

**NORTH CAROLINA UTILITIES COMMISSION  
RALEIGH**

Docket No. W-354, Sub 396  
Docket No. W-1073, Sub 7

Exceptions Due on or Before July 13, 2023

**NOTICE TO PARTIES**

Parties to the above proceeding may file exceptions to the report and Recommended Order hereto attached on or before the day above shown as provided in N.C. Gen. Stat. § 62-78. Exceptions, if any, must be filed with the North Carolina Utilities Commission, Raleigh, North Carolina, and a copy thereof mailed or delivered to each party of record, or to the attorney for such party, as shown by appearances noted. Each exception must be numbered and clearly and specifically stated in one paragraph without argument. The grounds for each exception must be stated in one or more paragraphs, immediately following the statement of the exception, and may include any argument, explanation, or citations the party filing same desires to make. In the event exceptions are filed, as herein provided, a time will be fixed for oral argument before the Commission upon the exceptions so filed, and due notice given to all parties of the time so fixed; provided, oral argument will be deemed waived unless written request is made therefore at the time exceptions are filed. If exceptions are not filed, as herein provided, the attached report and recommended decision will become final and effective on July 14, 2023, unless the Commission, upon its own initiative, with notice to parties of record modifies or changes said Order or decision or postpones the effective date thereof.

The report and Recommended Order attached shall be construed as tentative only until the same becomes final in the manner hereinabove set out.

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 396  
DOCKET NO. W-1073, SUB 7

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service, Inc.,	)	
of North Carolina, 4944 Parkway Plaza,	)	
Suite 375, Charlotte, North Carolina 28217	)	RECOMMENDED ORDER
and Water Resource Management, LLC,	)	APPROVING TRANSFER,
151 Mr. Bish Boulevard, Boone, North	)	GRANTING FRANCHISE,
Carolina 28607, for Authority to Transfer the	)	APPROVING BOND, APPROVING
Echota Water Utility System, the Seven	)	RATES, AND REQUIRING
Devils Wastewater Utility System and Public	)	CUSTOMER NOTICE
Utility Franchise in Watauga County, North	)	
Carolina, and for Approval of Rates	)	

HEARD: Tuesday, November 1, 2022, at 7:00 p.m., Watauga County Courthouse,  
Boone, North Carolina

Thursday, December 8, 2022, at 10:00 a.m., Commission Hearing Room  
2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Freda H. Hilburn, Hearing Examiner

APPEARANCES:

For Carolina Water Services of North Carolina, Inc.:

JoAnne Sanford, Sanford Law Office, P.O. Box 2805-8085, Raleigh, North  
Carolina 27611-8085

For Water Resource Management, LLC:

David T. Drooz, Fox Rothschild, LLP, 434 Fayetteville Street, Suite 2800,  
Raleigh, North Carolina 27601-2943

For the Lake Community Property Owners' Association, Inc.:

Brady W. Allen and Dwight W. Allen, The Allen Law Offices, PLLC, 4030  
Wake Forest Road, Suite 115, Raleigh, North Carolina 27609

For the Using and Consuming Public:

John Little, Staff Attorney, Public Staff – North Carolina Utilities Commission,  
4326 Mail Service Center, Raleigh, North Carolina 27699-4300

BY THE HEARING EXAMINER: On April 22, 2022, Carolina Water Service, Inc. of North Carolina (CWSNC) and Water Resource Management, LLC (WRM), filed an Application for Transfer of Public Utility Franchise and for Approval of Rates (Application), pursuant to North Carolina Gen. Stat. § 62-111. This Application requests authority to transfer the water and wastewater utility franchise serving all WRM's service areas in Watauga County, North Carolina from WRM to CWSNC and for approval of rates. On April 26 and May 11, 2022, the Applicants filed additional materials in support of the Application with the Commission.

On September 2, 2022, the Commission issued an Order Scheduling Hearings, Establishing Discovery Guidelines, and Requiring Customer Notice (Scheduling Order). That order scheduled a customer hearing in Boone, North Carolina on November 1, 2022, and an expert witness hearing in Raleigh, North Carolina on December 8, 2022.

On September 14, 2022, CWSNC filed a Certificate of Service of Customer Notice showing that CWSNC mailed notice of the proposed transfer and rate increase request to all affected customers on September 13, 2022, by United States mail, first class postage prepaid.

On October 10, 2022, CWSNC filed the direct testimony and exhibits of Donald H. Denton, III, Senior Vice President, East Operations for Corix Regulated Utilities and President of CWSNC.

On October 14 and October 17, 2022, Edward B. Winn, Jr., and James D. Moore, III, residents of the Seven Devils subdivision, filed Petitions to Intervene. On October 26, 2022, The Lakes Community Property Owners' Association, Inc. (The Lakes Community POA), filed a Petition to Substitute Intervention of Lakes Community Property Owners' Association, Inc. and Alternatively, Notice of Appearance of Counsel. The Lakes Community POA requested that it be allowed to intervene on behalf of the residents instead of Mr. Winn and Mr. Moore. On October 26, 2022, the Commission issued an order granting the late intervention of the Lakes Community POA and allowing Mr. Winn and Mr. Moore to withdraw their interventions.

On October 31, 2022, the Public Staff filed the direct testimony of Public Staff witnesses Lynn L. Feasel, Financial Manager with the Water, Sewer, and Telecommunications Section, Accounting Division and D. Michael Franklin, Public Utilities Engineer with the Water, Sewer, and Telecommunications Engineering Division. Also on October 31, 2022, The Lakes Community POA filed the joint direct testimony of Edward B. Winn, Jr., Treasurer of the Board of The Lakes Community POA and James D. Moore, III, President of the Board of The Lakes Community POA.

On November 14, 2022, WRM filed its Response to Customer Concerns from the November 1, 2022, customer hearing held in Boone, Watauga County, North Carolina.

On November 18, 2022, CWSNC filed its Response to Customer Concerns from the customer hearing. CWSNC also filed the Rebuttal Testimony of Donald H. Denton, III.

On December 5, 2022, the Public Staff filed its Verified Response to WRM's Response to Customer Concerns and CWSNC's Report on Customer Comments from the customer hearing held in Boone, Watauga County, North Carolina.

On December 8, 2022, the expert witness hearing was held in Commission Hearing Room 2115 in Raleigh, North Carolina.

On December 9, 2022, WRM filed a copy of the Articles of Organization and Conversion on file with the North Carolina Department of the Secretary of State which indicate that WRM was converted to a limited liability company on December 18, 2020.

On January 23, 2023, the Lakes Community POA, the Public Staff, and CWSNC, each filed a proposed order approving the transfer but recommending approval of different rates.

## **FINDINGS OF FACT**

1. CWSNC is a corporation duly organized under the law and is authorized to do business in the State of North Carolina. CWSNC is a franchised public utility providing water and/or sewer utility service to approximately 34,672 water customers and 21,530 sewer customers in North Carolina and operates approximately 93 water systems and 38 sewer systems in the State. CWSNC's service territory spans 38 counties in North Carolina, from Corolla in Currituck County to Bear Paw in Cherokee County. CWSNC is a wholly-owned subsidiary of Corix Regulated Utilities, Inc.<sup>1</sup>

2. WRM is a limited liability corporation duly organized under the law and is authorized to do business in the State of North Carolina. WRM is a franchised public utility providing water and/or sewer utility service to approximately 613 monthly flat rate water utility customers and 149 monthly flat rate wastewater utility customers in its service areas in Watauga County, North Carolina. James Edward Harrill, II is the Executive Manager for WRM.

3. WRM holds a Certificate of Public Convenience and Necessity (CPCN) pursuant to Commission order issued May 24, 1996, in Docket No. W-1073, Sub 0, to provide wastewater utility service to the Top of Seven Condominiums, the City Hall for

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<sup>1</sup> Corix Regulated Utilities, Inc. owns regulated utilities in 17 states, with primary service areas in Florida, North Carolina, South Carolina, Louisiana, and Nevada, that provide water and sewer utility service to approximately 190,000 customers.

Seven Devils, the Seven Devils Lake Resort Club, the Inn at Seven Devils, one residential customer, and The Lakes Community.

