

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 398

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Application by Carolina Water Service,)	
Inc. of North Carolina, 5821 Fairview)	MOTION TO COMPEL
Road, Suite 401, Charlotte, North)	OF THE PUBLIC STAFF
Carolina 28209, for Determination of)	
Fair Value of Utility Assets Pursuant to)	
N.C. Gen. Stat. § 62-133.1A and)	
Establishing Rate Base for Acquisition)	
of the Carteret County Water System)	

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and moves the Commission to compel Carolina Water Service, Inc. of North Carolina (CWSNC or Company), to fully respond to Public Staff Data Requests 3 and 4. In support of this motion, the Public Staff respectfully shows the Commission the following:

1. On July 26, 2022, CWSNC filed an Application for Determination of Fair Value of Utility Assets Pursuant to N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for Acquisition of the Carteret County Water System in the above-referenced docket (Fair Value Application).

2. On August 2, 2022, CWSNC filed in Docket No. W-354, Sub 399, an Application for a Certificate of Public Convenience and Necessity and for Approval of Rates to provide water utility service to the Carteret

County Water System in Carteret County, North Carolina (CPCN Application).

3. On August 5, 2022, the Public Staff notified CWSNC by letter filed with the Commission of its determination that additional enumerated information was necessary to complete its Fair Value Application as required by Commission Rule R7-41 and N.C.G.S. § 62-133.1A.

4. On August 11, 2022, the Commission issued an Order Finding Application Incomplete requiring the Applicant to file the omitted information and consult with the Public Staff to ensure the completeness of the Fair Value Application. The Commission's Order also required the Public Staff to file, no later than three business days following the Company's filing of supplemental information, a statement as to whether it deems the Fair Value Application to be complete.

5. On August 11, 2022, CWSNC filed Revised Exhibits supplementing its Fair Value Application.

6. On August 16, 2022, the Public Staff notified CWSNC by letter filed with the Commission that it had reviewed the supplemental information provided by CWSNC and deemed the Fair Value Application to be complete. Pursuant to N.C.G.S. § 62-133.1A(d), the Commission shall issue its final order, either approving the application by determining the rate base value of the acquired property for ratemaking purposes or denying the application, within six months of the date on which the complete application was filed.

7. On September 13, 2022, the Commission issued its Order Scheduling Hearings, Establishing Discovery Guidelines, and Requiring Customer Notice (Order) in this docket as well as Docket No. W-354, Sub 399.

8. Ordering paragraph 3 of the Order directs that

Formal discovery requests related to the [Fair Value and CPCN] Applications and CWSNC's prefiled direct and supplemental testimony shall be served on CWSNC not later than fourteen days prior to the filing of the Public Staff and intervenor testimony addressing the associated Application or testimony. CWSNC shall have up to ten calendar days to file with the Commission objections to discovery requests on an item-by-item basis, but in no event shall objections be filed later than ten days prior to the deadline for the filing of Public Staff and intervenor testimony.

9. Ordering paragraph 6 of the Order directs that

"Discovery requests need not be filed with the Commission when served; however, any party filing objections shall attach a copy of the relevant discovery request to the objections. Each discovery request, or part thereof, to which no objection is filed shall be answered by the time objections are due, subject to other agreement of the affected parties or other order of the Commission. Upon the filing of objections, the party seeking discovery shall have two days to file a motion to compel with the Commission, and the party objecting to discovery shall have one day thereafter to file a response. All objections, motions to compel, and responses shall be served on the other affected party at or before the time of filing with the Commission."¹

¹ The Commission also noted in its Order that "The Commission recognizes that in the past most discovery has been conducted in an informal manner without the need for Commission involvement or enforcement, and that such has been generally successful. The above guidelines are without prejudice to the parties conducting informal discovery or exchanging information by agreement at any time with the understanding that such will not be enforceable by the Commission if outside the guidelines."

10. On September 6, 2022, the Public Staff sent CWSNC its Data Request No. 3 (PS DR 3) entitled “Denton Direct Testimony”, attached as Exhibit A, with a requested due date of Friday, September 16, 2022. PS DR 3 – Question 2 seeks to discern the basis for the Company’s contention in witness Denton’s direct testimony that “Absent the ability to establish a realistic level of “market” value of such assets, there is an insurmountable obstacle to purchases of governmental systems,” and PS DR 3 – Question 3 seeks to discern, in light of the Company’s earlier bid of \$4.9 million to Carteret County and subsequent (almost double) proposed purchase price of \$9.5 million, the basis for the Company’s contention in witness Denton’s direct testimony that “[i]f limited, for rate base purposes, to recognition only of the original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” (Denton testimony page 3.)

11. On Monday, September 19, CWSNC requested an extension of time to respond to PS DR 3, until Friday, September 23, 2022, and CWSNC provided its responses to PS DR 3 on that date. In its response to PS DR 3, CWSNC objected to Question 2 and provided an incomplete response to Question 3. CWSNC’s response is attached as Exhibit B.

12. To follow up and to provide clarity regarding its requests, on the next business day, Monday, September 26, 2022, the Public Staff sent CWSNC its Data Request No. 4 (PS DR 4) entitled “Denton Follow-up to DR 3” attached as Exhibit C. PS DR 4 – Questions 3 and 4 sought to follow-

up on PS DR 3 - Questions 2 and 3. In light of the initial date of PS DR 3 and the extension granted to CWSNC for that response, the Public Staff requested an expedited response to PS DR 4 of Friday, September 30, 2022.

