

PUBLIC

INFORMATION SHEET

PRESIDING: Commissioner Brown-Bland, Presiding; Commissioners Clodfelter, Duffley, Hughes, and McKissick, Jr.

PLACE: Raleigh, NC

DATE: Monday, October 2, 2023

TIME: 1:04 p.m. to 4:58 p.m.

DOCKET NO.: W-1300 Sub 60

COMPANY: Old North State Water Company, LLC

DESCRIPTION: In the Matter of Old North State Water Company, LLC, 3212 6th Avenue South, Suite 200, Birmingham, Alabama 3522, for Authority to Adjust and Increase Rates for Water Utility Service in All Its Service Areas in North Carolina

VOLUME NUMBER: 3

APPEARANCES

See attached

WITNESSES

See attached

EXHIBITS

See attached

REPORTED BY: Joann Bunze
TRANSCRIBED BY: Joann Bunze
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PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Monday, October 2, 2023
TIME: 1:04 p.m. to 4:58 p.m.
DOCKET: W-1300, Sub 60
BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Commissioner Daniel G. Clodfelter
Commissioner Kimberly W. Duffley
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.

IN THE MATTER OF:

Application of

Old North State Water Company, LLC,

3212 6th Avenue South, Suite 200,

Birmingham, Alabama 35222, for Authority to

Adjust and Increase Rates for Water Utility Service

in All Its Service Areas in North Carolina

VOLUME 3



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8
9 FOR THE USING AND CONSUMING PUBLIC:
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E X H I B I T S

IDENTIFIED/ADMITTED

- ONSWC Motion to Correct Ownership -/14
filed March 16, 2023
- ONSWC Objection to Discover and -/14
Attachments A through C filed
July 22, 2022,
- Public Staff's Motion to Compel -/14
and Exhibits A through C Filed
August 2, 2022
(Confidential filed under seal)
- Public Staff Report on ONSWC's -/14
Compliance with Laws and
Recapitalization Plan and Exhibits
1 through 7, filed
December 12, 2022
(Confidential filed under seal)
- ONSWC Response to the Public -/14
Staff Report filed January 11, 2023
(Confidential filed under seal)
- ONSWC Confidential Attachment 1 to -/14
ONSWC's Response to the Public
Staff's Report filed
January 12, 2023, and Confidential
Attachment 1
(Confidential filed under seal)
- ONSWC Report on Accounting -/14
Staff and Motion for Extension of
Time and Confidential Attachments 1
through 5, filed May 25, 2023
(Confidential filed under seal)
- ONSWC Amended Motion to -/14
Reschedule the Hearing filed
May 30, 2023
- ONSWC Supplement to Amended Motion -/14
to Reschedule the Hearing and
Attachment 1, filed June 7, 2023

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1 ONSWC Confidential Outside -/14
Accounting Review and Items 1
2 Through 3, Filed August 4, 2023
(Confidential filed under seal)
3
4 Public Staff's Letter Regarding -/14
Outside Accounting Review filed
September 5, 2023
5
6 ONSWC Confidential Financial -/14
Statement as of June 30, 2023,
7 Filed September 19, 2023
(Confidential filed under seal)
8 ONSWC Motion for Approval of Asset -/14
Transfer and Attachments 1 through
9 4, filed September 25, 2023,
(Confidential filed under seal)
10
11 Confidential Public Staff Direct 28/144
Exhibit Number 1
12 Confidential Public Staff Direct 35/144
Exhibit Number 2
13
14 Public Staff Direct Exhibit 137/144
Number 3
15 Confidential Public Staff Direct 142/144
Cross Exhibit 4
16
17 Confidential Public Staff Direct 143/144
Exhibit 5
18 ONSWC McDonald Mitchell Joint Direct .. 154/-
Exhibit 1
19
20 ONSWC McDonald Mitchell Joint Direct .. 156/-
Exhibit 1a
21 ONSWC McDonald Mitchell Joint Direct .. 157/-
Exhibit 2
22
23 ONSWC McDonald Mitchell Joint Direct .. 158/-
Exhibit 3
24

NORTH CAROLINA UTILITIES COMMISSION
APPEARANCE SLIP

DATE: Oct. 2, 2023 DOCKET NO.: W-1300, Sub 60

ATTORNEY NAME and TITLE: Gray Styers
Elizabeth Hedrick

FIRM NAME: Fox Rothschild LLP

ADDRESS: 434 Fayetteville Street, Suite 2800

CITY: Raleigh STATE: NC ZIP CODE: 27601

APPEARANCE ON BEHALF OF: Utility - Old North State Water Company

APPLICANT: COMPLAINANT: INTERVENOR:

PROTESTANT: RESPONDENT: DEFENDANT:

Non-confidential transcripts are located on the Commission's website. To view and/or print transcripts, go to <https://www.ncuc.net/>, hover over the Dockets tab, select Docket Search, enter the docket number, and click search, select the highlighted docket number and select Documents for a list of all documents filed.

ONLY fill out this portion if you have signed an NDA to receive **CONFIDENTIAL** transcripts and/or exhibits:

Yes, I have signed the Confidentiality Agreement.

Email: gstyers@foxrothschild.com; ehedrick@foxrothschild.com

SIGNATURE: Gray Styers Elizabeth M. Hedrick

(Signature Required for distribution of **CONFIDENTIAL** information)

NORTH CAROLINA UTILITIES COMMISSION
PUBLIC STAFF - APPEARANCE SLIP

DATE: October 2, 2023

DOCKET #: W-1300, Sub 60

PUBLIC STAFF ATTORNEYS:

Reita Coxton

TO REQUEST A **CONFIDENTIAL** TRANSCRIPT, PLEASE PROVIDE YOUR EMAIL ADDRESS BELOW:

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LEGAL: _____ reita.coxton@psncuc.nc.gov

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COUNSEL/MEMBER(S) REQUESTING A **CONFIDENTIAL** TRANSCRIPT WHO HAS SIGNED A CONFIDENTIALITY AGREEMENT WILL NEED TO SIGN BELOW.

/s/Reita Coxton

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

-/A

DOCKET NO. W-1300
SUBS 0,1, 2, 4, 5, 10, 29, 32, 34, 35, 37, 38, 39, 40, 43, 44, 45, 46, 48, 53, 54,
57, 58, 59, 60, 61, 65, 66

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Old North State Water Company, LLC's Correction of Ownership Information in All of the Above-Listed Dockets)))))	MOTION TO CORRECT OWNERSHIP INFORMATION
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Now comes Old North State Water Company, LLC (ONSWC or Company), through undersigned counsel, and respectfully moves the Commission to accept a correction into the record of the above-captioned 28 sub-dockets. In support of this motion, the Company shows the following:

1. The ownership of ONSWC and its relationship to Integra Water, LLC (Integra) was discussed in testimony in the pending general rate case of ONSWC in Docket No. W-1300, Sub 60. ONSWC has submitted its Operating Agreement as a late-filed exhibit. That Operating Agreement correctly shows that ONSWC is owned 95% by John McDonald and 5% by Michael Myers.

2. Filings in several ONSWC sub-dockets state that ONSWC is owned in part by Integra. Those filings are incorrect. A list of those filings, and the correct ownership, is attached as Exhibit A. ONSWC desires to correct the record in each of those sub-dockets by indicating the correct ownership of ONSWC.

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3. The question at page 11, lines 18-20, of Mr. McDonald's Pre-Filed Rebuttal Testimony in Docket No. W-1300, Sub 60, posits that Integra is the parent company of ONSWC. That is not correct. Likewise, the references to "parent company" at page 10, line 19, and page 12, line 19, are incorrect. The source of financing for ONSWC is Integra, but Integra is not the parent company of ONSWC.

4. ONSWC also filed a transfer application in Docket No. W-1300, Sub 52, on May 22, 2018, to transfer the 95% ownership share of John McDonald in ONSWC to Integra Water Company, LLC, a Georgia limited liability company. That application has never been acted upon, and ONSWC will file a notice of withdrawal for that application.

Therefore, Old North State Water Company, LLC, respectfully moves the Commission for an order that accepts the correction in the above-captioned dockets showing that John McDonald has a 95% ownership share in ONSWC, and noting that references in W-1300, Sub 60, to Integra as the parent of ONSWC are incorrect.

This the 16th day of March, 2022.

FOX ROTHSCHILD LLP

/s/ David T. Drooz

David T. Drooz

North Carolina State Bar No. 10310

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Telephone: 919.719.1258

E-mail: ddrooz@foxrothschild.com

Attorney for

Old North State Water Company

CERTIFICATE OF SERVICE

I do hereby certify that I have served a copy of the foregoing Motion upon each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 16th day of March 2022.