4. WRM holds a CPCN pursuant to Commission order issued April 24, 2007, in Docket No. W-1073, Sub 3, to provide wastewater utility service to Hawks Peak Condominiums and Hawks Peak South Condominiums.

5. WRM holds a CPCN pursuant to Commission order issued December 16, 2015, in Docket No. W-1073, Sub 4, to provide water utility service to the Echota Subdivision, Echota on the Ridge Subdivision, and Echota East Ridge Subdivision.

6. WRM holds a CPCN pursuant to Commission order issued March 26, 2021, in Docket No. W-1073, Sub 6, to provide water utility service to Phase IV of the Echota Subdivision.

7. WRM's service areas include the Echota Subdivision, Echota on the Ridge Subdivision, Echota East Ridge Subdivision, and Phase IV of the Echota Subdivision (collectively, Echota). WRM's sewer service areas include the Top of Seven Condominiums, the City Hall for Seven Devils, the Seven Devils Lake Resort Club, The Villas at Hawks Peak (formerly The Inn at Seven Devils), one residential customer, The Lakes Community, Hawks Peak Condominiums, and Hawks Peak South Condominiums (collectively, Seven Devils).

8. WRM retained CWSNC to serve as the contract operator of the Echota water system and the Seven Devils wastewater system beginning on September 16, 2021.

9. On October 12, 2021, WRM and CWSNC entered into a Utility Asset Purchase Agreement whereby CWSNC agreed to purchase WRM's water and sewer utility system assets for a purchase price of \$70,000. In addition to the purchase price of \$70,000, CWSNC agreed to make additional payments of \$706 per new customer connection up to 184 connections as an incentive payment for future Echota Phase IV lots for a period not to exceed ten years following the closing of the sale. No water or sewer utility system assets of WRM have been excluded from the Utility Asset Purchase Agreement.

10. CWSNC and WRM are properly before the Commission pursuant to Chapter 62 of the North Carolina General Statutes seeking approval of an Application for Transfer of Public Utility Franchise and for Approval of Rates. CWSNC and WRM jointly filed the Application in this docket on April 22, 2022, seeking authority to transfer the water and wastewater utility systems and public utility franchise serving all of WRM's service areas in Watauga County, North Carolina, from WRM to CWSNC and for approval of rates.

11. The Commission approved the present water utility rates for the Echota service area in Docket No. W-1073, Sub 4, on December 16, 2015, and Docket

No. W-1073, Sub 6, on March 26, 2021. The Commission approved the present wastewater utility rates for the Seven Devils service area in Docket Nos. W-1073, Sub 5, and M-100, Sub 138, and those rates have been in effect since February 13, 2015. Upon acquisition of the system, CWSNC proposes to charge the CWSNC Uniform Rates for flat rate residential service for both water and wastewater utility service that the Commission approved in Docket No. W-354, Sub 384, on April 8, 2022 (Sub 384). WRM's present rates and CWSNC's Sub 384 rates proposed in the Application are as follows:

<u>Monthly Flat Rate Service:</u>	<u>Present</u>	<u>Proposed</u>
Water (Echota)	\$20.00	\$68.71
Wastewater (Seven Devils)	\$28.20	\$85.12

12. The Echota water system is comprised of nine active wells with three water treatment locations. Each water treatment location serves three wells with the first water treatment location serving Well Nos. 1 through 3, the second serving Well Nos. 4 through 6, and the third serving Well Nos. 7 through 9. The Echota water utility system also has four ground storage tanks with two having a capacity of 30,000 gallons each, one having a capacity of 75,000 gallons, and another having a capacity of 83,000 gallons.

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

14. The Echota water system is currently unmetered. CWSNC plans to install Advanced Metering Infrastructure (AMI) water meters on the Echota water utility system in the two years following approval of the transfer.

15. The Public Staff recommended that CWSNC install AMI water meters on the Echota water utility system within one year of ownership of the water system. CWSNC stated that installation of the water meters within one year of ownership is unlikely for several reasons.

16. The Town of Seven Devils provides water utility service to customers of the Seven Devils wastewater system. Customers of the Seven Devils wastewater system pay a flat rate for sewer service. CWSNC stated that it has made initial efforts to obtain water billing data from the Town of Seven Devils and that the Town of Seven Devils could not provide the data per statute.

17. The original cost net investment for the Echota water utility system is \$53,651. The original cost net investment for the Seven Devils wastewater utility system is \$13,549.

18. The purchase price amount for CWSNC to include in rate base is \$67,200 (\$70,000 plant in service less (\$2,800) in accumulated depreciation).

19. CWSNC should not include the incentive payment of \$706 per new customer connection, up to 184 connections, in rate base until it implements the connections to the Echota Phase IV development.

20. CWSNC estimates its due diligence costs associated with the Application to be approximately \$45,000, which it requests the Commission authorize for inclusion in rate base in this proceeding in addition to the purchase price of \$70,000.

21. Due diligence costs of \$8,229 are appropriate for inclusion in rate base for this proceeding. It is appropriate to amortize these costs at a rate of 2.73%. CWSNC may request inclusion of additional due diligence costs associated with this transfer proceeding in a future general rate case proceeding.

22. It is not appropriate to include the Fusion allocation amount of \$21,194 in rate base.

23. It is not appropriate to include the estimated AMI meter installation costs of \$300,000 in rate base.

24. The original cost rate base amount for the Echota water system is \$61,656, comprised of \$55,886 in plant in service, (\$2,235) in accumulated depreciation, and due diligence costs of \$8,229, net of accumulated amortization of (\$225).

25. The original cost rate base amount for Seven Devils wastewater system is \$13,549, comprised of plant in service of \$14,114, net of accumulated depreciation of (\$565).

26. The reasonable and appropriate annual revenue requirement for service revenues for the Echota water utility system is \$247,709. The reasonable and appropriate annual revenue requirement for service revenues for the Seven Devils wastewater utility system is \$66,261.

27. The rates recommended for water and wastewater service by the Public Staff are as follows:

Monthly Flat Rate Utility Service

Water (Echota)	\$33.67
Wastewater (Seven Devils)	\$37.06

Monthly Metered Water Utility Service (Echota)

Base Charge, zero usage	\$13.50
Usage Charge, per 1,000 gallons	\$ 7.80

Reconnection Charges

If water service cut off by utility for good cause	\$42.00
If water service is discontinued at customer's request	\$42.00
If sewer service cut off by utility for good cause	Actual Cost

28. CWSNC stated that it would accept the Public Staff's proposed water and sewer revenue requirements and the Public Staff's proposed flat rates for implementation upon Commission approval of the Application, subject to a Commission-authorized phase-in of CWSNC's current uniform rates approved in Docket No. W-354, Sub 384. On rebuttal, CWSNC proposed the following rates, with the same reconnection charges recommended by the Public Staff:

	<b>Public Staff Recommended Rates at</b>	<b>CWSNC's Sub 384 Uniform Rates at</b>		
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
		<u>12 months after</u>	<u>24 months after</u>	<u>36 months after</u>
	<u>At Commission Order</u>	<u>Commission Order</u>	<u>Commission Order</u>	<u>Commission Order</u>
<u>Monthly Flat Rate Utility Service:</u>				
Water (Echota)	\$33.67	\$45.35	\$57.03	\$68.71
Wastewater (Seven Devils)	\$37.06	\$53.08	\$69.10	\$85.12
<u>Monthly Metered Water Utility Service (Echota):</u>				
Base Charge, zero usage	\$13.50	\$17.18	\$20.85	\$24.53
Usage Charge, per 1,000 gallons	\$ 7.80	\$ 9.10	\$10.41	\$11.71

29. In their testimony, POA witnesses Winn and Moore contended that it would be unreasonable for the Commission to approve CWSNC's proposal to implement its Sub 384 Uniform Rate for flat rate residential wastewater utility service at Seven Devils upon approval of the transfer application, citing the magnitude of the requested rate increase above the present WRM wastewater rate, "rate shock", and other system-specific wastewater rates that CWSNC currently charges.

30. The expected revenues that CWSNC's proposed Sub 384 rates will collect would significantly exceed the revenue requirements the Public Staff recommended as



determined by its investigation. The standalone rates the Public Staff recommended for water and wastewater utility service are the appropriate rates for CWSNC to charge for the Echota and Seven Devils service areas upon transfer of the water and sewer systems to CWSNC.

