of
2 the assets of the system. Let's make that assumption
3 now they want to sell it to a privately owned utility
4 that's regulated by the Commission. Assume also that
5 the system is operationally sound, in compliance with
6 all laws and regulations, and in not of need of any
7 major capital improvements; are there any circumstances
8 under that hypothetical in which the Public Staff would
9 find the public convenience and necessities served by
10 that transfer, any circumstances, and if so, what are
11 they?

12 A. I mean, in that scenario, I just want to make
13 sure I understand you. Correct me if I've
14 misunderstood. Essentially, it's the same or better
15 scenario here in that there is little to no benefit
16 associated with that additional cost and if you can't
17 offset the cost and exceed that cost or match it either
18 in quantifiable or nonquantifiable benefits to
19 customers, then I would say we would oppose it.

20 Q. Well, tell me what kinds of benefits
21 quantifiable or non or unquantifiable would in your and
22 the Public Staff's view offset the incremental cost.

23 A. I mean, quality of service but they provide
24 adequate service here.

1 Q. Quality of service. What other kinds of
2 benefits?

3 A. I mean access to capital is certainly a
4 consideration -- consideration the County has shown
5 that they have had access to capital when necessary and
6 actually built a system that I think otherwise wouldn't
7 have been built without those funds.

8 Q. So if we had a local government owner that
9 was having trouble accessing the capital markets, had
10 credit issues, and the Local Government Commission was
11 on their case, that would be a circumstance in which
12 you would find a transaction warranted?

13 A. Yes, sir.

14 Q. Are there any others?

15 A. I mean, I'm sure there are, and I'm glad you
16 gave me this opportunity. I just wish I would have
17 prepared for it better.

18 Q. Again, I'm just trying to find out what's the
19 basis of the real opposition here.

20 A. Yeah.

21 Q. Basis?

22 A. I mean, this speaks to, I mean these are the
23 type of questions that are asked in an acquisition
24 adjustment case. What are all these considerations

1 that could speak to either cost or benefits to the
2 transaction and, I mean, those are the primary two.
3 When you get into, okay, staffing, okay, the technical,
4 managerial, and financial capabilities and expertise, I
5 think they have those or have had those and can acquire
6 them going forward and so I think they in this case,
7 and I guess in the analysis of any case those would be
8 considerations of --

9 Q. Finish your answer.

10 A. You know, I think it goes into what do you
11 need going forward. There just isn't a clear need that
12 the County has that they can't fulfill as opposed to
13 Carolina Water could.

14 Q. So -- so -- is it fair then, I thank you for
15 that answer and I think it does help me.

16 Is it fair then that the Public Staff's
17 position is that a purchase or a transfer at a price in
18 excess of net book value of the assets is not going to
19 be warranted in the public convenience of necessity
20 unless there's some trouble in the selling system,
21 financial, operational, environmental, quality or
22 otherwise unless there's some difficulties or problems
23 in the present system; is that the Public Staff's
24 position?

1 A. (Mr. Junis) Based on my understanding, yes.

2 COMMISSIONER CLODFELTER: I think I've
3 got it.

4 Thank you.

5 THE WITNESS: I'm glad we could clear
6 that up, and I apologize for the confusion before
7 that.

8 COMMISSIONER HUGHES: Okay.

9 COMMISSIONER CLODFELTER: My confusion.
10 I just needed to get.

11 COMMISSIONER HUGHES: Commissioner
12 Duffley?

13 EXAMINATION BY COMMISSIONER DUFFLEY:

14 Q. So I have a follow-up to that, though,
15 because, I mean, couldn't there be benefits
16 that -- that sway it in the other way so there does not
17 have to be all of this trouble? I mean, there could be
18 positive benefits that are brought out other than
19 service quality.

20 A. All right. I love your guys' questions
21 today. You're really testing me here. This is my
22 favorite part, honestly. This whole process is really
23 the melting of the minds and coaxing out the solutions
24 here and you guys do a great job of it and so with

1 that, okay.

2 If -- if that. Let's stay it's a low-cost
3 system -- alright -- so let's say that book value is
4 really low and it doesn't need improvements, that
5 system has great economies of scale and now you're
6 going to attempt to share those economies of scale and
7 is there a way by paying above book value to still
8 share that with the other customers but not harm those
9 customers that you're selling. I think there are ways
10 to where the numbers may come out to do that and,
11 again, the benefits would have to match or exceed and
12 ideally exceed the cost in that scenario.

13 Does that answer your question?

14 Q. Yes. Yes. It's an answer. So and then just
15 switching, doing a follow-up to Commissioner
16 Clodfelter's, you talk about this hardship fund and,
17 you know, the County's position. Is there no legal
18 requirement for the County to create this fund, but
19 are you aware of I mean, has there been any offering
20 of any type of talk of voluntarily doing this to -- to
21 have this CPCN go through?

22 A. No. To my knowledge there has not been and,
23 you know, like I said, there's varying magnitudes of
24 how that could be done obviously with different levels

1 of benefit or protection to the customers. You know,
2 there is a lot of putting up boundaries. You know this
3 belongs in this bucket, this belongs in this bucket,
4 and you can't -- can't share from those buckets. And
5 so with that water fund, if that is a fund that is
6 dedicated to those water customers and they have
7 potentially contributed to that fund, why wouldn't that
8 then be distributed to mitigate the rate impact of
9 being sold, because otherwise it's my understanding
10 that million dollars is going to be clawed into the
11 general fund along with the \$9.5 million purchase price.
12 Is that fair to those customers?

13 COMMISSIONER DUFFLEY: Okay. Those are
14 all my questions.

15 COMMISSIONER HUGHES: Commissioner
16 McKissick?

17 EXAMINATION BY MR. MCKISSICK:

18 Q. Just a couple questions and, I guess, what
19 I'd like you to do is take a look at this Exhibit
20 Number 1 -- the Public Staff Panel Redirect Exhibit 1
21 and on page 2, I just wanted to seek some clarification
22 of what the chart is displaying, depicting. If we look
23 first underneath Carteret County and we go across where
24 it talks about the line dealing with debt principal and

1 interest, it's referred to, of course, I think you said
2 during your testimony there were two loans that were
3 outstanding at this time, and according to this flow
4 chart, it looks like in 2023 there's \$230,079 and then
5 it's a declining amount that goes all the way up to
6 2026. And I suppose what's occurring here is in 2026,
7 one of those loans is paid off and in '27, it's only
8 \$44,660 that's left in that line as shown; am I
9 interpreting that correctly?

10 A. Yes, sir. So that's -- that information as
11 the footnote calls out comes from their financial
12 reporting which is essentially audited financial
13 statements where on pages, I believe it's 75 and 76,
14 they lay out, okay, this is what we owe and are
15 scheduled to pay in principal and interest on that SFR
16 loan through 2026, and then the remaining amount is
17 payments back on the revenue bond through the USDA and
18 that's the amount in 2027.

19 And I will acknowledge that when you go
20 farther than five years out, that amount increases in
21 that USDA to approximately, I think it bumps up
22 significantly to a principal payment of \$120,000 and an
23 interest payment of 100 -- almost \$4,000, and that's
24 where I commented you have a principal of \$906,000

1 total; you are going to pay interest at \$437,000. If
2 you have funds in that water fund that could be used to
3 pay off your liabilities, this would be one I would
4 suggest paying off before you have to pay those
5 escalators in the interest cost.

6 Q. Okay. And we go further down as the line
7 says "Savings Deposit" and you show that in 2000, excuse
8 me, 2024 at \$370,000. Where was that number derived
9 from?

10 A. So the \$370,000 is pulled from Meshaw's
11 response to DR-7 and that is the water rates
12 projections spreadsheet that has been somewhat illusive
13 in providing the exhibit.

14 Q. But it's -- the way this is depicted, it
15 looks like by 2027, the cumulative total that would
16 have been accumulated, so about \$1,480,000; is that
17 right?

18 A. Correct. I'm trying to project out what
19 Ms. Meshaw represented would be necessary going forward
20 for rates.

21 Q. Okay. And it's anticipated that fund would
22 continue to grow moving forward?

23 A. That would be my understanding, yes.

24 Q. And I assume those funds theoretically might

1 be used to pay off any debt early?

2 A. Yeah. A multitude of options: You could pay
3 off debt early. You could make necessary repairs or
4 investment that pops up. This is obviously an industry
5 with many assets underground and so you don't
6 necessarily see what's coming next.

7 Q. Okay. Now, under the line cost-of-service
8 revenues, what was anticipated in terms of -- of the
9 figures that are shown here as depicted?

10 A. Yeah. So this was a direct line from their
11 budgeted amount. I will say for one example is like
12 the Verizon contract. I believe they get paid a
13 certain amount for those towers.

14 Q. I got you.

15 A. But, again, this is from Ms. Meshaw, and I'm
16 just trying to use her numbers so then there's not
17 disagreement. Like how can I get in trouble if I just
18 take your numbers off your page?

19 Q. All right. Now, moving down to the system's
20 specific, you know, I guess I'll call it Section 2
21 here. You show debt interest only beginning in 2023
22 going all the way over to 2027, and it looks like the
23 cumulative total is \$935,828.09; is that correct?

24 A. Yes, sir.

1 Q. And then for equity expenses, you show that
2 beginning in 2023 when the amount is declining
3 544,558.54 down to about 47,7033.39 for a cumulative
4 total of 2,566,092.26. Now, those are expenses that,
5 basically, you would not have if you were
6 Carteret County except for the amount that might be
7 attributable to, I guess, the debt; is that right?

8 A. Right. So this annual depreciation, the
9 debt, cost of interest, and the equity expense of a
10 potential return at 9.8 percent are all associated with
11 the fair value and the allowable fees. So the \$8.7
12 million number while in comparison, you know, the
13 County's debt, you have an amount to be paid off in
14 '26, and then you have roughly a million principal to
15 pay off in the USDA revenue bond. So yeah, there's a
16 drastic difference there. Again, these numbers all tie
17 to Mr. Schellinger's MPS-4, and so these equity
18 calculations are his equity calculations. They're his
19 debt cost and depreciation.

20 Q. So it looks here as if the debt and the
21 equity combined together come to about 3.5 million?

22 A. Yes, sir.

23 Q. And there is no savings deposit as there was
24 when Carteret County was in -- I guess the tabulations

1 related to Carteret County.

2 A. Right. And I think Ms. Meshaw referred to
3 the savings deposit as a contribution to the capital
4 fund or to the capital reserve, but we can agree to
5 disagree on the terminology.

6 Q. And if you go down to where there's
7 system-specific rates, those -- those would be
8 generally for uniform for all of the Carolina Water.
9 It looks like the numbers underneath the debt interest
10 only and equity still remain at about that 3.5 million;
11 is that correct?

12 A. Yes, sir. So that's where the difference
13 between those two amounts, the significant change is
14 those non-incremental expenses that Mr. Schellinger
15 makes an adjustment in line 37 of his MPS-4.

16 Q. Got it. And I know back we had the fair
17 market proceeding I asked a question at one point about
18 whether any of the funds that come to Carteret County
19 for grant funds or things like that would have to be
20 repaid; otherwise, a clawback kind of like Commissioner
21 Clodfelter just asked, at that time they indicated they
22 did not know or have not made any inquiries. Have you
23 received any information since that time as to whether
24 any of those funds have to be repaid or they are kind

1 of a clawback provision?

2 A. So it is my understanding, they do not have
3 to pay those. I've had conversations with DWI about
4 this very issue and their understanding was the same
5 that given the history -- the age here of that
6 investment and the reimbursement that they would not
7 have to pay it back. It would be potentially different
8 if you were to sell a system while trying to complete a
9 project or you were awarded funds and you are getting
10 reimbursement. Then it gets complicated but it's my
11 understanding, given the history here, they would not
12 have to pay them back. The grants. The loans you
13 would still have to pay back.

14 Q. Pay back.

15 A. Unless the principal were to be forgiven.

16 Q. But the grants, you would not have to repay
17 at all?

18 A. Correct.

19 Q. And I take it that's one of the reasons
20 Public Staff believes that a hardship fund ought to be
21 created?

22 A. That is part of the reason. You know, given
23 the proceeds taken here and the rate impact of the fair
24 value, that it would be appropriate to create that

1 hardship fund or some sort of protection or mitigation
2 of the impact of this transaction.

3 Q. And other than the hardship fund, are there
4 any other concepts that have come to your mind or the
5 minds of others in the Public Staff as to how to
6 address that issue?

7 A. So I do offer sort of two options: A
8 hardship fund so something that customers could request
9 as the need becomes apparent or a direct contribution
10 to offset rate base by the County, but, again it is
11 likely dependent on that being a voluntary action.

12 COMMISSIONER MCKISSICK: Got it. I
13 think that addresses the concerns I have, and I
14 just wanted to make sure I was interpreting your
15 exhibit accurately.

16 I don't have any further questions at
17 this time.

18 COMMISSIONER HUGHES: Commissioner
19 Kemerait.

20 EXAMINATION BY COMMISSIONER KEMERAIT:

21 Q. And, Mr. Junis, thank you for all of your
22 testimony and answers to questions. My question is
23 going to be about -- about acquisition adjustment.
24 Because this is -- this is on, I think, it's discussed

1 on pages 27 and 28 of your testimony or -- excuse me --
2 27 through 29 of your testimony, and I think with the
3 understanding from all of us that this is a case of
4 first impression, so I think that the way that we
5 consider and analyze the CPCN after the determination
6 of the value of the fair value statute is going to be
7 important in this case and potentially going forward.

8 And so my question is, about -- the Public
9 Staff's Application of the criteria for the acquisition
10 adjustment to the CPCN Application, because my
11 understanding is that the acquisition adjustment would
12 be potentially granted when you're determining what the
13 rate base would be based upon the purchase price. If
14 the purchase price exceeds the rate base, you
15 potentially could establish the rate base at the higher
16 purchase price rather than the book value because of
17 the situations of the troubled system, like we were
18 talking about, but we've already determined the
19 purchase price and -- in this case. So -- so I think
20 what the Public Staff is asking us to do is to apply
21 the criteria of the acquisition adjustment now, not to
22 what the rate base is, but instead to the CPCN criteria
23 application. So I think that's something different
24 than what we've ever done is that -- is that the way

1 you look at it as well?

2 A. Yeah. I mean, the determination of the fair
3 value and the CPCN is sort of disjointed from, I think,
4 normally a transfer proceeding or even just a
5 standalone CPCN proceeding where you'd sort of be doing
6 both at the same time, and you would be potentially
7 determining an acquisition adjustment on the basis that
8 you are approving or granting that certificate. You
9 know, you look at 62110, you have a certificate of
10 public convenience and necessity, without obtaining
11 from the Commission -- it gets sort of complicated in
12 that there's already somebody serving the public
13 convenience and necessity to some degree here. While
14 it's not a transfer because they don't have a
15 certificate from this Commission because they're not a
16 regulated entity, they're doing it. They're providing
17 the service. They're providing adequate or
18 satisfactory service. And -- at, I think, what is a
19 fair rate. I mean, we've represented that we agree
20 with the rate freeze, right?

21 So to your point, these are uncharted waters
22 that we are trying to navigate here and you're trying
23 to apply something that I don't think necessarily was
24 written with this concept in mind. So now you guys

1 have the trouble of trying to implement that, and
2 that's what my recommendation really comes down to is
3 we think it should be denied because of that -- the
4 cost exceeding those benefits.

5 Q. And I'll probably ask the Company same
6 questions. So the Public Staff's position is, is the
7 acquisition criteria should be -- should be utilized in
8 this new CPCN proceeding that we're -- that's before
9 us?

10 A. Yes. I think that this is criteria that has
11 gone through a number of challenges and refinement. I
12 mean, all the way up to the state supreme court. And
13 so the three main criteria really don't change once you
14 get to the -- the -- the conclusion of that process,
15 right? All these cases that have potentially
16 challenged this. You look at hardscrabble. You look
17 at some of the electric cases. I mean, you -- you
18 culminate with the three criteria. And we do believe
19 that that is applicable here and is a tool that you can
20 utilize.

21 COMMISSIONER KEMERAIT: Thank you very
22 much.

23 THE WITNESS: Thank you.

24 COMMISSIONER HUGHES: Any more

1 questions?

2 Okay. Questions on questions?

3 MR. WHEATLY: No, sir.

4 MS. SANFORD: I have a few. I'm going
5 to try to go quickly.

6 EXAMINATION BY MS. SANFORD:

7 Q. Mr. Junis, with respect to hardship
8 support -- I'm just trying to clarify and then make
9 sure I've got the picture of where you are on
10 everything -- you don't know what the rate impact will
11 be in four years but you support the creation of a
12 hardship fund anyway; is that correct?

13 A. Ms. Sanford, I don't think that's a very fair
14 characterization of not knowing. We are projecting to
15 the best of our ability. Mr. Schellinger has attempted
16 to do that. Ms. Feasel and I have attempted to do
17 that, and so based on what we know and based on the
18 concept that, if they go into uniform, we have an idea
19 of the ballpark where those rates would go and it would
20 be a increase for these customers at least from where
21 they are at. And we think that would be an appropriate
22 way to protect them.

23 Q. And that's your position whether it
24 goes -- based on what you know now -- whether the rates

1 are set under uniform four years down the road or under
2 stand-alone?

3 A. And even under stand-alone, I mean there
4 should be a protection. I mean stand-alone is, I mean,
5 just as high if not a higher rate.

6 Q. And so you think a hardship fund is
7 authorized in the face of any rate increase?

8 A. I think given the circumstances surrounding
9 the rate impacts of the fair value and how that fair
10 value is directly associated with the purchase price, I
11 mean, it's half the equation of determining what this
12 fair value was. I think there should be a connection
13 with that hardship fund to offset that.

14 Q. Thank you. Has the County provided you a
15 list of hardship mitigation resources that exist?

16 A. Yes, ma'am.

17 Q. You do have that? I've heard references to
18 it. I didn't know if you had it.

19 A. I believe it's in the rebuttal testimony of
20 Mr. Burns, and I think it might of been in one of the
21 DR responses.

22 Q. Okay. Thank you. With respect to accounting
23 for the County's accounting for CIAC or -- not
24 needed -- are you -- are you aware of there being any

1 place in the County records where there is accounting
2 for CIAC?

3 A. Yeah. I mean that information was provided
4 to us in discovery. I believe it was in the Sub 398
5 proceeding that we got that information, and I think it
6 should be referenced in my testimony in that case, but
7 I don't recall it off the top of my head.

8 Q. Okay. And apologies for not knowing it
9 myself. Just trying to clarify where you are on that.
10 I believe that you said in response to questions before
11 the lunch break that -- and, Ms. Feasel, maybe this was
12 you and maybe it was neither of you so you'll tell me,
13 that I believe you said that it that a 100-year
14 depreciable life is not reasonable for the Carteret
15 system -- let me stop there. Did you say that? Is
16 that correct?

17 A. (Ms. Feasel) A bit of this -- Junis, when we
18 talk about depreciation rate, I think Junis mentioned
19 that there is one system where Carolina Water use
20 100-year life, which he think -- he's not feeling
21 comfortable.

22 A. (Mr. Junis) So that's where you're
23 transitioning the depreciation from the 30 years that
24 the County was using to Carolina Water's uniform

1 depreciation rates, and I think it's on transmission or
2 distribution mains of 100-year life and so you're
3 stretching the life of those assets. The problem with
4 stretching out the life of these assets is you mitigate
5 the short-term benefit because you don't accumulate as
6 much depreciation over the four-year rate freeze, and
7 also then you have customers paying a return on a
8 higher balance going forward and for a longer period of
9 time. And again, I don't think, that may not be the
10 magic number even if you do use the uniform
11 depreciation rate come next rate case because you may
12 have done a new depreciation study that may change that
13 number.