13. After close of business on Friday, September 30, 2022, CWSNC requested that the Public Staff extend the time for responses to PS DR 4 until at least Tuesday, October 4, 2022, as the subject witness Mr. Denton was unavailable due to the Company's Hurricane Ian response across three states, including in North Carolina, late that week. The Public Staff honored the extension request and CWSNC provided its responses to PS DR 4 at 11:43 pm on October 4, 2022, the last day that objections can be filed pursuant to Ordering paragraph 3 of the Order. In its response to PS DR 4, CWSNC again objected to, among other things, PS DR 3 – Question 2 and provided incomplete responses to PS DR 3 – Question 3. CWSNC's response is attached as Exhibit D.

Failure to Address PS DR 3 – Question 2

14. As indicated above, CWSNC objected to PS DR 3 – Question 2 and to the corresponding question(s) in PS DR 4 that sought to follow-up on PS DR 3. The Public Staff's questions and CWSNC's objections were as follows (also see Exhibit D):

3. Public Staff Data Request 3, Q 2, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to

establish a realistic level of “market” value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes.” Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:²

CWSNC objects to this question based on relevancy. The plain language of the statute prevails in its application to this case. The business efforts undertaken by CWSNC are not relevant to the application of the law to this case, nor will discussion of them lead to any relevant information. Mr. Denton’s observations are predicated on his experience and are supported by his understanding of the market space.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base

² It’s not clear why, though there is a discrepancy (that can be seen more clearly by reviewing Exhibits C and D hereto) in CWSNC’s response to PS DR 4, which incorrectly recites CWSNC’s prior response to PS DR 3, which included objections based upon trade secrets. The Public Staff has tracked changes here to reflect additions and deletions made as part of CWSNC’s response to PS DR 4:

RESPONSE:

CWSNC objects to this question based on relevancy and on the plain language of the statute prevails in its application to this case. The business efforts undertaken by CWSNC are not relevant to the application of the law to this case, nor will discussion of them lead to any relevant information. Mr. Denton’s observations are predicated on his experience and are supported by his understanding of the market space.

This information is confidential as a trade secret, both for pending and past negotiations. Any prospective purchaser must have the ability to maintain discretion and confidentiality about proposed acquisitions, whether they are successful or not.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination. That is what is at issue herein and CWSNC’s prior or current activities in the market place are irrelevant.

determination. That is what is at issue herein and CWSNC's prior or current activities in the market place are irrelevant.

The testimony claims a purchase of a governmental system by a Commission-regulated utility could not happen without the "ability to establish a realistic level of "market" value." Evidence of any failed attempts to negotiate and complete similar purchases without fair value would be relevant to substantiate such a claim. Please provide the information confidentially.

RESPONSE: The Company objects due to lack of relevance and the unlikelihood that the request will result in any admissible evidence. The number of negotiations or conversations that CWSNC has had with prospective Sellers is irrelevant to the purpose or requirements of the Fair Value statute. Evidence of past efforts to purchase governmental systems by the Company should not – and lawfully cannot – be used in a Commission proceeding to challenge legislative policy; nor would such evidence have any other purpose relevant to application of G.S. 62-133.1A.

Failure to Fully Address PS DR 3 – Question 3

15. As indicated above, CWSNC objected to PS DR 3 – Question 3 and to the corresponding question(s) in PS DR 4 seeking to follow-up on PS DR 3. The Public Staff's questions and CWSNC's objections were as follows (also see Exhibit D):

4. Public Staff DR 3, Q3, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "If limited, for rate base purposes, to recognition only of the original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset." Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System.

In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

RESPONSE:

CWSNC does not recognize the reference to \$4.9mm. Generally, any willing seller and willing buyer in any market will both be willing to transact over a “fair value” of the asset being sold, and original cost is not necessarily relevant in this context. The focus on “original cost” could inappropriately “anchor” a position on reasonableness when comparing to expert valuations. This is precisely what the FMV statute allows for, and a transaction price has inherent reasonability based on this arms-length process

The testimony claims original cost could not be used by CWSNC to “justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” This conclusion cannot be reached without first determining the original cost. Furthermore, the \$4.9 million bid by CWSNC for the Carteret County Water System was specifically discussed by Eugene Foxworth, Assistant County Manager, at the Carteret County Board of Commissioners Regular Session on February 15, 2021. See excerpt below. Please provide complete responses to DR 3, Q3.

We met with the Town of Beaufort and they were not interested in acquiring our system. Subsequently, two private water companies approached us about acquiring the system. They were Carolina Water Systems, and Aqua NC. As with any other disposition of property, Commissioners stated their preference for the upset bid process. The County Manager, County Attorney, and I have met with both companies multiple times. Aqua NC submitted an offer of \$7,000,000. Carolina Water Systems submitted an offer of \$4,900,000 for this system. I want to point out that this is not a quick process. If the Board decides to move forward, it will be nine to twelve months; there are a lot of approvals from the Utilities Commission, and other due diligences that have to take place in the process. We will also need authorization of the Commissioners to go out and get an additional appraisal on this system.