31. It is not appropriate to phase-in CWSNC's current uniform rates that the Commission approved in Docket No. W-354, Sub 384 over a four-year period as CWSNC proposes.

32. A bond in the amount of \$50,000 for the Echota water utility service area and the Seven Devils wastewater utility service area is appropriate.

33. The Public Staff's Consumer Services Division did not receive any customer complaints regarding the Echota water system or the Seven Devils wastewater system from July 1, 2019, through August 31, 2022.

34. As of October 31, 2022, 35 customers have filed consumer statements of position about the transfer. None of the consumer statements of position object to the transfer. No customers complained of issues with WRM's service. All consumer statements of position filed in the docket object to the rates CWSNC proposes in the Application.

35. The Echota water system received several Notices of Violation from the North Carolina Department of Environmental Quality (NCDEQ) for various infractions. WRM corrected those violations and the last inspection of the Echota water system, on March 16, 2022, identified no violations.

36. The Seven Devils wastewater system received two Notices of Violation from the NCDEQ since January 1, 2019. WRM has corrected those violations. The last Compliance Evaluation Inspection, on October 30, 2019, revealed no violations.

37. WRM is providing safe and reliable service to its customers of the Echota water system and the Seven Devils wastewater system.

38. CWSNC has the technical, managerial, and financial capacity to own and operate the Echota water system and the Seven Devils wastewater system.

39. The transfer is justified by the public convenience and necessity, is in the public interest, and should be approved.

#### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 13**

The evidence for these findings of fact is found in the Application and supporting exhibits, the Utility Asset Purchase Agreement, the testimony of CWSNC witness Denton and Public Staff witness Franklin, the entire record in this proceeding, the records of the Commission, and the statutes, case law, and rules governing the authority and jurisdiction

of this Commission. These findings are generally informational, procedural, and jurisdictional in nature.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 14-15**

The evidence for these findings of fact is found in the direct and rebuttal testimony and exhibits of CWSNC witness Denton, the testimony of Public Staff witness Franklin, and the testimony customers provided at the public witness hearing.

CWSNC witness Denton testified that at present, the Echota service area customers are not metered and that in the two years following approval of the acquisition, CWSNC plans to install AMI water meters. Tr. vol. 2, 30, 33. The Public Staff recommended that CWSNC install water meters in the Echota service area within one year of taking ownership of the Echota water system. *Id.* at 167. On rebuttal, witness Denton testified that CWSNC is not likely to be able to install water meters for the Echota water system within the first year of CWSNC's operation for several reasons. He explained that the current lead time for water meters is eight to twelve months, and that the delay is largely driven by raw material and labor shortages. Additionally, he stated that Echota customers are currently directly connected into the water distribution system, which will require CWSNC to first locate each water service lateral prior to installing meters, further delaying installation of the meters. *Id.* at 204. Witness Denton testified that given the challenges with water service lateral locating, CWSNC is evaluating options to install meters inside the crawl space of the building in order to potentially expedite meter installation; however, witness Denton noted that there are communication challenges with this option. *Id.* at 204, 231-32.

At the public witness hearing, witness Ervin, a customer of the Echota water system, objected to the magnitude of CWSNC's proposed rate increase and expressed concern over CWSNC's proposal to keep customers on a flat rate until CWSNC installs meters. Witness Ervin suggested four different billing options during the interim period before meter installation, with each option attempting to estimate water usage for the basis of billing Echota customers until CWSNC can install meters. Witness Ervin testified that the point of his suggested billing options is to avoid CWSNC charging Echota customers the proposed flat rate during the interim period. Witness Ervin explained his concern that CWSNC's proposed flat rate was based on an assumption of water usage that is too high. Tr. vol. 1, 27-29.

The Hearing Examiner acknowledges that customers of the Echota water system have concerns with CWSNC's proposed flat rate and that to address customer concerns, the Public Staff recommends expedited installation of water meters within one year of CWSNC's ownership of the Echota water system. However, based on the testimony of witness Denton, the Hearing Examiner concludes that the Public Staff's recommended one-year deadline for meter installation is likely unattainable. The Hearing Examiner recognizes CWSNC's concerns over supply chain issues, labor shortages, and locating of customers' water service laterals which all may contribute to delays in CWSNC's efforts to install water meters within the Public Staff's recommended timeline. Given these

challenges, the Hearing Examiner notes that CWSNC is examining a potential alternative to expedite meter installation by installing meters inside the crawl space of certain buildings. In order to strike a balance between the customers' concerns regarding the monthly flat rate and the CWSNC's efforts to install water meters, the Hearing Examiner concludes that CWSNC should be required to comprehensively research this matter and formulate an action plan to install meters on the Echota water system as soon as practicable. Such action plan should seek to install the meters before CWSNC's originally projected two-year timeframe. CWSNC should provide an update to the Commission no later than 90 days after the effective date of this Order on its proposed meter installation schedule. CWSNC should provide further updates to the Commission thereafter on a quarterly basis until completion of the meter installation project.

### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16**

The evidence for this finding of fact is found in the testimony of The Lakes Community POA witnesses Winn and Moore, testimony provided by customers at the public witness hearing, CWSNC's Response to Customer Concerns, and the testimony CWSNC witness Denton provided at the expert witness hearing.

The Lakes Community POA witnesses Winn and Moore testified that the Town of Seven Devils (Town) provides metered water service for The Lakes Community. Tr. vol. 2, 101. In CWSNC's Response to Customer Concerns, CWSNC stated that the Town is the water provider to customers of the Seven Devils sewer system, and that it is reaching out to the Town to see if CWSNC can obtain regular water meter reading data in order to bill Seven Devils sewer customers on a volumetric basis for sewer service. During the expert witness hearing, after examination by the Hearing Examiner, CWSNC witness Denton stated that the Town could not provide water meter data per statute; however, he asserted that CWSNC wants to continue the conversation with the Town. *Id.* at 233.

During the public witness hearing, customers of the Seven Devils sewer system objected to the magnitude of CWSNC's proposed rate increase and some customers opined that the proposed flat rate was unfair due to the seasonal nature of many of the residents that the sewer system serves. For example, witness Woodbury explained that for the Hawks Peak Condominiums, there are 24 units with only five units housing full-time residents. Tr. vol. 1, 62. He explained that the customers, particularly in the Hawks Peak Condominiums, are seasonal and maintained that a flat rate would be unfair for those customers. *Id.*

The Hearing Examiner acknowledges that during the public witness hearing, customers of the Seven Devils sewer system expressed concern over the magnitude of CWSNC's proposed rate increase and some opined that the proposed flat rate would be unfair given the seasonal nature of some residents served by the sewer system. Further, the Hearing Examiner notes that CWSNC has made efforts to obtain water meter reading data from the Town in order to potentially charge customers of the Seven Devils sewer system on a volumetric basis for sewer service based on customers' individual water

usage from the Town. The Hearing Examiner recognizes that CWSNC's initial effort to obtain water meter reading data from the Town was not successful due to a statutory limitation preventing the Town from providing such data. Given customer concerns over the fairness of a flat charge for sewer service and CWSNC's willingness to investigate the situation by continuing a dialogue with the Town, the Hearing Examiner concludes that CWSNC should make all reasonable efforts to work with the Town to determine if CWSNC can obtain water meter reading data for customers of the Seven Devils sewer system at a reasonable cost. CWSNC should update the Commission on the status of any discussions with the Town in a filing to the Commission no later than 90 days after the issuance date of this Order.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 17 - 18**

The evidence for this finding of fact is in the testimony and exhibits of Public Staff witnesses Franklin and Feasel.

Public Staff witness Feasel testified that the original cost net investment of the Echota water utility system is \$53,651 and is \$13,549 for the Seven Devils wastewater utility system. Tr. vol 2, 136. Witness Feasel stated that after reviewing responses by WRM to Public Staff data requests, she determined that WRM had incorrectly classified some capital costs as operations and maintenance expenses. She further stated that WRM subsequently provided the Public Staff documentation which appropriately classified the amounts as capital costs. Based on this updated information, witness Feasel testified that she used the \$70,000 purchase price as the plant in service costs. Witness Feasel stated that she calculated accumulated depreciation and the resulting net book value of the water and sewer utility systems utilizing WRM's depreciation rates. *Id.* at 135.