Electronically submitted

/s/ David T. Drooz

David T. Drooz
Telephone: 919.719.1258
E-mail: ddrooz@foxrothschild.com

EXHIBIT A
 Motion to Correct Ownership Information
 NCUC Docket W-1300, Subs 0, 1, 2, 4, 5,
 10, 29, 32, 34, 35, 37, 38, 39, 40, 43, 44,
 45, 46, 48, 53,54, 57, 58, 59, 60, 61, 65, 66

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Docket	Description	Signed By	Ownership
W-1300, Sub 0	1/12/2012 Application, amended 9/13/2012, for sewer CPCN at Majestic Oaks and Hampstead Station Shopping Center	Mike Meyers	States 95% Integra
W-1300, Sub 1	5/16/2012 Application for sewer CPCN at Coastal Plantation - Withdrawn	Mike Meyers	States 95% Integra
W-1300, Sub 2	6/19/2013 Application for sewer CPCN at Carolina Plantations	Mike Meyers	States 95% Integra
W-1300, Sub 4	1/23/2014 Application for water CPCN at Leone Landing	Mike Meyers	States 95% Integra
W-1300, Sub 5	6/20/2014 Application for sewer CPCN at Cedar Pointe Development	Mike Meyers	States 95% Integra
W-1300, Sub 10	2/6/2015 Application for transfer of water CPCN at Twin Lake Farm	Mike Meyers	States 95% Integra
W-1300, Sub 29	1/19/2017 Application for water CPCN at Carolina Village – no action was ever taken on this application	Mike Meyers	States 95% Integra
W-1300, Sub 32	2/22/2017 Application for water CPCN at Donnybrook	Mike Meyers	States 95% Integra
W-1300, Sub 34	6/1/2017 Application for water CPCN at Old Mill Trace	Mike Meyers	States 95% Integra
W-1300, Sub 35	10/6/2017 Application for water CPCN at Avalyn	Mike Meyers	States 95% Integra
W-1300, Sub 37	3/28/2017 Application for water and wastewater CPCN at Bailey Farm	Mike Meyers	States 95% Integra

W-1300, Sub 38	6/1/2017 Application for water CPCN at Shiloh	Mike Meyers	States 95% Integra
W-1300, Sub 39	8/29/2017 Application for water CPCN at Ashcroft Park	Mike Meyers	States 95% Integra
W-1300, Sub 40	10/24/2017 Application for water CPCN at Senter Farms	Mike Meyers	States 95% Integra
W-1300, Sub 43	11/13/2017 Application for water CPCN at Old Mill Trace	Mike Meyers	States 95% Integra
W-1300, Sub 44	11/13/2017 Application for water CPCN at Mendenhall	Mike Myers	States 95% Integra
W-1300, Sub 45	2/27/2018 Application for water CPCN at Stonewood Manor	Mike Meyers	States 95% Integra
W-1300, Sub 46	2/7/2018 Application for water and wastewater CPCN at Bingham Woods	Mike Meyers	States 95% Integra
W-1300, Sub 48	4/29/2019 Application for water CPCN at Autumn Ridge	Mike Meyers	States Integra and Michael Meyers
W-1300, Sub 53	2/20/2019 Application, amended 2/7/2020, for water CPCN at Carriage Cove	Mike Meyers	States Integra and Michael Meyers
W-1300, Sub 54	4/29/2019 Application, amended 2/7/2020, for water CPCN at Yardley	Mike Meyers	States Integra and Michael Meyers
W-1300, Sub 57	4/9/2020 Application for water CPCN at Prescott	John McDonald	States 95% Integra
W-1300, Sub 58	4/29/2020 Application for water CPCN at Brook Meadow	Mike Meyers	States 95% Integra
W-1300, Sub 59	3/30/2021 Application for water CPCN at Stonewood Manor	John McDonald	States 95% Integra
W-1300, Sub 61	10/4/2019 Application for water CPCN at Arlington Manor Woods	Mike Meyers	States Integra and Michael Meyers
W-1300, Sub 65	3/23/2020 Application for water CPCN at Fish Hawk Ranch	John McDonald	States 95% Integra

W-1300, Sub 66	3/26/2020 Application for water CPCN (actually contiguous extension) at Sterling Crest II	John McDonald	States 95% Integra
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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:

Application by Old North State)	
Water Company, LLC, 3212 6 th)	
Avenue South, Suite 200,)	
Birmingham, Alabama 35222, for	)	OLD NORTH STATE WATER
Authority to Adjust and Increase	)	COMPANY OBJECTION TO
Rates for Water Utility Service in	)	DISCOVERY
All Service Areas in North Carolina)	

Now comes Old North State Water Company, Inc. (“ONSWC” or “Company”), through undersigned counsel, and submits the following objection to Public Staff Data Request No. 73 in this sub-docket.

1. The Commission issued its Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice (“Order”) in this docket on June 13, 2022. Ordering paragraph 12 states:

That pursuant to N.C.G.S. § 62-34, the Public Staff shall thoroughly review the various sources of funding utilized by ONSWC for its capital and operational needs, the funds disbursed by ONSWC to Chatham North Holdings, Inc., and the relationships, operating agreements, and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc.; including whether they are reasonable, appropriate, and in conformity with North Carolina law and Commission Rules, including but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167. Within six months of the date of this Order, the Public Staff shall make a report to this Commission regarding the Company’s compliance with applicable North Carolina law. ONSWC shall have the opportunity to respond to the Public Staff’s report

within 30 days of the filing of such report. Additionally, the parties shall work together to create a plan to improve the capitalization of the Company, and the parties shall make a report to the Commission within six months of the date of this Order regarding the recapitalization plan;

2. The basis for ordering paragraph 12 is explained in the Evidence and Conclusions for Findings of Fact Nos. 45 – 47 of the Order:

The evidence in this case demonstrates that the Company receives services from Integra pursuant to a contract between them and that it has received loans from Integra and various Integra entities. Further, the Company has entered into a loan agreement with and received a promissory note from Chatham North Holdings, Inc. This Order does not rule upon the lawfulness or appropriateness [*sic*] of these financial and operational arrangements. Instead, the Commission determines it is appropriate for the Public Staff to thoroughly review the Company's funding; the loan it made to Chatham North Holdings, Inc.; and the relationships and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc. to determine whether they are reasonable and appropriate, and in conformity with North Carolina law and Commission Rules, including but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167.

3. Pursuant to these provisions in the Order, the Public Staff sent ONSWC a data request, initially numbered 71 but subsequently noted that it is properly numbered as DR 73. A copy is provided as Attachment A.
4. There are 13 numbered discovery items in the data request. The Company and the Public Staff have amicably arranged response dates that differ from the July 25, 2022, date specified on the data request, based on the availability of ONSWC staff and the time needed to gather the information.

5. However, the Company and the Public Staff are not in agreement with regard to item 12, which asks:

Please provide a Statement of Net Worth for John McDonald as of December 31, 2021 and March 31, 2022. Please consider this an on-going request and provide the end-of-quarter statements for future periods as soon as they are available.

ONSWC objects to this discovery request for the reasons stated in the paragraphs below. The Commission's September 21, 2021, scheduling order in this docket provides a procedure for objections to discovery. Some of the time limits are tied to testimony filing dates, so it is not apparent that they apply to data requests filed after the Order has issued. In any event, the Company notified the Public Staff that it objected to item 12 in DR 73 on July 13, 2022, and asked if the Public Staff would withdraw that request. On July 20, 2022, the Public Staff responded that it would not withdraw that request (item 12 of DR 73).

6. The financial structure of ONSWC received considerable attention in the rate case. This is reflected in the following portion of the Evidence and Conclusions for Findings of Fact Nos. 22 – 29:

In settlement testimony, Public Staff witness Hinton revised his concerns about the high debt ratio and financial viability of ONSWC articulated in his direct testimony. He stated that further discussions with the Company during settlement talks and his review of the consolidated financial statements of Integra led him to withdraw his prior recommendations that the Company change its actual capital structure and be required to submit audited financial statements. An essential part of the changes to Public Staff witness Hinton's position is the settlement commitment of ONSWC witness McDonald, as the authorized

representative of Integra, for Integra to continue to finance the capital needs of ONSWC at sufficient levels to permit ONSWC to fund its capital needs and operational expenses such that ONSWC can provide good quality, reliable water service to its customers consistent with environmental and regulatory requirements.

It is also reflected in testimony of the witnesses at the hearing on March 8, 2022. See Attachment B, which contains pertinent excerpts from the Settlement Agreement and the hearing transcript. Company witness McDonald testified that “Integra has adequate financial resources and a balance sheet to fund Old North State on a go-forward basis, and has been doing so and will continue to do so.” He added that Integra has provided the funding for ONSWC for the last decade. Public Staff witness Hinton testified that he had reviewed the consolidated financial statements of Integra Water LLC (“Integra”), and that his support of the settlement capital structure and cost of capital was supported in part by “Integra’s financial vitality.” He stated, “Integra Water, LLC is financially viable and can provide capital to Old North State Water Company.” Public Staff witness Hinton relied heavily on the financial commitment made by Mr. McDonald, as expressly provided in the Settlement Agreement, that Mr. McDonald as the owner/manager of Integra would provide adequate funding for ONSWC:

And so we met with Mr. McDonald, and his testimony he's given today, plus his commitment he's expressed in the meeting, and plus the documents he's provided have given me enough confidence that I believe that

Integra Water, LLC, through the management and ownership of John McDonald, is adequate, for my purposes, to think they're financially viable. I believe they're financially viable.

Throughout the rate case, the Public Staff testimony expressed satisfaction that the financial backing of Integra, which is controlled by Mr. McDonald, was sufficient to demonstrate financial viability. The Public Staff had reviewed confidential financial statements of Integra (and more statements were provided as late-filed exhibits to the Commission), and Integra had a long history of providing adequate financing to ONSWC. Neither the Settlement Agreement nor the settlement testimony indicated any reason to examine the personal finances of Mr. McDonald above and beyond the financial viability of Integra. If the personal finances of Mr. McDonald were relevant to the financial integrity of ONSWC, it should have been raised in the rate case.

7. On April 22, 2022, the Public Staff sent its Data Request #2 in Docket No. W-1300, Sub 78, that asked for similar information to that being objected to in the present case: "Please provide a Statement of Net Worth for John McDonald as of December 31, 2021." See Attachment C. The Company protested that data request and stated its intention to file an objection with the Commission unless the Public Staff withdrew the request. On April 27, 2022, the Public Staff replied, "With respect to Sub 78, in light of the fact that financial information will be included in ONSWC's forthcoming annual report, the Public Staff withdraws its second data request."

8. The repeated attempts by the Public Staff to acquire personal financial information of Mr. McDonald are unwarranted and abusive. The request for his net worth opens the possibility of follow-up requests to document personal assets, liabilities, and income, as the Public Staff typically seeks records to document financial assertions in utility cases. The financial details of the personal life of Mr. McDonald and his family would be disclosed to strangers – people at the Public Staff who have taken positions adverse to him in several dockets. This discovery request is offensive and unnecessary, particularly given the Public Staff's position in the rate case settlement with regard to the viability of the funding sources for ONSWC.
9. Nor is disclosure of the personal financial information of Mr. McDonald appropriate to comply with ordering paragraph 12 in the Order. The outcome sought by the Commission in ordering paragraph 12 does not require, and indeed is not logically related to, the net worth of Mr. McDonald as demanded in item 12 of DR 73. In particular, ordering paragraph 12 directs the Public Staff to

review the various sources of funding utilized by ONSWC for its capital and operational needs, the funds disbursed by ONSWC to Chatham North Holdings, Inc., and the relationships, operating agreements, and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc.; including whether they are reasonable, appropriate, and in conformity with North Carolina law and Commission Rules, including but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167.