14 Q. Okay.

15 A. And also that is for transmission
16 distribution base.

17 Q. Thank you. Last question. Ms. Feasel, I
18 think this is to you. Did you say before our lunch
19 break that it is not necessary to determine the
20 depreciation rates at the present?

21 A. It's not - I don't recall say (sic) that.

22 Q. Okay.

23 A. Could you give me a little more details.
24 Something like that.

1 Q. Well, we thought that you said that it was
2 not necessary to determine them now and I wanted to
3 clarify this because it's the Company's position that
4 you do have to determine them now.

5 A. I don't think I said that because as we
6 recommend 4 percent amortization rate for the whole \$8
7 million.

8 Q. So thank you for that clarification. So you
9 do think the Commission needs to determine the
10 depreciation rate now?

11 A. I think we mentioned that in the future rate
12 case, the Commission can decide what the rate can be.

13 MS. SANFORD: I have no other questions.
14 Thank you.

15 MR. CREECH: As an administrative
16 matter, I did want to say that we do have that
17 extra spreadsheet and we have conferred with the
18 counsel for the Commission as well as opposing
19 counsel to see about including that in the second
20 redirect exhibit from today if that would be
21 possible. We would just have them identify it
22 and -- so it would be complete and we'd be done
23 with the process.

24 COMMISSIONER HUGHES: Yeah. No. We'll

1 assume it was incomplete. And it's
2 just --

3 MR. CREECH: Okay. I'll get our witness
4 to identify it and then we'll keep moving. Okay.

5 COMMISSIONER HUGHES: Okay. We're going
6 to go ahead and label this substitute Public Staff
7 Panel Redirect Exhibit Number 2.

8 (Public Staff Panel Redirect
9 Exhibit 2 was marked for identification.)

10 MR. CREECH: And what we've added here
11 is on pages 13 and 14 and that -- that's what's
12 been added here so there are now 18 pages. All
13 right. Thank you. All right. If I may.

14 Q. Mr. Junis, is that correct?

15 A. Yes, sir. 18 pages.

16 Q. All right. Thank you. And all right. So
17 just to follow up quickly, hardship fund in terms of
18 Public Staff policy, Public Staff doesn't have a hard
19 policy on -- on hardship funds in every instance. This
20 was just -- this was an idea that we're putting forward
21 in this case as I think Duke has set up funds at times
22 to help customers you're just trying to think out of
23 the box; is that correct?

24 A. Right. Yeah. Case of first impression.

1 We're in uncharted waters and so this was an attempt to
2 mitigate the impact and make it palatable for issuance
3 of this certificate.

4 Q. All right. Just to clarify, it was a
5 discussion of acquisition to adjustment criteria, et
6 cetera. We're not relitigating the Sub 398 proceeding
7 here with respect to the actual fair value. I've got a
8 follow-up on this but.

9 A. We are not.

10 Q. Okay. And there's been reference to where
11 this is kind of the part two proceeding or maybe this
12 could have been done together. You know you could have
13 even done this as part one I suppose and then the fair
14 value second -- you know there are multiple ways you
15 could do this. We just it's been done this way this
16 time; is that correct?

17 A. I mean, it's been done this way and I think
18 it's been done right but.

19 Q. Yeah. All right. Very good. All right.
20 Back to the overall picture. You had questions about
21 when would the Public Staff, you know, support a
22 transaction like this. Now, keep -- with the Sub 398
23 thought in mind -- we did talk about the statutory
24 intent behind it, what we saw as a statutory intent;

1 did we not?

2 A. Correct.

3 Q. And then there was also a question on
4 the -- on even what companies put out about how this
5 was going to be a good development; is that correct?

6 A. Yes, sir.

7 Q. And what you mentioned was that thinking
8 about it, this is a public asset and so there
9 needs -- the thought had been, had it not, that there
10 would be environmental issues of expertise problem,
11 infusion of capital, we actually needed this type of
12 statute; isn't that correct?

13 A. Yeah. When you get to any deficiencies in
14 the technical, managerial, and financial capabilities
15 of the utility.

16 Q. And all right. And so back to the standard
17 issue and we'll close out here. If, you know, whether
18 it's a three-pronged test or a merger test or whether
19 it's a straightforward almost lay-person public
20 convenience necessity scenario, it's -- is it your
21 position that this is neither convenient nor necessary
22 nor in the public interest?

23 A. Correct. And it doesn't pass the sniff test.
24 We'll just add another one.

1 Q. Okay. And well, and finally, you know, there
2 was discussion about why this might be needed, the
3 public interest. There was a 4-3 vote on the local
4 level, substantial opposition and then you mentioned
5 that they're close to paying this -- they've really,
6 you know, they've come a long way in paying for this
7 thing and then now you get an offer that says
8 basically, you know, why own when you can rent and
9 then -- and then -- and then we're here today when
10 there's not really a ton of local consensus even on
11 this issue, is there?

12 A. I mean, there was obviously discourse
13 for -- from residents and customers and that's been
14 captured in consumer statements and the public hearing
15 and even the public hearings that the County
16 Commissioners had.

17 MR. CREECH: Okay. Thank you.

18 COMMISSIONER HUGHES: Okay. Do the
19 parties have any motions at this time?

20 MR. CREECH: Public Staff would like to
21 admit the Public Staff Panel Redirect Exhibit 1 and
22 the substituted Exhibit 2. Please.

23 COMMISSIONER HUGHES: Motion approved.

24 (Public Staff Panel Redirect Exhibit 1

1 and Public Staff Panel Redirect
2 Exhibit 2 were admitted into evidence.)

3 MR. CREECH: The Public Staff would also
4 like to move in Feasel Exhibits 1 -- Feasel Exhibit
5 1 and Junis Exhibits 1 and 2.

6 COMMISSIONER HUGHES: Motion -- motion
7 approved.

8 (Feasel Exhibit 1 - Updated Schedules
9 1-4 and Public Staff Junis Exhibits 1
10 and 2 were admitted into evidence.)

11 COMMISSIONER HUGHES: I believe we
12 had -- do you have some exhibits that you wanted to
13 move in?

14 MR. WHEATLY: Do I have some?

15 COMMISSIONER HUGHES: Yeah.

16 MR. WHEATLY: No, sir. Not at this
17 time. In already.

18 COMMISSIONER HUGHES: Okay. Yeah. You
19 identified them, but we didn't actually move them
20 into evidence.

21 MR. WHEATLY: Okay. So, well, now, sir,
22 we would like to identify the Carteret County
23 exhibit which was exhibit number -- Cross Examine
24 Number 1 together with the Meshaw exhibit.

1 THE WITNESS: And that was your
2 Exhibit 2 I think, wasn't it?

3 COMMISSIONER HUGHES: Okay. Did you get
4 that, Kaylene?

5 Motion approved.

6 (Public Staff Panel Carteret County
7 Cross Exhibit 1 and Public Staff Panel
8 Carteret County Cross Exhibit 2 were
9 admitted into evidence.)

10 COMMISSIONER HUGHES: Okay. You may be
11 released.

12 THE WITNESS: Thank you.

13 THE WITNESS: Thank you.

14 COMMISSIONER HUGHES: Okay.

15 Mr. Wheatly, we are ready to hear the
16 County's rebuttal testimony.

17 MR. WHEATLY: Yes, sir. At this time, I
18 call Mr. Tommy Burns and Ms. Dee Meshaw.

19 COMMISSIONER HUGHES: Okay. Are you
20 okay about being sworn in?

21 Whereupon,

22 TOMMY BURNS AND DENISE MESHAW,

23 HAVING FIRST BEEN DULY SWORN, WERE EXAMINED

24 AND TESTIFIED AS FOLLOWS:

1 MR. WHEATLY: May I proceed, sir?

2 COMMISSIONER HUGHES: Yes, please.

3 DIRECT EXAMINATION BY MR. WHEATLY:

4 Q. Mr. Burns, state your full name, please, sir.

5 A. My name is Tommy Burns.

6 Q. What is your business address?

7 A. 210 Turner Street, Beaufort.

8 Q. What is your occupation?

9 A. I'm the County Manager for Carteret.

10 Q. And how long have you been County Manager?

11 A. Almost seven years.

12 Q. As portion of your duties, do you oversee the
13 water system that the County operates?

14 A. Yes, sir.

15 Q. And have you ever been a County Manager in
16 any other organization or jurisdiction that had a water
17 system?

18 A. Yes, sir.

19 Q. Where was that?

20 A. Harnett County.

21 Q. How big of a system is that?

22 A. It was about 50,000 customers and about 12
23 whole purchase customers.

24 Q. How many years have you had experience

1 dealing with water companies?

2 A. About over 20 years.

3 Q. Ms. Meshaw, state your full name, please.

4 A. Denise Meshaw.

5 Q. What's your business address?

6 A. 210 Turner Street, Beaufort, North Carolina.

7 Q. What's your occupation?

8 A. I'm a CPA. I'm Assistant County Manager and
9 Finance Director for Carteret County.

10 Q. Now, were you Finance Manager when Carteret
11 County built this water system?

12 A. Yes, sir.

13 Q. You've been with it since day one?

14 A. Yes, sir.

15 Q. And you have compiled and kept up all the
16 records concerning this system?

17 A. Yes, sir.

18 Q. Now, can you tell the Commission how much
19 money Carteret County has lost operating this system
20 since its inception?

21 COMMISSIONER HUGHES: Excuse me. Where?

22 Okay.

23 MR. CREECH: I guess I would object. I
24 was under the impression that that -- that they

1 would be crossed first, but that's --

2 COMMISSIONER HUGHES: Yeah. And we
3 haven't heard from -- about your prefiled
4 testimonies -- well.

5 MR. WHEATLY: No, sir. Do I need to
6 stop now?

7 COMMISSIONER HUGHES: Well, you can
8 continue. Let's get your -- would you like to get
9 your prefiled testimony into the record.

10 MR. WHEATLY: I thought it was.

11 COMMISSIONER HUGHES: I'm sorry. It's
12 the rebuttal so -- all right. It will be the
13 motion -- we'll move in the prefiled rebuttal
14 testimony of Tommy Burns consisting of 6 pages and
15 of Denise Meshaw consisting of 4 pages and there's
16 no summaries. So into the record as if orally
17 given orally from the stand and it's granted.

18 (Whereupon, the Prefiled Rebuttal
19 Testimony of Tommy Burns and the
20 Prefiled Rebuttal Testimony of
21 Denise Meshaw was copied into the record
22 as if given orally from the stand.)
23
24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of Application by Carolina Water Service, Inc. of North Carolina, 5821 Fairview Road, Suite 401, Charlotte, North Carolina 28209, for a Certificate of Public Convenience and Necessity to Provide Water Utility Service to the Carteret County Water System, and for Approval of Rates)))))))))))	REBUTTAL TESTIMONY TO THE TESTIMONY OF CHARLES JUNIS ON BEHALF OF THE PUBLIC STAFF- NORTH CAROLINA UTILITIES COMMISSION BY TOMMY BURNS COUNTY MANAGER OF CARTERET COUNTY NORTH CAROLINA
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Now comes Tommy Burns and in rebuttal of the Charles Junis testimony dated, March 10, 2023, testifies as follows:

1. On page 21, line 10-12, Mr. Junis testifies “The County Management is capable and has shown the ability to improve its Water Fund financial outlook while also managing a County-wide budget of over \$163M.” This is initially misleading. The County may have a General Fund amount close to this stated amount, but under Governmental Fund Accounting Standards, one fund has no bearing on the other; that is, an Enterprise fund of the County is required to be “siloeed” into its own fund. It is not and cannot be mixed into other funding sources. Simply stated, the General Fund has no bearing on the Water Fund. They are separately accounted for. The clear distinction here is that for bonding purposes, it is highly likely that the County could be bond rated on its General Fund at AA+ but its Water fund could be assessed junk status. The two funds are not interchangeable or interoperable. Transfers from one to the other are subject to audit findings and highly criticized by the Local Government Commission as discussed later in the rebuttal. In short, there is a lack of understanding of governmental accounting on the part of the Public Staff, in part, the County presumes because few if any cases of

this nature have appeared before the Utilities Commission. Summarily, the relevance of the County General Fund has no bearing or significance to the Water Fund and should be given no credence in the setting of rate base for the acquiring utility.

2. Page 29, line 3-17, Mr. Junis states “However, it remains to be determined whether the issuance of a CPCN, including approval of rates, and associated sale of the system are in the public interest. The County Water System is not troubled in the sense that the utility assets are beyond their useful life, there are serious or widespread environmental compliance issues, there is a lack of capital funding, or the County lacks technical, managerial, and/or financial expertise and capabilities.”

The County has lacked the technical and managerial expertise and capabilities due to staffing challenges for some time, especially in finding a certified operator for the system. This necessitated the need to find immediate help from CWSNC in providing technical and managerial expertise on the system. The sale of the distressed Water System will have a positive impact far beyond just the rate payers on the water system, but also upon the 71,000 Carteret County tax payers who have, unfairly, subsidized the water system of 1,200 customers throughout the years.

Additionally, there is a lack of capital funding available to the water system in that the County has not been able to include in user charges, sufficient revenues to support a Capital Fund. If accumulated depreciation had been fully funded by the County, along with full capital replacement costs, the rate payers would pay astronomical rates for County water service. Simply put, there are not enough rate payers to spread the user charges across to fully fund this aspect of the water system. It is hard for the County to justify keeping a fledgling system “at all costs”. The State of North Carolina has also

realized economies of scale in utility systems by encouraging merger, regionalization and acquisitions as noted in the funding priorities of the Viable Utility Fund. “Funding available in the Viable Utility Reserve...to evaluate merger, regionalization, and decentralization opportunities” (Designation of Distressed Utility Unit Letter to Chairman Wheatly, page 3). It is clear the Local Government Commission wants Utility systems to be viable and fully funded and if its not feasible to do so, then they support merger, regionalization and other means of transfer to utility providers who can provide an economy of scale to these distressed water systems.

3. Page 38, Lines 17-25 and Page 39 Lines 1-3, Mr. Junis testifies that the Commission should deny the CPCN to provide water utility services for several reasons with which the County disagrees. 1) Contrary to Mr. Junis’s testimony, the acquisition will not have an adverse impact on rates. CWSNC has already agreed to a four-year rate freeze at the current established rate. The County itself, given the challenges associated with being a distressed system, cannot even guarantee the rates as they are presently. Additionally, the County is not governed by any rate change restrictions and could raise the raise each month if necessary. In fact, the customers are more protected from rate increases with a private utility company than they would be with a local government owned utility. The County is not governed by nor subject to any rate reviews or approvals by the NC Utilities Commission. If the County were to continue operating the system, a combination of substantial rates and tax increases would result, thereby impacting the customers on a much greater scale. The County was labeled by the Local Government Commission, a distressed system in 2022, due to criteria and evaluation using a set of parameters (Attached). In reviewing the parameters and assessment

criteria, the Local Government Commission, who the County answers to for all things financial and audit in nature, sets forth a number of benchmarks that the County could **never** (emphasis added) meet for this water system. For instance, the County can never meet the density per square mile requirement. Lack of development, environmental limitations and permitting regulations will prevent large parts of the water system area from being developed now or in the future. In Mr. Junis's testimony he would have you believe that the distressed system status is just an "administrative in nature" designation, and not a huge deal (Page 23, line 12). It is far more than that. There are punitive measures for units of government who continually remain in a distressed status (i.e. educational requirements for Boards and staff to attend regarding how to successfully manage utility systems). Mr. Junis references (page 23, line 11-16) in his testimony that the system is not troubled in the sense that the Public Staff uses that phrase. Again, this is not comparing "apples to apples" The distressed system status is a designation applied by the Local Government Commission, not the Utilities Commission or Public Staff and the different entities could very well have conflicting benchmarks or evaluations criteria. Other Local Government Commission benchmarks include the transfers in from other funds to subsidize this system. Historically, this system has always relied on Carteret County tax payers from across the County, who are not customers of this system, to subsidize the operation of the water system. Additionally, when a district water tax was implemented, the system was then subsidized by Carteret County tax payers who were/are not customers of this system. Additionally, while there may be access to grants and loans for capital improvement, there are no funds to subsidize the operation of the system, which is where this system

is failing. Monies are available to fund rate studies, merger/regionalization/acquisition studies and the like but none to financially subsidize the financial operation of this system. Due to the lack of development density in the area, the miles of line comprising this system, and the lack of current and future development, this system cannot be sustained by the County. By Public Staff's own assessment, the system assets (capital in nature) are "well-maintained". The capital assets of the system, based on evaluations by Public Staff, Draper Aden and the County, are not the problems with this system. In short, contrary to Public Staff's opinion, distressed system status is not a good thing for the local government. The distressed status is very serious and akin to an audit finding and "black eye" on the local government entity.

4. At page 40, lines 4-14, Mr. Junis suggest that the County hold the proceeds of the sale in trust for hardship or subsidy or credit CSWNC that amount to subsidize the rate base. This suggestion alone is an overreaching suggestion by the Public Staff and has no weight or validity. Governmental funds are public funds, and must be used for the public benefit. The sale of government owned assets would generate public funds that would be spent on public purposes. These funds shall be used for the benefit of the Carteret County tax payer, which includes both the customers of the system and the others across the water district and the County who have subsidized the system for years. The very essence of having an elected board, elected by the citizenry, to do the public good, is infringed upon by Public Staff's opinion that they may know better than the local elected official what the majority of the local citizenry needs and desires. Local Government has always been the branch of government that is closest to the

people---no entity knows the needs of the local citizens better than the duly elected Board of Commissioners.

Additionally, the Carteret County customers of the acquiring utility would still have the same access to hardship programs that assist with utility payments through the Carteret County Department of Social Services, and other groups that assist with hardships, as they do currently under the County's ownership.

Respectfully submitted, this the 27th day of March, 2023

Tommy Burns
County Manager of Carteret County

VERIFICATION

Tommy Burns, being duly sworn, deposes and says: that he is the County Manager for Carteret County; that he is familiar with the facts set out in the attached Rebuttal testimony, filed in NCUC Docket No. W-354 Sub 399; that he has read the foregoing testimony and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

Tommy Burns
Tommy Burns

Sworn to and subscribed before me this
the 27 day of March, 2023

Lori R. Turner
Notary Public

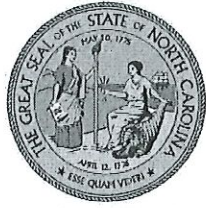
LORI R TURNER
NOTARY PUBLIC
Carteret County
North Carolina
My Commission Expires May 18, 2026

My Commission Expires: 5/18/2026

ROY COOPER
Governor

ELIZABETH S. BISER
Secretary

SHADIESKAF
Director



NORTH CAROLINA
Environmental Quality

August 8, 2022

Chairman Ed Wheatly
Carteret County
302 Courthouse Square
Beaufort, NC 28516

Manager Tommy Burns
Carteret County
302 Courthouse Square
Beaufort, NC 28516

RE: Designation of Distressed Unit in the Viable Utility Program for the Water/Wastewater Utility

Dear Chairman Wheatly and Manager Burns:

This notice is to follow up on the letter you received in April 2021 regarding Carteret County's potential designation as a distressed unit. Last spring, Carteret County met or exceeded the threshold for potential designation as a distressed unit under the Viable Utility Program in the recent assessment of public water and wastewater utility providers across the state as directed by North Carolina General Statute (NCGS) 159G-45. At the time, Carteret County was put on hold pending further assessment. Information on the state-wide assessments is provided below.