Public Staff witness Franklin testified that of the \$70,000 total purchase price for the Echota water system and the Seven Devils sewer system, CWSNC should include \$67,200 in rate base. Witness Franklin stated that he derived this amount from CWSNC's response to Public Staff Data Request No. 3 in which CWSNC stated that the \$70,000 purchase price contained in the Asset Purchase Agreement is comprised of \$57,599 for the Echota water system and \$12,401 for the Seven Devils wastewater system. *Id.* at 163. Using the original cost net investment figures of \$53,651 for the Echota water system and \$13,549 for the Seven Devils wastewater system from Public Staff witness Feasel, witness Franklin concluded that the purchase price that CWSNC can include in rate base is \$67,200. *Id.* at 164.

The Hearing Examiner concludes that it is reasonable and appropriate to include in rate base the purchase price of \$70,000, less (\$2,800) of accumulated depreciation, or \$67,200, as the Public Staff calculated.

## **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19**

The evidence for this finding of fact is found in the Application, the testimony and exhibits of Public Staff witnesses Franklin and Feasel, and the rebuttal testimony of CWSNC witness Denton.

The Asset Purchase Agreement included with the Application states that in addition to the purchase price, CWSNC will make additional payments for lots in a future Phase IV development of the Echota subdivision at a rate of \$706 per new customer up to 184 connections as an incentive payment for a period not to exceed ten years following the closing of the sale. Tr. vol 2, 164.

Public Staff witness Franklin testified that because the incentive payments are for future connections, CWSNC should not include them in rate base until it completes the connections to the Echota Phase IV development. *Id.* at 165. In rebuttal testimony, CWSNC witness Denton stated that there is no difference of opinion between CWSNC and the Public Staff on the ratemaking treatment of the incentive payments. *Id.* at 203. That is, CWSNC will request rate base treatment of the incentive payments in a general rate case proceeding once CWSNC makes those payments and adds new customers to the water system.

The Hearing Examiner agrees with the parties that CWSNC should not include the incentive payments CWSNC will pay for lots in a future Phase IV development of the Echota subdivision in rate base until CWSNC actually makes those payments and completes the customer connections. CWSNC may request rate base treatment of the actual incentive payments expended in its next general rate case proceeding.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 20 - 23**

The evidence for these findings of fact is found in the Application, the direct and rebuttal testimony of CWSNC witness Denton, and the testimony and exhibits of Public Staff witnesses Franklin and Feasel.

### **Due Diligence Costs**

CWSNC witness Denton testified that CWSNC is incurring due diligence costs in conjunction with the Application. In direct testimony, he estimated that due diligence costs would be \$45,000. Tr. vol. 2, 29.

Public Staff witness Feasel calculated \$8,229 for due diligence costs. Witness Feasel amortized these costs utilizing an amortization rate of 2.73%, which is the composite amortization rate the Commission approved in the Sub 384 rate case for acquisition costs. *Id.* at 136.

On rebuttal, CWSNC witness Denton stated that as of the date of his rebuttal testimony, CWSNC had incurred due diligence costs totaling \$24,746 and witness Denton

anticipated that CWSNC would incur additional costs through the transfer proceeding. *Id.* at 202. He asserted that the Commission should review these costs in the next rate case. *Id.* Further, witness Denton testified that the Public Staff's due diligence costs in the amount of \$8,229 are understated, but that CWSNC had conceded to those costs in the spirit of compromise to move the case forward, with no future prejudicial precedent. *Id.* Witness Denton asserted that the Commission should review final due diligence costs and include them in CWSNC's next general rate case for ratemaking purposes as has been customary in prior transfer cases.

The Hearing Examiner recognizes that CWSNC has conceded to the Public Staff's recommended amount of due diligence costs in the spirit of compromise and notes that CWSNC has incurred due diligence costs in excess of those the Public Staff included in rate base. Considering CWSNC's concession, the Hearing Examiner concludes that the Public Staff's due diligence costs in the amount of \$8,229 are reasonable and appropriate for purposes of this proceeding but agrees with CWSNC that the Commission should review its final due diligence costs resulting from this transaction in CWSNC's next general rate case and determine the ratemaking treatment of the additional due diligence costs at that time.

### **Fusion Allocation**

Public Staff witness Feasel testified that it would be inappropriate to include the Fusion<sup>2</sup> allocation amount of \$21,194 in rate base. Witness Feasel explained that CWSNC overstated the Fusion allocation and that if the Fusion costs are amortized through March 31, 2023, the estimated Fusion allocation per equivalent residential connection (ERC) should be \$22.28. Witness Feasel commented that the Public Staff bases this amount on the Fusion cost the Commission approved in the Sub 384 rate case and on CWSNC's estimated ERC amounts. *Id.* at 137. Witness Feasel testified that the unamortized portion of the Fusion cost that CWSNC includes in rate base will phase out when the Fusion costs are fully amortized, and the ERC counts will change in the future. Thus, she determined that the estimated Fusion cost allocated per ERC is not necessarily representative of the true cost. *Id.* Witness Feasel calculated the estimated return related to the Fusion allocation to be \$974 for Echota Water and \$240 for Seven Devils, which she maintained is immaterial to this proceeding.

CWSNC witness Denton did not address the Public Staff's recommended adjustment to the Fusion allocation in his rebuttal testimony.

Consequently, the Hearing Examiner agrees with the reasons set forth in the testimony of witness Feasel for excluding the Fusion allocation amount of \$21,194 from rate base in this proceeding. The Hearing Examiner concludes that it is not appropriate

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<sup>2</sup> In CWSNC's last general rate case proceeding, Docket No. W-354, Sub 384, CWSNC witness Denton stated that Fusion is an enterprise resource planning system, which maintains accounting, human resource management, accounts payable/receivable, and fixed asset ledgers.

to include these costs in rate base for purposes of calculating annual service revenues in this proceeding.

### **AMI Meter Installation Fees**

In the Application, CWSNC identified \$300,000 of capital improvements associated with installation of AMI water meters for the Echota service area, which is currently unmetered. Public Staff witness Feasel testified that it is not appropriate for CWSNC to include the AMI meter fees in the amount of \$300,000 in rate base because CWSNC has not installed the AMI meters and they are not in service. *Id.*

In direct testimony, CWSNC witness Denton testified that the Echota water system does not have meter boxes or risers installed. He further testified that the residents' service lines are straight-piped from the water mains to the premises. Witness Denton explained that the implications of this are that CWSNC will incur additional costs beyond a standard meter change in getting the Echota customers to metered rates. Witness Denton stated that CWSNC is assessing the costs for installing meters and the current estimate is approximately \$400,000 - \$500,000. *Id.* at 34. Witness Denton commented that CWSNC plans to install the AMI water meters in the two years following approval of the acquisition.

The Hearing Examiner concludes that it is not appropriate to include the estimated amount of \$300,000 for AMI meter installation costs, or the updated projection of \$400,000 - \$500,000 provided by witness Denton, in rate base in this proceeding since CWSNC has not installed the AMI meters and they are not presently in service.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 24 - 26**

The evidence for this finding of fact is found in the Application and the testimony and exhibits of Public Staff witness Feasel.

Public Staff witness Feasel testified that based on her review of the Application and associated documents, WRM's responses to Public Staff data requests, and the clarifications and corrections WRM provided, she identified the appropriate amount of capitalized costs and expenses for the Public Staff to use to calculate the reasonable level of revenue requirements in this proceeding. Tr. vol. 2, 134. Witness Feasel further testified that she considered three factors to calculate revenue requirements: (1) Rate of return on common equity, including debt and equity capital structures and embedded cost of debt; (2) Expenses, including operations and maintenance expenses, depreciation and amortization expenses, property taxes, and payroll taxes; and (3) Rate base, including plant in service, accumulated depreciation, and due diligence costs. *Id.* Witness Feasel stated that she used information from CWSNC's Sub 384 rate case proceeding to calculate the return on rate base items CWSNC included in this proceeding. *Id.*

Based on the Public Staff's recommended adjustments in this proceeding, witness Feasel determined that the original cost rate base amount for Echota water operations is

\$61,656 for Seven Devils wastewater operations is \$13,549. Further, based on the Public Staff's investigation, witness Feasel recommended that the revenue requirement for the Echota water utility system should be \$247,709 and that the revenue requirement for the Seven Devils wastewater utility system should be \$66,261. Tr. vol. 2, 138.

