



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

March 21, 2024

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

Re: Docket Nos. W-1049, Sub 25 and W-1328, Sub 2 – Application of A&D Water Services, Inc. and Red Bird Utility Operating Company, LLC d/b/a Red Bird Water for Transfer of Public Utility Franchise and for Approval of Rates

Dear Ms. Dunston,

Attached for filing on behalf of the Public Staff in the above-referenced dockets is the public version of the joint settlement testimony and exhibit of Kuei Fen Sun and D. Michael Franklin.

By copy of this letter, I am forwarding a copy of the redacted version to all parties of record by electronic delivery. Exhibit 1 contains confidential information on Schedule 2 and Schedule 2-1.

The confidential version will be provided to those parties that have entered into a confidentiality agreement.

Sincerely,

Electronically submitted
/s/ James Bernier, Jr.
Staff Attorney
james.bernier@psncuc.nc.gov

cc: Molly McIntosh Jagannathan
Kiran H. Mehta
Mindy McGrath
Holly Ingram

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served on all parties of record or their attorneys, or both, in accordance with Commission Rule R1-39, by United States Mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 21st day March, 2024.

Electronically submitted
/s/ James Bernier, Jr.
Staff Attorney

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1049, SUB 25

DOCKET NO. W-1328, SUB 2

In the Matter of)	JOINT SETTLEMENT
Application of A&D Water Services, Inc.)	TESTIMONY OF
and Red Bird Utility Operating)	KUEI FEN SUN AND
Company, LLC d/b/a Red Bird Water for)	D. MICHAEL FRANKLIN
Transfer of Public Utility Franchise and for)	PUBLIC STAFF –
Approval of Rates)	NORTH CAROLINA
)	UTILITIES COMMISSION

March 21, 2024

1 **Q. Mrs. Sun, please state your name, business address, and**
2 **present position.**

3 A. My name is Kuei Fen Sun. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Public Utility
5 Regulatory Analyst with the Accounting Division of the Public Staff –
6 North Carolina Utilities Commission (Public Staff).

7 **Q. Are you the same Kuei Fen Sun who filed direct testimony on**
8 **behalf of the Public Staff in this proceeding on March 6, 2024?**

9 A. Yes.

10 **Q. Are your qualifications and duties the same as stated in your**
11 **direct testimony?**

12 A. Yes.

13 **Q. Mr. Franklin, please state your name, business address, and**
14 **present position.**

15 A. My name is D. Michael Franklin. My business address is 430 North
16 Salisbury Street, Raleigh, North Carolina. I am a Public Utilities
17 Engineer with the Water, Sewer, and Telephone Division of the
18 Public Staff.

1 **Q. Are you the same D. Michael Franklin who filed direct testimony**
2 **on behalf of the Public Staff in this proceeding on March 6,**
3 **2024?**

4 A. Yes.

5 **Q. Are your qualifications and duties the same as stated in your**
6 **direct testimony?**

7 A. Yes.

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

9 A. The purpose of our testimony is to provide support for the Settlement
10 Agreement and Stipulation (Stipulation) filed on March 21, 2024,
11 entered into between Red Bird Utility Operating Company, LLC (Red
12 Bird) and the Public Staff (together, the Stipulating Parties) regarding
13 the transfer of the seven water and six wastewater systems of A&D
14 Water Service, Inc. (A&D) and the public utility franchise serving the
15 following eleven service areas in Ashe, Henderson, Buncombe,
16 Transylvania, and Gaston Counties: Buffalo Meadows, Camelot,
17 Cinnamon Woods, High Vista, Hunters Glen, Kirk Glen, Mountain
18 Valley, Rolling Oaks Estates, Sherwood Forest, Skyview Park and
19 White Oak Village, requested jointly by A&D in Docket No. W-1049,
20 Sub 25 and by Red Bird in Docket W-1328, Sub 2 (Joint Application).

1 **Q. Briefly describe the Stipulation.**

2 A. The Stipulation sets forth the agreement between the Stipulating
3 Parties on all items, including the Stipulating Parties' agreement that
4 the transfer of the A&D's utility systems to Red Bird should be
5 approved and that Red Bird will adopt the tariffs and rates currently
6 in effect for the customers of each of the acquired systems.

7 The Stipulation provides that Red Bird will receive an acquisition
8 adjustment in the amount of \$15,159 to be included in rate base due
9 to the condition of the High Vista wastewater system, and associated
10 compliance issues rendering it operationally troubled. Depreciation
11 starts at the date of closing of transactions with an amortization rate
12 of 4%.