The purpose of this review is explained as “Within six months of the date of this Order, the Public Staff shall make a report to this Commission regarding the Company’s compliance with applicable North Carolina law.” The specific laws referenced in connection with this directive are “N.C.G.S. §§ 62-153, 62-160, and 62-167.” Those statutes relate, respectively, to filing with the Commission any utility contracts with affiliated entities, obtaining Commission permission to pledge utility assets, and obtaining Commission approval for payment of utility notes in certain circumstances. Disclosure of Mr. McDonald’s personal net worth is not part of compliance with those statutory requirements applying to ONSWC.

10. The Commission also expressed a desire to know more about how other companies in which Mr. McDonald has an interest have been sources of funding for ONSWC. The Evidence and Conclusions for Findings of Fact Nos. 45 – 47 of the Order, which relates to ordering paragraph 12, directs the Public Staff to review the Company’s sources of funding with specific reference to “the relationships and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc. to determine whether they are reasonable and appropriate”

In response to the Commission’s request for late-filed exhibits to document the relationship among these companies, ONSWC submitted confidential late-filed exhibits including:

- the Integra consolidated and consolidating financial statements

- documentation of Old North State Water Company notes receivable and notes payable
 - 12/4/20 note receivable from Chatham North
 - 12/4/20 note payable to Integra
 - 1/1/19 note payable to Creola
 - 1/1/19 note payable to Integra
 - 1/1/19 note payable to Madison
 - 1/1/19 note payable to Vinemount
- copy of the signed promissory note from ONSWC to Integra Madison County, LLC
- Intercompany loan security from Integra to ONSWC dated 1/1/2019
- Intercompany loan security from Madison to ONSWC dated 1/1/2019
- Intercompany loan security from Vinemont to ONSWC dated 1/1/2019
- Intercompany loan security from Creola to ONSWC dated 1/1/2019
- Intercompany loan security from Integra to ONSWC dated 12/4/2020
- December 4, 2020 loan agreement between Chatham North Holdings, Inc., and ONSWC, and
- Guaranty Agreement by ONSWC-Chatham North, LLC ("Guarantor") in favor of Old North State Water Company ("Lender"), effective December 4, 2020.

Consequently, the Public Staff already has comprehensive information about the sources of funding for ONSWC. The Company does not object to providing updates to this information, and updates regarding ONSWC and Integra income statements and balances, for purposes of enabling the Public Staff to file its report as required in ordering paragraph 12. However, the sources of funding for ONSWC should not be expanded to include disclosure of Mr. McDonald's personal net worth. The Integra companies are the sources of funding, and their financial viability is sufficient to show the viability of funding for ONSWC. The commitment made by Mr. McDonald in the Settlement Agreement, and accepted by the Public Staff, is that Integra – not Mr. McDonald personally – will continue to provide adequate funding for ONSWC:

As the authorized representative of Integra Water, LLC, John McDonald *commits Integra Water, LLC, to continue financing the capital needs of ONSWC* and inject any necessary funding to allow ONSWC to continue meeting its capital and operational needs in an amount sufficient to permit ONSWC to meet its reasonable capital expenditure needs as well as its normal day-to-day operational expenses necessary to provide good quality, reliable, water service to the customers of ONSWC consistent with environmental and regulatory requirements.

Discovery requests, therefore, should examine the finances of Integra, not Mr. McDonald's personal individual finances.

11. Ordering paragraph 12 in the Order directs the Public Staff to report on two topics. The discovery requests of the Public Staff should be limited to addressing these two topics, neither of which relates to the personal net worth of Mr. McDonald. The first topic is discussed above: "the Public Staff

shall make a report to this Commission regarding the Company's compliance with applicable North Carolina law." The second topic is an eventual change in the capital structure of ONSWC to increase the equity ratio: "the parties shall work together to create a plan to improve the capitalization of the Company, and the parties shall make a report to the Commission within six months of the date of this Order regarding the recapitalization plan." The personal net worth of Mr. McDonald is not needed or relevant to recapitalization of ONSWC. The relevant issue is Mr. McDonald's authority to address and direct recapitalization on behalf of the Integra companies and ONSWC. Given the absence of unrelated third-party covenants and commitments relating to debt or equity and Mr. McDonald's ownership and control of the Integra companies and of ONSWC, Mr. McDonald is fully authorized, without reference to his personal balance sheet, to address such adjustments to ONSWC debt or equity as may be deemed prudent and necessary for the companies' business needs.

12. As discussed above, the Public Staff has accepted the financial vitality of Integra, in conjunction with Mr. McDonald's commitment to have Integra continue to provide funding for ONSWC, as sufficient for purposes of the rate case. That Public Staff position was taken without disclosure of the net worth of Mr. McDonald. In addition, the ONSWC has provided bonds or letters of credit for each of its utility systems in accord with North Carolina law and Commission rules. This financial security, along with the

funding commitment of Integra, is what protects the financial viability of ONSWC utility systems in North Carolina. These are the appropriate protections, not Mr. McDonald's personal net worth, which in any event is not pledged as some sort of additional commitment to ONSWC.

13. In conclusion, the Public Staff's item 12 in DR 73, asking for Mr. McDonald's personal net worth and opening a path for further discovery of his personal financial records, is highly invasive of his privacy. It is a request the Public Staff made in another sub-docket and withdrew upon protest by the Company. It is a request that is inappropriate and entirely unnecessary to comply with ordering paragraph 12 in the Order.

WHEREFORE, the Company requests that the Commission issue an order stating that ONSWC need not provide the information requested in item 12 of the Public Staff's Data Request 73, and that the Public Staff shall not conduct discovery on Mr. McDonald's personal finances in the future.

This the 22nd day of July, 2022.

FOX ROTHSCHILD LLP

/s/ David T. Drooz

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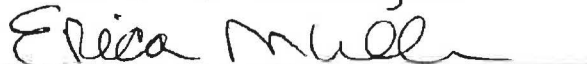
VERIFICATION

John McDonald, being duly sworn, deposes and says: that he is the Manager of Old North State Water Company, Inc.; that he is familiar with the facts set out in the foregoing **OLD NORTH STATE WATER COMPANY OBJECTION TO DISCOVERY**; that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.



John McDonald

Sworn to and subscribed before me this
the 22nd day of July 2022.



[typed name]
Notary Public

My Commission Expires: 5/6/24_____



CERTIFICATE OF SERVICE

I do hereby certify that I have served a copy of the foregoing **OLD NORTH STATE WATER COMPANY OBJECTION TO DISCOVERY** upon each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 22nd day of July, 2022.

Electronically submitted

/s/ David T. Drooz
David T. Drooz

**ATTACHMENT A
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC DOCKET W-1300, SUB 60**

**Old North State Water Company, LLC
Docket No. W-1300, Sub 60
Public Staff Data Request No. 71
Date Requested: July 13, 2022
Date Due: July 25, 2022**

Public Staff Technical Contacts: **Bob Hinton**
Phone #: (919) 733-0896
Email: bob.hinton@psncuc.nc.gov

Phat Tran
Phone #: (919) 733-0896
Email: phat.tran@psncuc.nc.gov

Public Staff Legal Contacts: **Reita Coxton**
Phone #: (919) 733-0970
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Gina Holt
Phone #: (919) 733-0971
Email: gina.holt@psncuc.nc.gov

Jessica Heironimus
Phone #: (919) 733-0969
Email: jessica.heironimus@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 Old North State Water Company, LLC (ONSWC or the Company) by the Public Staff in the above-captioned proceeding.

Topic: Capital Structure and Cost of Debt

1. Please provide an update, on a monthly basis, to the Company's responses to Items 1 and 2 of Public Staff Data Request No. 40. The update period should extend through May 31, 2022. Please consider this an on-going request and provide the end-of-month data for future periods as soon as it is available.

**ATTACHMENT A
TO ONSWC'S OBJECTION TO DISCOVERY
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2. Please provide a description of the legal filings and financial arrangements between ONSWC and Chatham North Holdings, Inc. (Chatham).
3. Please provide the repayment schedule for the loan to Chatham that, at a minimum, includes the following information:
 - a. Amount of each payment;
 - b. The principal and interest components of each payment; and
 - c. The due date of each payment.
4. Please provide the repayment schedule by loan, for each loan between ONSWC and Integra Water, LLC and its operating subsidiaries that, at a minimum, includes the following information:
 - a. Amount of each payment;
 - b. The principal and interest components of each payment; and
 - c. The due date of each payment.
5. Please discuss the way the Company treated the interest and principal payments for the loans referenced in Items 2 and 4 above for federal and state income tax purposes for all tax years since the first of those loans was disbursed.
6. Please discuss the way the Company treated the interest and principal payments for the loans referenced in Items 2 and 4 above for financial reporting purposes for all reporting periods since the first of those loans was disbursed.
7. Please answer the following questions regarding recapitalization of the Company's balance sheet:
 - a. How does the Company propose to accomplish the recapitalization discussed in Ordering Paragraph 12 of the Commission Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice issued in this docket on June 13, 2022?
 - b. Discuss, in detail, the options for recapitalization the Company considered.
 - c. Discuss the pros and cons of those options for recapitalization.
 - d. Discuss why certain options were included in the proposal.
 - e. Discuss why certain options were excluded from the proposal.
 - f. Discuss any scenarios that the Company contends are not an option for recapitalization and outline the basis for that determination.
8. Please answer the following questions regarding the "removal of the 5% ownership share of Michael [Myers]" discussed in the Company's March 25, 2022 letter filed in the Company folder:

**ATTACHMENT A
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC DOCKET W-1300, SUB 60**

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Oct 19 2023

- a. When was the removal completed?
 - b. How was the removal accomplished?
 - c. If the removal has not occurred, explain why and discuss future plans regarding Myer's removal.
 - d. How does, or will, the removal impact the Company's capitalization plans?
9. Please discuss the impact the Company's conversion from a limited liability company to a C Corporation has had, or will have, on the Company's capitalization plans.
10. Please provide a copy of the following financial statements for ONSWC:
- a. ONSWC's Income Statement for the twelve-month period ending on December 31, 2021;
 - b. ONSWC's Income Statement for the quarter ending on March 31, 2022;
 - c. ONSWC's Balance Sheet as of December 31, 2021;
 - d. ONSWC's Balance Sheet as of March 31, 2022;
 - e. ONSWC's Statement of Cash Flows for the twelve-month period ending on December 31, 2021; and
 - f. ONSWC's Statement of Cash Flows for the quarter ending on March 31, 2022.