In rebuttal testimony, CWSNC witness Denton proposes an alternative to Public Staff witness Feasel's recommendations, as discussed below in the evidence and conclusions for Findings of Fact Nos. 27-31.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 27 - 31**

The evidence for these findings of fact is in the Application, the testimony and exhibits of Public Staff witness Franklin, the testimony of The Lakes Community POA witnesses Winn and Moore, the rebuttal testimony of CWSNC witness Denton, and the testimony of Public Staff witness Feasel during the expert witness hearing.

Public Staff witness Franklin stated that presently the Echota service area customers are not metered and that upon acquisition, CWSNC plans to install water meters and provide metered service to the 613 Echota water utility system customers. He further testified that once CWSNC installs meters, CWSNC intends to charge the metered water customers the Sub 384 CWSNC Uniform Rates for monthly metered water service (residential and commercial). Assuming the size of each installed meter will be less than one inch and the average monthly usage is 3,837 gallons, witness Franklin stated that the proposed monthly metered water bill will be \$69.46, based on a base facility charge of \$24.53 and a usage charge of \$11.71 per 1,000 gallons of treated water.

Witness Franklin described the Public Staff's revenue calculations as follows. For water utility service, the resulting calculated service revenue requirement is \$247,709. For wastewater utility service, the calculated service revenue requirement is \$66,261. He stated that Public Staff witness Feasel calculated the service revenue requirements.

Witness Franklin testified that the expected revenues from CWSNC's uniform rates will significantly exceed the Public Staff's recommended revenue requirements. He further testified that the Echota and Seven Devils service areas should be part of a standalone rate schedule. Tr. vol. 2, 161. Using witness Feasel's recommended revenue requirements, witness Franklin recommended the following standalone rates for the Echota and Seven Devils service areas:

#### Monthly Flat Rate Utility Service

Water (Echota)	\$33.67
Wastewater (Seven Devils)	\$37.06

#### Monthly Metered Water Utility Service (Echota)

Base Charge, zero usage	\$13.50
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Usage Charge, per 1,000 gallons \$7.80

Reconnection Charges (Echota & Seven Devils)

If water service cut off by utility for good cause	\$42.00
If water service is discontinued at customer's request	\$42.00
If sewer service cut off by utility for good cause	Actual Cost

Witness Franklin also testified regarding the Public Staff's recommended rates for the service areas. The Echota service area is currently unmetered with CWSNC planning to install AMI meters in the two years following approval of the acquisition. As a result, witness Franklin commented that flat rates are appropriate for the Echota service area until CWSNC installs meters, at which time metered rates are appropriate. Witness Franklin further testified that since the Echota service area is unmetered, the monthly usage amount upon which the usage rate is based is an average monthly usage, rounded to the nearest hundred, for three service areas considered similar to the Echota service area with a combination of seasonal and full-time residents. According to witness Franklin, two of the service areas are Mountain Air Country Club (W-1148, Sub 9) and Springdale Estates (Docket No. W-1324, Sub 1). The third is the Lake Royale Subdivision with monthly usage determined by the Public Staff as part of the transfer proceeding in Docket No. W-1146, Sub 13, although the service provider has not filed a proposed order providing Notice to Customers with the Commission in that proceeding. Witness Franklin testified that this analysis resulted in an average monthly water usage of 2,600 gallons. Witness Franklin stated that in determining the appropriate monthly metered water utility service rates, the Public Staff used a revenue split of 40% provided by the base charge and 60% provided by the usage rate. He testified that this is consistent with CWSNC's most recent approved rates in Docket No. W-354, Sub 384. Witness Franklin stated that flat rates are appropriate for Seven Devils as the wastewater usage will remain unmetered. *Id.* at 163.

The Lakes Community POA witnesses Winn and Moore contended that CWSNC's proposed sewer rate is unreasonable based upon the fact that the rate in question is from a 2022 CWSNC statewide rate case: Docket No. W-354, Sub 384. The POA witnesses stated that the Seven Devils system was not part of the CWSNC system at that time and that therefore CWSNC did not include any Seven Devils operations in that case. The CWSNC uniform wastewater flat rate for customers using 4,000 gallons per month increased from \$74.36 to \$85.12, the rate which CWSNC has requested for the Seven Devils system. Witnesses Winn and Moore stated that if the Commission approved CWSNC's proposed rates, Seven Devils customers would begin paying over three times as much as the current WRM rate of \$28.20 per month. *Id.* at 100. The witnesses emphasized that all wastewater collection and treatment systems are not the same and stated that they strongly disagreed that that the Commission should allow CWSNC to apply a uniform rate from a previous CWSNC rate case to the Seven Devils system.

POA witnesses Winn and Moore testified that the current WRM wastewater rate decreased from \$30 per month to \$28.20 per month in 2015 and has remained at that level up to the present and that this has been sufficient to maintain and operate the wastewater collection and treatment system in an environmentally responsible manner. *Id.* at 101. They commented that, according to the Application, CWSNC does not plan to invest in any capital improvements in the Seven Devils system for the next five years. POA witnesses Winn and Moore testified that witness Denton indicated that CWSNC became a contract operator for the water and sewer systems of WRM on September 16, 2021. During that time, witness Denton identified only two operational problems. One involved the Echota water system and the other involved a single sewer manhole in Seven Devils that was overflowing. They commented that witness Denton cited no service issues in The Lakes Community area. The witnesses stated that they are not aware of any service issues in their area, so the system seems to be operating effectively with its existing level of revenues. *Id.* at 104.

The POA witnesses also testified that the proposed rate increase comes at a particularly challenging time for customers who are senior citizens living on fixed incomes. They stated that the Watauga County and Seven Devils tax bills that their community recently received are approximately 30% more than last year and that customers are navigating inflation rates that have not been seen in a generation. A three-fold increase in wastewater treatment rates would compound the financial burdens POA members are already bearing.

POA witnesses Winn and Moore commented that in addition to the uniform rates, the Commission approved ten individual service area wastewater rates in CWSNC's Sub 384 rate case proceeding. According to the witnesses, this indicates that both the Commission and CWSNC recognize that a uniform rate is neither mandatory nor applicable across the CWSNC system. *Id.* at 101. They further stated that although individual circumstances may differ, the Commission clearly has the authority to provide for different rates when conditions require it. *Id.* at 102.

POA witnesses Winn and Moore stated that although uniform rates may be justifiable over time, the Commission should not impose such rates in a vacuum without a thorough analysis in a CWSNC general rate case if and after the transfer is approved. They further stated that if the Commission approves the transfer, it should phase in any rate increase over an extended time period to avoid customer rate shock. *Id.* at 106.

Regarding the testimony offered by POA witnesses Winn and Moore that the Commission approved ten individual service area wastewater rates in the Sub 384 rate case, witness Denton stated that the testimony was inapt in that it did not recognize or discuss the significant differences between customers on CWSNC's Uniform Wastewater Rates and the ten cited sewer systems. *Id.* at 206. First, he commented that CWSNC is organized into four rate divisions, as follows: Uniform Water Rate Division; Uniform Sewer Rate Division; Bradfield Farms/Fairfield Harbour/Treasure Cove (BF/FH/TC) Water Rate Division; and Bradfield Farms/Fairfield Harbour (BF/FH) Sewer Rate Division. He stated that the other nine of the sewer systems POA witnesses Winn and Moore referenced are

part of the CWSNC's Uniform Sewer Rate Division. Witness Denton explained that of those nine sewer systems, six<sup>3</sup> are purchased sewer systems, which means that CWSNC does not itself treat their wastewater but instead purchases bulk treatment services from another utility. Witness Denton testified that the Commission sets rates for purchased sewer systems differently than for those systems where CWSNC provides the treatment services. For this reason, witness Denton stated that the POA witnesses' comparison of the rates CWSNC charges customers in purchased sewer systems was also inappropriate.