In the most recent assessment, Carteret County has a score of 9, which again meets or exceeds the threshold of eight points for a single system (water or wastewater) or nine points for a combined water/wastewater system. The attached scorecard shows the points assigned and data used for each of the assessment criteria. An information sheet describing each of the criteria is also attached.

As Carteret County has now exceeded the designation threshold for two assessments, Carteret County has been designated as a distressed unit under the Viable Utility Program by the State Water Infrastructure Authority (Authority) and the Local Government Commission (Commission) under Identification Criterion 3.

Units designated as distressed must complete a number of actions as required by statute as outlined below, and are eligible for grant funding under the Viable Utility Reserve.



North Carolina Department of Environmental Quality | Division of Water Infrastructure
512 N. Salisbury Street | 1633 Mail Service Center | Raleigh, North Carolina 27699-1633
919.707.9160

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NOV 17 2023

Chairman Wheatly and Manager Burns
 August 8, 2022
 Page 2

Viable Utility Program Background

Session Law 2020-79 (SL 2020-79) was enacted July 1, 2020 to foster the viability of public water and wastewater operations across the state by identifying distressed local government units (LGUs) and providing a process for developing viable water/wastewater utilities.

Assessment Criteria: Several critical areas for determining when a water/wastewater utility is considered a distressed unit were outlined in SL 2020-79. Using those provisions, the Commission and the Authority worked together to adopt assessment criteria comprising financial, organizational and infrastructure components. Details on the assessment criteria and their use in scoring LGUs are provided in the attached information sheet.

Identification Criteria: The Commission and Authority have designed a process to identify distressed units and then work with these units to determine each unit's current conditions, consider viable options that may be available, and work with the unit on the implementation of long-term solutions. The Commission and the Authority use the following Identification Criteria for identifying distressed units:

1. A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by NCGS 159-181 ("under Commission fiscal control"), or
2. A unit that has not submitted its annual audits to the Commission for the last two (2) fiscal years as required by NCGS 159-34, or
3. A unit with a total assessment criteria score that:
 - a. Equals or exceeds 9 for units providing both drinking water and wastewater services, or
 - b. Equals or exceeds 8 for units providing only one service, either drinking water or wastewater, or
4. A unit for which other information is available to or known by the Commission or the Authority that reflects and is consistent with, but does not expressly appear in, the assessment criteria to account for situations in which the assessment criteria score does not wholly or accurately reflect a system's level of risk due to the limitations of available data.

Units designated as distressed must complete a number of actions as required by statute. The statutory requirements of distressed units are defined in NCGS 159G-45(b) and provided below:

1. Conduct an asset assessment and rate study, as directed and approved by the Authority and the Commission.
2. Participate in a training and educational program approved by the Authority and the Commission for that distressed unit. Attendance is mandatory for any governing board members and staff whose participation is required by the Authority and the Commission.



Chairman Wheatly and Manager Burns
 August 8, 2022
 Page 3

3. Develop an action plan, taking into consideration all of the following:
 - a. A short-term and a long-term plan for infrastructure repair, maintenance, and management.
 - b. Continuing education of the governing board and system operating staff.
 - c. Long-term financial management to ensure the public water system or wastewater system will generate sufficient revenue to adequately fund management and operations, personnel, appropriate levels of maintenance, and
 - d. Any other matters identified by the Authority or the Commission.

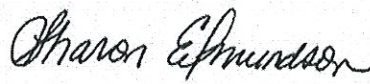
While there are statutory requirements for distressed units, there also are opportunities for continuing to move forward on long-term solutions. Grant funding provided in the Viable Utility Reserve established in NCGS 159G-22 may be available to help conduct an asset assessment and/or a rate study if needed to meet the requirements, as well as to evaluate merger, regionalization, and decentralization opportunities in the development of an action plan to ensure a long-term, viable water utility for your community. Funding for construction projects is also available. Applications for the Fall funding round are due September 30, 2022. Application training will be available this summer. Dates and registration information are available on the Division website: <https://deq.nc.gov/about/divisions/water-infrastructure/i-need-funding>

Additional information about the Viable Utility Program is available on the Division's website at <https://deq.nc.gov/about/divisions/water-infrastructure/viable-utilities>.

Should you have any questions about this notice, please contact Susan Kubacki, with the Division of Water Infrastructure at 919-707-9181 or susan.kubacki@ncdenr.gov.



Shadi Eskaf
 Chair, State Water Infrastructure Authority
 Director, Division of Water Infrastructure
 Department of Environmental Quality



Sharon Edmundson
 Secretary, Local Government Commission
 Deputy Treasurer
 Department of State Treasurer



Unit Assessment Criteria Scorecard – 2022 Scores

Unit Name: Carteret County

Total Score: 9

Type of System (Water/Sewer): DW

As required by Session Law 2020-79 (SL 2020-79). The Local Government Commission (LGC) and State Water Infrastructure Authority (Authority) have developed criteria to identify local governments that may be struggling to provide water and/or sewer services. Assessment criteria include parameters required by the statute, infrastructure and organizational issues, and indicators of financial strain. This score card shows the points your unit scored and the data values used to determine those points. The attached Unit Scorecard Explanation provides additional information about each of the parameters that contribute to the score. Units providing both water and sewer service and scoring 9 or more points, or units providing only a single service and scoring 8 or more points are considered at risk of being designated distressed under the new law.

Statutory Points				
Criteria	Service Population	Debt Service Coverage Ratio	Transfers Out	Transfers In
Points Scored	1	1		1
Value Used	2930	0.25	0	5

Infrastructure/Organizational Points									
Criteria	Afford-ability	UAL Control	DW Compliance	WW / CS Compliance	Flow Moratorium	DW Pop / Mile	Sewer Pop / Mile	Rate (2022 inside) \$/5000 gal	Revenue Outlook
Points Scored						1		1	
Value Used	2			WW: CS:		51	DW Only	DW: \$107.45 WW: \$0 Combined: \$0	Population Change: 1% (also considers rates)

Financial Points						
Criteria	Surplus (deficit) w/ Debt	No Debt DSCR Test	% Depreciated	Operating Margin	Quick Ratio	Receivables Ratio
Points Scored	2		1	1		
Value Used	Surplus w/Debt: \$(178,896) W/\$1Million Test if No Debt:		54%	(0.41)	2.5	Ratio: 1.3 Trend: 0.0

Assessment Criteria Summary 2022 Assessment

Parameter	Total Possible Points	Description	Other Notes	Data Source
Service Population	1	Identifies smaller systems. Point scored for systems serving less than 10,000 people.	This is a statutorily required criterion.	Varied
Debt Service Coverage Ratio (DSCR)	1	Measures unit's ability to cover loan payments after paying for day to day operations. Measured by looking at revenue, expenses, and loan payments (principal and interest). Calculated as (Operating revenues-operating expenses excluding depreciation) / (principal + interest payments) Point scored if value is less than 1.1.	Over 70% of utilities have a DSCR greater than 1.1. This is a statutorily required criterion.	Calculated from 2021 Audit data
Transfers Out	1	May indicate that revenue generated by the utilities is not being used for utility expenses. Point scored when money is transferred out of the system's dedicated utility fund in 2 or more of the last 5 fiscal years if the system also has a negative surplus in the fiscal year of the transfer, or if the system has no debt and there is a negative surplus with debt service for a \$1 million "test" project.	This is a statutorily required criterion.	Calculated from 2021 Audit data
Transfers In	1	Indicates that the system is not generating enough money to cover expenditures. Point scored when money is transferred into the primary water/sewer fund from other sources in 2 or more of the last 5 years.	This is a statutorily required criterion.	Calculated from 2021 Audit data
Affordability	1	Recognizes a service area's population change rate, poverty rate, median household income (MHI), unemployment rate, and property valuation per capita to established state benchmarks. Note that the benchmark values are updated every year. <u>Current Benchmarks:</u> Population change: 4.42% Poverty rate: 14.0% MHI: \$52,413 Unemployment rate: 4.0% Property valuation per capita: \$107,620 Point scored if 4 or 5 of these indicators are worse than the state benchmark.		American Community Survey, Employment Security Commission, and Dept. of Revenue
UAL Control Issues	3	The UAL identifies units whose audits indicate that they may have accounting issues contributing to financial risk. Points scored for systems that have been identified by the LGC as medium risk (2) or high risk (1) of accounting control issues		LGC

Parameter	Total Possible Points	Description	Other Notes	Data Source
DW Compliance	1	Identifies units with DW system compliance issues. Point scored if system has more than 5 MCL violations in a 5-year period or has ongoing treatment technique violations.		NC DEQ-DWR
WW / CS Compliance	1	Identifies units with wastewater treatment or collection system compliance issues. <ul style="list-style-type: none"> • WW: Point scored if either in the top 10% for number of violations in a 5-year period, or a combination of in the top 20% for number of violations in a 5-year period and more than 50% of inspections document violations for wastewater treatment operations. • CS: Point scored if either the following occur: <ul style="list-style-type: none"> ○ The system is in the top 10% of systems for the number of SSO violations in a 5-year period and the top 20% for the number of SSOs per mile of collection system, or ○ The system is in the top 20% of systems for the number of SSO violations in a 5-year period and the top 10% for the number of SSOs per mile of collection system. 		NC DEQ-DWR
Flow Moratorium	4	Points scored when the system is under a moratorium preventing service expansion due to inability to treat wastewater or because the system has reached 90% of permitted capacity.		NC DEQ-DWR
DW Pop/ Mile	1	Evaluates population density, measured as service population divided by miles of water line. Lower density areas tend to face more service challenges. Point scored for density lower than 100		
Sewer Pop/ Mile	1	Evaluates population density, measured as service population divided by miles of sewer line. Lower density areas tend to face more service challenges. Point scored for density lower than 100		
Rates	1	High rates indicate that a system is unlikely to be able to increase rates to improve revenue. Point scored when inside rates for 5,000 gallons are greater than \$100/month for combined water and sewer service; \$50/month for water service only; and \$60/month for wastewater service only.		EFC
Revenue Outlook	4	Reflects unit's ability to generate income in the future while recognizing affordability issues. Points scored when the system has high rates (see above) AND declining population.		EFC rates; source of population varies

Parameter	Total Possible Points	Description	Other Notes	Data Source
Surplus (deficit) w/ Debt	2	Identifies systems that are not generating enough revenue to cover expenditures including debt payments. Points shored when number is less than or equal to \$0, indicating insufficient funds to cover expenses. Calculated as Operating Revenues-((Operating Expenses - Depreciation) + Long-term Debt Service)	Approximately 75% of utilities have revenue exceed expenditures.	Calculated from 2021 Audit data
No Debt DSCR Test	1	Similar to the DSCR calculated above but includes \$1 million "test" project if system has no debt to evaluate the unit's ability to finance a simple project with a loan. Point scored if less than 1.1.		Calculated from 2021 Audit data
% Depreciated	1	Evaluates the financial impact of wear and tear on water and sewer assets as they age and how much service life is left. Point scored if greater than 50%.	Approximately 70% of utilities have depreciation less than 50%.	Calculated from 2021 Audit data
Operating Margin	1	Indicates the system's ability to generate enough revenue to cover operating expenses including depreciation. Point scored if the operating margin is less than 0. Calculated as (Operating Revenue - Operating Expenses) / Operating Revenue	Approximately 50% of utilities have an operating margin greater than 0.	Calculated from 2021 Audit data
Quick Ratio	1	Indicates whether a system is able to meet short-term financial obligations with cash or easily accessible funds by comparing current assets to liabilities. Point scored if less than 1.1.	Approximately 95% of utilities have a quick ratio greater than 1.1.	Calculated from 2021 Audit data
Receivables Ratio	1	Measures how well the system is collecting money from customers. Point scored for 3-year average greater than or equal to 2.3 or if there is an increase of greater than or equal to 0.2 in each of the last two years which demonstrates a declining trend in bill payment.	Over 85% of utilities have a receivables ratio less than 2.3 or less than a 0.2 increase in each of the last two years.	Calculated from 2021 Audit data

List of Acronyms

CS = Collection System	DWR = Division of Water Resources	SSO = Sanitary Sewer Overflow
DEQ = Dept. of Environmental Quality	EFC = Environmental Finance Center	SWIA = State Water Infrastructure Authority
DSCR = Debt Service Coverage Ratio	LGC = Local Government Commission	WW = Wastewater (sewer)
DW = Drinking Water	LWSR = Local Water Supply Plan	UAL = Unit Assistant List generated by LGC to identify communities that may have problems with accounting procedures identified through audits
DWI = Division of Water Infrastructure	MCL = Maximum Contaminant Level	

Distressed Unit Identification Criteria

The State Water Infrastructure Authority and Local Government Commission adopted the following Identification Criteria to be used to identify distressed units:

1. A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by G.S. 159-181 (“under Commission fiscal control”), or
2. A unit that has not submitted its annual audits for the last two (2) fiscal years to the Commission as required by G.S. 159-34, or
3. A unit with a total Assessment Criteria (see Attachment 1) score that:
 - a) Equals or exceeds 9 for units providing both drinking water and wastewater services, or
 - b) Equals or exceeds 8 for units providing only one service, either drinking water or wastewater, or
4. A unit for which other information is available to or known by the Authority or Commission that reflects and is consistent with, but does not expressly appear in, the Assessment Criteria to account for situations in which the Assessment Criteria score does not wholly or accurately reflect a system’s level of risk due to the limitations of available data.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of)	REBUTTAL TESTIMONY TO THE
Application by Carolina Water Service,)	TESTIMONY OF CHARLES JUNIS
Inc. of North Carolina, 5821 Fairview)	ON BEHALF OF THE PUBLIC
Road, Suite 401, Charlotte, North)	STAFF- NORTH CAROLINA
Carolina 28209, for a Certificate of)	UTILITIES COMMISSION BY
Public Convenience and Necessity to)	DEE MESHAW, CPA
Provide Water Utility Service to the)	FINANCE OFFICER AND
Carteret County Water System, and for)	ASSISTANT COUNTY MANAGER
Approval of Rates)	OF
		CARTERET COUNTY
		NORTH CAROLINA

Now comes Denise Meshaw and in a Verified Rebuttal to the Charles Junis testimony dated, March 10, 2023, does hereby state:

1. I am the Finance Director and Assistant County Manager of Carteret County, and have previously testified in the related proceeding before the North Carolina Utilities Commission (“NCUC” or “Commission”), which was the Fair Value matter (NCUC Docket No. W-354 Sub 398).
2. With regard to the Junis testimony, Page 21, Lines 19 and 20 “According to the FY 23 Budget, the County’s water fund is 0.7% of the revenue in FY23.” My response is: The County’s Water Fund is a small percentage compared to the county’s total annual budget for all funds. The Water Fund is the County’s only Enterprise Fund. All other funds are governmental funds. Enterprise Funds are independent of governmental funds. Enterprise funds are used to account for services and debt service that are primarily funded by user charges. Governmental funds have no relevancy to enterprise funds.

3. With regard to the Junis testimony, Page 23 line 1 and 2, by way of clarification, for fiscal year ending June 30, 2022, Carteret County's Water Fund did realize a positive change in net position. In addition, the fund reported \$47,105 income before transfers from other funds. However, the County's operator in responsible charge ("ORC") employee resigned during the year, and the County's water maintenance technician position was vacant the entire fiscal year. The County compensated during the second half of the fiscal year by contracting with Carolina Water Service. Long term, this is not a sustainable management process. Carteret County will need to hire positions, significantly increase contracted services, or a combination of the two. If the County had been fully staffed for the fiscal year, and thus not contracted with Carolina Water Service, the net effect would have been loss from operations before transfers (\$39,787). If the sale of the water system to Carolina Water Service does not occur, the County Board of Commissioners will need to increase water user rates, levy ad valorem taxes in the established Special Water Taxing District, or a combination of the two in order to have a sustainable fund and establish a capital fund for future infrastructure needs and major maintenance repairs. If the Board of Commissioners does not levy a special water district ad valorem tax, the projected increase to establish a capital fund and to adequately fund operations is forty percent increase in water user rates.
4. With regard to Page 23 Line 5 of Mr. Junis's testimony, I state as clarification, Carteret County budgets debt principal and interest payments. It does not budget depreciation expense.

With regard to Page 23 Line 9-16 of Mr. Junis's testimony, it should be noted, on August 8, 2022, Carteret County's Water System was designated as a distressed unit under the Viable Utility Program by the State Water Infrastructure Authority and the Local Government Commission under the Viable Utility Program as directed by NCGS 159G-45. Please see the attached August 8, 2022 letter from the NC Division of Environmental Quality ("DEQ") addressed to Carteret County regarding the designation of a distressed unit in the Viable Utility Program. Carteret County considers this a serious designation, and not as a positive classification. The County has an element of our government that is not performing well, and thus the designation reflects that performance. Many areas of the points scored are beyond the County's control because it is a small and rural system. For example, the service population is 2,930 which is far less than the 10,000 benchmark. Regarding infrastructure, the County will continue to not meet the Water System population / mile benchmark of density greater than 100. It states, "Evaluates population density, measured as service population divided by miles of water line. Lower density areas tend to face more service challenges." The County will continue to score points in the areas of high rates, and for greater than 50% depreciation of system depreciable capital assets. Distressed units must fulfill requirements that are defined in the General Statutes, and must be approved by the Authority and Local Government Commission. Requirements included conducting an asset assessment and rate study, participating in training and education programs, and developing an action plan. The action plan must consider a short-term and long-term plan for infrastructure repair, maintenance, and management; continuing education of the governing board and system operating staff; long-term financial management to ensure the public water system will generate sufficient revenue

to adequately fund management and operations, personnel, appropriate levels of maintenance, and; any other matter identified by the Authority or the Commission.5.

Page 3 of the DEQ letter continues stating, “Grant funding provided in the Viable Utility Reserve established in NCGS 159G-22 may be available to help conduct an asset assessment and/ or rate study if needed to meet the requirements, as well as to evaluate merger, regionalization and decentralization opportunities in the development of an action plan to ensure a long-term, viable water utility for your community.” In 2019, NC Department of Environmental Quality Division of Water Infrastructure funded a \$34,990 Merger/ Regionalization Feasibility Study of the Carteret County Water System. Carteret County fulfilled all the requirements of this grant, and believes it satisfied this State objective. Also, regardless of the County’s access to additional funds as a distressed system, the fact that Carteret County Water System is small and rural will not be overcome merely by funding, and long-term viability is part of the consideration that led to the sale.

Respectfully submitted, this the 27 day of March, 2023.

Denise Meshaw, CPA
Finance Director and Assistant County Manager for
Carteret County

VERIFICATION

Denise Meshaw, being duly sworn, deposes and says: that she is the Assistant County Manager for Carteret County; that she is familiar with the facts set out in the attached Rebuttal testimony, filed in NCUC Docket No. W-354 Sub 399; that she has read the foregoing testimony 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 she believes them to be true.

Denise Meshaw
Denise Meshaw

Sworn to and subscribed before me this the 27 day of March, 2023

Lori R. Turner
Notary Public

LORI R TURNER
NOTARY PUBLIC
Carteret County
North Carolina
My Commission Expires May 18, 2026

My Commission Expires: 5/18/2026

ROY COOPER
Governor

ELIZABETH S. BISER
Secretary

SHADI ESKAF
Director



NORTH CAROLINA
Environmental Quality

August 8, 2022

Chairman Ed Wheatly
Carteret County
302 Courthouse Square
Beaufort, NC 28516

Manager Tommy Burns
Carteret County
302 Courthouse Square
Beaufort, NC 28516

RE: Designation of Distressed Unit in the Viable Utility Program for the Water/Wastewater Utility

Dear Chairman Wheatly and Manager Burns:

This notice is to follow up on the letter you received in April 2021 regarding Carteret County's potential designation as a distressed unit. Last spring, Carteret County met or exceeded the threshold for potential designation as a distressed unit under the Viable Utility Program in the recent assessment of public water and wastewater utility providers across the state as directed by North Carolina General Statute (NCGS) 159G-45. At the time, Carteret County was put on hold pending further assessment. Information on the state-wide assessments is provided below.