Please consider this an on-going request and provide the end-of-quarter financial statements for future periods as soon as they are available.

11. Please provide a copy of the following consolidated and consolidating financial statements for Integra Water, LLC:
- a. Integra Water, LLC's Income Statement for the twelve-month period ending on December 31, 2021;
 - b. Integra Water, LLC's Income Statement for the quarter ending on March 31, 2022;
 - c. Integra Water, LLC's Balance Sheet as of December 31, 2021;
 - d. Integra Water, LLC's Balance Sheet as of March 31, 2022;
 - e. Integra Water, LLC's Statement of Cash Flows for the twelve-month period ending on December 31, 2021; and
 - f. Integra Water, LLC's Statement of Cash Flows for the quarter ending on March 31, 2022.

Please consider this an on-going request and provide the end-of-quarter financial statements for future periods as soon as they are available.

**ATTACHMENT A
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC DOCKET W-1300, SUB 60**

12. Please provide a Statement of Net Worth for John McDonald as of December 31, 2021 and March 31, 2022. Please consider this an on-going request and provide the end-of-quarter statements for future periods as soon as they are available.
13. Please identify banks and lending institutions that could be considered a source of external capital or funding to ONSWC.

From the Joint Settlement Agreement and Stipulation filed on March 8, 2022:

IV. OTHER ISSUES

A. As the authorized representative of Integra Water, LLC, John McDonald commits Integra Water, LLC, to continue financing the capital needs of ONSWC and inject any necessary funding to allow ONSWC to continue meeting its capital and operational needs in an amount sufficient to permit ONSWC to meet its reasonable capital expenditure needs as well as its normal day-to-day operational expenses necessary to provide good quality, reliable, water service to the customers of ONSWC consistent with environmental and regulatory requirements.

From the transcript of the evidentiary hearing held on March 8, 2022

T pp 82-83

[Commissioner Brown-Bland] Q. All right. My next question is, you've -- the Public Staff has accepted Integra's commitment to fund the capital needs of Old North State in exchange for withdrawing its proposal that Integra inject or infuse equity into the Company. What resources does Integra have to support the commitment?

[Company witness McDonald] A. Integra has adequate financial resources and a balance sheet to fund Old North State on a go-forward basis, and has been doing so and will continue to do so.

Q. Are you speaking of cash? What's the -- what do you have to -- what wherewithal do you have?

A. We have cash and the investor, Integra.

Q. Is Integra able to borrow without a separate backstop?

A. I guess when you say "separate backstop" --

Q. With regard to Old North State, there was an indication that they had to have your signature in order to do it. Is Integra able to borrow without having --

A. Yes, ma'am.

Q. -- some such security?

A. It is.

T p 109

[Commissioner Brown-Bland] Q. And have you provided sworn testimony in this proceeding that you will see that Integra provides the funding that ONS needs?

[Company witness McDonald] A. Yes.

Q. And by ONS, I mean Old North State Water Company.

A. In addition to having provided it for the last decade, right.

T pp 308-09

[prefiled settlement testimony of Public Staff witness Hinton] Q. DO YOU STILL HAVE CONCERNS ABOUT THE COMPANY'S APPLICATION THAT PROPOSED A CAPITAL STRUCTURE CONTAINING 83% LONG-TERM DEBT AND 17% COMMON EQUITY?

A. No, following settlement discussions, the Company provided consolidated financial statements of Integra Water, LLC (Integra). Those statements indicate a reasonable level of long-term debt and common equity for Integra. Furthermore, my discovery that Integra Water, LLC does not technically own ONSWC has not changed my recommendation on the cost of capital. I understand that John McDonald is the Member, Organizer, and Manager of ONSWC and Michael Myers is a Member and Organizer of ONSWC. Therefore, John McDonald is a co-owner of ONSWC while being the sole member of Integra Water, LLC (Integra). However, Mr. McDonald's role as the Manager of ONSWC, Integra's financial vitality, and his commitment that Integra will finance ONSWC's future capital requirements and fund ONSWC's ongoing, day-to-day capital and operational needs supports my recommendation that ONSWC use a 7.00% overall cost of capital, with a hypothetical capital structure composed of 50% long term debt and 50% equity. John McDonald's authority to provide ONSWC with Integra's capital resources further supports this assurance. This commitment is memorialized on page of the Joint Settlement Agreement and Stipulation filed in this docket on March 8, 2022, and is the basis for my revised recommendation that it is not necessary for the Company to bring its actual capital structure to 50% common equity, maintain a 45% equity ratio, or file audited financial statements with its Annual Report to the Commission for the next three years as means of showing its compliance with the recommended capital ratios.

T pp 317-18

[Commissioner Brown-Bland] Q. Did the capitalization ratios of Integra play any role in your thinking about this?

[Public Staff witness Hinton] A. Yes, it did. As I developed the system -- and I believe, you know, the -- as my understanding from, again, discussions with Mr. McDonald and his commitment that he made before in settlement negotiations, that he would fund this company. So I would have to look at the actual financial backing of Integra Water, LLC, which I did. And as you'll be provided in these confidential financial statements, I think you will find -- come to a conclusion similar to that I came to, that Integra Water, LLC is financially viable and can provide capital to Old North State Water Company.

T p 319

[Public Staff witness Hinton] And so we met with Mr. McDonald, and his testimony he's given today, plus his commitment he's expressed in the meeting, and plus the documents he's provided have given me enough confidence that I believe that Integra Water, LLC, through the management and ownership of John McDonald, is adequate, for my purposes, to think they're financially viable. I believe they're financially viable.

T p 328

[Public Staff witness Hinton] One of the first things I'll do for financial viability is I'll go to the engineering and I'll say how is there DENR violations; how is the water quality service. Because if they're short of money and they have all these violations, then that's a clear sign that they are financially nonviable, or not at a point they need to be. But -- and particularly in this case here, I've had numerous conversations with Mr. Junis, and came to the realization that the system is in reasonable shape. So that, again, went far in abating my concerns about 83 percent capital structure.

T pp 333-34

[Commissioner Clodfelter] Q. Mr. Hinton, why did the -- in the settlement stipulation, why did the Public Staff withdraw its recommendation that the Company file audited financial statement with the Commission?

[Public Staff witness Hinton] A. We went to that level. Again, because the application referred to extreme high-leverage structure and it brought much in question. We withdrew it because, to be honest with you, we never requested that of any company before the

ATTACHMENT B
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC W-1300, SUB 60

Commission, to my knowledge, that they file audited financial statements. They file their annual report and they testify, or they file that with the expectation that it's accurate. But we don't generally require audited financials.

T pp 335-36

[Public Staff witness Hinton] But again, this case, as I've said, in my mind, when it crosses my desk, I do not view that as true debt, I view that as equity for ratemaking purposes. But it doesn't mean it has to pass the other financial test, and that's where the consolidated financial statements of Integra Water, LLC gave me that confidence. So I could back off the audited as well as the insistence they come up with a 50/50 search that I'm hearing.

**ATTACHMENT C
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC DOCKET W-1300, SUB 60**

**Old North State Water Company, LLC
Docket No. W-1300, Sub 78
Public Staff Data Request No. 2
Date Requested: April 22, 2022
Date Due: May 2, 2022**

Public Staff Legal Contacts:

**Reita Coxton
Phone #: (919) 733-0970
Email: reita.coxton@psncuc.nc.gov**

**Gina Holt
Phone #: (919) 733-0971
Email: gina.holt@psncuc.nc.gov**

**Jessica Heironimus
Phone #: (919) 733-0969
Email: jessica.heironimus@psncuc.nc.gov**

Subject of Data Request: Financial statements and viability

Please provide all responses to this request in 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.

1. Please provide a copy of the following financial statements for ONSWC: ONSWC's Income Statement for the twelve-month period ending on December 31, 2021; ONSWC's Balance Sheet as of December 31, 2021; and ONSWC's Statement of Cash Flows for the twelve-month period ending on December 31, 2021.
2. Please provide a copy of Integra's financial statements for Integra: Integra's Income Statement for the twelve-month period ending on December 31, 2021; Integra's Balance Sheet as of December 31, 2021; and Integra's Statement of Cash Flows for the twelve-month period ending on December 31, 2021.

**ATTACHMENT C
TO ONSWC'S OBJECTION TO DISCOVERY
NCUC DOCKET W-1300, SUB 60**

3. If financial statements listed above for either entity are not presently available for the period ending December 31, 2021, please explain why those statements are not available; provide an estimate of when they will be available; and provide a copy of the most recent financial statements listed above for each entity that are available.

4. If the most recent financial statements for the entities provided in response to the preceding question are not for the same period of time, please provide comparable financial statements for both entities (e.g., if the most recent financial statements for ONSWC are for the period ending December 31, 2021, and the most recent financial statements for Integra are for the period ending September 30, 2021, provide a copy of both entities' financial statements for September 30, 2021).