CWSNC witness Denton testified that in the spirit of reasonable compromise and in response to customer concerns, CWSNC offered an alternative compromise rate design implementation proposal for the Commission's consideration and approval. Witness Denton stated that CWSNC would accept the proposed water and sewer revenue requirements and flat rates that the Public Staff for implementation upon Commission approval of the transfer application, subject to a Commission-authorized phase-in of the CWSNC's current Sub 384 uniform rates. *Id.* at 199. CWSNC's proposed phase-in rate increases are as follows:

	<b>Public Staff Recommended Rates at</b>			<b>CWSNC's Sub 384 Uniform Rates at</b>
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
		<u>12 months after Commission Order</u>	<u>24 months after Commission Order</u>	<u>36 months after Commission Order</u>
	<u>At Commission Order</u>	<u>Commission Order</u>	<u>Commission Order</u>	<u>Commission Order</u>
<u>Monthly Flat Rate Utility Service:</u>				
Water (Echota)	\$33.67	\$45.35	\$57.03	\$68.71
Wastewater (Seven Devils)	\$37.06	\$53.08	\$69.10	\$85.12
<u>Monthly Metered Water Utility Service (Echota):</u>				
Base Charge, zero usage	\$13.50	\$17.18	\$20.85	\$24.53
Usage Charge, per 1,000 gallons	\$ 7.80	\$ 9.10	\$10.41	\$11.71

CWSNC witness Denton testified that a phase-in of rates is reasonable and in the public interest because the revenue requirement for the Echota and Seven Devils systems will increase beyond the Public Staff's recommendation as a result of necessary capital investments he noted in his direct testimony, the phase-in of rates will address

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<sup>3</sup> College Park, Kings Grant – Charlotte, White Oak Plantation/Winston Point/Lee Forest, Mt. Carmel, Ridges at Mountain Harbour, and Fairfield Mountain/Apple Valley.

customer concerns on rate shock, and the phase-in approach will save time and money for CWSNC, the Public Staff, and the Commission through avoidance of a standalone general rate case for the Echota and Seven Devils systems. *Id.* at 199-200. Witness Denton also testified that uniform rates provide benefits to customers when a particular service area must bear the cost of a significant capital infusion. In those circumstances, witness Denton stated that the benefit of uniform rates is that those customers do not bear solely the burden of the entire capital infusion. *Id.* at 58.

In direct testimony, witness Denton discussed additional capital needs at both the Echota water system and the Seven Devils sewer system that CWSNC identified since it filed the Application while serving as the contract operator of the systems since September 16, 2021. He stated that in addition to installing AMI water meters, CWSNC also intends to invest approximately \$175,000 in sewer system improvements, including \$20,000 for fence replacement; \$50,000 for the installation of safety rails/steps; \$20,000 for painting; \$50,000 for the replacement of blowers; \$15,000 for the installation of bar screen influent line supports; \$10,000 for the installation of mission units on lift stations; and \$10,000 for the installation of shed/eye wash station for the safety of operators working at the treatment plant. Witness Denton testified that these capital investments and improvements CWSNC will make will provide clear benefits to the current WRM customers in terms of system reliability, safety, and environmental impact once they are complete and in service.

Witness Denton maintained that CWSNC's proposed phased-in approach toward implementation of the Sub 384 uniform water and sewer rates is consistent with the joint testimony offered by POA witnesses Winn and Moore who stated that if the transfer is approved, any increase to their wastewater rate should be phased-in over several years to avoid rate shock.

In rebuttal testimony, witness Denton addressed the specific concerns CWSNC has regarding the standalone water and sewer revenue requirements that the Public Staff recommended. He stated that the Public Staff's standalone revenue requirement understates CWSNC's total dollar capital investment in this transfer proceeding which should be eligible for inclusion in rate base because it does not recognize full due diligence costs CWSNC will incur in conjunction with this transaction. He stated that to date, CWSNC has incurred due diligence costs totaling \$24,746 and anticipates additional costs through the conclusion of the transfer case process which the Commission should review in CWSNC's next rate case. He commented that witness Feasel testified that for Echota Water she included transaction due diligence costs in the amount of \$8,229 in purchase acquisition adjustments as part of her standalone cost of service recommendation. Thus, witness Denton contended that the Public Staff's water and sewer rate base determinations and proposed rates are understated. Witness Denton also commented that Public Staff witness Feasel calculated her proposed standalone rate base and accumulated depreciation numbers using WRM's depreciation rates instead of CWSNC's depreciation rates.

During the expert witness hearing, upon examination by the Hearing Examiner, Public Staff witness Feasel stated that the Public Staff does not agree with CWSNC's proposed phased-in approach of CWSNC's Sub 384 uniform rates. Witness Feasel explained that the rates are determined by revenue requirement which is calculated by reasonable forecasted or incurred expenses and actual capital costs placed into service. She further explained that until the Public Staff has that actual information and does its investigation to determine the reasonableness and completeness of the actual costs CWSNC incurs, the Public Staff cannot determine appropriate rates. *Id.* at 144-45. Further, upon examination by WRM's counsel, witness Feasel explained that the Public Staff's recommendation for standalone rates in this case is not a new Public Staff policy. She stated that in this specific case, the revenue requirement that CWSNC should be allowed to recover is much lower than the revenue requirement CWSNC proposed to recover under its uniform rates.

The Hearing Examiner acknowledges that CWSNC's proposal to phase-in its proposed rate increases is a concession for acceptance of the Public Staff's proposed standalone rates and to address the rate shock concerns WRM's customers expressed. However, the Hearing Examiner gives significant weight to the testimony of Public Staff witnesses that the cost-of-service amounts for Echota and Seven Devils service areas do not justify or support the granting of CWSNC's uniform water and sewer rates in this proceeding. In particular, witness Franklin testified that the expected revenues from CWSNC's uniform rates for the WRM water and wastewater customers would significantly exceed the Public Staff's recommended revenue requirements. The Hearing Examiner notes that the WRM service areas in this pending Application were specifically excluded from the Water and Sewer Investment Plan (WSIP) ratemaking mechanism utilized in CWSNC's recent Sub 400 rate case proceeding. See Order Approving Partial Settlement Agreement and Stipulation, Deciding Contested Issues, Granting Partial Rate Increase, Approving Water and Sewer Investment Plan, and Requiring Customer Notice, *Application by Carolina Water Service, Inc. of North Carolina for Authority to Adjust and Increase Rates and Charges for Water and Sewer Utility Service in All Service Areas of North Carolina and Approval of a Three-Year Water and Sewer Investment Plan*, No. W-354, Sub 400, at 18 (N.C.U.C. Apr. 26, 2023) (Finding of Fact No. 69). Because these systems were not included in the recently concluded WSIP proceeding, rates must be set based on traditional ratemaking under N.C.G.S. § 62-133. The Hearing Examiner finds that use of a WSIP would be the appropriate ratemaking mechanism to evaluate and consider inclusion of projected reasonably known and measurable capital investments, such as the \$400,000 - \$500,000 for installation of AMI meters and the approximately \$175,000 in sewer improvements for the WRM systems witness Denton described in his direct testimony. N.C.G.S. § 62-133 does not allow for inclusion of future capital expenditures for purposes of establishing rates. The Hearing Examiner determines that it would not be appropriate for customers to pay the costs of the future anticipated capital expenditures described by witness Denton through rates established in this transfer proceeding. Based on the evidence presented, the Hearing Examiner cannot establish that uniform rates are just and reasonable at this time for the Echota and Seven Devils service areas. CWSNC's proposal to phase-in rates for WRM's customers to achieve CWSNC's uniform rates over time to avoid rate shock to customers could be a suitable

plan in this proceeding if CWSNC justified its uniform rates at the onset of the phase-in period.

The Hearing Examiner, therefore, concludes that the Public Staff's recommended standalone rates are appropriate, just, and reasonable for purposes of establishing rates in this transfer proceeding. The Hearing Examiner notes that CWSNC may file for a standalone rate case proceeding for either the Echota water or Seven Devils wastewater systems, or both, once it completes and places in service the projected capital improvements it identified in this proceeding and request that the Commission prospectively adjust its rates at that time. Further, the Commission can re-evaluate the issue of whether CWSNC should include these two service areas in its uniform rate structures in CWSNC's next general rate case proceeding.

### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 32**

The evidence for this finding of fact is in the testimony and exhibits of Public Staff witness Franklin and in the testimony of CWSNC witness Denton.