In the most recent assessment, Carteret County has a score of 9, which again meets or exceeds the threshold of eight points for a single system (water or wastewater) or nine points for a combined water/wastewater system. The attached scorecard shows the points assigned and data used for each of the assessment criteria. An information sheet describing each of the criteria is also attached.

As Carteret County has now exceeded the designation threshold for two assessments, Carteret County has been designated as a distressed unit under the Viable Utility Program by the State Water Infrastructure Authority (Authority) and the Local Government Commission (Commission) under Identification Criterion 3.

Units designated as distressed must complete a number of actions as required by statute as outlined below, and are eligible for grant funding under the Viable Utility Reserve.



North Carolina Department of Environmental Quality | Division of Water Infrastructure
512 N. Salisbury Street | 1633 Mail Service Center | Raleigh, North Carolina 27699-1633
919.707.9160

Viable Utility Program Background

Session Law 2020-79 (SL 2020-79) was enacted July 1, 2020 to foster the viability of public water and wastewater operations across the state by identifying distressed local government units (LGUs) and providing a process for developing viable water/wastewater utilities.

Assessment Criteria: Several critical areas for determining when a water/wastewater utility is considered a distressed unit were outlined in SL 2020-79. Using those provisions, the Commission and the Authority worked together to adopt assessment criteria comprising financial, organizational and infrastructure components. Details on the assessment criteria and their use in scoring LGUs are provided in the attached information sheet.

Identification Criteria: The Commission and Authority have designed a process to identify distressed units and then work with these units to determine each unit's current conditions, consider viable options that may be available, and work with the unit on the implementation of long-term solutions. The Commission and the Authority use the following Identification Criteria for identifying distressed units:

1. A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by NCGS 159-181 ("under Commission fiscal control"), or
2. A unit that has not submitted its annual audits to the Commission for the last two (2) fiscal years as required by NCGS 159-34, or
3. A unit with a total assessment criteria score that:
 - a. Equals or exceeds 9 for units providing both drinking water and wastewater services, or
 - b. Equals or exceeds 8 for units providing only one service, either drinking water or wastewater, or
4. A unit for which other information is available to or known by the Commission or the Authority that reflects and is consistent with, but does not expressly appear in, the assessment criteria to account for situations in which the assessment criteria score does not wholly or accurately reflect a system's level of risk due to the limitations of available data.

Units designated as distressed must complete a number of actions as required by statute. The statutory requirements of distressed units are defined in NCGS 159G-45(b) and provided below:

1. Conduct an asset assessment and rate study, as directed and approved by the Authority and the Commission.
2. Participate in a training and educational program approved by the Authority and the Commission for that distressed unit. Attendance is mandatory for any governing board members and staff whose participation is required by the Authority and the Commission.



Chairman Wheatly and Manager Burns
 August 8, 2022
 Page 3

3. Develop an action plan, taking into consideration all of the following:
 - a. A short-term and a long-term plan for infrastructure repair, maintenance, and management.
 - b. Continuing education of the governing board and system operating staff.
 - c. Long-term financial management to ensure the public water system or wastewater system will generate sufficient revenue to adequately fund management and operations, personnel, appropriate levels of maintenance, and
 - d. Any other matters identified by the Authority or the Commission.

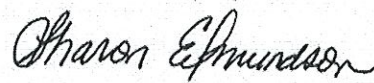
While there are statutory requirements for distressed units, there also are opportunities for continuing to move forward on long-term solutions. Grant funding provided in the Viable Utility Reserve established in NCGS 159G-22 may be available to help conduct an asset assessment and/or a rate study if needed to meet the requirements, as well as to evaluate merger, regionalization, and decentralization opportunities in the development of an action plan to ensure a long-term, viable water utility for your community. Funding for construction projects is also available. Applications for the Fall funding round are due September 30, 2022. Application training will be available this summer. Dates and registration information are available on the Division website: <https://deq.nc.gov/about/divisions/water-infrastructure/i-need-funding>

Additional information about the Viable Utility Program is available on the Division's website at <https://deq.nc.gov/about/divisions/water-infrastructure/viable-utilities>.

Should you have any questions about this notice, please contact Susan Kubacki, with the Division of Water Infrastructure at 919-707-9181 or susan.kubacki@ncdenr.gov.



Shadi Eskaf
 Chair, State Water Infrastructure Authority
 Director, Division of Water Infrastructure
 Department of Environmental Quality



Sharon Edmundson
 Secretary, Local Government Commission
 Deputy Treasurer
 Department of State Treasurer



Unit Assessment Criteria Scorecard – 2022 Scores

Unit Name: Carteret County

Total Score: 9

Type of System (Water/Sewer): DW

As required by Session Law 2020-79 (SL 2020-79). The Local Government Commission (LGC) and State Water Infrastructure Authority (Authority) have developed criteria to identify local governments that may be struggling to provide water and/or sewer services. Assessment criteria include parameters required by the statute, infrastructure and organizational issues, and indicators of financial strain. This score card shows the points your unit scored and the data values used to determine those points. The attached Unit Scorecard Explanation provides additional information about each of the parameters that contribute to the score. Units providing both water and sewer service and scoring 9 or more points, or units providing only a single service and scoring 8 or more points are considered at risk of being designated distressed under the new law.

Statutory Points				
Criteria	Service Population	Debt Service Coverage Ratio	Transfers Out	Transfers In
Points Scored	1	1		1
Value Used	2930	0.25	0	5

Infrastructure/Organizational Points									
Criteria	Afford-ability	UAL Control	DW Compliance	WW / CS Compliance	Flow Moratorium	DW Pop / Mile	Sewer Pop / Mile	Rate (2022 inside) \$/5000 gal	Revenue Outlook
Points Scored						1		1	
Value Used	2			WW: CS:		51	DW Only	DW: \$107.45 WW: \$0 Combined: \$0	Population Change: 1% (also considers rates)

Financial Points						
Criteria	Surplus (deficit) w/ Debt	No Debt DSCR Test	% Depreciated	Operating Margin	Quick Ratio	Receivables Ratio
Points Scored	2		1	1		
Value Used	Surplus w/Debt: \$(178,896) W/\$1Million Test if No Debt:		54%	(0.41)	2.5	Ratio: 1.3 Trend: 0.0

Assessment Criteria Summary 2022 Assessment

Parameter	Total Possible Points	Description	Other Notes	Data Source
Service Population	1	Identifies smaller systems. Point scored for systems serving less than 10,000 people.	This is a statutorily required criterion.	Varied
Debt Service Coverage Ratio (DSCR)	1	Measures unit's ability to cover loan payments after paying for day to day operations. Measured by looking at revenue, expenses, and loan payments (principal and interest). Calculated as (Operating revenues-operating expenses excluding depreciation) / (principal + interest payments) Point scored if value is less than 1.1.	Over 70% of utilities have a DSCR greater than 1.1. This is a statutorily required criterion.	Calculated from 2021 Audit data
Transfers Out	1	May indicate that revenue generated by the utilities is not being used for utility expenses. Point scored when money is transferred out of the system's dedicated utility fund in 2 or more of the last 5 fiscal years if the system also has a negative surplus in the fiscal year of the transfer, or if the system has no debt and there is a negative surplus with debt service for a \$1 million "test" project.	This is a statutorily required criterion.	Calculated from 2021 Audit data
Transfers In	1	Indicates that the system is not generating enough money to cover expenditures. Point scored when money is transferred into the primary water/sewer fund from other sources in 2 or more of the last 5 years.	This is a statutorily required criterion.	Calculated from 2021 Audit data
Affordability	1	Recognizes a service area's population change rate, poverty rate, median household income (MHI), unemployment rate, and property valuation per capita to established state benchmarks. Note that the benchmark values are updated every year. <u>Current Benchmarks:</u> Population change: 4.42% Poverty rate: 14.0% MHI: \$52,413 Unemployment rate: 4.0% Property valuation per capita: \$107,620 Point scored if 4 or 5 of these indicators are worse than the state benchmark.		American Community Survey, Employment Security Commission, and Dept. of Revenue
UAL Control Issues	3	The UAL identifies units whose audits indicate that they may have accounting issues contributing to financial risk. Points scored for systems that have been identified by the LGC as medium risk (2) or high risk (1) of accounting control issues		LGC

Parameter	Total Possible Points	Description	Other Notes	Data Source
DW Compliance	1	Identifies units with DW system compliance issues. Point scored if system has more than 5 MCL violations in a 5-year period or has ongoing treatment technique violations.		NC DEQ-DWR
WW / CS Compliance	1	Identifies units with wastewater treatment or collection system compliance issues. <ul style="list-style-type: none"> • WW: Point scored if either in the top 10% for number of violations in a 5-year period, or a combination of in the top 20% for number of violations in a 5-year period and more than 50% of inspections document violations for wastewater treatment operations. • CS: Point scored if either the following occur: <ul style="list-style-type: none"> ○ The system is in the top 10% of systems for the number of SSO violations in a 5-year period and the top 20% for the number of SSOs per mile of collection system, or ○ The system is in the top 20% of systems for the number of SSO violations in a 5-year period and the top 10% for the number of SSOs per mile of collection system. 		NC DEQ-DWR
Flow Moratorium	4	Points scored when the system is under a moratorium preventing service expansion due to inability to treat wastewater or because the system has reached 90% of permitted capacity.		NC DEQ-DWR
DW Pop/ Mile	1	Evaluates population density, measured as service population divided by miles of water line. Lower density areas tend to face more service challenges. Point scored for density lower than 100		
Sewer Pop/ Mile	1	Evaluates population density, measured as service population divided by miles of sewer line. Lower density areas tend to face more service challenges. Point scored for density lower than 100		
Rates	1	High rates indicate that a system is unlikely to be able to increase rates to improve revenue. Point scored when inside rates for 5,000 gallons are greater than \$100/month for combined water and sewer service; \$50/month for water service only; and \$60/month for wastewater service only.		EFC
Revenue Outlook	4	Reflects unit's ability to generate income in the future while recognizing affordability issues. Points scored when the system has high rates (see above) AND declining population.		EFC rates; source of population varies

Parameter	Total Possible Points	Description	Other Notes	Data Source
Surplus (deficit) w/ Debt	2	Identifies systems that are not generating enough revenue to cover expenditures including debt payments. Points shored when number is less than or equal to \$0, indicating insufficient funds to cover expenses. Calculated as Operating Revenues-((Operating Expenses - Depreciation) + Long-term Debt Service)	Approximately 75% of utilities have revenue exceed expenditures.	Calculated from 2021 Audit data
No Debt DSCR Test	1	Similar to the DSCR calculated above but includes \$1 million "test" project if system has no debt to evaluate the unit's ability to finance a simple project with a loan. Point scored if less than 1.1.		Calculated from 2021 Audit data
% Depreciated	1	Evaluates the financial impact of wear and tear on water and sewer assets as they age and how much service life is left. Point scored if greater than 50%.	Approximately 70% of utilities have depreciation less than 50%.	Calculated from 2021 Audit data
Operating Margin	1	Indicates the system's ability to generate enough revenue to cover operating expenses including depreciation. Point scored if the operating margin is less than 0. Calculated as (Operating Revenue - Operating Expenses) / Operating Revenue	Approximately 50% of utilities have an operating margin greater than 0.	Calculated from 2021 Audit data
Quick Ratio	1	Indicates whether a system is able to meet short-term financial obligations with cash or easily accessible funds by comparing current assets to liabilities. Point scored if less than 1.1.	Approximately 95% of utilities have a quick ratio greater than 1.1.	Calculated from 2021 Audit data
Receivables Ratio	1	Measures how well the system is collecting money from customers. Point scored for 3-year average greater than or equal to 2.3 or if there is an increase of greater than or equal to 0.2 in each of the last two years which demonstrates a declining trend in bill payment.	Over 85% of utilities have a receivables ratio less than 2.3 or less than a 0.2 increase in each of the last two years.	Calculated from 2021 Audit data

List of Acronyms		
CS = Collection System	DWR = Division of Water Resources	SSO = Sanitary Sewer Overflow
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3. A unit with a total Assessment Criteria (see Attachment 1) score that:
 - a) Equals or exceeds 9 for units providing both drinking water and wastewater services, or
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4. A unit for which other information is available to or known by the Authority or Commission that reflects and is consistent with, but does not expressly appear in, the Assessment Criteria to account for situations in which the Assessment Criteria score does not wholly or accurately reflect a system’s level of risk due to the limitations of available data.

1 MR. WHEATLY: I appreciate it. And I
2 thank you, sir.

3 So should I now sit down and let them
4 cross?

5 COMMISSIONER HUGHES: That would be our
6 tradition.

7 MR. WHEATLY: And I get a chance to
8 clean it up later if I can?

9 COMMISSIONER HUGHES: Redirect, yes. I
10 appreciate you.

11 MR. CREECH: All right. Thank you.

12 CROSS EXAMINATION BY MR. CREECH:

13 Q. Good afternoon, again. And really do
14 appreciate y'all being here and it's good to see you
15 today. We certainly respect the work that y'all do and
16 we know how important it is. Have some quick questions
17 if we can. Some of which have been -- will be a lot
18 less than what we initially planned because we covered
19 a lot today. I will -- some of them will be a little
20 direct if you will -- start with you, Mr. Burns, if we
21 can. If you'll turn to page 5 of your testimony,
22 it's Item 4. And it's the sentence that says, "The very
23 essence". Can you read that sentence, please?

24 A. What question were you on, Mr. Creech? What

1 response?

2 Q. Well, let me -- let me just read it for you,
3 if I may.

4 A. Okay.

5 Q. In your testimony, you indicate the very
6 essence of having an elected board, elected by the
7 citizenry, to do the public good is infringed upon by
8 the Public Staff's opinion that they may know better
9 than the local elected official when the majority of the
10 local citizenry needs and desires. Local government has
11 always been the branch of government that is the closest
12 to the people and no entity knows the needs of the local
13 citizens better than the duly elected Board of
14 Commissioners; is that correct?

15 A. Yes, sir. That's right.

16 Q. And then elsewhere in your testimony on page
17 3, under number 3, you indicate, you say, *Additionally,*
18 *the County is not governed by any rate change*
19 *restrictions that could raise rates -- raise rates each*
20 *month if necessary. In fact, the customers are more*
21 *protected from rate increases with a private utility*
22 *company than they would be with a local government owned*
23 *utility. The County is not governed by nor subject to*
24 *any rate reviews or approvals or by the NC Utilities*

1 *Commission;* is that correct?

2 A. Yes, sir.

3 Q. All right. Now, just real quickly, you know,
4 you've got your own local government officials you've
5 been dealing with them, you've had the benefit of
6 working with your local officials for some time and you
7 said that local government is best, but then that --
8 these Commissioner's will do a better job of
9 protecting customers. Now, would you accept that some
10 of these Commissioner's may be from Carteret County or
11 may have experience with Carteret County but would you
12 accept that this Commission is not the -- the Carteret
13 County Commission, of course --

14 A. Right.

15 Q. -- it's not. Folks here reside in Wake
16 County and have worked in Guilford County and Durham
17 County, Orange County, Mecklenburg County; will you
18 accept that?

19 A. I think the preface of that comment was that
20 the Utilities Commission would not allow an entity to
21 just arbitrarily every month or every quarter or
22 whatever the need be increase rates. Whereas the
23 County does have that flexibility and the County has,
24 in fact, exercised that flexibility trying to get this

1 system back financially viable to further satisfy, the
2 viable utility unit at the State Water Infrastructure
3 Authority of the Local Government Commission who has
4 labeled it as a financially distressed system.

5 Q. Now, on the -- there's been talk today on the
6 hardship fund and you've talked in your testimony on
7 page 5, under number 4, indicates that Mr. Junis
8 suggested the County hold the proceeds of the sale and
9 trust for hardship or subsidy or credit Carolina Water
10 for that amount of subsidized rate base. The
11 suggestion alone is overreaching suggested by the
12 Public Staff, et cetera; is that correct?

13 A. Yes. And I think our point there is that the
14 County already has hardship programs in place. They
15 are utilized by County water customers to -- for
16 hardships and that those hardships, you know, are
17 defined within that specific criteria primarily for
18 low-income energy assistance programs and so forth that
19 are offered at the Department of Social Services and we
20 do, in fact, have water customers that have utilized
21 that program.

22 Q. And then also, in your testimony you talk
23 about the issue of subsidization. You speak I think
24 in -- you know seven or eight times in a span of a couple

1 paragraphs about how, "Customers of the system and the
2 others across the water district in the County who have
3 subsidized the system for years"; is that correct?

4 A. That's correct. And again, that was
5 the -- the water district tax, it was assessed on the
6 district itself of which not all the district taxpayers
7 were water customers, and then, additionally, the
8 general fund had subsidized that water fund several
9 times through the years as well.

10 Q. Now, I guess with respect to that type of
11 hardship fund issue, and maybe you were here earlier to
12 hear some of the testimony; is that correct? Were you
13 here?

14 A. Yes, sir.

15 Q. Okay. I mean, we talked about it, how the
16 County has a lot of tools at its disposal. You talk a
17 little bit in your testimony, Ms. Meshaw does as well
18 about this being a punitive, kind of, scenario if you
19 got to go to school to learn how to better operate a
20 system and y'all tried but you know there are tools at
21 your disposal and including taking some queues from
22 your buyer in terms of depreciating a longer period of
23 time, you know. At some point and time, these rates
24 are going up. Now they may not be a rate freeze but

1 they're not going down and -- and y'all have
2 almost -- you -- you're close to almost owning this
3 system in large part.

4 So I guess the point has been if, on the
5 protection side, if y'all aren't willing to hold on to
6 it, then why should this Commission, kind of, almost I
7 don't know. Maybe I'm setting this the wrong way but
8 almost bail you out. This is the first such
9 transaction and it could open up the floodgates.

10 A. Well, I think that if you go back and look at
11 the original intent of the viable utility programs of
12 the State Water Infrastructure Program, its sole
13 purpose was to help these financially distressed
14 systems and it assessed those systems using different
15 criteria in Carteret County's case and systems of this
16 size, the assessment score so to speak that the Local
17 Government Commission through the State Water
18 Infrastructure Authority purpose. Our system
19 with -- the County met nine of those assessment
20 criterias of which only eight of those -- if you take
21 in the transfers in and the transfers out which was
22 the water district tax or the general fund, then that
23 would still leave 8 assessment criteria of which if
24 you look at the density requirements and so forth,

1 this system would never meet those. So in theory, it
2 would perpetually be a distressed system because of this
3 assessment criteria from the Local Government Commission.

4 Q. All right. Let's -- let's go to that just
5 for one moment. So you've got it attached to your
6 rebuttal testimony and it's kind of hard to -- to
7 decipher through but you've got it there. It says,
8 August 8th is the letter, and then the next page there,
9 the second page, page 2, and then -- and then page 3,
10 excuse me, and it's the fourth page of that where it
11 says at the top: Unit name, Carteret County, Total
12 Score 9.

13 A. Right.

14 Q. Now -- and then -- and then we go down. It's
15 got statutory points and you've got points scored there
16 three across the top there. Then the next one
17 infrastructuralization points to, and then at the
18 bottom, financial points two, one, and one. Now this
19 kind of goes to Ms. Meshaw's testimony as well. You
20 know, y'all last fiscal year turned a profit on this
21 and -- and so what impact might have that had on
22 whether y'all were a distressed system or not and --
23 and would you always stay a distressed system?