Commissioner Chadwick asked Mr. Foxworth once we accept the high bid, that opens it up for other companies to upset that bid? Mr. Foxworth stated that was correct. The Board would instruct the Clerk to put it up for upset bid. Chairman Wheatly confirmed that it was a ten-day upset bid timeframe.

RESPONSE: Thank you for explaining the source of the \$4.9 million reference in DR 3. The Company does not have an original

cost rate base calculation for the Carteret County water system, and disagrees that a specific original cost number is necessary to conclude that use of an original cost rate base would leave the Company with unrecovered investment. Normally a system will sell for more than original cost. This is evident in the transfer cases between private utilities where an acquisition adjustment exists, whether or not allowed for ratemaking. It is reasonable for a utility to conclude that rate base at fair market value/purchase price more rationally supports purchase than rate base at net original cost. That is why the Company favors the General Assembly's approach in G.S. 62-133.1A, creating a fair market value (or purchase price, whichever is lower) approach to rate base in lieu of original cost. That legislation provides for fair market value to be established by professional appraisers, not by net original cost valuation. That legislation also incentivizes utilities to acquire municipal systems that need better financing or operational resources by allowing fair market value (or purchase price) into rate base instead of original cost.

16. Under N.C.G.S. § 62-60, however, in conducting proceedings the Commission is acting procedurally like the General Court of Justice. Rule 26 of the North Carolina Rules of Civil Procedure addresses specifically and in detail and prohibits the types of objections the Company has raised in its unanswered and objected to responses to the discovery. Quite clearly, the limitations on discovery are that the questions must be relevant.

Rule 26 of the North Carolina Rules of Civil Procedure:

(b) Discovery scope and limits. Unless otherwise limited by order of the court in accordance with these rules, the scope of discovery is as follows:

(1) In general. Parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party, including the existence, description, nature, custody, condition and location of any books, documents, or other tangible

things and the identity and the location of persons having knowledge of any discoverable matter. It is not grounds for objection that the information sought will be inadmissible at the trial if the information sought appears reasonably calculated to lead to the discovery of admissible evidence nor is it grounds for objection that the examining party has knowledge of the information as to which discovery is sought.

17. CWSNC indicates that its objection to PSDR 3 – Question 2 is due to lack of relevance and the unlikelihood that the request will result in any admissible evidence. CWSNC also suggests that the Public Staff's questions regarding past efforts of the Company to purchase governmental systems are being used to challenge legislative policy. To the contrary, the Public Staff is legitimately seeking relevant information that provides the basis for the heretofore unsubstantiated assertions of the Company. As CWSNC indicates, the General Assembly in N.C.G.S. § 62-133.1A has made the policy decision about the way valuations *can* be accomplished for purposes of rate base determination; however, the General Assembly did not require that a water public utility use the fair value method. Further, it is CWSNC's witness Denton, not the General Assembly, who asserts in direct testimony that "[a]bsent the ability to establish a realistic level of 'market' value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." (Denton direct testimony, p. 3.) The Public Staff's discovery questions are entirely relevant as to why CWSNC is electing to attempt to establish rate base using the fair value method, and to require that CWSNC substantiate its claim via witness Denton that the original cost

method is “an insurmountable obstacle to purchases of governmental systems.” Either CWSNC should respond to the Public Staff’s discovery questions or agree to strike witness Denton’s assertions for which CWSNC is unwilling to reply to Public Staff discovery. Importantly, the General Assembly included a specific statutory provision relevant to the Public Staff’s discovery questions, being the Commission’s authority under N.C.G.S. 62-133.1A(e) as follows:

The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for ratemaking purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

18. CWSNC is not responding to the Public Staff’s now repeated questions of whether \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.” In fact, CWSNC’s initial response would seem to frustrate the discovery process given that CWSNC’s \$4.9 million offer to purchase the Carteret County water system is a matter of public record. Additionally, CWSNC asserts that its prior offers are trade secrets, notwithstanding that such offers are likely public records under N.C.G.S. Chapter 132. Still, CWSNC will not even provide the information to the Public Staff on a confidential basis. The Public Staff and the Commission are entitled to receive confidential information in discovery and in Commission proceedings. N.C.G.S. § 62-34(c). The foregoing information

requested by the Public Staff of CWSNC is relevant to assist the Commission in its determination of whether to utilize the statutory authority provided by the General Assembly. For the foregoing reasons, the Public Staff's position is that its discovery questions are relevant and likely to result in admissible evidence and that CWSNC should be compelled to provide to the Public Staff the requested responses, whether confidential or otherwise, in order to ensure the Public Staff's due diligence in this first fair value proceeding before the Commission. The Public Staff's motion is particularly pressing as it prepares testimony to be filed with the Commission next Friday, October 14, 2022.

WHEREFORE, for the reasons set forth above, the Public Staff moves:

1. That the Commission direct CWSNC to fully respond to the Public Staff's Data Request Nos. 3 and 4 by Monday, October 10, 2022.
2. For such other and further relief as the Commission may deem just and proper.

This the 6th day of October, 2022.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy E. Edmondson
Chief Counsel

Electronically submitted
/s/ Gina C. Holt
Manager, Legal Division,
Water, Sewer, Telephone,
& Transportation Sections

/s/ William E. H. Creech
Staff Attorney

4326 Mail Service Center
Raleigh, North Carolina 27699-4300
Telephone: (919) 733-6110
zeke.creech@psncuc.nc.gov

CERTIFICATE OF SERVICE

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

This the 6th day of October, 2022.