Public Staff witness Franklin recommended a bond in the amount of \$50,000 for the Echota service area and the Seven Devils wastewater service area. He based this recommendation on the number of water and wastewater franchises CWSNC holds, CWSNC's record of operation, the number of customers CWSNC serves in North Carolina, and the condition of the Echota water system and the Seven Devils wastewater system. Tr. vol. 2, 166-67. CWSNC witness Denton testified that CWSNC has no issue with the bond amount the Public Staff recommended. *Id.* at 232.

The Hearing Examiner concludes that a bond in the amount of \$25,000 for the Echota service area and \$25,000 for the Seven Devils wastewater service area is reasonable and appropriate and should be approved. Thus, the Hearing Examiner requires that \$50,000 of CWSNC's \$190,000 unassigned surety bond be assigned to the service areas in this transfer proceeding.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 33 – 34**

The evidence for these findings of fact is in the testimony and exhibits of Public Staff witness Franklin.

Public Staff witness Franklin testified that the Public Staff's Consumer Services Division has not received any customer complaints regarding the Echota water system or the Seven Devils wastewater system from July 1, 2019, through August 31, 2022. Tr. vol. 2, 158. Witness Franklin also testified that as of October 31, 2022, 35 customers filed consumer statements of position about the proposed transfer. None of the 35 customers filing consumer statements of position complained of issues with the service WRM provided. All 35 consumers filing statements of position object to the rates CWSNC proposed. *Id.*

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 35 – 37**

The evidence for these findings of fact is in the testimony and exhibits of Public Staff witness Franklin.

Public Staff witness Franklin testified that the Echota water system received several notices of violation from the NCDEQ for various infractions. WRM corrected those violations and the last inspection of the Echota water system, on March 16, 2022, identified no violations. Tr. vol. 2, 155-56. Witness Franklin also testified that the Seven Devils wastewater system received two Notices of Violations from the NCDEQ since January 1, 2019. WRM corrected those violations. The last Compliance Evaluation Inspection, on October 30, 2019, revealed no violations. *Id.* at 156-57.

Witness Franklin stated that based on his investigation, WRM is providing safe and reliable service to its customers of the Echota water system and the Seven Devils wastewater system. *Id.* at 159.

The Hearing Examiner concludes that WRM is providing safe and reliable service to its customers of the Echota water system and Seven Devils wastewater system.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 38 – 39**

The evidence for these findings of fact is in the Application, the direct and rebuttal testimony of CWSNC witness Denton, the testimony of Public Staff witness Franklin, the testimony of The Lakes Community POA witnesses Winn and Moore, and in the testimony of the eight public witnesses appearing at the customer hearing.

CWSNC witness Denton testified that in CWSNC's most recently decided rate case in Docket No. W-354, Sub 384, the Commission, consistent with N.C.G.S. § 62-131(b) described the overall quality of service provided by CWSNC as adequate, reliable, and economical. Tr. vol. 2, 25. Witness Denton testified that the fact that on multiple occasions the Public Staff has recommended that CWSNC be appointed to serve as the emergency operator of water and sewer systems demonstrates the adequacy of the quality of water and sewer service CWSNC provides. *Id.* at 26.

CWSNC witness Denton testified that approval of the transfer will serve the public interest and public convenience and necessity because the water and sewer systems WRM currently owns are experiencing operational and financial difficulties. WRM has indicated to CWSNC a need to sell this system. *Id.* at 31. Additionally, witness Denton testified that CWSNC has been serving as the contract operator of the water and sewer systems since September 16, 2021. Witness Denton stated that the customers WRM serves have already benefitted from CWSNC's service and its operational oversight and expertise. *Id.* at 32.

Public Staff witness Franklin testified that based on review of NCDEQ Notices of Violation and penalties and the lack of significant customer complaints on water quality

and customer service issues, WRM is providing safe and reliable service to its customers in the Echota water system and Seven Devils wastewater system. *Id.* at 159. On behalf of the Public Staff, witness Franklin recommended the Commission approve the transfer of WRM's public utility franchise to CWSNC, subject to the rates recommended by the Public Staff. *Id.* at 167.

The Lakes Community POA witnesses Moore and Winn did not specifically object to the transfer of the Seven Devils sewer system to CWSNC. However, they expressed concerns about the magnitude of the rate increase CWSNC proposed upon transfer. *Id.* Upon cross-examination, witness Moore testified that The Lakes Community POA did not care who owns the sewer system, so long as it is run properly, and the rates are cost-effective. *Id.* at 118. Witness Moore also agreed that having the system in the hands of CWSNC or a similar organization is a superior solution to having it in the hands of a developer, who by definition is not a professional wastewater operator. *Id.* at 121. Further, none of the customer witnesses at the public hearing expressed opposition to approval of the transfer.

On rebuttal, CWSNC witness Denton reiterated that the water and sewer system are in operational difficulty and will benefit from the significant financial and local operational resources and expertise that CWSNC will provide as a well-run and well-capitalized public utility able to provide consistently safe, reliable, and compliant service. *Id.* at 209.

Based on the foregoing, the Hearing Examiner concludes that CWSNC has the technical, managerial, and financial capacity to own and operate the Echota water system and the Seven Devils wastewater system. The Hearing Examiner recognizes that no party in this proceeding disputes CWSNC's ability to operate WRM's systems and acknowledges that CWSNC has been the contract operator for the systems since September 16, 2021. Therefore, the Hearing Examiner concludes that the transfer of the systems to CWSNC will serve the public convenience and necessity, is in the public interest as required by N.C.G.S. § 62-111 and should be approved.

IT IS, THEREFORE, ORDERED as follows:

1. That WRM is hereby authorized to transfer its water utility system serving the Echota service area and its wastewater utility system serving the Seven Devils service area in Watauga County, North Carolina, to CWSNC;
2. That the purchase price amount to be included in rate base shall be \$67,200. The rate base amount under the WRM depreciation rates for the Echota water utility system is \$61,656. The rate base amount under the WRM depreciation rates for the Seven Devils sewer utility system is \$13,549;
3. That CWSNC shall not include the incentive payments called for in the Asset Purchase Agreement in rate base until CWSNC makes the new connections in



Echota Phase IV and adds the new customers to the water system. CWSNC may request rate base treatment of the expended incentive payments in a future rate case proceeding;

4. That CWSNC shall comprehensively research installing meters on the Echota water system and shall formulate an action plan to install the meters as soon as practicable with an ultimate goal of completing the meter installation project before CWSNC's originally projected two-year timeframe;

5. That CWSNC shall continue to pursue all reasonable and cost-effective options that would allow CWSNC to charge customers of the Seven Devils sewer system on a volumetric basis that is based on customers' individual water usage;

6. That no later than 90 days after the effective date of this Order, CWSNC shall file a proposed meter installation schedule for the Echota service area based upon its comprehensive research and cost estimates currently available. CWSNC shall include in this filing a report on its additional efforts to obtain individual customer water consumption data from the Town of Seven Devils for customers of the Seven Devils wastewater system. Thereafter, CWSNC shall file quarterly update reports with the Commission regarding the meter installation project until installation is completed;

7. That \$50,000 of CWSNC's \$190,000 unassigned surety bond shall be assigned to the Echota (\$25,000) and Seven Devils (\$25,000) service areas. CWSNC's remaining unassigned bond surety shall be \$140,000;

8. That WRM's letter of credit bonds posted by WRM in Docket No. W-1073, Subs 3, 4, and 6, and held by the Commission shall be released to WRM upon receipt of written notification to the Commission that closing of the transfer of the water and sewer utility system assets has been completed;

9. That CWSNC is granted a Certificate of Public Convenience and Necessity to provide water utility service in the Echota service area and sewer utility service in the Seven Devils service area in Watauga County, North Carolina, effective upon the closing of the transfer of the water and sewer utility system assets to CWSNC. Appendix A, attached hereto, constitutes the Certificate of Public Convenience and Necessity;

10. That the Schedule of Rates, attached hereto as Appendix B, is approved and deemed to be filed with the Commission pursuant to N.C.G.S. § 62-138. This Schedule of Rates shall become effective for service rendered on and after the date of the closing of the sale of WRM's water and sewer utility system assets to CWSNC;

11. That CWSNC may request rate base inclusion of any additional due diligence costs associated with this transfer proceeding in a future general rate case proceeding;

12. That CWSNC shall provide notification to the Commission within three business days after the closing of the sale of the water and sewer utility system assets serving the Echota and Seven Devils service areas has been completed;

13. That the Certificates of Public Convenience and Necessity granted to WRM in Docket No. W-1073, Subs 0, 3, 4 and 6 are canceled effective on the date CWSNC files with the Commission written notification that closing of the transfer of the water and sewer utility system assets has been completed; and

14. That the Notice to Customers, attached as Appendix C hereto, shall be mailed with sufficient postage or hand delivered by CWSNC to all affected customers in each relevant service area, respectively, in conjunction with CWSNC's next regularly scheduled billing process, and that CWSNC shall submit to the Commission the attached Certificate of Service properly signed and notarized not later than 15 days after the mailing or hand delivery of the Notice to Customers.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of June, 2023.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "A. Shonta Dunston". The signature is written in a cursive, flowing style.