24 A. Well, I think the relevancy of that is

1 because it was understaffed the majority of the fiscal
2 year, and it was understaffed or not staffed at all in
3 the sense of people to process water bills and so forth
4 because you know the County has to follow the open
5 transparent process so what happens when people think
6 you're selling your water system. You know they're not
7 going to stay there and work for you. They're going to
8 try to look out for themselves, so the majority of that
9 year, we were not utilizing all of the personnel cost
10 because we didn't have the people and we're in a
11 situation in our labor market in eastern North Carolina
12 where we're paying a premium for wages and certainly a
13 premium for a certified water operator on a small
14 system such as this and that's been one of our
15 challenges ongoing is keeping a certified operator that
16 we can pay and compensate at a level that would keep
17 them focused on that system and not looking for other
18 employment.

19 Q. And, Ms. Meshaw, in your testimony you touch
20 on this. It's on page 3, I think the ninth line, you
21 say, "Many areas" -- excuse me -- "Many areas of the
22 points scored are beyond the County's control because
23 it's a small and rural system;" is that correct?

24 A. Yes, sir.

1 Q. Okay. Now, looking at -- looking at the
2 points and just to be clear, it is discussed in your
3 testimony just like Mr. Burns did, y'all did, again,
4 did turn a profit last fiscal year, but you also note
5 that you could -- if it had been staffed, you would
6 have lost 40 thousand so it's plus or minus 40
7 thousand, was it not?

8 A. And I think if you looked at the projection
9 for this year that we just ran at the end of May, that
10 deficit was going to be even greater.

11 Q. All right.

12 A. That was the column that was shaded gray
13 column there to the far right.

14 MR. CREECH: All right. We will have
15 one cross exhibit if we can. I had to get the
16 right naming convention on this. I believe it
17 would be Public Staff County Panel Cross Exhibit 1;
18 is that right?

19 COMMISSIONER HUGHES: That works. So
20 marked.

21 (Public Staff County Panel Cross Exhibit
22 1 was marked for identification.)

23 Q. Ms. Meshaw, do you have a copy of this and,
24 Mr. Burns?

1 A. (Ms. Meshaw) Yes, sir. I do.

2 Q. Okay. All right. And -- and that is -- and
3 you know as -- as Mr. Junis mentioned, y'all going
4 through your budget process for 20 -- for the upcoming
5 year, you just passed your budget last night; is that
6 correct?

7 A. Yes, sir.

8 Q. So we got this off of your Carteret County, at
9 the bottom, budget book 2024, and this is from your
10 water fund. This is from your water fund subset and it
11 says "Summary" at the top. Do you recognize this?

12 A. Yes, sir.

13 Q. I'm sorry?

14 A. Yes, I do.

15 Q. And, you know, we were looking at this and
16 can you -- can you -- can you -- it doesn't tell
17 necessarily -- it doesn't appear to tell the same story
18 that we thought about profits and losses. Can you
19 explain the period from 2015 to 2024 with respect to
20 budgeted versus actual?

21 A. (Ms. Meshaw) So the dark blue bar is actual
22 revenue sources. The lighter blue would be the
23 budgeted. And it's hard to read. Budgeted
24 revenues -- or actual revenues are pretty steady and

1 consistent over the years through '15 through '21 that
2 would include actual revenues would include all sources
3 including transfer in, investment earnings if there
4 were any but the majority, lion share, would of course
5 be the user fees. FY22 where you have the jump-up
6 is -- that would be where we'd had a rate increase that
7 year. So there was more budgeted revenues and more
8 actual revenues. FY23 which we see here we should be
9 concluding now, that decreased for two reasons: One is
10 we didn't have a transfer in from -- from the special
11 taxing district; and then the other is that in
12 September 2022, the County Commissioners lowered the
13 rate fee of that 25 percent. Mr. Junis did a lot of
14 discussion, the 95 percent increase in rate then
15 dropped 25 percent, and then so it's a combination of
16 not having the transfer in FY23, and then the rate was
17 a little bit lower than all but that bump for two
18 months in '22. '24 is a slight increase in budgeted. If
19 there is any appropriated fund balance that is
20 reflected in these numbers as well to balance the
21 budget for revenues and appropriated equal expenditures
22 in FY23, there is 75 thousand of appropriated fund
23 balance included in that to balance the budget and in
24 '24 in our adopted budget, I think it's \$160,000. Yes,

1 in the adopted budget, it was \$160,000 of fund balance
2 or savings to balance the budget.

3 Does that help you?

4 Q. It does. Because I'm looking at the kind of
5 the inflection point there between 2020 and 2021, I
6 mean, it looks like that -- how would you describe the
7 period from 2015 to 2020 in terms of revenues versus
8 expenditures?

9 A. I'd rather look at a chart. I mean look at a
10 spreadsheet of actual revenue and expenditures. I
11 think it would be easier to read because these little
12 bar things up here I'm not sure I would interpret them
13 correctly.

14 Q. Okay.

15 A. But can I look at an actual.

16 Q. I don't have that before me. But I
17 appreciate your point. We pulled down what you had so.

18 A. I know. Well, I can -- I can give you a
19 better answer if I can look at actual.

20 Q. Okay. Let's move on, if we can. So -- would
21 it be -- we'll just move on.

22 A. Okay.

23 Q. Thank you. So we talked a little bit with
24 Mr. Burns and it's also in your testimony relating to

1 the criteria year to year on a distressed system, and
2 so let's go to that, if we can, with you as well. And
3 so you got attached to your rebuttal the same letter
4 and of course, either of you can answer but.

5 A. Okay.

6 Q. So we've got questions of the financial
7 points here. You got -- let's see. There's
8 a -- there's one here that relates to the surplus
9 deficit with that and that's two points. And we
10 covered that. The other is the operating margin. And
11 then another is, let's see here debt service coverage
12 ratio. You know, when -- when y'all pay off this loan
13 in 2026, how will that impact your debt-to-service
14 coverage ratio?

15 A. It'll -- it should help. The debt service
16 coverage ratio is a requirement of the USDA revenue
17 bond and, yes, it will improve -- it'll improve the
18 ratio coverage. I was looking at the note 10 in the
19 financial statements. It will improve the coverage.

20 Q. Thank you. Now, one thing that's come up and
21 maybe you can help me clarify just one more time.
22 Relates to the way y'all budget versus the way you
23 report. And -- and especially with respect to
24 depreciation. Can you -- can you speak to that,

1 please?

2 A. Yes, sir. So in North Carolina, for under
3 State Treasurers Office, if you're a local government,
4 you have an enterprise fund. The state treasurer's
5 office requires the entity to budget on modified
6 accrual basis as well as report on a modified accrual
7 basis that is non-gap. So then, we have to do a
8 conversion and we have to adhere to Gap standards and
9 you do a conversion to full gap.

10 So on modified accrual and modified accrual
11 budgeting, you do not budget for depreciation. But you
12 would budget and you would expense capital outlay so
13 you've had a capital investment that's a expenditure
14 when you convert to full accrual to gap accounting you
15 -- capital assets are moved to the balance sheet and
16 then they're depreciated and you record depreciation
17 expense. So it's just there's just two different bases
18 of accounting.

19 Q. Now, with the resident accountant as well,
20 obviously, we're going from a public entity to a
21 private entity among the things we've talked about
22 today. We talked about debt cost, we've talked about,
23 of course, depreciation. What about taxes? Taxes paid
24 by -- any taxes paid by the County vis-à-vis in

1 comparison to the Company?

2 A. If you're referring to income taxes, we don't
3 pay any federal, state income tax. Of course, we have
4 payroll taxes that our staff we're required to pay.

5 Q. All right. So would it be fair to say that
6 in the hands of the buyer, they would have income taxes
7 that y'all would have to pay, they would have higher
8 debt cost, they wouldn't invest in a water fund,
9 so-called savings deposit that Mr. Junis had, and
10 they're going to depreciate longer so the depreciation
11 expense is going to be lower; is that correct?

12 A. I can definitively say if they made a profit,
13 they would have to pay tax on their income. How they
14 would operate to -- to use depreciation to benefit,
15 whether to lower net income or to have other benefits,
16 they would have to make that decision. I don't know
17 what they would do about setting aside capital for the
18 future. If -- if the County had to keep the system,
19 one of the things Mr. Burns and I would present to our
20 Board of Commissioners is that we would need to start
21 setting aside some kind of capital, large capital
22 maintenance or capital improvement fund. Our assets
23 are getting older and we think it would make good
24 financial sense to do that.

1 Q. Okay. Now, one more question. We talked
2 with Mr. Burns briefly on distressed system and
3 training and both you -- you talk a little bit more
4 than he does. Go a little bit more detail about what
5 all is involved and you may have been here when Mr.
6 Junis was --

7 A. Yes.

8 Q. -- testifying as well. And we are talking
9 about where you are in the process of your certain
10 studies and other things like that with respect to
11 being distressed, where are you in your, kind of, I
12 don't want to say learning process but in
13 the --

14 A. (Mr. Burns) I know where you're going.

15 Q. Yes, sir. Go ahead.

16 A. So we were notified in 2021 that we were
17 being looked at as a financially distressed system, and
18 then as you mention in 2022, August the 8th, we did
19 receive the determination. Since that time, we have
20 talked with the Local Government Commission and have
21 kind of relayed to them where we're at in this process
22 with the Utilities Commission and they've stayed all of
23 those further requirements on the County until this
24 issue before the Utilities Commission is resolved. So

1 you know we've been designated, but as far as the
2 additional training, as far as the acquisitions studies
3 and merger studies and rate studies, they've stayed all
4 of that until this process is complete.

5 Q. All right. And those are -- those are the
6 actions that are listed in the cover letter there
7 August, 2022; is that correct?

8 A. That was the determination letter that told
9 the County that it was in fact being classified as a
10 distressed utility system.

11 Q. Right, but the things under the statutory
12 requirements would be conducted as of an assessment and
13 rate study participating training that's number 2, and
14 then again, on the bottom of page 2, top of page 3 that
15 that letter and then 3 is develop an action plan.

16 A. And, again, the State Water Infrastructure
17 Authority have stayed those requirements
18 pending -- pending the conclusion of this process.

19 MR. CREECH: I think those are our
20 questions for now. Thank you.

21 COMMISSIONER HUGHES: Redirect? I have
22 that the Company doesn't have any questions; is
23 that still the case? Okay.

24 MS. SANFORD: I do not have questions.

1 MR. WHEATLY: I have a few, if this is
2 the time.

3 COMMISSIONER HUGHES: This is the time
4 for redirect. Redirect.

5 REDIRECT EXAMINATION BY MR. WHEATLY:

6 Q. Ms. Meshaw.

7 A. (Ms. Meshaw) Yes, sir.

8 Q. What has been the total expenditures from out
9 of our County monies reserve funds that have been put
10 into this water system during the tenure that it's been
11 operating?

12 A. The total amount is \$5,545,396. To break out
13 of that for the general fund is \$1,734,561, and then
14 from the water special revenue taxing district, is the
15 difference \$3,810,835.

16 Q. Now, did you check to see how much money we
17 had got into the fund and how much money is out of the
18 fund for this year ending this month?

19 A. Yes, sir. I did a projection. A revenue and
20 expense projection.

21 Q. And what did you find?

22 A. So the year-end is not completed. There's
23 certain things that are not considered, like for
24 pension and post-employment benefit liabilities. But

1 the projected loss is a little bit greater than
2 \$250,000.

3 Q. I have no further questions.

4 COMMISSIONER HUGHES: Okay. We'll move
5 over to Commissioner questions. Any questions?

6 All right. We have some staff
7 questions.

8 EXAMINATION BY COMMISSIONER HUGHES:

9 Q. During the fair value hearing, Ms. Meshaw and
10 Mr. Foxworth testified that the County had determined
11 that a sustainable rate to support the water system
12 including setting aside capital for further needs would
13 be \$98.70 for 4000. In these proceedings, Ms. Meshaw
14 states that if the County continued to own the system
15 and did not levy a special water district tax, it would
16 have to raise user rates by 40 percent. Does that
17 represent a change in your position or does 98.77
18 monthly rate for a customer using 4,000 equate to a 40
19 percent increase?

20 A. (Ms. Meshaw) I still agree with that. I
21 still concur.

22 Q. Okay. And do you know -- is that -- so the
23 98.77 or the 40 percent increase?

24 A. On the usage of gallons that is stated there,

1 that is a 40 percent increase.

2 Q. Okay. Okay. Very good. You also testified
3 that the County's operator in charge employee resigned
4 during 2022 and that the County's water maintenance
5 technician position was vacant the entire fiscal year.
6 How did the timing of those vacancies compare to the
7 County announcing that it would accept upset bids for
8 the sale of the systems?

9 A. (Mr. Burns) I think that was after the fact.

10 A. (Ms. Meshaw) It was.

11 A. (Mr. Burns) The employees were after the
12 fact.

13 A. (Mr. Meshaw) The resignations were
14 afterwards.

15 Q. Okay. Has the County determined yet whether
16 any of the grant funds will have to be repaid if the
17 systems are sold to Carolina Water and, if not, what is
18 the status of that inquiry?

19 A. For the USDA grant, we did make contact with
20 USDA and they sent back some simple language of the
21 process we would have to go through. Part of that is
22 having an appraisal and then they would review it and
23 go through their process and let us know the dollar
24 amount of the grant fund that would have of the grant

1 that have to be paid back. That's the \$1.5 million
2 grant. The other two state grants, we haven't worked
3 with them.

4 COMMISSIONER HUGHES: Okay. I don't
5 have any further questions.

6 Any?

7 EXAMINATION BY COMMISSIONER MCKISSICK:

8 Q. Ms. Meshaw, could you -- I'm not sure I
9 understood the response. You said in terms of \$1.1
10 million grant, you have to go through an application
11 process of some type, submit data, establish something
12 about an appraised value, and then it's determined; is
13 that what you indicated?

14 A. (Mr. Burns) Yes.

15 A. (Ms. Meshaw) Yes, sir. It was -- it was the
16 one-and-a-half million dollar grant. The USDA grant.

17 Q. Right. USDA grant.

18 A. Yes, sir.

19 Q. And as to the other grants that you received,
20 what was the response? It was -- it looked like some
21 degree of uncertainty as to what --

22 A. Those two were state -- state agency grants
23 and we reviewed the grant language, so we're not sure
24 we're going to have to pay them back and we have to

1 reach out on the state contacts on that.

2 Q. But you've not done so at this time? I mean,
3 I would think that might be an important consideration.
4 I know it came up in the fair value proceeding.

5 A. No. No. The language -- when we all
6 reviewed the language in the grants, that language
7 looked like we would not have to repay that as long as
8 the asset remained in use for water system. The USDA
9 grant application had much different language in there
10 and we did not feel comfortable at all with the USDA,
11 and felt like we would have to repay part of that back
12 and that's why we did contact them for their process.

13 Q. I see. I think it would have been helpful
14 and insightful to contact the state agency as well
15 considering the issues that have arisen within the
16 context of this proposed transaction and where we are
17 looking at now, the CPCN.

18 Thank you.

19 COMMISSIONER HUGHES: Okay. Any other
20 questions? Or take questions on questions?

21 MR. CREECH: Quick question on, well,
22 both of these questions relate to debt.

23 EXAMINATION BY MR. CREECH:

24 Q. When you're paying back your debt, y'all are

1 paying it back principal and interest; is that correct?

2 A. (Ms. Meshaw) Yes, sir.

3 Q. And you heard the testimony before though
4 that -- and the Company can correct it if they come
5 up -- but that -- the Company will be paying interest
6 only; is that correct? Did you see that? I guess
7 we'll wait on the Company on that. And then when you
8 pay back -- if you sell the system and you paid back
9 the lines that you've got to pay back, you're going to
10 have over a million dollars left over and are y'all not
11 separate a part from the sales proceeds, are you
12 planning on using any of that money for a hardship fund
13 of any sort?

14 A. (Mr. Burns) For what kind of fund?

15 Q. Hardship fund?

16 A. Capital. I mean, that's the only thing, you
17 know, we've identified the capital. We got need for a
18 detention center right now.

19 Q. Okay. Right. So you're going to use the
20 funds --

21 A. For public use.

22 Q. -- for the detention center, but you're not
23 going to use any of the funds, not one cent to -- to
24 offset any of the impact on -- on the existing

1 customers; is that correct?

2 A. I think that will probably be a public
3 purpose issue that we'd have to ask our attorney and to
4 even see if he was okay if our County Commissioners
5 were okay with that arrangement.

6 Q. So if your County Commissioner --

7 A. I would think it would be a public purpose
8 issue at that point.

9 Q. So if your County Commission okays it and
10 your attorney okays it, y'all -- you'd be okay with it?

11 A. Well -- yeah. We would have no choice.

12 A. (Ms. Meshaw) We would have to.

13 Q. County attorney's here. He's done some
14 testifying.

15 MR. CREECH: All right. That's it.

16 Thank you.

17 COMMISSIONER HUGHES: Okay. Any other
18 questions on questions?

19 MR. WHEATLY: I have no further
20 questions.

21 COMMISSIONER HUGHES: Okay. Well, you
22 may be released.

23 THE WITNESS: Thank you all. And thank
24 you again for working with us on that date, the

1 last meeting. We appreciate that.

2 COMMISSIONER HUGHES: Okay. Ms.
3 Sanford, we're ready for the Company's rebuttal
4 testimony. Can you please call your next witness?

5 MS. SANFORD: I recall Don Denton and
6 Matt Schellinger.

7 Whereupon,

8 DONALD H. DENTON III AND MATTHEW P. SCHELLINGER II,
9 HAVING BEEN PREVIOUSLY SWORN, WERE EXAMINED
10 AND TESTIFIED AS FOLLOWS:

11 MS. SANFORD: So we should proceed?

12 COMMISSIONER HUGHES: Yes.

13 MS. SANFORD: They're already under
14 oath.

15 DIRECT EXAMINATION BY MS. SANFORD:

16 Q. Good afternoon, again. I guess it was good
17 morning last time. Did you -- Mr. Denton, we'll start
18 with you and, of course, you're both still under oath.
19 Did you cause to be prepared rebuttal testimony
20 consisting of 12 pages and filed on March 29th?

21 A. (Mr. Denton) I did.

22 Q. Mr. Schellinger, similarly, did you cause to
23 be prepared rebuttal testimony consisting of 14 pages
24 and 4 exhibits filed on March 29th?

1 A. (Mr. Schellinger) I did.

2 Q. This question is to both of you. If you were
3 to provide this testimony today, would it be the same
4 as if your prefiled -- as your prefile?

5 A. (Mr. Denton) Yes. Yes.

6 A. (Mr. Schellinger) Mine would be the same as
7 updated with my revised exhibits.

8 Q. That's right. You had a cause revised
9 exhibit to be filed.

10 A. On June 9th, I filed revised rebuttal exhibit
11 MPS-3 and MPS-4.

12 MS. SANFORD: That's right. Thank you.

13 So I would ask that their testimony be
14 copied into the record as if given orally from the
15 stand and that Mr. Schellinger's exhibits be marked
16 for identification.

17 COMMISSIONER HUGHES: Motion granted.

18 (Rebuttal Exhibits MPS-1, MPS-2, MPS-3,
19 and MPS-4 and Revised Rebuttal Exhibits
20 MPS-3 and MPS-4 were marked for
21 identification.)

22 (Whereupon, the Prefiled Rebuttal
23 Testimony of Donald H. Denton III and
24 the Prefiled Rebuttal Testimony of

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Matthew P. Schellinger II were copied
into the record as if given orally from
the stand.)