13 The Stipulation also provides that the appropriate total net book
14 value of the assets Red Bird is acquiring from A&D is \$19,046 as
15 detailed by system in Public Staff Sun Exhibit 1, Schedule 1-1. No
16 plant additions through the closing date will be included in this or any
17 future proceedings. The net book value is based on plant additions
18 through December 31, 2023, as provided by the Company, and
19 includes depreciation calculated through December 31, 2023. No
20 further plant additions through December 31, 2023 will be included
21 in this or any future proceedings.

1 Regarding costs associated with the transfer, the Stipulation
2 provides that, in its next general rate case, Red Bird may request
3 recovery of costs for engineering due diligence work performed by
4 21 Design Group, Kimley-Horn and Associates, TRC Environmental
5 Corporation, and Battelle Memorial Institute, listed in Red Bird
6 witness Cox Direct Exhibit 6 up to \$159,121.50, provided that the
7 work results in reasonable and prudent capital investments to
8 improve the water and wastewater systems. The Stipulation also
9 provides that Red Bird may request recovery of up to \$14,128.85 for
10 legal costs related to the acquisition in its next general rate case.

11 To determine the portion of the agreed upon recovery of costs
12 associated with the transfer assigned to each system required
13 allocating the amount from each allowed Cox Direct Exhibit 6 invoice
14 to each system. While most of the invoices from the Engineering
15 firms showed the applicable A&D system, the legal invoices were not
16 system specific and only referred to A&D. As a result, the Public Staff
17 determined the percentage of the Engineering firm allowed invoiced
18 amount assigned to each system, and then applied those
19 percentages to the allowed legal and remaining engineering invoiced
20 amounts of \$14,128.85 and \$19,634.22 to determine the total
21 allowed cost of transfer expenses for each system. These results are
22 shown in the following table.

1 Table 1

System	Joint Settlement Cost of Transfer Amount
Buffalo Meadows Water	\$ 15,977
Buffalo Meadows Sewer	\$ 15,793
Camelot	\$ 6,898
Cinnamon Woods	\$ 11,230
High Vista	\$ 33,531
Hunter's Glen	\$ 4,441
Kirk Glen	\$ 8,907
Mountain Valley	\$ 12,351
Rolling Oaks Estates	\$ 5,766
Sherwood Forest	\$ 14,910
Skyview Park	\$ 12,781
White Oak Village Water	\$ 9,508
White Oak Village Sewer	\$ 11,157
Total	\$173,250

2 Red Bird agrees not to pursue rate recovery of any remaining costs
3 associated with the transfer, including due diligence, transactional,
4 and regulatory costs, other than those listed above and as further
5 detailed in Public Staff Settlement Exhibit 1. The amounts of
6 \$159,121.50 and \$14,128.85 for engineering due diligence and legal
7 costs, respectively, were determined based on Cox Direct Exhibit 6
8 and invoices provided in response to Public Staff Data Request 9.

1 Public Staff Settlement Exhibit 1 provides a breakdown of these
2 costs, including by invoice.

3 Pursuant to the Stipulation, Red Bird agrees to adopt at closing
4 A&D's accounting records, provide the detailed accounting records
5 received from A&D to the Public Staff, and refrain from adjusting or
6 making changes to those records without Commission approval.

7 If the Stipulation is approved by the Commission, beginning one year
8 after the effective date of the order approving the Stipulation, and
9 continuing annually, Red Bird and key leadership from CSWR, LLC,
10 will meet with the Public Staff and provide an update detailing all
11 changes in Red Bird's facilities and operations since the last annual
12 update and discuss the Company's financial condition.

13 Finally, pursuant to the Stipulation, Red Bird agrees to post a
14 \$100,000 bond for the A&D utility systems.

15 **Q. What benefits does the Stipulation provide for ratepayers?**

16 A. Red Bird's agreement not to seek an acquisition adjustment beyond
17 that provided in the Stipulation for High Vista, and the limitations on
18 the amount of due diligence and legal costs Red Bird can recover,
19 will minimize the magnitude of future rate increases. In addition, the
20 conditions attached to Red Bird's recovery of engineering due
21 diligence costs will help ensure that those costs are related to system

1 improvements that help to maintain or improve service quality and
2 reliability in all the acquired systems, especially on the High Vista
3 wastewater system. Annual meetings between Red Bird and the
4 Public Staff will keep the Public Staff apprised of changes to the
5 systems and Red Bird's financial condition, and maintain open
6 dialogue between the parties.

7 Based on the foregoing, we recommend that the Commission
8 approve the Stipulation.

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

10 A. Yes, it does.

CONFIDENTIAL

DOCKET NO. W-1328, SUB 2

DOCKET NO. W-1049, SUB 25

EXHIBIT 1 (11 pages)