5. Please provide a Statement of Net Worth for John McDonald as of December 31, 2021.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Old North State Water)	
Company, Inc., 3212 6 th Avenue South,	)	MOTION OF THE PUBLIC
Suite 200, Birmingham, Alabama 35222,	)	STAFF TO COMPEL
for Authority to Adjust and Increase Rates)	
for Water Utility Service in All Its Service)	
Areas in North Carolina)	

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 Old North State Water Company, Inc. (ONSWC or Company), to fully respond to Public Staff Data Request 73. In support of this motion, the Public Staff respectfully shows the Commission the following:

1. On June 13, 2022, the Commission issued its Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice (Order) in this docket.
2. Ordering paragraph 12 of the Order directs the Public Staff to, among other things, “thoroughly review the various sources of funding utilized by ONSWC for its capital and operational needs” and “work [with ONSWC] to create a plan to improve the capitalization of the Company[.]”

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3. On July 13, 2022, the Public Staff sent ONSWC its Data Request No. 73 (PS DR 73) attached as Exhibit A.¹ Item 12 of PS DR 73 seeks Statements of Net Worth for John McDonald.

4. On July 22, 2022, ONSWC filed an objection to Item 12 (Objection). ONSWC contends the Public Staff's request is improper for the following reasons:

- a. Mr. McDonald's personal finances should have been addressed during the rate case if they were deemed relevant to the financial integrity of ONSWC;
- b. Mr. McDonald's personal finances are not relevant or required to comply with ordering paragraph 12 because of the scope of the Commission's directive in ordering paragraph 12;
- c. Mr. McDonald's personal finances are not relevant to the commitment made in the Settlement Agreement and Stipulation (Settlement) between ONSWC and the Public Staff;
- d. The late-filed exhibits "provide comprehensive information about the sources of funding for ONSWC;" and
- e. The Public Staff requested similar information in Docket No. W-1300, Sub 78, and later withdrew the request.

5. In his settlement testimony, Mr. McDonald testified that "I have the authority to commit Integra to continuing to finance the capital needs of ONSWC, and I do make that commitment. As a practical matter, ONSWC is on sound footing

¹ The data request was misnumbered as Public Staff DR No. 71 when it was originally sent. It should have been identified as Public Staff DR No. 73. Exhibit A shows the correct number.

for its financial needs.” Tr. Vol. 2, 76-77. The information requested in PS DR 73 is essential to the Public Staff’s ability to comply with ordering paragraph 12 of the Order because it provides relevant and necessary information about the ability of ONSWC’s sole source of equity capital to follow through on this commitment, albeit through an intermediary, to provide the financial resources necessary for ONSWC to serve its North Carolina customer base.

Ownership of Old North State Water Company, Inc.

6. Mr. McDonald’s personal financial information is germane to this case because of his role as both the sole owner of ONSWC and its financial backer, Integra Water, LLC (Integra). As the sole owner of both entities, Mr. McDonald is the only person regulators, creditors, and other stakeholders could look to if either entity requires non-debt capital. One or both entities’ ability to continue as a going concern is threatened if he is unable to provide non-debt capital should a dire emergency arise. The commitment that Integra will support ONSWC is meaningless if Integra is unable to support itself.

7. While arguing that Mr. McDonald’s personal financial information is not relevant, ONSWC asserts that, if the Public Staff maintains that his personal information is relevant, then it should have been raised and explored during the financial viability assessment completed during the rate case. This assertion completely glosses over the fact that the ultimate owner of ONSWC was not clearly and publicly confirmed until March 16, 2022, (8 days after the evidentiary hearing and 19 days after the close of discovery on ONSWC’s rebuttal testimony) when

ONSWC made filings in 28 sub-dockets to correct misstatements regarding who owned the 95% interest in ONSWC that was not owned by Michael Myers. There are numerous instances in filings with the Commission and emails and data request responses to the Public Staff where Integra was referenced as the owner, parent, or a similar arrangement of ONSWC.

8. The Public Staff's approach to the rate case was based on the representation that Integra was the majority owner ONSWC and it is impossible to know what the Public Staff's approach would have been had it known that Integra had no ownership interest in ONSWC. Much of ONSWC's argument in opposition to PS DR 73 is based upon the Settlement Agreement and Stipulation (Settlement) between the Public Staff and the Company and testimony provided by Public Staff witness John R. Hinton. The picture their argument paints is incomplete. In fact, the Public Staff only learned that Integra did not own ONSWC via email sent on Sunday, March 6, 2022 at 2:01 PM, after the conclusion of settlement negotiations, after a settlement in principle was reached, while the Public Staff and ONSWC were trying to hammer out the language of the Settlement. The email directed to the Public Staff providing this "correction" was sent less than 48 hours prior to the start of the evidentiary hearing on March 8, 2022, at 1:00 PM. The ramifications of that significant change were not fully understood as evidenced by the following excerpt from Public Staff witness Hinton's testimony during the evidentiary hearing in response to cross examination by ONSWC's counsel:

Q. Mr. Hinton, were the confidential financial statements provided to you just for Integra or were they for the consolidated Integra and Old North State?

A. Well --

Q. If you're not sure, that's okay, but I just --

A. I'm not sure, because the -- of the ownership issue. I -- I'm thinking they're the consolidated total of both companies. But to be honest with you, I can't really testify to that because That wasn't done through the data request, that was done through the courtesy filing.

Tr. Vol. 2, 337.

9. ONSWC's basis for the Objection relies heavily on the Public Staff's assessment of Integra's and ONSWC's financial viability articulated in the Settlement and Public Staff witness Hinton's pre-filed Settlement Testimony and evidentiary hearing testimony. ONSWC is elevating a statement about a fluid situation, made at a particular time, based on particular information to a final proclamation. As discussed herein, the Public Staff learned information crucial to that assessment at the last minute and, in good faith, moved forward with the Settlement instead of calling it to a halt and asking the Commission to further delay the proceeding.

Financial Data Previously Provided

10. As mentioned above, Mr. McDonald's personal financial information is necessary because it speaks to his financial ability to support one entity that he has committed to support another. The power to direct an entity to fund another is meaningless if the funding entity lacks the capital required and can only secure that capital by taking on additional debt itself. More debt, arguably, jeopardizes the

whole and, given the public interest involved, Mr. McDonald should be required to demonstrate that he can step into the shoes of Integra if necessary.

11. As discussed more fully-below, the financial data used during the rate case is dated and stale:

- a. The most recent financial statements provided for ONSWC during the rate case were dated December 31, 2020.
- b. The most recent capital structure information was provided in response to a data request the Public Staff served on ONSWC in this docket on or about September 20, 2021 (see attached response to Public Staff Data Request No. 40). The Public Staff's pre-filed direct and supplemental testimonies were, therefore, based on ratios from August 2021.
- c. The Integra financial statements provided as late-filed exhibits are dated September 30, 2021.

ONSWC provided financial statements in two contiguous extension dockets initiated after the rate case: financial statements for ONSWC dated June 30, 2021, were provided in Docket No. W-1300, Sub 78, and financial statements for ONSWC dated March 31, 2022, were provided in Docket No. W-1300, Sub 72. All of the financial statements referenced above and ONSWC's response to Public Staff Data Request No. 40 are included in CONFIDENTIAL Exhibit B. The information noted with an asterisk in Exhibit B was provided after the evidentiary hearing in this docket on March 8, 2022.

12. The data sources in Exhibit B listed above show the following:

[BEGIN CONFIDENTIAL]

[REDACTED]

[END CONFIDENTIAL]

The data above clearly shows that ONSWC's financial state has changed since the Public Staff completed its assessment of ONSWC's financial viability in March 2022. Those changes merit additional analysis.

13. A review of Mr. McDonald's personal financial information to ensure that he has the means to step in, if necessary, is essential for the reasons

² While this should be reassuring, ONSWC's current cash balance may be significantly different now given the highlighted statement in the attached email correspondence from ONSWC's counsel to Commission Staff included as Exhibit C.

discussed above. The information may be provided confidentially in accordance with N. C. Gen. Stat. § 132-1.2; indeed, the financial statements for Integra and ONSWC were marked as confidential. The ability to designate Mr. McDonald's personal financial information as confidential, to the extent it complies with N.C.G.S. § 132-1.2, should protect his privacy.

Ordering Paragraph 12

14. Ordering paragraph 12 is not limited in the way ONSWC suggests as evidenced by the inclusion of "including" in the following sentence:

the Public Staff shall thoroughly review the various sources of funding utilized by ONSWC for its capital and operational needs, the funds disbursed by ONSWC to Chatham North Holdings, Inc., and the relationships, operating agreements, and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc.; including whether they are reasonable, appropriate, and in conformity with North Carolina law and Commission Rules, including but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167.

The Commission is signaling topics it would like to be "thoroughly reviewed" during the Public Staff's investigation and discussed in the Public Staff's report; the Commission is not, however, limiting the investigation it directed the Public Staff to undertake. To comply with the Commission's directives, the Public Staff must have a full understanding of the underlying facts regarding options available to fund and, eventually, recapitalize ONSWC.

Late-filed Exhibits and Related Access to Information

15. ONSWC's Objection also states that the Public Staff has ample access to information through the information it provided as late-filed exhibits. The

information provided is instructive, but is not, by any means, complete. The Public Staff would not have been instructed to “thoroughly review” certain things if the Commission were satisfied by what had already been provided.

Prior Data Request

16. ONSWC’s argument that PS DR 73 is improper because the Public Staff withdrew a similar data request in another docket has no merit. Withdrawing a data request in the face of a protest does not undermine the validity of the request; in this case, it simply meant that the Public Staff chose not to litigate the issue at that time.

17. Additionally, the Public Staff’s withdrawal of the data request in Docket No. W-1300, Sub 78 was conditioned upon receipt of ONSWC’s financial information in its 2021 Annual Report, which the Public Staff was told would be filed on April 30, 2022. The Annual Report was filed yesterday. Further, the Public Staff has not made a recommendation in the Sub 78 docket or formally responded to ONSWC’s Motion to Set Bond at \$10,000 filed in that docket on March 23, 2022, because additional information is still needed.

18. Additionally, requesting the same information in two dockets, particularly when the first request was withdrawn, is hardly “unwarranted” or “abusive.” These characterizations, and other similar statements could themselves be characterized as bring “unwarranted” or “abusive.” Finally, contrary to ONSWC’s assertion, the Public Staff has not sought any financial information regarding Mr. McDonald’s family.