Electronically submitted
/s/ William E. H. Creech

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398**

**Public Staff Data Request No. 3
Date Requested: September 6, 2022
Date Due: September 16, 2022**

Public Staff Technical Contact: Charles M. Junis
Phone #: (919) 733-5610
Email: charles.junis@psncuc.nc.gov

Public Staff Legal Contacts: Gina Holt
Phone #: (919) 733-6110
Email: gina.holt@psncuc.nc.gov

William E. H. Creech
Phone #: (919) 733-6110
Email: zeke.creech@psncuc.nc.gov

Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III

1. On page 3, lines 1-5 of the Direct Testimony of Donald H. Denton III, Mr. Denton states, "In order to make the transaction feasible, the "fair value" methodology must be employed in order to capture the reasonable, realistic value of this system as it migrates from ownership by a governmental entity to ownership by a utility regulated by the North Carolina Utilities Commission ("NCUC" or "Commission")." Please provide an explanation for what is meant by "to make the transaction feasible, the "fair value" methodology must be employed." In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized.
2. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list

- of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.
3. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, “If limited, for rate base purposes, to recognition only of the original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”
 4. On page 4, lines 5-7 of his Direct Testimony, Mr. Denton states, “This historical barrier has consisted of an inability to correlate fair purchase prices with the rate base values of the asset to the regulated utility.” Please provide an explanation of how a purchase price that exceeds the rate base value of assets, if recoverable in rates, would impact customers’ rates.
 5. On page 7, lines 5-8 of his Direct Testimony, Mr. Denton states, “Carteret County and its customers will benefit from CWSNC’s access to financial capital, which is used to ensure that necessary and prudent investments are made on a timely basis, in order to provide safe, reliable, and compliant service.” Please provide a list of occurrences, including date and description, when Carteret County did not provide “safe, reliable, and compliant service.” For each occurrence, please provide an explanation of how “CWSNC’s access to financial capital” would have prevented the occurrence. In addition, please provide a comparison of the cost of capital for CWSNC and Carteret County.
 6. On page 7, lines 10-13 of his Direct Testimony, Mr. Denton states, “The County’s operating expenses have exceeded water service revenues in recent years and the deficits have been subsidized by tax revenues generated from supplemental taxes.” Please provide an explanation for which years are referenced by “recent years.” In addition, please indicate whether the quoted testimony is applicable to the rates set by the County in the Water Service Fee Schedule FY 22 or its current fee schedule.
 7. On page 7, lines 13-15 of his Direct Testimony, Mr. Denton states, “CWSNC’s ownership will provide the financial and operational resources needed to manage Carteret County’s water system efficiently and safely.” Please indicate whether **Carteret County is providing inefficient and/or unsafe service.**
 8. On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, “CWSNC’s existing customers will also realize benefits from the acquisition of Carteret County’s utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base.” Please provide an explanation of how acquiring the Carteret

County Water System with a requested rate base of \$9.5 million would benefit CWSNC's existing customers.

9. On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, "Carteret County and CWSNC's customers will also experience the advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs." Please provide specific examples, including calculations and assumptions, of "regulatory and operational cost efficiencies" CWSNC anticipates achieving with the purchase of the Carteret County Water System.

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398**

**Public Staff Data Request No. 3
Date Requested: September 6, 2022
Date Due: September 16, 2022**

(CWSNC requested extension through 9.23.22)

Public Staff Technical Contact: Charles M. Junis
Phone #: (919) 733-5610
Email: charles.junis@psncuc.nc.gov

Public Staff Legal Contacts: Gina Holt
Phone #: (919) 733-6110
Email: gina.holt@psncuc.nc.gov

William E. H. Creech
Phone #: (919) 733-6110
Email: zeke.creech@psncuc.nc.gov

Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III

1. On page 3, lines 1-5 of the Direct Testimony of Donald H. Denton III, Mr. Denton states, "In order to make the transaction feasible, the "fair value" methodology must be employed in order to capture the reasonable, realistic value of this system as it migrates from ownership by a governmental entity to ownership by a utility regulated by the North Carolina Utilities Commission ("NCUC" or "Commission")." Please provide an explanation for what is meant by "to make the transaction feasible, the "fair value" methodology must be employed." In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized.

RESPONSE:

The General Assembly authorized the Fair Value mechanism in G.S. 62-133.1A, setting forth a process to be utilized in the determination of Fair Value, and thence Rate Base, in the purchase by a regulated public utility of certain

governmentally owned utilities. Many of the decisions which the Public Staff seeks to investigate in these DR's have been made by the General Assembly, and CWSNC will not attempt to replicate the reasons for the General Assembly's decisions here.

See <https://www.ncleg.gov/Sessions/2017/Bills/House/PDF/H351v6.pdf>

However, given existing regulatory practices for the determination of rate base, it is Mr. Denton's professional, business opinion that governmental utilities are unlikely to sell their assets for prices that compare to the low rate base value that would likely be established by use of traditional accounting practices utilized in the regulatory arena. The General Assembly has made the foundational policy decision for an approach to valuation by authorizing this mechanism for determination of rate base in qualifying purchases, and CWSNC and the County have complied with its provisions as they pursue a contract of sale and as the Company seeks a decision on rate base.