A. Shonta Dunston, Chief Clerk

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 396

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION  
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

is granted this

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

to provide water utility service

to

ECHOTA SUBDIVISION  
ECHOTA ON THE RIDGE SUBDIVISION  
ECHOTA EAST RIDGE SUBDIVISION  
PHASE IV OF ECHOTA SUBDIVISION

in

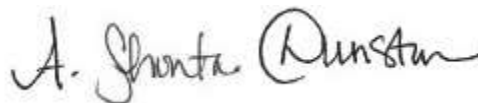
Watauga County, North Carolina

subject to any orders, rules, regulations,  
and conditions now or hereafter lawfully made  
by the North Carolina Utilities Commission.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of June, 2023.

NORTH CAROLINA UTILITIES COMMISSION



A. Shonta Dunston, Chief Clerk

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 396

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION  
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

is granted this

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

to provide sewer utility service

to

TOP OF SEVEN CONDOMINIUMS  
CITY HALL FOR SEVEN DEVILS  
SEVEN DEVILS LAKE RESORT CLUB  
THE VILLAS AT HAWKS PEAK  
ONE RESIDENTIAL CUSTOMER  
THE LAKES COMMUNITY  
HAWKS PEAK CONDOMINIUMS  
HAWKS PEAK SOUTH CONDOMINIUMS

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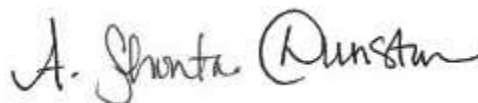
Watauga County, North Carolina

subject to any orders, rules, regulations,  
and conditions now or hereafter lawfully made  
by the North Carolina Utilities Commission.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of June, 2023.

NORTH CAROLINA UTILITIES COMMISSION



A. Shonta Dunston, Chief Clerk

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINAfor providing water utility service toECHOTA SUBDIVISION, ECHOTA ON THE RIDGE SUBDIVISION, ECHOTA EAST  
RIDGE SUBDIVISION, PHASE IV OF ECHOTA SUBDIVISIONand for providing sewer utility service toTOP OF SEVEN CONDOMINIUMS, CITY HALL FOR SEVEN DEVILS, SEVEN DEVILS  
LAKE RESORT CLUB, THE VILLAS AT HAWKS PEAK, ONE RESIDENTIAL  
CUSTOMER, THE LAKES COMMUNITY, HAWKS PEAK CONDOMINIUMS, HAWKS  
PEAK SOUTH CONDOMINIUMS

Watauga County, North Carolina

Monthly Flat Rate Utility Service

Water (Echota)	\$33.67
Wastewater (Seven Devils)	\$37.06

Monthly Metered Water Utility Service (Echota)

Base Charge, zero usage	\$13.50
Usage Charge, per 1,000 gallons	\$ 7.80

Reconnection Charges (Echota & Seven Devils)

If water service cut off by utility for good cause	\$42.00
If water service is discontinued at customer's request	\$42.00
If sewer service cut off by utility for good cause	Actual Cost

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Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No W-354, Sub 396, on this the 29th day of June, 2023.

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 396  
DOCKET NO. W-1073, SUB 7

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application by Carolina Water Service, Inc., of )  
North Carolina, 4944 Parkway Plaza, )  
Suite 375, Charlotte, North Carolina 28217 )  
and Water Resource Management, LLC, )  
151 Mr. Bish Boulevard, Boone, North )  
Carolina 28607, for Authority to Transfer the )  
Echota Water Utility System, the Seven Devils )  
Wastewater Utility System and Public Utility )  
Franchise in Watauga County, North Carolina, )  
and for Approval of Rates )

**NOTICE TO CUSTOMERS**

NOTICE IS HEREBY GIVEN that the Commission has approved the application by Water Resource Management, Inc. (WRM), 151 Mr. Bish Boulevard, Boone, North Carolina 28607, and Carolina Water Service, Inc. of North Carolina (CWSNC), 4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217, to transfer the Echota water utility system and public utility franchise and the Seven Devils wastewater utility system and public utility franchise, in Watauga County, North Carolina, from WRM to CWSNC. CWSNC has served as the contract operator of the water and wastewater systems since September 16, 2021.

NOTICE IS FURTHER GIVEN that the Commission has approved a partial rate increase for CWSNC as owner of the Echota water utility system and Seven Devils wastewater utility system. The approved rates are standalone rates for these service areas and are not CWSNC's uniform water and wastewater rates. The Hearing Examiner's decision on the monthly rates to charge customers was based on all evidence of record, including CWSNC's application, an investigation and recommendation by the Public Staff, and the testimony of the intervenor and customers. The approved rates for water utility service and are effective for service rendered on and after the closing date of the transfer of the water and wastewater utility systems to CWSNC and are as follows:

Monthly Flat Rate Utility Service

Water (Echota)	\$33.67
Wastewater (Seven Devils)	\$37.06

Monthly Metered Water Utility Service (Echota)

Base Charge, zero usage	\$13.50
Usage Charge, per 1,000 gallons	\$ 7.80

Reconnection Charges (Echota & Seven Devils)

If water service cut off by utility for good cause	\$42.00
If water service is discontinued at customer's request	\$42.00
If sewer service cut off by utility for good cause	Actual Cost

Presently the Echota service area customers are not metered and the approved monthly flat rate for water utility service stated above will apply effective for service rendered on and after the closing date of the transfer of the water utility system to CWSNC. The Hearing Examiner has required that CWSNC install meters on the Echota water system as soon as practicable and has required quarterly reporting to the Commission regarding the status of its progress on installing the meters. The approved monthly metered water rates will be effective for Echota customers after the meters are installed.


For the Seven Devils wastewater system, the approved increased monthly flat wastewater rate contained in this notice will become effective for wastewater utility service provided on and after the date of the closing on the transfer of the wastewater utility assets to CWSNC. CWSNC will inquire again with the Town of Seven Devils to determine if water meter reading data can be obtained on a cost-effective basis. The Hearing Examiner has required CWSNC to notify the Commission concerning the results of its continued discussions with the Town of Seven Devils.

Information regarding this proceeding and the Hearing Examiner's Recommended Order can be accessed from the Commission's website at [www.ncuc.gov](http://www.ncuc.gov) under Docket Number "W-354 Sub 396."

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of June, 2023.

NORTH CAROLINA UTILITIES COMMISSION



A. Shonta Dunston, Chief Clerk

CERTIFICATE OF SERVICE

I, \_\_\_\_\_, mailed with sufficient postage or hand delivered to all affected customers the attached Notice to Customers issued by the North Carolina Utilities Commission in Docket Nos. W-354, Sub 396 and W-1073, Sub 7, and the Notice was mailed or hand delivered by the date specified in the Order.

This the \_\_\_\_ day of \_\_\_\_\_, 2023.

By: \_\_\_\_\_  
Signature  
\_\_\_\_\_  
Name of Utility Company

The above named Applicant, \_\_\_\_\_, personally appeared before me this day and, being first duly sworn, says that the required Notice was mailed or hand delivered to all affected customers, as required by the Commission Order dated \_\_\_\_\_ in Docket Nos. W-354, Sub 396 and W-1073, Sub 7.

Witness my hand and notarial seal, this the \_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
Notary Public  
\_\_\_\_\_  
Printed Name

(SEAL) My Commission Expires: \_\_\_\_\_  
Date