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

1. That the Commission direct ONSWC to fully respond to the Public Staff's Data Request No. 73, within a reasonable time.
2. For such other and further relief as the Commission may deem just and proper.

This the 2nd day of August, 2022.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy E. Edmondson
Chief Counsel

Electronically submitted
/s/ Reita D. Coxton
Staff Attorney

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Old North State Water Company, LLC
Docket No. W-1300, Sub 60
Public Staff Data Request No. 73
Date Requested: July 13, 2022
Date Due: July 25, 2022

Public Staff Technical Contacts: **Bob Hinton**
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Topic: Capital Structure and Cost of Debt

1. Please provide an update, on a monthly basis, to the Company's responses to Items 1 and 2 of Public Staff Data Request No. 40. The update period should extend through May 31, 2022. Please consider this an on-going request and provide the end-of-month data for future periods as soon as it is available.
2. Please provide a description of the legal filings and financial arrangements between ONSWC and Chatham North Holdings, Inc. (Chatham).

3. Please provide the repayment schedule for the loan to Chatham that, at a minimum, includes the following information:
 - a. Amount of each payment;
 - b. The principal and interest components of each payment; and
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4. Please provide the repayment schedule by loan, for each loan between ONSWC and Integra Water, LLC and its operating subsidiaries that, at a minimum, includes the following information:
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5. Please discuss the way the Company treated the interest and principal payments for the loans referenced in Items 2 and 4 above for federal and state income tax purposes for all tax years since the first of those loans was disbursed.
6. Please discuss the way the Company treated the interest and principal payments for the loans referenced in Items 2 and 4 above for financial reporting purposes for all reporting periods since the first of those loans was disbursed.
7. Please answer the following questions regarding recapitalization of the Company's balance sheet:
 - a. How does the Company propose to accomplish the recapitalization discussed in Ordering Paragraph 12 of the Commission Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice issued in this docket on June 13, 2022?
 - b. Discuss, in detail, the options for recapitalization the Company considered.
 - c. Discuss the pros and cons of those options for recapitalization.
 - d. Discuss why certain options were included in the proposal.
 - e. Discuss why certain options were excluded from the proposal.
 - f. Discuss any scenarios that the Company contends are not an option for recapitalization and outline the basis for that determination.
8. Please answer the following questions regarding the "removal of the 5% ownership share of Michael [Myers]" discussed in the Company's March 25, 2022 letter filed in the Company folder:
 - a. When was the removal completed?
 - b. How was the removal accomplished?
 - c. If the removal has not occurred, explain why and discuss future plans regarding Myer's removal.
 - d. How does, or will, the removal impact the Company's capitalization plans?
9. Please discuss the impact the Company's conversion from a limited liability company to a C Corporation has had, or will have, on the Company's capitalization plans.

10. Please provide a copy of the following financial statements for ONSWC:
- ONSWC's Income Statement for the twelve-month period ending on December 31, 2021;
 - ONSWC's Income Statement for the quarter ending on March 31, 2022;
 - ONSWC's Balance Sheet as of December 31, 2021;
 - ONSWC's Balance Sheet as of March 31, 2022;
 - ONSWC's Statement of Cash Flows for the twelve-month period ending on December 31, 2021; and
 - ONSWC's Statement of Cash Flows for the quarter ending on March 31, 2022.

Please consider this an on-going request and provide the end-of-quarter financial statements for future periods as soon as they are available.

11. Please provide a copy of the following consolidated and consolidating financial statements for Integra Water, LLC:
- Integra Water, LLC's Income Statement for the twelve-month period ending on December 31, 2021;
 - Integra Water, LLC's Income Statement for the quarter ending on March 31, 2022;
 - Integra Water, LLC's Balance Sheet as of December 31, 2021;
 - Integra Water, LLC's Balance Sheet as of March 31, 2022;
 - Integra Water, LLC's Statement of Cash Flows for the twelve-month period ending on December 31, 2021; and
 - Integra Water, LLC's Statement of Cash Flows for the quarter ending on March 31, 2022.

Please consider this an on-going request and provide the end-of-quarter financial statements for future periods as soon as they are available.

12. Please provide a Statement of Net Worth for John McDonald as of December 31, 2021 and March 31, 2022. Please consider this an on-going request and provide the end-of-quarter statements for future periods as soon as they are available.
13. Please identify banks and lending institutions that could be considered a source of external capital or funding to ONSWC.

CONFIDENTIAL
Exhibit B

From: [Drooz, David T.](#)
To: [Harrod, Jennifer T](#)
Cc: [Holt, Gina](#); [Coxton, Reita D](#); [John McDonald \(JMcDonald@integrawater.com\)](mailto:John.McDonald@integrawater.com)
Subject: [External] Old North State rate case order
Date: Tuesday, May 31, 2022 4:20:41 PM

CAUTION: External email. Do not click links or open attachments unless you verify. Send all suspicious email as an attachment to [Report Spam](#).

Jennifer,

Any idea when the Commission will issue its order in W-1300 Sub 60?

According to John McDonald, Old North State Water Company is about to go cash negative, and really needs to get an increase into its rates.

Thanks
David

David Drooz

Counsel

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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 2nd day of August, 2022.

Electronically submitted
/s/ Reita D. Coxton

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

-/A

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Old North State Water)
Company, Inc., 3212 6th Avenue South,) **PUBLIC STAFF REPORT**
Suite 200, Birmingham, Alabama 35222,) **ON ONSWC’S COMPLIANCE**
for Authority to Adjust and Increase Rates) **WITH LAWS AND**
for Water Utility Service in All Its Service) **RECAPITALIZATION PLAN**
Areas in North Carolina)

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and files this report in compliance with Ordering Paragraph No. 12 of its Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice issued in this docket on June 13, 2022.

I. Legal Compliance

1. In Ordering Paragraph 12, the Commission directed the Public Staff to review the items listed below and determine whether they are “reasonable, appropriate, and in conformity with North Carolina law and Commission Rules, including but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167.”

- (a) various sources of funding utilized by ONSWC for its capital and operational needs;
- (b) funds disbursed by ONSWC to Chatham North Holdings, Inc.; and
- (c) relationships, operating agreements, and contracts between and among ONSWC, Integra, the Integra affiliates, and Chatham North Holdings, Inc.

A. Relationships between and among ONSWC; Integra Water, LLC; the Integra affiliates; and Chatham North Holdings, Inc.

2. Integra Water, LLC (Integra) is the parent company for the following entities: Integra Water Madison County, LLC (Madison County), Integra Water Creola, LLC (Creola), and Integra Water Vinemont, LLC (Vinemont), (collectively, the Integra Affiliate(s)). John McDonald is the sole owner of Integra.

3. Chatham North Holdings, Inc. (CNH) is the sole owner of ONSWC-Chatham North, LLC (ONSWC-CN). Integra owns 95% of CNH and Two Rivers Holdings, LLC owns the remaining 5%.

4. Two Rivers Holdings, LLC, is owned by Michael Myers.

5. John McDonald is the sole owner of ONSWC.

6. ONSWC is not an affiliate of Integra, the Integra Affiliates, CHN, or ONSWC-CN because (a) ONSWC does not have an ownership interest in any of those entities and (b) none of those entities have an ownership interest in ONSWC.¹

¹ This determination is based upon the definition of a public utility set forth in N.C.G.S. § 62-3(23)c., which reads as follows:

The term "public utility" shall include all persons affiliated through stock ownership with a public utility doing business in this State as parent corporation or subsidiary corporation to such an extent that the Commission shall find that such affiliation has an effect on the rates or service of such public utility.

B. Sources of Funding for ONSWC

7. ONSWC funds its capital and operational needs using operating revenues and long-term debt issued by Integra or an Integra Affiliate.

C. Funds Disbursed by ONSWC to Chatham North Holdings, Inc.

8. ONSWC loaned CNH \$5,000,000 in December 2020. The loan was memorialized in an Intercompany Loan and Security Agreement (CNH Loan Agreement), which is attached as CONFIDENTIAL Exhibit No. 1.

9. The CNH Loan Agreement has two exhibits: an Intercompany Promissory Note and a Guaranty Agreement.

10. Paragraph 4 of the CNH Loan Agreement grants ONSWC a security interest in “all assets of [CNH], including without limitation all personal or real property, all accounts, chattel paper, inventory, equipment, instruments, including promissory notes, investment property, documents, deposit accounts, letters of credit rights, general intangibles, supporting obligations, farm products, wherever located, whether now owned or hereafter acquired, and all proceeds and products of the foregoing, whether owned by [CNH] directly or through a subsidiary of [CNH].”

11. Data on the CNH Loan Agreement is shown in the table below.

Effective Date	December 4, 2020
Executed by	John McDonald for CNH and ONSWC
Principal	\$5,000,000
Maturity Date	December 3, 2024
Interest	“a rate per annum equal to the Mid-term Applicable Federal Rate then in effect for the applicable month as published by the United States Internal Revenue Service, adjusted monthly, until the Maturity Date” (see Paragraph 2 of the Intercompany Promissory Note of the CNH Loan Agreement)

12. Pursuant to Paragraph 1 of the Guaranty Agreement of the CNH Loan Agreement, ONSWC-CH is “irrevocably and unconditionally” guaranteeing ONSWC “full, complete, and punctual performance by [CNH] of all terms, covenants, obligations and condition contained in the [Promissory Note] including, without limitation, payment of the [debt]” and “payment of all sums at any time owed by [CNH] under the [Promissory Note] as and when the [Promissory Note] shall become due and payable” if CNH defaults on the Promissory Note.

13. CNH has not repaid any portion of the loan.

14. There are no repayment or amortization schedules associated with the loan.

15. Financial statements provided for CNH and ONSWC-CN (attached as CONFIDENTIAL Exhibit No. 2) raise concerns about CNH’s and ONSWC-CN’s ability to repay the loan.