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Jul 11 2023

1 **INTRODUCTION**

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

3 A. My name is Donald H. Denton III, and my business address is 5821 Fairview
4 Road, Suite 401, Charlotte, North Carolina 28209.

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

6 A. I am Senior Vice President, East Operations for Corix. I oversee the
7 operations of Carolina Water Service, Inc. of North Carolina (“CWSNC” or
8 “Company”), Blue Granite Water Company (“BGWC”) in South Carolina,
9 and Sunshine Water Services in Florida, all of which are subsidiaries of
10 Corix Regulated Utilities (“CRU”). In addition, I serve as President of
11 CWSNC and BGWC.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
13 BACKGROUND.**

14 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of
15 Technology as well as an Executive Masters in Business Administration
16 from Queens University in Charlotte, North Carolina. I have worked in the
17 utility sector for over 24 years in multiple capacities ranging from
18 engineering to strategic planning and major project execution.

19 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CAROLINA WATER
20 SERVICE, INC. OF NORTH CAROLINA?**

1 A. I am responsible for the Company's regulated water and sewer operations
2 in North Carolina, including facility operations, finance, business
3 development, safety, compliance, regulatory affairs, and customer service.

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. In order to rebut the Public Staff testimony filed by witness Charles Junis on
7 March 10, 2023, I must first explain the object and purpose of this
8 Application for a Certificate of Public Convenience and Necessity ("CPCN")
9 and for Approval of Rates, which was filed with the Commission on August
10 2, 2022, and about which additional filings were made by CWSNC on
11 August 26, 2022 and September 2, 2022. I address the Application, the
12 inter-relationship between NCUC Docket Nos. W-354, Sub 398 (the "Fair
13 Value" case, or "Sub 398") and W-354, Sub 399, and I focus on how the
14 public interest is served by this transfer.

15 **Q. PLEASE DESCRIBE THE OBJECT AND PURPOSES OF THIS CPCN**
16 **APPLICATION.**

17 A. The purpose of the filing is to comply with the statutory and rule-based
18 requirements for transfer of a regulated water system and the right to serve
19 its territory from one provider to another. In this case, the transfer is from a
20 governmental system, owned and operated by Carteret County, to CWSNC,
21 a provider of water service to the public that is regulated by the North

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1 Carolina Utilities Commission (“NCUC” or “Commission”) under North
2 Carolina General Statutes, Chapter 62.

3 **Q. DID YOU PARTICIPATE IN COMMISSION DOCKET NUMBER W-354**
4 **SUB 398? IF SO, PLEASE EXPLAIN THE PURPOSE OF THAT DOCKET**
5 **AND THE RELATIONSHIP BETWEEN SUB 398 AND THIS DOCKET.**

6 A. Yes, I did, and we have described these two dockets as “companion cases.”
7 Sub 398 is captioned as an *Application by Carolina Water Service, Inc. of*
8 *North Carolina for Determination of Fair Value of Utility Assets Pursuant to*
9 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for Acquisition of*
10 *the Carteret County Water System*. The purpose of that case of first
11 impression under N.C. Gen. Stat. § 62-133.1A was to determine the rate
12 base value of a governmental utility, when it is being acquired by a regulated
13 public utility, by use of a “Fair Value” based methodology, rather than by
14 use of the “original cost” method. The Fair Value statute, N.C.G.S. § 62-
15 133.1A, was adopted by the General Assembly as an alternative to the
16 “original cost” methodology, and it seems clear that the legislative policy
17 decision underlying the new statute is intended to facilitate transactions
18 between governmental and regulated providers.

19 Use of the Fair Value based methodology was an integral part of the
20 process employed by CWSNC in our attempt to purchase the Carteret
21 County (“Carteret” or “County”) water system. In order to make the

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1 transaction feasible, the Company determined that the "Fair Value"
2 methodology must be employed in order to capture the reasonable, realistic
3 value of this system as it migrates from ownership by a governmental entity
4 to ownership by a utility regulated by the North Carolina Utilities
5 Commission. The Company concluded that, absent the ability to establish
6 a realistic level of "market" value of such assets, CWSNC could not justify
7 as prudent an original cost-based purchase price as reflecting a fair,
8 reasonable, or realistic value for the system. CWSNC is eager to enter
9 municipal, county and other governmental markets, is eager to effectively
10 use this new statutory tool, and was pleased to bring this case of first
11 impression in the use of N.C.G.S. § 62-133.1A.

12 This docket seeks approval of the transfer of the system from
13 Carteret County to CWSNC, and establishment of rates. It is the regulatory
14 effort to complete the transaction, an effort that was begun in the Sub 398
15 docket.

16 **Q. PLEASE DESCRIBE THE COMMON ISSUES BETWEEN NCUC**
17 **DOCKET NO. W-354, SUB 398 AND THIS DOCKET.**

18 **A.** The determination of rate base under the Fair Value statute was a condition
19 precedent to the pursuit of a CPCN by CWSNC. Quite simply, the Company
20 had to know what the price and the rate base implications are, in order to
21 determine how and if to proceed in this transaction. The dockets were

1 inextricably related from the beginning, and therefore both determinations
2 were required in order to facilitate the transfer.

3 Furthermore, the procedures established for both dockets have
4 reflected their commonality. The Commission addressed them both in the
5 same Order Scheduling Hearings, Establishing Discovery Guidelines, and
6 Requiring Customer Notice, issued on September 13, 2022; the public
7 hearings for both dockets were combined on October 18, 2022 in Beaufort
8 and for purposes of filing a report on customer concerns; the Scheduling
9 Order directed that an officer or representative from both CWSNC and the
10 County is required to appear before the Commission at the time and place
11 of the expert witness hearings to testify concerning any of the information
12 contained in the Applications; in both dockets the Commission expressly
13 provided that CWSNC and the County “may file rebuttal testimony and
14 exhibits on or before” a date certain; and one Notice to Customers, a part
15 of the Scheduling Order of September 13, 2022, was issued with the
16 combined dockets.

17 **Q. HOW DO YOU RESPOND TO MR. JUNIS’ ANALYSIS OF THE**
18 **COMMISSION’S ORDER IN THE SUB 398 DOCKET?**

19 A. Mr. Junis highlighted certain Findings of Fact at pp. 5-7 of his testimony of
20 March 10, 2023. Particularly relevant to the decision to be made in this
21 docket are those Findings which support a fair value - and, by extension, a

1 rate base value for the Carteret County water system - of \$8,416,000. The
2 crux of the decision, as reflected in these Findings, is that a fair value of
3 \$8,416,000 (plus reasonable expenses and fees) is in the public interest;
4 that a rate base of the agreed-upon purchase price of \$9,500,000 is not;
5 that it is difficult to predict the impact on rates of granting the Application,
6 particularly since the next rate case is anticipated to be four years out; that
7 utilization of the Fair Value Statute is in the public interest, with the adjusted
8 fair value; and that the agreed-upon four-year rate freeze for the acquired
9 Carteret County Water System customers is “appropriate and beneficial to
10 the System customers.” The referenced conditions follow: paragraph
11 references are to certain of the Commission’s Findings of Fact in its Order
12 of February 10, 2023 at pp. 7-8. (emphasis is added below)

13 **19. In the public interest, it is appropriate for the Commission to**
14 **adjust the fair value to \$8,416,000.**

15 **20. Acquisition of the System will spread certain of CWSNC’s**
16 **costs over a larger customer base, although it is not possible on**
17 **the present record to quantify the extent to which this will**
18 **benefit CWSNC’s existing customers or affect CWSNC’s future**
19 **rates.**

20 **22. At the fair value, as adjusted by the Commission in its**
21 **discretion, utilization of the Fair Value Statute is in the public**
22 **interest.**

23 23. CWSNC’s Revised Form Application 2 Exhibit 8, filed on August
24 11, 2022, provided a list of the actual costs and fees incurred through
25 August 9, 2022, and the estimated costs and fees through closing
26 totaling \$174,439.74. The Update to Revised Form 6 Application
27 Exhibit documents reasonable fees paid to the utility valuation

1 experts in addition to reasonable transaction and estimated closing
2 costs incurred by CWSNC of \$312,039.

3 24. The water rates reflected in CWSNC's Revised Form Application
4 Exhibit 12 are the existing Carteret County rates. CWSNC has
5 agreed with Carteret County that the customers of the System will
6 remain at Carteret County's current water rates for the next four
7 years. **The agreed-upon rate freeze is appropriate and beneficial**
8 **to the System customers.**

9 *See Order Establishing Rate Base of Water System Acquired from*
10 *Carteret County, Application by Carolina Water Service, Inc. of North*
11 *Carolina for Determination of Fair Value of Utility Assets Pursuant to*
12 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for*
13 *Acquisition of the Carteret County Water System, Docket No. W-354,*
14 *Sub 398 (N.C.U.C. February 10, 2023) (Sub 398 Order).*

15 **Q. DO YOU ACKNOWLEDGE THAT THE COMMISSION DETERMINED IN**
16 **THE SUB 398 ORDER THAT, FOR USE IN THE CURRENT CASE, THE**
17 **FAIR VALUE IS \$8,416,000 PLUS REASONABLE FEES AND**
18 **TRANSACTION COSTS OF \$312,039, THAT THE RATE FREEZE IS**
19 **APPROPRIATE AND BENEFICIAL, AND THAT THE COMMISSION HAS**
20 **AUTHORITY - DURING A RATE CASE - TO SET RATES AND TO**
21 **DETERMINE WHETHER PROPERTY IS USED AND USEFUL?**

22 **A.** Yes.

23 **Q. WHAT IS YOUR RESPONSE TO MR. JUNIS' DISCUSSION**
24 **CONCERNING CUSTOMER CONCERNS ABOUT SERVICE?**

25 **A.** My response is that these issues have been thoroughly and
26 comprehensively answered and discussed in the Sub 398 docket, that the
27 two filed reports and other correspondence and testimony from that docket

1 be incorporated herein by reference in response to the recitation by Mr.
2 Junis, and that - should this transfer be granted - customer service
3 responsibilities are understood to migrate with the CPCN responsibilities to
4 CWSNC. CWSNC's discharge of its operational and customer service
5 responsibilities has often been the subject of praise and appreciation by the
6 Public Staff. Though the past record does not substitute for future
7 performance, I submit it is a solid indicator of what has been experienced
8 and can be expected from the Company, and all stakeholders here are clear
9 that the Commission's jurisdiction over customer service is statutorily
10 prescribed and firmly exercised.

11 **Q. DO YOU HAVE AN OPINION ABOUT THE COUNTY'S ABILITY TO**
12 **REASONABLY - WITH RESPECT TO RATES AND OPERATIONAL**
13 **FACILITY - CONTINUE TO OWN AND OPERATE THIS SYSTEM?**

14 **A.** My opinion is that these matters are for determination by the County's duly
15 elected officials, that they have made that decision after extensive
16 deliberation, through careful examination of the issues, and via a lengthy,
17 competitive, statutorily authorized upset bid process. It is also unclear to me
18 whether the Public Staff possesses the statutory authority to attempt to
19 arrogate to itself those policy, financial, and operational decisions. The
20 Public Staff's position appears predicated on an attack on the basis and
21 merits of the County's decision that it and its current water customers are

1 best served by a sale of the water system. The rebuttal testimonies of Ms.
2 Meshaw and Mr. Burns address these issues.

3 **Q. DO YOU HAVE ANY COMMENTS ON THE PROJECTION OF THE**
4 **RATES THAT WILL BE APPLIED TO THESE CARTERET COUNTY**
5 **CUSTOMERS BETWEEN NOW AND THE NEXT CWSNC RATE CASE,**
6 **AND THEREAFTER?**

7 A. Yes. First of all, if our proposal is accepted, the rates will be frozen for four
8 years. That is an extraordinary degree of rate stability that is virtually never
9 afforded to any water and wastewater customer, and to which the Public
10 Staff, curiously, seems to attribute little value. Secondly, the projection of
11 future rates, after a rate case that is in the future and which will be
12 thoroughly reviewed before the Commission, can be reasonably estimated
13 based on realistic, reasonable assumptions, as demonstrated in the rebuttal
14 testimony of Mr. Schellinger.

15 **Q. DO YOU HAVE ANY COMMENTS ON THE PUBLIC STAFF DISCUSSION**
16 **ABOUT ORIGINAL COST, LESS DEPRECIATION, OF THE CARTERET**
17 **COUNTY WATER SYSTEM?**

18 A. Yes. I believe it to be irrelevant to this decision. The Commission has
19 determined the fair value of the system, in the public interest, and has thus
20 made a determination that addresses rate base.

1 **Q. DO YOU BELIEVE THIS TRANSFER TO BE IN THE PUBLIC INTEREST**
2 **AND TO MEET STATUTORY AND CASE-BASED REQUIREMENTS FOR**
3 **APPROVAL?**

4 A. Yes, I do, for the following reasons:

- 5 1. Although the Public Staff's recitation of statutes and case law at
6 pp. 29-30 of Mr. Junis's testimony, addresses the standards for
7 mergers, and not for a transfer, the Company believes the facts
8 of this case generally support even the standard they describe,
9 and which they request the Commission to apply.

10 N.C.G.S. § 62-110(a) provides that "no public utility shall
11 hereafter begin the construction or operation of any public
12 utility plant or system or acquire ownership or control thereof,
13 either directly or indirectly, without first obtaining from the
14 Commission a certificate that public convenience and
15 necessity requires, or will require, such construction,
16 acquisition, or operation." Furthermore, N.C.G.S. § 62- 111(a)
17 provides that "no franchise now existing . . . shall be sold . . .
18 except after application to and written approval by the
19 Commission, which approval shall be given if justified by the
20 public convenience and necessity."

- 21 2. CWSNC submits that there is an overall benefit in terms of
22 economies of scale and spreading of overhead and fixed costs
23 that inherently is produced by combinations. The Commission
24 has ruled that the adjusted Fair Value is in the public interest. The
25 rates for the County customers will be frozen **until a future rate**
26 **case** (emphasis added), and after that will be set under the

1 careful oversight of the North Carolina Utilities Commission. The
2 service quality will be regulated by the Commission.

3 3. Ratepayers will be protected as much as possible from potential
4 costs and risks of the acquisition and transfer. The current County
5 customers will avoid the risk of sharp adjustments to rates and
6 imposition of taxes which are to support the water system. The
7 Commission has a wide range of authority regarding rates, either
8 as stand-alone or otherwise, in several years when it will be time
9 to assess the then-current status for these Carteret County
10 customers. More will be known then that is not known now, and
11 the relevant information should be expected to be rigorously
12 examined in a rate case.

13 4. This combination can clearly be expected to result in significant
14 benefits to the customers of the Carteret system. The County
15 speaks repeatedly of its inability to competently operate the
16 system, and of the need to seek financial support from imposition
17 of taxing mechanisms or sharp rate increases. I also submit that
18 the advantages of increasing the CWSNC footprint and adding to
19 the scope of our systems is real, and that this first step towards
20 understanding how to complete and integrate acquisitions of

1 governmental systems is an operational and financial advantage
2 that is authorized, and is supported in this case.

3 5. Taken in its totality, the evidence presented in this case meets
4 the test, proffered by the Public Staff, of establishing a “reasoned
5 framework” on which utility mergers may be evaluated (Junis
6 testimony, p. 30). I believe the evidence here supports that
7 reasoned framework upon which this transfer can be evaluated. I
8 believe that, due and subject to the regulatory oversight by the
9 Commission and the Public Staff, there is the assurance that
10 service quality will be maintained or improved and costs and rates
11 can be set at the lowest possible level. That this is all done
12 consistently with rates sufficient to support service and allow a
13 reasonable return on investment, is the heart of the regulatory
14 process and it ensures benefits for all stakeholders.

15 **Q. DO YOU BELIEVE THAT EVIDENCE RECEIVED IN THE W-354, SUB 398**
16 **CASE IS RELEVANT TO THE DETERMINATION OF ISSUES**
17 **CONCERNING PUBLIC INTEREST IN THIS CASE?**

18 A. Yes, and I would request that the Commission incorporate by reference the
19 record of that case into this one, as relevant and necessary to a decision.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THE PRESENT TIME?**

21 A. Yes.

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

2 A. My name is Matthew P. Schellinger II. My business address is 5821
3 Fairview Road, Suite 401, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Regional Director of Financial Planning and Analysis, East Region for
6 the Corix Group of Companies ("Corix"). In this capacity, I oversee financial
7 planning and analysis for Carolina Water Service, Inc. of North Carolina
8 ("CWSNC" or "Company").

9 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND?**

11 A. I have been employed by CWSNC since October 2019. I received a
12 Bachelor of Science Degree with a major in Accounting from the University
13 of South Florida in 2012. I received a Master of Business Administration
14 with a focus in Management and Strategy from Western Governors
15 University in 2016. Prior to joining CWSNC, I was employed as a controller
16 for an insurance agency from 2007 to 2013. In that capacity, I performed
17 general corporate accounting functions on a daily and monthly basis. From
18 2013 to 2019, I was employed by the South Carolina Office of Regulatory
19 Staff, first as an Auditor and starting in 2016 as a Regulatory Analyst. In that
20 capacity I performed regular reviews of water, sewer, natural gas, and
21 electric regulatory filings.

22 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

1 A. My primary responsibilities include forecasting, budgeting, and financial
2 analysis for the Company.

3 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

4 A. The purpose of my testimony is to respond to positions of the Public Staff
5 in its direct testimony filed in this Docket, particularly as it relates to the
6 accounting for fair market value (“FMV”) transactions, depreciation
7 expense, amortization expense, cost of service, fixed and incremental
8 costs, and rate base per customer.

9 **ACCOUNTING FOR FAIR MARKET VALUE TRANSACTIONS**

10 **Q. PLEASE DESCRIBE PUBLIC STAFF’S POSITION ON THE**
11 **ACCOUNTING FOR THE FMV TRANSACTION.**

12 A. The Public Staff does not appear to have outlined a position on how a FMV
13 transaction should be accounted for but has made certain assumptions
14 regarding depreciation and amortization expenses in the Public Staff’s cost
15 of service assumptions.

16 **Q. HOW DOES CWSNC PROPOSE TO ACCOUNT FOR THE FMV**
17 **TRANSACTION ASSOCIATED WITH THE CLOSING OF CARTERET**
18 **COUNTY ACQUISITION?**

19 A. CWSNC proposes to account for the FMV transaction in compliance with,
20 and using guidance from, Generally Accepted Accounting Procedures
21 (“GAAP”) and National Association of Regulatory Utility Commissions
22 (“NARUC”) Uniform System of Accounts (“USOA”).

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1 Specific guidance from the NARUC USOA for Class A Water Utilities
 2 that is helpful for determining the accounting for FMV transactions is
 3 Accounting Instructions #17C and #18 (pages 19-20), and Balance Sheet
 4 Account #114 – Utility Plant Acquisition Adjustments (pages 59-60).

5 Utilizing this guidance, CWSNC is under the understanding that the
 6 proper way to account for this transaction on closing is as shown in Table 1
 7 below:

Table 1

<u>Balance Sheet Account</u>	<u>Debit</u>	<u>Credit</u>	<u>NARUC Account</u>
Plant	12,195,043		101
Accumulated Depreciation		6,992,436 ¹	108
Cash - Purchase		9,500,000	131
Acquisition Project		312,039 ²	101
Goodwill	1,084,000		114
Purchase Acquisition			114
Adjustment	3,525,432		
Total	<u>16,804,475</u>	<u>16,804,475</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Total</u>
Rate Base	15,720,475	6,992,436	8,728,039 ³

¹ Implied Accumulated Depreciation as of 12/31/2022 based on the Water Fund Capital Assets Report dated 06/30/2022.