CWSNC's efforts to negotiate other purchases are confidential, for obvious reasons in an increasingly competitive space; many of these are/were in the initial phase of discussion in which potential sellers are simply evaluating options.

2. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:

CWSNC objects to this question based on relevancy and on the basis of trade secret sensitivities. Mr. Denton's observations are predicated on his experience and are supported by his understanding of the market space.

This information is confidential as a trade secret, both for pending and past negotiations. Any prospective purchaser must have the ability to maintain discretion and confidentiality about proposed acquisitions, whether they are successful or not.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination.

3. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "If limited, for rate base purposes, to recognition only of the original cost of the Carteret

County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

RESPONSE:

CWSNC does not recognize the reference to \$4.9mm. Generally, any willing seller and willing buyer in any market will both be willing to transact over a “fair value” of the asset being sold, and original cost is not necessarily relevant in this context. The focus on “original cost” could inappropriately “anchor” a position on reasonableness when comparing to expert valuations. This is precisely what the FMV statute allows for, and a transaction price has inherent reasonability based on this arms-length process

4. On page 4, lines 5-7 of his Direct Testimony, Mr. Denton states, “This historical barrier has consisted of an inability to correlate fair purchase prices with the rate base values of the asset to the regulated utility.” Please provide an explanation of how a purchase price that exceeds the rate base value of assets, if recoverable in rates, would impact customers’ rates.

RESPONSE:

Objection based on relevance. The FMV statute leads to a calculation of rate base that is the lesser of the average of three Valuations or of the purchase price. Therefore, under the statute, if the purchase price exceeds the calculated Fair Value, then the rate base is set at the Fair Value. Thus, governmental providers and regulated utilities are now able to transact sales based on a scrutinized, analyzed, rational current value of the system assets.

The political decisions about the best interest of the governmental units’ customers are made by the governmental unit, appropriately, and the legislation provides a means by which the value in the regulated utility’s system is determined based on engineering and appraisal principles, as offered by qualified experts.

5. On page 7, lines 5-8 of his Direct Testimony, Mr. Denton states, “Carteret County and its customers will benefit from CWSNC’s access to financial capital, which is used to ensure that necessary and prudent investments are made on a timely basis, in order to provide safe, reliable, and compliant service.” Please provide a list of occurrences, including date and description, when Carteret County did not provide “safe, reliable, and compliant service.” For each occurrence, please provide an explanation of how “CWSNC’s access to financial capital” would have prevented the occurrence. In addition, please provide a comparison of the cost of capital for CWSNC and Carteret County.

RESPONSE:

- a. CWSNC has not alleged failures to provide safe, reliable, and compliant service. It does tout the obvious advantages of service, expertise, and investment capability associated with a well-run, rigorously regulated, public utility.
 - b. The political, public interest decision for Carteret County has been made here by the County government, the current provider and the responsible entity.
 - c. Access to capital is about more than cost of capital. CWSNC can spread cost of capital across a much wider spectrum of customers. The Company's access to capital is much broader and direct thru CRU's consolidated reach and cash flows compared to a municipal entity.
6. On page 7, lines 10-13 of his Direct Testimony, Mr. Denton states, "The County's operating expenses have exceeded water service revenues in recent years and the deficits have been subsidized by tax revenues generated from supplemental taxes." Please provide an explanation for which years are referenced by "recent years." In addition, please indicate whether the quoted testimony is applicable to the rates set by the County in the Water Service Fee Schedule FY 22 or its current fee schedule.

RESPONSE:

The special water tax was established in 2010, so it would stand to reason certain deficits have been supplemented by the tax since that year---it appears that 2010 began the cross-subsidization of water costs with tax dollars. Specific reference to revenue and expenditures of the tax are noted in the original engineering assessment (table 1) for Fiscal Years 2018, 2019, and 2020.

On July 1, 2021 through August 31, 2021, Carteret county increased average residential bills at 4,000 gallons of usage by 95%, representing the unsubsidized rate to those specific water customers.

On September 1, 2021, Carteret County reduced average residential bills at 4,000 gallons of usage by 25%.

Note that the tax is no longer included in rates set by the County for FYE 2022, and that average residential bills have increased by approximately 46% since eliminating the tax, thus shifting revenues back to water from tax sources which more closely reflects the true cost of service for Carteret water.

Carteret Avg Residential Bill @ 4,000 gals				
Date:	FY 20-21	7/1/21-8/31/21	9/1/21-6/30/22	FY 22-23
BFC	\$ 27.50	\$ 53.65	\$ 40.25	\$ 40.25
Volume \$/1,000	\$ 6.90	\$ 13.45	\$ 10.10	\$ 10.10
Avg Bill:	\$ 55.10	\$ 107.45	\$ 80.65	\$ 80.65
% Increase		95.01%	-24.94%	0%
		% Increase over FY 20 Avg Bill:		46.37%

Additionally, please see the Water Fund discussion in the Carteret County 2021 and 2022 budgets which discuss user revenue and Water Taxing District Special Revenue Funds.