16. Neither CNH nor ONSWC-CN is a public utility; therefore, neither entity has violated N.C.G.S. §§ 62-153, 62-160, nor § 62-161 by taking part in the transaction.

17. Pursuant to N.C.G.S. § 62-161(a), ONSWC, as a public utility, must apply for and secure Commission approval before issuing any security. Notes fall within the definition of a security set forth in N.C.G.S. § 62-3(26). N.C.G.S. § 62-167 provides a safe harbor from N.C.G.S. § 62-160 *et seq.*, for notes that are issued “for a proper purpose and not in violation of law, payable at a period of not more than two years from the date thereof.”

18. Given the term of the note, N.C.G.S. § 62-167 does not apply; as such, ONSWC should have secured Commission approval before issuing the note to CNH.

D. Loans Integra and the Integra Affiliates Made to ONSWC

19. As shown in CONFIDENTIAL Exhibit No. 3, ONSWC owes Integra and the Integra Affiliates approximately \$13,882,387.² The debt is composed of two notes payable, four lines of credit,³ and nine vehicle notes.⁴

² CONFIDENTIAL Exhibit 3 (Updated Balances Excel file) was received from ONSWC in discovery.

³ To avoid confusion, the debts are referenced using the categories (note payable, line of credit, or vehicle) ONSWC used in its discovery response. The lines of credit are long-term notes memorialized in Intercompany Loan and Security Agreements.

⁴ ONSWC is not purchasing the vehicles associated with the nine vehicle notes included in its long-term debt. It is leasing them from Integra. To avoid confusion and maintain consistency, “vehicle note or vehicle notes” are used throughout the filing even though the arrangement is, in fact, a lease. ONSWC’s erroneous representation and related accounting treatment impacts the accuracy of ONSWC’s Balance Sheet and Income Statement.

20. According to ONSWC, it is making monthly payments on one of the notes⁵ and all nine vehicle notes. The monthly payments are approximately \$11,002.69.⁶

21. All of the debt is classified as long-term debt on ONSWC's Balance Sheet.

22. The clause below is an excerpt from Paragraph 4 of the Intercompany Loan and Security Agreement of all five loans:⁷

The obligations of [ONSWC] to pay Lender the principal of and interest on the Loan and other amounts due hereunder are being secured by all assets of [ONSWC], including without limitation all personal or real property, all accounts, chattel paper, inventory, equipment, instruments, including promissory notes, investment property, documents, deposit accounts, letters of credit rights, general intangibles, supporting obligations, farm products, wherever located, whether now owned or hereafter acquired, and all proceeds and products of the foregoing . . . [ONSWC] hereby grants, conveys, and pledges to Lender a security interest in and security title to all of its rights, title, and interest in and to the Collateral as security for the full and punctual payment and performance of the obligations to pay to Lender the principal of and interest on the [loan and other amounts due under the Intercompany Loan and Security Agreement] . . .

23. N.C.G.S. § 62-160 requires Commission approval of certain utility pledges of the utility's "faith, credit, moneys or property for the benefit of any holder of its preferred or common stocks or bonds, nor for any other business interest with which it may be affiliated."

⁵ ONSWC is making payments on the note to Integra for \$217,250 issued in early 2014. There are no signed loan documents related to this note.

⁶ The amount paid out related to the vehicle leases is \$8,359.34.


⁷ All five Intercompany Loan and Security Agreements are attached as CONFIDENTIAL Exhibit 4.

24. The pledge embodied in the excerpt above, considered in isolation, does not appear to fall within the parameters of N.C.G.S. § 62-160.

25. Pursuant to N.C.G.S. § 62-161(a), a public utility must apply for and secure Commission approval before issuing any security. Notes fall within the definition of a security set forth in N.C.G.S. § 62-3(26). N.C.G.S. § 62-167 provides a safe harbor from N.C.G.S. § 62-160 *et seq.*, for notes that are issued “for a proper purpose and not in violation of law, payable at a period of not more than two years from the date thereof.”

26. The terms of the notes and lines of credit between ONSWC and Integra or the Integra Affiliates exceed two years; therefore, N.C.G.S. § 62-167 does not apply and, as such, ONSWC should have secured Commission approval before it entered into the underlying transactions.

II. Recapitalization Plan

27. ONSWC’s capital structure as of September 30, 2022, is comprised of **[BEGIN CONFIDENTIAL]**  **[END CONFIDENTIAL]**.

28. The Public Staff and ONSWC discussed different ways ONSWC could modify its capital structure to reduce long-term debt and increase equity but were unable to reach consensus on a recapitalization plan.

29. Recapitalization options include (1) Integra acquiring ONSWC; (2) Integra and the Integra Affiliates forgiving a portion of ONSWC's outstanding debt; or (3) an equity infusion from Mr. McDonald.

30. The Commission can also declare Mr. McDonald a *de facto* public utility under the definition of a public utility set forth in N.C.G.S. § 62-3(23)(a) based on his status as ONSWC's sole shareholder. Declaring Mr. McDonald a public utility would give the Commission the authority to regulate and control his conduct related to ownership and operation of ONSWC. See N.C.G.S. § 62-30, which gives the Commission "general power and authority to supervise and control the public utilities of the State as may be necessary to carry out the laws providing for their regulation, and all such other powers and duties as may be necessary or incident to the proper discharge of its duties."

III. Other Issues Identified by the Public Staff

31. The Public Staff has had significant difficulty obtaining financial statements for ONSWC in a timely manner. The Public Staff requested financial statements for ONSWC and Integra for the reporting periods ending on December 31, 2021; March 31, 2022; June 30, 2022; and September 30, 2022, multiple times and was advised those statements were not available.

32. Full financial statements for ONSWC for the reporting periods ending on December 31, 2021; March 30, 2022; June 30, 2022; and September 30, 2022, were finally received on September 23, 2022; October 31, 2022; and November

20, 2022, respectively.⁸ Full financial statements for Integra for the reporting period ending on March 30, 2022, were received on October 13, 2022. Full financial statements for the reporting periods ending June 30, 2022, and September 30, 2022, were received on November 22, 2022.⁹ Financial statements for the reporting period ending on December 31, 2021, have not been provided.

33. The financial statements for the reporting periods ending on June 30, 2022, and September 30, 2022, were labeled “Preliminary Draft.” ONSWC did not indicate when final statements for those reporting periods would be available.

34. The Public Staff compared information ONSWC provided at different times and in different dockets and identified multiple instances where ONSWC provided inconsistent financial statements for the same reporting period. CONFIDENTIAL Exhibit 7 is a side-by-side comparison of different versions of ONSWC’s Balance Sheets and Income Statements for the reporting periods ending on December 31, 2021, and March 30, 2022.

35. The issues enumerated above are concerning and significantly undermine the Public Staff’s confidence in (1) the accuracy of the financial information ONSWC has provided the Public Staff and the Commission and (2) ONSWC’s (and by extension, Integra’s) accounting and financial reporting functions, personnel, and systems.

⁸ CONFIDENTIAL Exhibit 5 includes the listed financial statements for ONSWC.

⁹ CONFIDENTIAL Exhibit 6 includes the listed financial statements for Integra.

36. The Public Staff also finds ONSWC's failure to seek Commission approval of debt issuances totaling over \$13,000,000 alarming. The Public Staff's concern is amplified by the fact that those debts are held by entities that are owned and controlled by the, now, sole owner of ONSWC.¹⁰

IV. Public Staff Recommendations

38. The Public Staff recommends the following:
- a. That the Commission schedule a hearing to receive evidence and testimony from ONSWC, providing its plan for recapitalization and explaining the reasons why the Public Staff's recapitalization options are unacceptable;
 - b. That the Commission consider declaring Mr. McDonald a *de facto* public utility based on his ownership interest in ONSWC;
 - c. That the Commission order a management audit pursuant to N.C.G.S. § 62-37(b);
 - d. That the Commission order a full forensic audit of ONSWC's books and records; and
 - e. That the Commission order a full forensic audit of Integra and the Integra Affiliates' financial statements.

WHEREFORE, the Public Staff requests that the Commission accept this filing in compliance with Ordering Paragraph No. 12 of its Order Approving

¹⁰ McDonald was the 95% owner of ONSWC when all five of the Intercompany Loan and Guaranty Agreements between ONSWC and Integra or an Integra Affiliates were executed. McDonald is now the sole owner of ONSWC (see the letter filed in the Company folder on March 25, 2022).

Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice issued in this docket on June 13, 2022.

This the 12th day of December, 2022.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy E. Edmondson
Chief Counsel

Electronically submitted
/s/ Reita D. Coxton
Staff Attorney

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

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing Report 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 12th day of December, 2022.

Electronically submitted
/s/ Reita D. Coxton

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:

Application by Old North)	
State Water Company, Inc.,)	
3212 6th Avenue South,)	
Suite 200, Birmingham,	)	ONSWC RESPONSE TO
Alabama 35222, for	)	PUBLIC STAFF REPORT
Authority to Adjust and)	
Increase Rates for Water)	
Utility Service in All of Its)	
Service Areas in North)	
Carolina)	

NOW COMES Old North State Water Company, Inc. (ONSWC or Company), through undersigned counsel, and responds to the Public Staff Report on ONSWC’s Compliance with Laws and Recapitalization (Public Staff Report) filed on December 12, 2022. ONSWC requests that the Commission reject the recommendations of the Public Staff – North Carolina (Public Staff) for the reasons set out below.

