

Casselberry, Gina

From: David Turner <cdturner@windstream.net>
Sent: Monday, August 14, 2017 7:26 AM
To: Casselberry, Gina
Cc: 'Vince'
Subject: Docket Number W-354, SUB 356; Carolina Water Service, Inc. of North Carolina

Dear Ms. Casselberry,

I am writing to express several concerns regarding the subject Docket Number presently before the North Carolina Utilities Commission ("NCUC"). I have read the NOTICE TO UNIFORM WATER AND SEWER RATE DIVISION CUSTOMERS, Appendix A-1 that was mailed to customers of Carolina Water Service, Inc. of North Carolina ("CWSNC"); the ORDER SCHEDULING HEARINGS AND REQUIRING CUSTOMER NOTICE posted on the NCUC website; the Mission Statement of the NCUC; and the website of CWSNC; all of which contribute to the basis of my comments that follow.

Based on my own analysis of data from my residential water and sewer bills, I conclude that the proposed rate structure, if approved, would result in a negligible financial impact to me. However, I am concerned that the Uniform Water and Sewer Rate Application is contrary to both a capitalist economic system and to well-established public policy.

Firstly, I believe the economic benefits of the proposed rate structure accrue overwhelmingly in favor of the utility shareholders at the expense of utility consumers. Financed by private equity investors, CWSNC has grown rapidly through the acquisition of numerous small water and sewer companies. This is the hallmark of a "roll-up" strategy in which sophisticated investors exploit a highly fractured supplier base to achieve the financial benefits of economies of scale. It is a legitimate strategy, proven to be sound, albeit risky, and for which investors demand a return commensurate with the risks taken. As noted on the CWSNC website, one element of its mission statement is to provide "... a fair return for our shareholders..."; a concept with which I strongly concur. However, a capitalist economy demands risk-adjusted rates of return without the pejorative of "fairness". In this scenario, CWSNC undertook a risky strategy and yet, through its proposal to substantially increase the base charges while reducing the usage-based charge, CWSNC is asking the NCUC to provide it a risk-free rate of return. To do so results in great inequity to rate payers.

Secondly, each of the water and sewer systems operated by the companies acquired by CWSNC were presumably subject to individual rate structures that had been justified by the owner, examined by the Public Staff, and approved by the Commission. Those separate, widely disparate rate structures were presumably based on the attributes unique to each system and achieved the desired rate of return to each set of investors, while being in concert with the mission of NCUC. Abandonment of those established rate structures in favor of the proposed uniform rate structure begs the question of "what happened to render those previously vetted and approved rate structures now inappropriate?" The only things that have changed are the ownership of those systems and the legal entity in which they are contained. While the former legal entities were merged into a new legal entity, the utility systems themselves remain separate and unconnected. They are not now one system. The unique underlying attributes of those separate water and sewer systems did not change; nor did the underlying economics. It would seem implausible that the "fairness" of the returns yielded by the previous rate structures has changed either. By virtue of the subject application, CWSNC is asking the NCUC to approve a rate structure that effectively pools the otherwise unique risks of disparate systems and spreads those pooled risks across a combined pool of disparate customer sets. CWSNC is seeking approval of a "uniform" rate structure for a set of utility systems that are non-uniform with respect to size, age, geography, physical condition, customer base and cost structure. I submit it is no less inappropriate for consumers of privately-owned utility

systems situated across the State from the coastal plains to the western mountains to be subject to a "uniform" rate structure than it is to impose a single structure on the customers of municipally-owned systems in New Hanover County and Buncombe County. In both scenarios, the distribution systems are separate and distinct, the water sources are separate and distinct, and the customer bases are separate and distinct. The fixed-costs of each utility system should be borne by the respective consumer base served. Under the proposed uniform rate structure, consumers served by relatively efficient, low-cost systems will, by definition, subsidize consumers served by less efficient, more costly systems. What rationale supports a model whereby customers in the western mountains should subsidize customers in the coastal plains, or vice versa? These water and sewer systems represent individual investments; the returns for which should be related to the operating performance and cost structure of each individual investment. Please do not be fooled into evaluating these systems as a single investment that merits a "uniform" return.

Thirdly, during my career as a CPA and CFO, I exercised my knowledge of fixed costs, economies of scale, and business combinations on a daily basis. Virtually every introductory level management accounting textbook will make note that fixed costs are not absolutely fixed, nor are they non-discretionary. Rather, they are defined as those costs that do not change **over a relevant range of production**. The relevant range of production is as unique and specific to a given enterprise as are the respective fixed costs. Furthermore, fixed costs include both direct and indirect (overhead) components. The direct fixed costs incurred by CWSNC for operations in the Rumbling Bald service area are completely and totally distinct from the direct fixed costs incurred in the Carolina Trace Development, or any of the other service areas. The direct fixed costs and the portion of indirect fixed costs that originate from a given utility system should be recovered over the relevant range of production of that specific system. It is customary in regulated industries for indirect fixed costs originating at a parent company level to be allocated to each operating segment based on the respective segment's proportionate share of total production. The range of production relevant to one utility system is irrelevant to all others. The sum of the direct fixed costs of all systems bears no relationship to the sum of the relevant ranges of production; and it seems wholly inappropriate to approve a rate structure that presumes otherwise.

Lastly, a decision to substantially increase the base fixed charge while reducing the usage charge for a scarce, precious natural resource is totally contrary to any economic theory of conservation. For the last half-century governments across the USA and around the world have emphasized the fundamental necessity of natural resource conservation. If the NCUC lowers the variable cost of water consumption, it is irrational to expect anything other than a commensurate decrease in conservation. I implore you to query the internet for "water conservation" to find a single reputable source advocating lowering usage charges as an effective method for enhancing conservation. As I asked earlier, what rationale supports a notion that conservation-minded consumers should subsidize those who consume more?

Thus, while the applicant's proposal results in negligible financial cost or benefit to me as a consumer, I would ask the North Carolina Utilities Commission to disapprove the proposed uniform rate structure and retain separate rate structures suitable to the individual risks taken by CWSNC.

Respectfully,

C. David Turner

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