2021: <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1408> (Starting on Page 15)

2022: <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1409> (Starting on Page 13)

- On page 7, lines 13-15 of his Direct Testimony, Mr. Denton states, “CWSNC’s ownership will provide the financial and operational resources needed to manage Carteret County’s water system efficiently and safely.” Please indicate whether Carteret County is providing inefficient and/or unsafe service

RESPONSE:

CWSNC has not alleged that Carteret County is providing inefficient and/or unsafe service. CWSNC has stated that it’s ownership will provide the financial and operational resources needed to manage the water system efficiently and safely.

- On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, “CWSNC’s existing customers will also realize benefits from the acquisition of Carteret County’s utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base.” Please provide an explanation of how acquiring the Carteret County Water System with a requested rate base of \$9.5 million would benefit CWSNC’s existing customers.

RESPONSE:

Economies of scale, efficiencies from expansion of footprint in terms of deployment of resources, spreading overhead----this Commission has long recognized the benefits of consolidation. Further, shared service costs such as customer service, billing, IT support, etc. will be split between a larger customer base.

- On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, “Carteret County and CWSNC’s customers will also experience the

advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs.” Please provide specific examples, including calculations and assumptions, of “regulatory and operational cost efficiencies” CWSNC anticipates achieving with the purchase of the Carteret County Water System.

RESPONSE:

See response to Question 8. The opportunities for regulatory and operational cost efficiencies in a more consolidated environment, with the ability to share resources across units and to share overhead across larger numbers is, and CWSNC represents, obvious and well-understood.

Various operating and administrative efficiencies – including extracting more value from existing resources - are expected to accrue over time as Carteret is integrated into the CWSNC systems. After the now-CWSNC system was largely consolidated in the NCUC regulatory arena, the Company was able to minimize and streamline rate filings, reporting and monitoring requirements (both internally and externally), and tariffs, and therefore more directly align its operating and administrative practices in a uniform fashion and efficiently deploy resources. An acquisition of Carteret’s size and location, in relation to CWSNC’s existing systems, is expected to generate efficiencies of similar forms. Carteret will also attain regulatory review at the rigorous level of the NCUC and gain the decades of broad expertise inherent in NCUC oversight.

**CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398**

**Public Staff Data Request No. 4
Date Requested: September 26, 2022
Date Due: September 30, 2022**

Public Staff Technical Contact: Charles M. Junis
Phone #: (919) 733-5610
Email: charles.junis@psncuc.nc.gov

Public Staff Legal Contacts: Gina Holt
Phone #: (919) 733-6110
Email: gina.holt@psncuc.nc.gov

William E. H. Creech
Phone #: (919) 733-6110
Email: zeke.creech@psncuc.nc.gov

Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III Follow-up to Data Request No. 3

1. In response to Public Staff Data Request (DR) 3, Question 1 (Q1), the Company stated in pertinent part that, "The General Assembly has made the foundational policy decision for an approach to valuation by authorizing this mechanism for determination of rate base in qualifying purchases, and CWSNC and the County have complied with its provisions as they pursue a contract of sale and as the Company seeks a decision on rate base."
 - a. Did the Company, its trade associations, and/or others on the Company's behalf support this legislation?
 - b. Did the Company, its trade associations, and/or others on the Company's behalf undertake lobbying activities relating to this legislation?
 - c. Please provide documentation of the Company's lobbying efforts supporting the passage of House Bill 351, including invoices and any draft language, to modify N.C. Gen. Stat. § 62-133.(c) and/or add § 62-133.1A, provided by

the Company or on the Company's behalf to trade associations and/or the General Assembly, its members, and/or staffers.

2. In response to Public Staff DR 3, Q 1, the Company stated in pertinent part that, "CWSNC's efforts to negotiate other purchases are confidential, for obvious reasons in an increasingly competitive space; many of these are/were in the initial phase of discussion in which potential sellers are simply evaluating options." For reference, however, DR 3, Q1, states in pertinent part, "In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized." The Company did not object to the request. Please provide the requested information confidentially.

3. Public Staff Data Request 3, Q 2, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:

CWSNC objects to this question based on relevancy and on the basis of trade secret sensitivities. Mr. Denton's observations are predicated on his experience and are supported by his understanding of the market space.

This information is confidential as a trade secret, both for pending and past negotiations. Any prospective purchaser must have the ability to maintain discretion and confidentiality about proposed acquisitions, whether they are successful or not.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination.

The testimony claims a purchase of a governmental system by a Commission-regulated utility could not happen without the "ability to establish a realistic level of "market" value." Evidence of any failed attempts to negotiate and complete similar purchases without fair value would be relevant to substantiate such a claim. Please provide the information confidentially.

4. Public Staff DR 3, Q3, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, “If limited, for rate base purposes, to recognition only of the original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

RESPONSE:

CWSNC does not recognize the reference to \$4.9mm. Generally, any willing seller and willing buyer in any market will both be willing to transact over a “fair value” of the asset being sold, and original cost is not necessarily relevant in this context. The focus on “original cost” could inappropriately “anchor” a position on reasonableness when comparing to expert valuations. This is precisely what the FMV statute allows for, and a transaction price has inherent reasonability based on this arms-length process

The testimony claims original cost could not be used by CWSNC to “justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” This conclusion cannot be reached without first determining the original cost. Furthermore, the \$4.9 million bid by CWSNC for the Carteret County Water System was specifically discussed by Eugene Foxworth, Assistant County Manager, at the Carteret County Board of Commissioners Regular Session on February 15, 2021. See excerpt below. Please provide complete responses to DR 3, Q3.