² Reasonable fees paid to the utility valuation experts, reasonable transaction and closing costs as ordered by the Commission.

³ Reasonable and appropriate fair value of the Carteret County Water system as ordered by the Commission.

DEPRECIATION RATE AND EXPENSE

1
2 **Q. PLEASE DESCRIBE PUBLIC STAFF'S POSITION ON DEPRECIATION**
3 **EXPENSE.**

4 A. The Public Staff has proposed to depreciate and amortize the entirety of the
5 allowed rate base at 4% per year.

6 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
7 **DEPRECIATION EXPENSE?**

8 A. No. The 4% rate that the Public Staff is proposing is not a reasonable
9 approximation of the remaining useful service lives of the assets of the
10 Carteret County water system. Attached as Rebuttal Exhibit MPS-1 is a
11 capital asset listing provided by Carteret County as of 06/30/2022 which ties
12 to the plant and accumulated depreciation amounts listed in Carteret County
13 audited annual report.

14 Carteret County has depreciated its assets to date based on a flat
15 30-year useful service life for all asset categories, except vehicles, without
16 regard for how long those assets generally or usually last, which has
17 resulted in a number of plant categories being over-depreciated as a
18 percent of their remaining useful life. The primary categories of assets in
19 Carteret County Water System are Water Treatment Plant, Distribution
20 Reservoirs and Standpipes, and Transmission and Distribution Mains, for
21 which CWSNC is authorized to depreciate over 50 years, 50 years, and 100
22 years, respectively.

1 Utilizing CWSNC's current Uniform Water depreciation rates, the
2 going forward composite depreciation rate on Carteret's plant in service
3 would be 1.40% and will fully depreciate over 31 years. Attached as
4 Rebuttal Exhibit MPS-2 is a breakdown of the Carteret County Water plant
5 and accumulated depreciation at CWSNC's service lives, including the
6 NARUC service lives for reference, all of which point to considerably longer
7 service lives for assets than the 30-year life that Carteret County has been
8 using.

9 **Q. WHAT IS CWSNC'S POSITION ON DEPRECIATION EXPENSE?**

10 A. The Company recommends that depreciation rates be set at the current
11 CWSNC Uniform Water depreciation rates. Ultimately, the Commission has
12 complete discretion on this significant portion of the eventual cost of service.

13 **AMORTIZATION RATE AND EXPENSE**

14 **Q. PLEASE DESCRIBE PUBLIC STAFF'S POSITION ON AMORTIZATION**
15 **EXPENSE.**

16 A. The Public Staff has proposed to depreciate and amortize the entirety of the
17 allowed rate base at 4% per year without distinction for the portion of rate
18 base that will be amortized.

19 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
20 **AMORTIZATION RATE AND EXPENSE?**

21 A. No. The rate at which CWSNC amortizes the Purchased Acquisition
22 Adjustment ("PAA") associated with the Carteret County Water system is a

1 rate that is wholly within the discretion of the Commission to set, and as
2 such is a significant portion of the eventual cost to serve that as of yet has
3 not been determined. CWSNC is proposing to amortize the PAA over the
4 composite remaining useful life of the acquired assets, or 3.22%, as shown
5 in Rebuttal Exhibit MPS-2.

6 Currently, CWSNC has a number of past Purchase Acquisition
7 Adjustments amortizing on its books. It has been the Public Staff's position
8 that this PAA rate changes in each rate case in order to amortize over the
9 remaining useful life of CWSNC's plant. The PAA amortization rate was
10 recently reset in the Sub 384 rate case to 2.73% for the Uniform Water rate
11 division and due to resetting, the amortization rate is no longer correlated
12 with any particular original underlying acquisition.

13 **Q. PLEASE DESCRIBE CWSNC'S POSITION ON AMORTIZATION RATE**
14 **AND EXPENSE.**

15 A. The Company recommends that the PAA amortization rate for the Carteret
16 Water system be set at the remaining useful life of the underlying plant, or
17 3.22%. This would have the effect of syncing the entire FMV of the
18 acquisition – and the depreciation of the acquired assets and the PAA – to
19 the same timeline.

COST OF SERVICE, ECONOMIES OF SCALE, AND INCREMENTAL COSTS

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Q. DOES CWSNC AGREE WITH THE COST TO SERVE AS OUTLINED IN PUBLIC STAFF TESTIMONY?

A. Generally, CWSNC does not disagree with the Cost to Serve calculations presented by the Public Staff except as outlined above regarding depreciation and amortization expense and detailed below.

Q. ARE THERE ADDITIONAL CONSIDERATIONS TO THE COST OF SERVICE BEYOND DEPRECIATION AND AMORTIZATION EXPENSES?

A. Yes. There is additional consideration to the cost of service numbers presented by the Public Staff beyond looking at a simple calculation. Embedded within the cost of service numbers are several fixed costs that are currently being incurred and are part of the cost to serve current Uniform Water customers. As these costs are fixed and will generally not vary with the inclusion of the Carteret customers, these costs to serve will be allocated to future Carteret County Water customers and thus do not produce incremental costs incurred due to the acquisition of Carteret. Some examples of these fixed costs are noted below in Table 2:

Table 2

Expense Category	\$/ERC per Sub 400 – RY3	Total Expense (\$/ERC* 1,434 ERC)
Rent	\$7.80	\$11,185
Office Utilities	\$6.66	\$9,550
Office Supplies	\$1.71	\$2,447
Corporate Allocations	\$102.73	\$147,315
Non-Operational Salaries	\$67.96	\$97,451
Total Fixed Costs		\$267,949

There are other, less easily identified costs that are not also incrementally incurred by the Carteret acquisition. Ultimately, these costs are already being incurred by current customers and directly represent the economies of scale and benefit to having additional customers contribute to the whole of CWSNC's costs to serve its customers.

RATE BASE PER CUSTOMER

Q. PLEASE DESCRIBE PUBLIC STAFF'S CALCULATION OF RATE BASE PER CUSTOMER.

A. The Public Staff in the testimony of witness Charles Junis on page 31 and 32 provide summaries of the rate base per customer of the current CWSNC Uniform Water rate division in Sub 384 (\$2,337 per customer) and compare that to the Carteret acquisition rate base (\$6,835 per customer). The Public Staff's position is that these numbers should inform the Commission decision by comparison.

Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON RATE BASE PER CUSTOMER?

1 A. No. CWSNC believes that the comparison of rate base per customer is of
2 limited merit and value in the determination of acquisitions. CWSNC
3 Uniform Water rate division is comprised of many systems with individual
4 rate bases above and below rate division's level, as well as costs to serve
5 above and below that level. In addition, rate base is merely one component
6 the revenue requirement calculation when considering all costs to serve
7 customers.

8 Further, to the extent that the Commission finds that the rate base
9 per customer is a useful metric, CWSNC does not believe that the Public
10 Staff has presented an accurate comparison point for rate base per
11 customer. First, the 29,317 value used by Public Staff in the calculation of
12 Uniform Water is an Equivalent Residential Connections ("ERC") number,
13 not a customer number. The ERC number has been adjusted for availability
14 customers and for meter size. Similar adjustments would be necessary for
15 Carteret ERC count due to having a number of meters larger than a
16 standard 5/8" meter.

17 Similar to the Public Staff's utilization of a Sub 400 Rate Year 3
18 expense update, a Sub 400 Rate Year ("RY") 3 rate base per ERC and
19 Carteret County rate base per ERC at year 4 is provided below in Table 3,
20 which would be a more useful comparison metric.

Table 3

Rate Division	Rate Base	ERC Count	Rate Base Per ERC
CWSNC Uniform Water – Sub 400 RY 3	\$90,406,776 ⁴	29,426	\$3,072
Carteret County – Year 4	\$7,488,178 ⁵	1,444 ⁶	\$5,185

CWSNC's water systems are currently in a period of continued investment. As has been shown in the FMV hearing from the appraisers and from the engineering report, the Carteret water system is relatively new and in good condition so will not need considerable investment in the near term.

Finally, this rate base per ERC metric does not contemplate the eventual inflection point as the Carteret system continues to amortize and depreciate through the future while CWSNC continues to invest in its existing aging systems and infrastructure.

RATE IMPACTS

Q. HAS THE COMPANY ESTIMATED THE BILL IMPACT FOR THE CARTERET COUNTY WATER CUSTOMERS, BOTH FOR COMPLETING AND FOR NOT COMPLETING THE ACQUISITION?

A. Yes. Attached as Rebuttal Exhibit MPS-3 is an update to the Addendum included with the CPCN application. The income statement and cash flow sections have been updated using the expense figures as proposed by

⁴ From Sub 400 Proposed Orders for Rate Year 3.

⁵ Estimated Rate Base after 4 years of depreciation/amortization at CWSNC proposed rates.

⁶ 1,366 estimated customers per Public Staff Junis Exhibit 1 adjusted for 2.5 ERC for 1" meters, 8 ERC for 2" meters, 25 ERC for 4" meters.

1 Public Staff, modified for the above described changes for depreciation and
2 amortization expense.

3 The Company notes the Rebuttal Testimony of Denise Meshaw,
4 which states that, without the Company's acquisition and if the Water Tax
5 subsidization is removed, the Carteret County Water customers can expect
6 a 40% rate increase. The Company calculates that this would result in the
7 average monthly bill increasing from \$61.47 to \$86.06. Assuming
8 subsequent annual increases consistent with the Inflation Factor in the
9 Company's and the Public Staff's Proposed Orders of 2.4% for Rate Years
10 2 and 3 in Sub 400, the result would be a monthly bill of \$92.40 by the time
11 the Company's next MYRP case is effective. The Company compared this
12 rate projection to alternative scenarios of 1) a CWSNC acquisition, but a
13 separate rate division established for Carteret in the next MYRP case, and
14 2) a CWSNC acquisition, but consolidating Carteret with the Uniform Water
15 rate division in the next MYRP case. The results of this comparison are
16 shown in Rebuttal Exhibit MPS-4, lines 40-42. The Company concludes
17 from these calculations that the Carteret customers would have lower bills
18 by virtue of a CWSNC acquisition, and lower still if included in the Uniform
19 Water rate division. Both of these scenarios also would result in lower
20 Carteret bills in the intervening years due to the agreed-upon rate freeze.

1 **Q. HAS THE COMPANY ESTIMATED THE BILL IMPACT FOR THE**
2 **UNIFORM WATER CUSTOMERS, BOTH FOR COMPLETING AND FOR**
3 **NOT COMPLETING THE ACQUISITION?**

4 A. Yes. The Company also presents in Rebuttal Exhibit MPS-4 the Uniform
5 Water rate division average monthly customer bill in three scenarios: 1) the
6 Sub 400 monthly bill, consistent with the Company's Proposed Order, 2) the
7 Sub 400 monthly bill, with the Carteret acquisition, but a separate rate
8 division established for Carteret in the next MYRP case, and 3) the Sub 400
9 monthly bill, with the Carteret acquisition, but consolidating Carteret with the
10 Uniform Water rate division in the next MYRP case.

11 The results of this comparison are shown in Rebuttal Exhibit MPS-4,
12 lines 48-50. The Company concludes from these calculations that the
13 Uniform Water customers would benefit from the acquisition of Carteret,
14 whether the Carteret customers are included in the Uniform Water rate
15 division in the next MYRP case or not. However, the best outcome for all
16 customers – which would generate savings for all customers - is to include
17 Carteret customers in the Uniform Water rate division in the next rate case,
18 as that provides savings to existing customers, while providing the best rate
19 outcome for the Carteret customers.

1 **Q. WHAT ARE THE DRIVERS OF THE RATE IMPACTS THE COMPANY**
2 **CITED ABOVE?**

3 A. The drivers for the Carteret monthly bill results show that lower O&M costs,
4 from both a more cost efficient operation of Carteret by CWSNC and larger
5 scale afforded by the acquisition, outpace the higher rate base per customer
6 of Carteret as a stand-alone system. In addition, the Uniform Water
7 customers benefit from the added customers, which spreads fixed costs
8 across a larger customer base. Although not yet calculated by CWSNC, the
9 Company believes non-Uniform Water rate division customers would also
10 benefit from the acquisition of Carteret, due to the Carteret customers
11 absorbing a portion of overall CWSNC fixed costs.

12 **CONCLUSION**

13 **Q. WHAT IS CWSNC'S RECOMMENDATION IN THIS DOCKET?**

14 A. CWSNC recommends that the Commission approve the Carteret County
15 CPCN.

16 CWSNC requests the Commission order the going forward
17 depreciation rates be equal to that of the CWSNC Uniform Water rate
18 division as a more reasonable approximation of the remaining service lives
19 of the utility assets of Carteret County.

20 CWSNC requests that the Commission set the amortization of the
21 due diligence and transaction costs at 2.5% and place them into the
22 Organization plant account, similar to that of the Public Staff's

1 recommendation for Riverbend and Silverton acquisitions, and consistent
2 with the Uniform Water rate division's rate.

3 CWSNC requests that the Commission order the Purchase
4 Acquisition Adjustment amortization rate consistent with the expected
5 remaining useful lives of the acquired assets, and therefore be consistent
6 with a composite of the Company's applicable Uniform Water depreciation
7 rates.

8 Finally, CWSNC recommends that the eventual inclusion of Carteret,
9 like the Echota and Seven Devils acquisition, into the Uniform Rate division
10 will help drive rate pressures down over the life of the Carteret system due
11 to the staggering of systems of different lives (and therefore the timing of
12 needed capital investment), the coverage of CWSNC fixed costs, and the
13 costs to run and operate the Carteret system. CWSNC, based on the above
14 and the evidence in the record, further recommends that the Commission
15 determine the acquisition is in the public interest.

16 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
17 **KNOWLEDGE, INFORMATION, AND BELIEF?**

18 A. Yes.

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

20 A. Yes, it does. However, I reserve the right to update or amend this testimony
21 upon receipt of additional relevant data or other information that may
22 become available.

1 MS. SANFORD: Thank you.

2 With that, the witnesses are available
3 for examination.

4 CROSS EXAMINATION BY MR. CREECH:

5 Q. Good afternoon.

6 A. (Mr. Denton) Good afternoon.

7 Q. Things should be a little shorter here at
8 least for the moment based upon your time earlier so
9 thank you for that. You did hear earlier about
10 loan -- about debt repayment. Will y'all be paying
11 back principal and interest on your debt or will you be
12 paying only interest?

13 A. (Mr. Schellinger) So when it comes to
14 ratemaking, we design rates around the interest
15 component, and in a lot of ways, that becomes separate
16 from what actually happens with how the debt is
17 handled, so I think it's going to depend on the exact
18 loan, really.

19 Q. Now, we -- we talked earlier today and about
20 the different systems, the North River and Merrimon,
21 and you've given your analysis on using ERC, but I do
22 have some clarifying questions for you if I can.

23 Overall, how many water systems does Carolina Water own
24 and operate in North Carolina; do you know

1 approximately?

2 A. I believe it's approximately 120. It's
3 definitely over 100.

4 Q. And how many of your water systems have at
5 least one elevated water storage tank, do you know? If
6 you don't know, just say it. That's no problem.

7 A. I don't know.

8 Q. And how many of them have at least two
9 elevated storage tanks; do you know?

10 A. I do not know.

11 Q. 3?

12 A. I do not know.

13 Q. All right. No problem. All right. Do you
14 know how many are in Carteret County?

15 A. (Mr. Denton) We have three I believe in
16 Carteret County.

17 A. (Mr. Schellinger) There's three systems in
18 Carteret County not counting these two.

19 A. (Mr. Denton) Not counting these two, which
20 we are currently operating.

21 Q. And what about elevated water storage tanks?

22 A. (Mr. Schellinger) I'm not aware.

23 A. (Mr. Denton) There's one at Brandywine Bay.
24 I think that's the only one in Carteret.

1 Q. All right. All right. And how many have a
2 customer density of less than 50 customers per mile?

3 A. I would have to check on that. I don't know.

4 Q. How many water systems have an ION exchange
5 treatment system; do you know?

6 A. I do not know.

7 Q. What about treatment systems associated that
8 has an associated operating and maintenance expenses?

9 A. (Mr. Schellinger) Can you ask that question
10 again?

11 A. (Mr. Denton) I'm not sure I understand that
12 question.

13 Q. Okay. If you don't -- so let me get your
14 clarification on that. Do you have a -- do you have a
15 system that has an ION exchange treatment system?

16 A. We do have Ion exchange. I'm not sure
17 exactly what systems they're in.

18 Q. All right. Let me move on. What about water
19 softening?

20 A. Yes, we have water softening in all systems.

21 Q. Okay. Are there chemical costs associated
22 with operating a water softening system?

23 A. There are costs associated with water
24 softening systems, yes.

1 Q. Okay. If customer density is lower than
2 average, would the cost of service be higher than
3 average?

4 A. Can you repeat the question?

5 Q. If customer density is lower than average,
6 would the cost of service be higher than average?

7 A. (Mr. Schellinger) I don't think you can look
8 just at that one metric in isolation and make a broad
9 determination on that, no.

10 Q. All right. If -- if rate base is higher than
11 average, would with cost of service be higher than
12 average?

13 A. Not necessarily.

14 Q. You concur?

15 A. (Mr. Denton) Yeah. I agree.

16 Q. If expenses are higher than average, would
17 the cost of service be higher?

18 A. (Mr. Schellinger) Once, again, not
19 necessarily.

20 Q. If Carteret County system has lower customer
21 density, higher rate base per customer, and higher
22 operating expenses from the average Carolina Water
23 System, wouldn't consolidation increase the average
24 uniform water bill?

1 A. Assuming all three of those are true, then
2 that would be a reasonable assumption.

3 Q. All right. Let's see. I may have just a
4 couple more here. Overhead and fixed cost allocated by
5 corporate to the state's subsidiary; how is that
6 allocation passed down?

7 A. The allocation is passed down through an ERC
8 account. It's a percentage to each system.

9 Q. Okay. And if you add 1,300 customers, that
10 would increase your state's share of corporate cost; is
11 that correct?

12 A. Correct.

13 Q. Let me see if I have any final ones here.

14 MR. CREECH: No additional questions.

15 COMMISSIONER HUGHES: Okay. I think
16 we're at a convenient time to take a 15-minute
17 break. We'll finish today but why don't we get
18 back here at 3:45, and we'll start with
19 Commissioner questions.

20 (Recess was taken from 3:29 p.m. until
21 3:45 p.m.)

22 COMMISSIONER HUGHES: Okay. Let's get
23 started.

24 Is there -- before we get to

1 Commissioner questions, any redirect?

2 MS. SANFORD: No, sir.

3 COMMISSIONER HUGHES: Okay. I think the
4 first set is going to be for you, Mr. Denton.

5 THE WITNESS: Okay.

6 EXAMINATION BY COMMISSIONER HUGHES:

7 Q. If you need to call a friend.

8 A. Okay.

9 Q. In your testimony, specifically on page 10 in
10 line 5, you state that although the Public Staff
11 recitation of statutes and case law -- excuse
12 me -- wait a second; does that sound familiar?

13 A. Yes.

14 Q. Okay. Sorry. Although the Public Staff's
15 recitation of statutes and case law at page 29 to 30 of
16 Mr. Junis's testimony addresses the standards from
17 mergers and not for a transfer, the Company believes
18 the facts of this case generally support even the
19 standard they describe in which they request the
20 Commission to apply. The question is, please clarify
21 your position on that standard. Do you believe it's
22 the correct one? Do you believe a different standard
23 is more appropriate, and if so, what?

24 A. So the difference between a merger and a

1 transfer.