We met with the Town of Beaufort and they were not interested in acquiring our system. Subsequently, two private water companies approached us about acquiring the system. They were Carolina Water Systems, and Aqua NC. As with any other disposition of property, Commissioners stated their preference for the upset bid process. The County Manager, County Attorney, and I have met with both companies multiple times. Aqua NC submitted an offer of \$7,000,000. Carolina Water Systems submitted an offer of \$4,900,000 for this system. I want to point out that this is not a quick process. If the Board decides to move forward, it will be nine to twelve months; there are a lot of approvals from the Utilities Commission, and other due diligences that have to take place in the process. We will also need authorization of the Commissioners to go out and get an additional appraisal on this system.

Commissioner Chadwick asked Mr. Foxworth once we accept the high bid, that opens it up for other companies to upset that bid? Mr. Foxworth stated that was correct. The Board would instruct the Clerk to put it up for upset bid. Chairman Wheatly confirmed that it was a ten-day upset bid timeframe.

5. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, "CWSNC's existing customers will also realize benefits from the acquisition of Carteret County's utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base." Please provide an explanation of how acquiring the Carteret County Water System with a requested rate base of \$9.5 million would benefit CWSNC's existing customers.

RESPONSE:

Economies of scale, efficiencies from expansion of footprint in terms of deployment of resources, spreading overhead----this Commission has long recognized the benefits of consolidation. Further, shared service costs such as customer service, billing, IT support, etc. will be split between a larger customer base.

Please provide CWSNC's quantification, including assumptions and calculations, of the rate impact of the purchase price and cost savings from the larger customer base.

6. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, "Carteret County and CWSNC's customers will also experience the advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs." Please provide specific examples, including calculations and assumptions, of "regulatory and operational cost efficiencies" CWSNC anticipates achieving with the purchase of the Carteret County Water System.

RESPONSE:

See response to Question 8. The opportunities for regulatory and operational cost efficiencies in a more consolidated environment, with the ability to share resources across units and to share overhead across larger numbers is, and CWSNC represents, obvious and well-understood.

Various operating and administrative efficiencies – including extracting more value from existing resources - are expected to accrue over time as Carteret is integrated into the CWSNC

systems. After the now-CWSNC system was largely consolidated in the NCUC regulatory arena, the Company was able to minimize and streamline rate filings, reporting and monitoring requirements (both internally and externally), and tariffs, and therefore more directly align its operating and administrative practices in a uniform fashion and efficiently deploy resources. An acquisition of Carteret's size and location, in relation to CWSNC's existing systems, is expected to generate efficiencies of similar forms. Carteret will also attain regulatory review at the rigorous level of the NCUC and gain the decades of broad expertise inherent in NCUC oversight.

Please provide CWSNC's quantification, including assumptions and calculations, the cost saving efficiencies generated by consolidation of the Carteret system, and how those savings will be passed to customers.

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398
Public Staff Data Request No. 4
Date Requested: September 26, 2022
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Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III Follow-up to Data Request No. 3

1. In response to Public Staff Data Request (DR) 3, Question 1 (Q1), the Company stated in pertinent part that, "The General Assembly has made the foundational policy decision for an approach to valuation by authorizing this mechanism for determination of rate base in qualifying purchases, and CWSNC and the County have complied with its provisions as they pursue a contract of sale and as the Company seeks a decision on rate base."
 - a. Did the Company, its trade associations, and/or others on the Company's behalf support this legislation?

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

- b. Did the Company, its trade associations, and/or others on the Company's behalf undertake lobbying activities relating to this legislation?

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

- c. Please provide documentation of the Company's lobbying efforts supporting the passage of House Bill 351, including invoices and any draft language, to modify N.C. Gen. Stat. § 62-133.(c) and/or add § 62-133.1A, provided by the Company or on the Company's behalf to trade associations and/or the General Assembly, its members, and/or staffers.

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

2. In response to Public Staff DR 3, Q 1, the Company stated in pertinent part that, "CWSNC's efforts to negotiate other purchases are confidential, for obvious reasons in an increasingly competitive space; many of these are/were in the initial phase of discussion in which potential sellers are simply evaluating options." For reference, however, DR 3, Q1, states in pertinent part, "In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized." The Company did not object to the request. Please provide the requested information confidentially.

RESPONSE: The Company certainly intended that its response to the DR 3, Q 1, request be treated as an objection – the request not only asks about confidential matters but seeks information that is not relevant to this proceeding nor likely to result in admissible evidence. Note that the earlier Company response stated in part: "Many of the decisions which the Public Staff seeks to investigate in these DR's have been made by the General Assembly, and CWSNC will not attempt to replicate the reasons for the General Assembly's decisions here." The DR 3, Q 1, has two parts to it, and the Company provided a response to the part that asked about Mr. Denton's direct testimony. However, the Company maintains that the second part ("In addition please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized.") is totally irrelevant and objectionable because, as previously noted, this proceeding is about what happens after the effective date of the Fair Value legislation and has nothing to do with what happened before that legislation. The Company's prior confidential business activity is not a proper basis for challenging the policy decision made by the North Carolina General Assembly. The Company's objection to this request is essentially the same objection that the Company earlier made in response to DR 3, Q 2.