2 Q. Just the -- the standard for this particular
3 proceeding, Mr. Junis acknowledges that the standards
4 are for mergers, not for a transfer, but proposes that
5 they still are appropriate and I just wanted to know if
6 you think it's appropriate as well.

7 A. I think the standard is for a transfer as
8 this is a transfer, but I do believe we are meeting
9 Mr. Schellinger's analysis, at least the standards for
10 merger as well so that is what the statement is saying.
11 I think the benefits to the customers that we've all
12 been talking about throughout the day, whether that's
13 the existing customers or our existing Carteret
14 customers, the taxpayers of Carteret County, or our
15 existing customers, all benefit from this transfer.

16 Q. Okay. So how it was articulated, just to be
17 clear by the Public Staff, and how what they proposed
18 you believe that's sufficient to use for this case?

19 A. Yes.

20 Q. County Witness Burns states in his rebuttal
21 testimony in Item 3 during his discussion of a density
22 per square mile requirement, excuse me, let me start
23 again.

24 County Witness Burns states in his rebuttal

1 testimony in Item 3, density per square mile
2 requirement and a lack of development, environmental
3 limitations, and permitting regulations will prevent
4 large parts of the water system from being developed
5 now or in the future. That was stated. As owner of
6 the County systems, how does -- as a potential future
7 owner of the County systems, how does Carolina Water
8 plan to address these issues with the water systems as
9 they were identified by Witness Burns?

10 A. Well, the density of the system is and will
11 be an issue for as long as we actually see for right
12 now, but that doesn't mean that it's not a system
13 that's needed or that is costly from the standpoint as
14 presented by the Public Staff. I think that as we look
15 at this system, there are economic development
16 opportunities. We will work with the County on
17 economic development. We do that elsewhere, but at the
18 same time, the premise that the cost of this system is
19 higher because it's less dense isn't necessarily the
20 case.

21 Q. Fair enough. But I think -- I think the
22 spirit of Mr. Burns' points were that this is a system
23 that is going to be hard to have more development, and
24 you did mention that you would work with accounting.

1 Can you be a little bit more precise in what you might
2 do to foster expansion or development of this system?

3 A. Well, we will work with the County's economic
4 development committee, board, whatever they have, to
5 enhance and bring in customers. We'll talk to any
6 customers and developers. We'll work with the
7 developers in the communities. I mean, if you look at
8 the coastal communities, well, Carteret may not be
9 having the expansion that some of these others are, but
10 you look south, Pender and Brunswick, there's some
11 explosive development going on right now and so
12 hopefully that would be something that Carteret would
13 see as well.

14 Q. Okay. So you testified at the Sub 398
15 hearing that the rate base value of the acquired system
16 assets will be depreciated at approximately 2 percent
17 per year from the date of acquisition until the next
18 rate case proceeding. Witness Schellinger rebuttal
19 testimony request the Commission to approve Carolinas'
20 current Commission approved depreciation rates for
21 purposes of calculating depreciation, which would be a
22 composite depreciation rate of 1.4 percent. Has
23 Carolina Water changed its position since the Sub 398
24 proceeding regarding the appropriate depreciation rate

1 to use? Can you or Mr. Schellinger explain?

2 A. (Mr. Schellinger) I'd be happy to. The
3 2 percent we used was an approximation based on what we
4 knew at that time about how we should treat the net
5 book value as it came into system, and in prep for the
6 Sub 399, we have done a lot more research in how to
7 properly account for those assets in the different
8 asset buckets, and then the next step to that would be
9 getting the PAA amortization rate as well as the
10 organizational amortization rate in order to put all
11 these big pieces together in order to figure out what
12 we think the -- that depreciation rate is going
13 forward.

14 Q. Anything to add, Mr. Denton?

15 A. (Mr. Denton) No.

16 Q. Okay. I think this one's going to be for
17 you, Mr. Schellinger. You state on page 2 of your
18 rebuttal testimony, beginning on line 19, that Carolina
19 Water proposes to account for the fair market value
20 transaction in compliance with and using guidance from
21 generally accepted accounting principles in the NARUC
22 uniform system of accounts. What specific guidance
23 from Gap do you rely on? If you could state the
24 specific account standards, codification, the ASC

1 numbers used for your guidance?

2 A. (Mr. Schellinger) I don't have those
3 specifically handy. I believe there is GAP guidance
4 that basically says follow what the Commission tells
5 you to do, and to that extent, we are -- then take the
6 next logical step to follow what the NARUC uniform
7 system of accounts tells us what to do and though GAP
8 and NARUC are in agreement, so we primarily rely on the
9 NARUC guidance in order to determine kind of how we set
10 up this accounting.

11 Q. Okay. So I'm sorry. I think I understand
12 how you're viewing GAP, but was this GAP or even an
13 NARUC guidance specifically related to transactions
14 concerning fair value acquisitions? I think you might
15 have heard me ask the Public Staff that question.

16 A. I'm not sure if the NARUC uniform systems of
17 accounts guidance specifically says, hey, this is fair
18 market value acquisition adjustment, this is how you
19 handle it, but it does provide guidance on here's the
20 original cost list appreciation, here's the net book
21 value. If the Commission makes a determination that
22 the number is different, you handle it in this account,
23 right? So this is what gives us the guidance that if
24 the Commission makes a decision that the rate base is

1 different, we put that in this PAA account, right?

2 That's the primary guidance we're relying on there.

3 Q. Okay. Do you -- are you aware if -- if -- if
4 Corix has engaged in any fair market value acquisitions
5 and accounting treatment in any other jurisdictions,
6 states outside of North Carolina?

7 A. I am not aware of any.

8 A. (Mr. Schellinger) I'm not aware of any, no.

9 Q. Okay. Did you -- did you do any research
10 from how some of the fair market value acquisitions
11 that are getting a lot of press, how they do their
12 accounting?

13 A. I did. The Institute of Public Utilities run
14 by the Michigan State University has a website
15 dedicated to fair value transactions, and in that
16 website, there's a number of PowerPoint presentations
17 the various experts have put on that help provide some
18 guidance for the accounting of the transactions.

19 Q. Okay. You state on page 4 that you disagree
20 with the Public Staff's use of a 4 percent depreciation
21 and amortization rate in prior transfers involving
22 Carolina Water that were approved by the Commission.
23 Are the depreciation rates represented, or composite,
24 of the prior owner generally continued on the books of

1 Carolina Water or has the prior practice been for
2 Carolina Water, as the new owner, to go forward with
3 its approved depreciation rates?

4 A. I have not been exceptionally closely
5 invested in some of those prior transactions, but I
6 will say that everything on our books and everything
7 that eventually gets rolled through a rate case
8 basically gets one of two sets of depreciation
9 schedules.

10 If it's in that uniform water rate group, all
11 of the depreciation rates across the board are the same
12 even for, say, something like River Bend which is a
13 recent acquisition. It went into the uniform rate
14 group and it's on the uniform depreciation rates.

15 So I think to really answer your question, I
16 think we've put them in at the composite -- at whatever
17 the rate is under that rate group.

18 Q. Okay. When you state on page 5, line 11, of
19 your rebuttal testimony that the Commission has
20 complete discretion to set the depreciation rates in
21 the proceeding, can you provide some example dockets in
22 which the Commission has approved the new owner's
23 depreciation rates for the transferred assets?

24 A. I'm not sure I know of any specific dockets

1 where that aspect is explicitly called out in a
2 Commission Order finding of fact.

3 Q. Okay. Moving onto page 5, line 1 to 3. When
4 you state that using Carolina Water's current
5 depreciation rates, the going forward composite rate on
6 the acquired plant would be 1.4 percent and will fully
7 depreciate over 31 years. Could you just explain this
8 statement and make sure we understand the 31 years,
9 what 31 years those are?

10 A. Absolutely. So I think the right way to kind
11 of think about this and get back to it is in my
12 rebuttal exhibit -- I apologize -- MPS-2 where we start
13 with the Carteret County's original cost less
14 depreciation. Their books if you will. And that's
15 going to be that first column which is their plant, and
16 they've got a reported accumulated depreciation.

17 Then I take a step and I do an implied
18 accumulated depreciation kind of to move it from their
19 books closer to the transaction closing date.

20 Then, from all this data, we can have an
21 implied plant and service date, right? Which is when
22 those specific asset groups were placed into service.
23 And, really, so what NARUC guidance tells us is we take
24 our plant and service and that's what the depreciation

1 rate is applied to, right? So the plant -- the
2 depreciation rate is applied to that full plant number,
3 12.195 million, but a portion of that is already
4 depreciated, right, on Carteret's current books.

5 So what we're effectively saying is when we
6 reset -- not reset. That's not what we're doing here.
7 When we set it on a going forward basis at the CWSNC
8 depreciation rates, it's an effective rate of
9 1.4 percent from their original plant and service, but
10 it's a -- it's at a 3.22 percent rate on a going
11 forward basis.

12 So what that means is everything's going to
13 be fully depreciated in 31 years, but you have to take
14 into account that it's already largely depreciated.
15 That's how you reconcile between the 1.4 percent and
16 the 31 years.

17 And I would be more than happy to restate
18 that to try to walk you through it.

19 Q. I'm going to wait and see if I have some
20 nodding of understanding. Okay. Very good. Great
21 answer.

22 In order for Carolina Water to record the
23 acquisition upon closing and depreciate the fair market
24 value of the assets going forward until the next

1 general rate case proceeding, does the Commission need
2 to determine the appropriate depreciation rate in this
3 proceeding or can this contested issue be decided in
4 the next general rate case proceeding? Please explain.

5 A. Sure. I think it would be best if the
6 Commission made a decision in the current proceeding
7 because during the pendency of the 4 years, and all the
8 way up to the next rate case, these assets will be
9 depreciating and they need to be on our books and
10 depreciating at some rate.

11 So if you don't make a determination now,
12 does that mean they sit on our books and don't
13 depreciate at all? Then we have like a huge true up in
14 year five that just -- it seems like there is a better
15 process. And it really starts with making a decision
16 on the depreciation rates now in order to avoid some
17 odd true up in four or five years.

18 Q. Okay. Is it your position in your rebuttal
19 testimony on page 6, lines 6 to 12 that the 3.22
20 percent acquisition adjustment amortization rate
21 utilizes the same method used in rate cases by the
22 Public Staff to reflect the amortization of acquisition
23 adjustments over the remaining useful life of plant
24 assets?

1 A. Yes and no. And I'll jump into that a little
2 more. So the 3.22 percent represents the -- that
3 31 years, right. When is -- when are all the assets
4 going to be depleted? So that's what the 3.22 percent
5 represents here. How that's handled, and has been
6 handled, in a rate case ends up being a little
7 differently because the staff is traditionally set our
8 PAA rate based on the composite depreciation rate for
9 all of our assets and then it gets reset every rate
10 case, so in a lot of ways, the current PAA rate that's
11 going through say the uniform rate division is no
12 longer aligned with the underlying original assets that
13 generated that PAA. So here, in isolation, this is all
14 tied to that same asset group, right. But then if we
15 throw it into a rate case and everything gets a new
16 amortization rate based on prior treatment, then it
17 would no longer be aligned anymore.

18 COMMISSIONER HUGHES: Okay. I think
19 that brings us to the end of the questions I have.

20 I'll ask my colleagues, any follow-up
21 questions?

22 I'm sorry. Commissioner Kemerait?

23 EXAMINATION BY COMMISSIONER KEMERAIT:

24 Q. So I have a clarifying question related to

1 the document, the Public Staff Panel Redirect
2 Exhibit 2. You may not have it in front of you, but I
3 can just tell you what it says in case you don't, but
4 it talks about capital needs for the water system. It
5 states that the Carteret County is aware of two
6 significant capital needs for the water system. Number
7 one, copper and zinc remediation of \$103,000, and then,
8 number 2, water tank rehabilitation of \$125,000, and
9 then the Application on page 7, talks about the water
10 tank investment of \$125,000 that will be made in the
11 first year. Then on page 8, the answer about any major
12 improvements or additions state that no major
13 improvements or additions are planned. So I wanted to
14 see -- can you just respond to the copper and zinc
15 remediation of \$103,000 and why it was not included?

16 A. (Mr. Denton) The County is actually taking
17 care of that now.

18 Q. Oh, they are doing it?

19 A. They are taking care of that now.

20 Q. Okay. Thank you. And then my last question
21 is, basically a follow-up to what I had asked Mr. Junis
22 and I think this is probably for you, Mr. Denton,
23 about -- and I asked him whether the acquisition
24 adjustment criteria would be appropriate in a CPCN

1 proceeding when the purchase price and the rate base
2 has already been established. And in Mr. Burns'
3 testimony, he talks about his view that the system is a
4 distressed system. He talks about how the County lacks
5 the technical and managerial capabilities to continue
6 operating the system which tend to be criteria for
7 acquisition adjustments.

8 So my question is: As we're trying to
9 determine the analysis for this CPCN proceeding, do you
10 agree with the Public Staff that the acquisition
11 adjustment criteria is appropriate in the CPCN?

12 A. Actually, I don't. I believe that the rate
13 base has been determined. That for the purposes of
14 accounting, that we have an acquisition adjustment but
15 not necessarily as a determination of the rate base
16 right, and the deduction in the rate base. So I think
17 that as part of that, we've now decided on rate base
18 and we're trying to figure out how to deal with the
19 accounting side of things, but keeping the books
20 straight, which is Matt's job, but so I don't
21 necessarily agree with Mr. Junis's opinion.

22 Q. Okay. Thank you.

23 COMMISSIONER HUGHES: Are there any
24 questions on questions?

1 MR. WHEATLY: Not from the County.

2 MR. CREECH: Just a couple quick

3 questions, if I can.

4 EXAMINATION BY MR. CREECH:

5 Q. Obviously, a lot of talk about rates and
6 depreciation, et cetera. Mr. Schellinger, just
7 to -- just to reiterate, you have indicated that the
8 County on page 4, in your view, has over depreciated;
9 is that correct?

10 A. It is.

11 Q. And that impacts reporting, does it not?
12 Financial reporting?

13 A. It impacts the net book value in the original
14 costless depreciation which are components of financial
15 reporting.

16 Q. All right. And -- and there was discussion
17 on the various rates that would be -- other rates that
18 would be used. I don't know if there was in any
19 comment on the inflation rate; have y'all commented on
20 that at all? That you have in your -- in your
21 Exhibit 4?

22 A. So in my exhibit.

23 Q. 2.4 percent inflation?

24 A. I'm sorry. Yeah. That's the inflationary

1 rate that we agreed on in the Sub 400 docket, so I
2 thought it was a reasonable estimation for future
3 inflationary rates during those periods.

4 Q. And -- and that's how you -- and did
5 you -- using that, did you calculate the rate impact
6 for County customers without ownership; is that
7 correct? Those are lines 40 to 42 I believe.

8 A. So lines 40 to 42 are all without CWSNC
9 ownership. Only line 42 would be what we were
10 estimating would be Carteret's if there was no
11 ownership, yeah.

12 Q. Okay. All right.

13 MR. CREECH: All right. No other
14 questions.

15 MS. SANFORD: I have no questions.

16 COMMISSIONER HUGHES: Okay.

17 Any motions you want to make for these
18 witnesses?

19 MS. SANFORD: I have a number of
20 documents that I'd liked to move into the record,
21 if I could.

22 COMMISSIONER HUGHES: Please.

23 MS. SANFORD: I'm going to do this
24 chronologically from the beginning -- the

1 Application filed August the 2nd. The Public Staff
2 deficiency letter filed August the 25th, that's
3 2022. The response to the deficiency letter and
4 the revised CPCN filed August 26th, an update on
5 the CPCN filed 9/2 -- September 2nd, '22,
6 supplemental filing of the same day. The rebuttal
7 of Witnesses Denton and Schellinger filed March
8 29th and Witness Schellinger's revised exhibits
9 filed June the 9th, 2023.

10 COMMISSIONER HUGHES: Okay. Motion
11 granted.

12 MS. SANFORD: Thank you.

13 COMMISSIONER HUGHES: In the record.

14 (Application for CPCN and Approval of
15 Rates for North River/Merrimon in
16 Carteret County, filed August 2, 2022;
17 Public Staff Deficiency Letter, filed
18 August 25, 2022; CWSNC Revised CPCN and
19 Response to Deficiency Letter, filed
20 August 26, 2022; CWSNC Carteret County
21 Update Regarding CPCN - Confidential,
22 filed September 2, 2022; and CWSNC
23 Carteret County Supplemental Filing
24 Regarding CPCN, filed September 2, 2022

1 and Rebuttal Exhibits MPS-1 - MPS-4, and
2 Revised Rebuttal Exhibits MPS-3 and MPS-4
3 were admitted into evidence.)

4 MR. CREECH: Just one clarifying note,
5 in the rebuttal that was filed on June 9th, that
6 included a revision to the addendum and an
7 Application I believe; is that correct?

8 MR. WHEATLY: Say it one more time,
9 please.

10 MR. CREECH: Would Mr. Schellinger's
11 rebuttal update to his rebuttal was filed that was
12 an update to the a -- one of those two exhibits was
13 an update to the addendum of the Application; is
14 that correct?

15 MS. SANFORD: Correct. Or is that not
16 correct?

17 THE WITNESS: I don't think that's
18 technically correct.

19 MR. CREECH: Okay. Well, it was your
20 motion. I'm sorry.

21 THE WITNESS: I apologize.

22 MR. CREECH: It was my understanding
23 that was an addendum to your Application, and one
24 of your two exhibits, you had MPS-3 and MPS-4.

THE WITNESS: That's correct. And it

1 may be splitting hairs. My MPS-3 is labeled addendum
2 to the Application. It's the same thing that was in
3 the Application.

4 MR. CREECH: Okay. With
5 that -- proceeding, Commissioner Hughes, I would like
6 to make sure we enter into the record Public Staff
7 County Panel Cross Exhibit 1 that we had not
8 previously entered -- we marked but we didn't --

9 COMMISSIONER HUGHES: Motion granted.

10 (Public Staff County Panel Cross Exhibit 1
11 was admitted into evidence.)

12 COMMISSIONER HUGHES: I have a little
13 housekeeping for myself. I think I asked in the
14 beginning and said that the Commission was inclined
15 to move the -- move the full proceedings of W-354,
16 Sub 398 into the record, but just to be on the safe
17 side, I'm going to say that the Commission formally
18 takes notice of the entire record of the
19 proceedings on the Company's Application for Fair
20 Value of the Carteret County System, Docket W-354,
21 Sub 398, including the evidentiary record.

22 MS. SANFORD: Thank you.

23 COMMISSIONER HUGHES: I think that
24

1 brings us to the end.

2 Well, before we adjourn, any other
3 issues?

4 MS. SANFORD: Proposed orders.

5 COMMISSIONER HUGHES: Parties shall file
6 any briefs and proposed orders within 30 days of
7 the filing of the last transcript of this matter.
8 Okay.

9 All right. Well, I think we will
10 adjourn.

11 Thank you all for your time and, again,
12 special thanks to the County for what I know was a
13 troubling period in coming up here so.

14 Thank you very much.

15 (The hearing was adjourned at 4:11 p.m.
16 on Tuesday, June 20th, 2023.)

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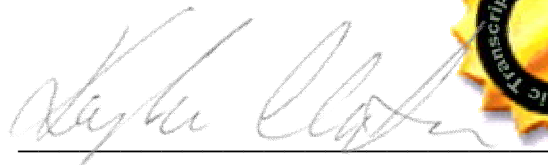
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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Kaylene Clayton, court reporter, the officer before whom the foregoing hearing was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing hearing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 30th of June, 2023.





KAYLENE CLAYTON

Notary Public 202228500270