3. Public Staff Data Request 3, Q 2, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:

CWSNC objects to this question based on relevancy. The plain language of the statute prevails in its application to this case. The business efforts undertaken by CWSNC are not relevant to the application of the law to this case, nor will discussion of them lead to any relevant information. Mr. Denton's observations are predicated on his experience and are supported by his understanding of the market space.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination. That is what is at issue herein and CWSNC's prior or current activities in the market place are irrelevant.

The testimony claims a purchase of a governmental system by a Commission-regulated utility could not happen without the "ability to establish a realistic level of "market" value." Evidence of any failed attempts to negotiate and complete similar purchases without fair value would be relevant to substantiate such a claim. Please provide the information confidentially.

RESPONSE: The Company objects due to lack of relevance and the unlikelihood that the request will result in any admissible evidence. The number of negotiations or conversations that CWSNC has had with prospective Sellers is irrelevant to the purpose or requirements of the Fair Value statute. Evidence of past efforts to purchase governmental systems by the Company should not – and lawfully cannot – be used in a Commission proceeding to challenge legislative policy; nor would such evidence have any other purpose relevant to application of G.S. 62-133.1A.

4. Public Staff DR 3, Q3, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "If limited, for rate base purposes, to recognition only of the

original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

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Commissioner Chadwick asked Mr. Foxworth once we accept the high bid, that opens it up for other companies to upset that bid? Mr. Foxworth stated that was correct. The Board would instruct the Clerk to put it up for upset bid. Chairman Wheatly confirmed that it was a ten-day upset bid timeframe.

RESPONSE: Thank you for explaining the source of the \$4.9 million reference in DR 3. The Company does not have an original cost rate

base calculation for the Carteret County water system, and disagrees that a specific original cost number is necessary to conclude that use of an original cost rate base would leave the Company with unrecovered investment. Normally a system will sell for more than original cost. This is evident in the transfer cases between private utilities where an acquisition adjustment exists, whether or not allowed for ratemaking. It is reasonable for a utility to conclude that rate base at fair market value/purchase price more rationally supports purchase than rate base at net original cost. That is why the Company favors the General Assembly's approach in G.S. 62-133.1A, creating a fair market value (or purchase price, whichever is lower) approach to rate base in lieu of original cost. That legislation provides for fair market value to be established by professional appraisers, not by net original cost valuation. That legislation also incentivizes utilities to acquire municipal systems that need better financing or operational resources by allowing fair market value (or purchase price) into rate base instead of original cost.

5. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, "CWSNC's existing customers will also realize benefits from the acquisition of Carteret County's utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base." Please provide an explanation of how acquiring the Carteret County Water System with a requested rate base of \$9.5 million would benefit CWSNC's existing customers.

RESPONSE:

Economies of scale, efficiencies from expansion of footprint in terms of deployment of resources, spreading overhead----this Commission has long recognized the benefits of consolidation. Further, shared service costs such as customer service, billing, IT support, etc. will be split between a larger customer base.

Please provide CWSNC's quantification, including assumptions and calculations, of the rate impact of the purchase price and cost savings from the larger customer base.

RESPONSE: The short-term rate impact of the proposed purchase of the Carteret County system by the Company is shown in the customer notice accompanying the Commission's scheduling order in this docket and in W-354, Sub 399. Rates beyond four years have not been

estimated; nor have the savings impact solely from efficiencies for the Carteret system been quantified. Rather, the response in DR 3, Q 8, reflects a qualitative understanding that when fixed costs are spread over a larger number of customers, economies of scale result and ultimately help keep rates lower than they would otherwise be.

6. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, "Carteret County and CWSNC's customers will also experience the advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs." Please provide specific examples, including calculations and assumptions, of "regulatory and operational cost efficiencies" CWSNC anticipates achieving with the purchase of the Carteret County Water System.

RESPONSE:

See response to Question 8. The opportunities for regulatory and operational cost efficiencies in a more consolidated environment, with the ability to share resources across units and to share overhead across larger numbers is, and CWSNC represents, obvious and well-understood.

Various operating and administrative efficiencies – including extracting more value from existing resources - are expected to accrue over time as Carteret is integrated into the CWSNC systems. After the now-CWSNC system was largely consolidated in the NCUC regulatory arena, the Company was able to minimize and streamline rate filings, reporting and monitoring requirements (both internally and externally), and tariffs, and therefore more directly align its operating and administrative practices in a uniform fashion and efficiently deploy resources. An acquisition of Carteret's size and location, in relation to CWSNC's existing systems, is expected to generate efficiencies of similar forms. Carteret will also attain regulatory review at the rigorous level of the NCUC and gain the decades of broad expertise inherent in NCUC oversight.

Please provide CWSNC's quantification, including assumptions and calculations, the cost saving efficiencies generated by consolidation of the Carteret system, and how those savings will be passed to customers.

RESPONSE: Please see the response to Question 5, above. The testimony reflects a qualitative understanding, not quantified. In addition to the economies of spreading fixed costs over more customers, the customers of the Carteret County water system will benefit from spreading regulatory costs such as rate case expense over all the customers in uniform rates. These savings will be passed on to customers in future rate proceedings as the cost basis is spread to additional customers.

Prepared by Jo Anne Sanford, Matthew Schellinger, David Drooz and Don Denton.