1. On June 13, 2022, the Commission issued its Order Approving Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice in the above-captioned docket. Ordering paragraph 12 states:

That pursuant to N.C.G.S. § 62-34, the Public Staff shall thoroughly review the various sources of funding utilized by ONSWC for its capital and operational needs, the funds disbursed by ONSWC to Chatham North Holdings, Inc., and the relationships, operating agreements, and contracts between and among the Company, Integra, the Integra affiliates, and Chatham North Holdings, Inc.; including whether they are reasonable, appropriate, and in conformity with North Carolina law and Commission Rules, including

but not limited to N.C.G.S. §§ 62-153, 62-160, and 62-167. Within six months of the date of this Order, the Public Staff shall make a report to this Commission regarding the Company's compliance with applicable North Carolina law. ONSWC shall have the opportunity to respond to the Public Staff's report within 30 days of the filing of such report. Additionally, the parties shall work together to create a plan to improve the capitalization of the Company, and the parties shall make a report to the Commission within six months of the date of this Order regarding the recapitalization plan

2. The Public Staff Report has a section entitled "Legal Compliance" that reviews the relationships and contracts among ONSWC and other companies. The Public Staff identifies two items of noncompliance. First is that ONSWC did not obtain advance approval from the Commission, as provided in N.C.G.S. § 62-161(a), for the promissory note it issued to Chatham North Holdings, Inc. (CNH) in the amount of \$5 million on December 4, 2020.

3. ONSWC takes seriously the compliance requirements of Chapter 62 and Commission orders and rules. The ONSWC failure to seek advance approval for the promissory note to CNH was an unintentional oversight. ONSWC did file a copy of the promissory note from CNH on March 31, 2022, as a late-filed rate case exhibit per Commission request. ONSWC also filed on April 14, 2022, a copy of the Guaranty Agreement, dated December 4, 2020, in which ONSWC – Chatham North, LLC (ONSWC – CN) became the guarantor of the CNH promissory note to ONSWC. The promissory note from CNH and the guaranty from ONSWC – CN have been in place for over two years now, and disclosed to and filed with the Commission for about three-quarters of a year.

4. ONSWC proposes to address its failure to obtain advance approval under N.C.G.S. § 62-161(a) for the promissory note to CNH as follows:

a. ONSWC is in the process of acquiring ownership of assets of ONSWC – CN in satisfaction of the promissory note from CNH and the Guaranty Agreement from ONSWC-CN. This transfer of assets and cancellation of the promissory note are expected to take place in January of 2023. ONSWC will notify the Commission in the present docket when that transfer and cancellation have occurred.

b. The Company now understands that the definition of "security" under Chapter 62 is broader than publicly traded securities subject to regulation by the U.S. Securities and Exchange Commission, and will seek approval for new securities, obligations, or liabilities as required by N.C.G.S. § 62-161 and other sections of Chapter 62.

5. The second noncompliance identified by the Public Staff is that ONSWC did not obtain advance Commission approval for five loans in which ONSWC pledged its assets as security, where advance approval is required under N.C.G.S. § 62-

160. The loans were provided by Integra Water, LLC, and its subsidiaries Integra Water Madison County, LLC, Integra Water Creola, LLC, Integra Water Vinemont, LLC (Integra and the Integra Affiliates, respectively). As with the CNH note, the ONSWC failure to seek advance approval for the promissory notes to Integra and the Integra Affiliates is an unintentional oversight. ONSWC did file a copy of those five loan agreements on March 31, 2022, as a late-filed rate case exhibit per Commission request. The loans from Integra and the Integra Affiliates have been in place for over three years now, and disclosed to and filed with the Commission for about three-quarters of a year.

6. Given that the loan agreements were executed in 2019 and 2020, it does not appear there is any cure for the earlier noncompliance other than future compliance. If these loans had materially impaired the ability of ONSWC to function as a public utility, additional Commission action would be warranted, but that is not the case. As discussed below, the loans from Integra and the Integra Affiliates have provided necessary financing for ONSWC. The owner of Integra has promised in sworn testimony that Integra will continue to provide necessary financing for ONSWC, which as the Commission noted in its June 13, 2022, rate case order was sufficient assurance for the Public Staff's witness and for the Public Staff's agreement to settle:

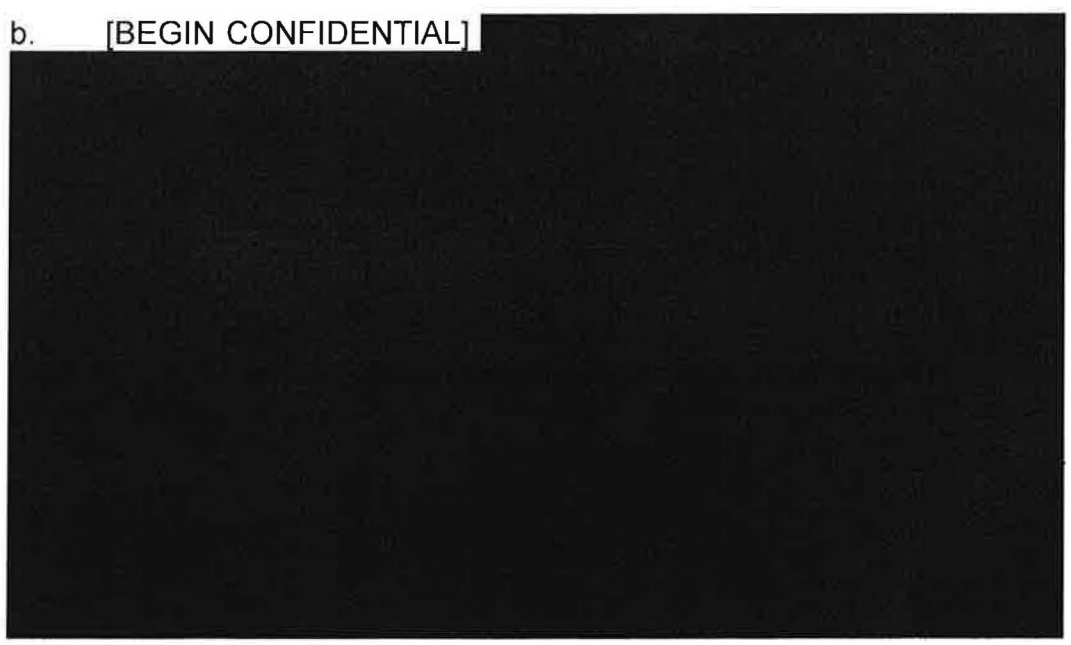
In settlement testimony, Public Staff witness Hinton revised his concerns about the high debt ratio and financial viability of ONSWC articulated in his direct testimony. He stated that further discussions with the Company during settlement talks and his review of the consolidated financial statements of Integra led him to withdraw his prior recommendations that the Company change its actual capital structure and be required to submit audited financial statements. An essential part of the changes to Public Staff witness Hinton's position is the settlement commitment of ONSWC witness McDonald, as the authorized representative of Integra, for Integra to continue to finance the capital needs of ONSWC at sufficient levels to permit ONSWC to fund its capital needs and operational expenses such that ONSWC can provide good quality, reliable water service to its customers consistent with environmental and regulatory requirements.

ONSWC submits that the commitment made by Mr. McDonald in the rate case demonstrates that the failure to obtain advance approval for the loan agreements will not be harmful to the financial viability or operational needs of ONSWC. To the contrary, those loan agreements are helpful to ONSWC and have provided funding to cover the continued operating losses of ONSWC. It is fair to say that Integra is and would be the only willing lender under these conditions. Integra's willingness to continue to fund ONSWC allows ONSWC to fulfill its capital requirements and fund operating losses until ONSWC can adjust rates to achieve its authorized return or close to it.

7. The next part of the Public Staff Report is entitled "Recapitalization Plan" and includes several Public Staff suggestions. ONSWC does not believe the options suggested by the Public Staff are reasonable. The Public Staff Report does not mention the options that ONSWC offered to the Public Staff.

8. According to the Public Staff, "Recapitalization options include (1) Integra acquiring ONSWC; (2) Integra and the Integra Affiliates forgiving a portion of ONSWC's outstanding debt; or (3) an equity infusion from Mr. McDonald." The Public Staff also states that the Commission can declare Mr. McDonald to be a public utility based on his status as ONSWC's sole shareholder. These options are inappropriate for the following reasons.

a. Since the source of ONSWC financing is entirely Integra, the distinction between debt and equity is irrelevant. It is an illusory concern. Normally a high level of debt in the capital structure increases risk for equity holders (and thus increases the investor-required return) because debt creditors have a higher priority for payment, and if the company is in poor financial condition the equity holders are more likely than debt holders to receive lower returns or even lose some or all of their investment. Thus a balance between debt and equity is normally important. That is not the case with ONSWC because with just one entity (and its subsidiaries) providing all the financing, the risk of nonpayment by ONSWC is the same regardless of whether the financing is labeled debt or equity. If half or all the loan dollars from Integra and the Integra Affiliates were converted to equity, there would be no decrease in risk to the equity holder. In the case of ONSWC, recapitalization would not improve financial viability and would not serve any useful regulatory purpose.

b. [BEGIN CONFIDENTIAL] 



[END CONFIDENTIAL]

c. The Public Staff proposal for Integra to acquire ONSWC would result in costs but not benefits. The costs include transaction costs and the time and resources needed for a proceeding under N.C.G.S. § 62-111. There is no apparent benefit. Integra has already committed in the sworn testimony of Mr. McDonald to providing whatever financing ONSWC needs, and as ONSWC's owner he has tremendous incentive to follow through as needed to protect the significant investment in ONSWC. The underlying assets and liabilities of ONSWC would remain the same whether acquired by Integra or not.

The Public Staff may want Integra to acquire ONSWC so that there is Commission regulatory authority over Integra; however, Integra oversees utility operations in Alabama and Texas, not North Carolina.¹ Given that Mr. McDonald has already promised financing support to ONSWC from Integra, and Mr. McDonald controls Integra, there is nothing to be gained from requiring an acquisition that would bring the Alabama- and Texas-focused company under the Commission's jurisdiction.

As a company that provides back office services to ONSWC, Integra has provided discovery responses to the Public Staff in connection with ONSWC proceedings, and this will continue without the need for Integra to purchase ONSWC. [BEGIN CONFIDENTIAL]



[END CONFIDENTIAL]

¹ Integra does allocate some resources and time to support ONSWC. If the time is directly attributable then the cost is billed directly (and at cost). If the ONSWC share of a cost is more difficult to determine (office rent, insurance, etc.) then the cost is allocated via customer count. The direct assignments and the allocations of Integra costs to ONSWC have been reviewed at great length and in great detail by the Public Staff.

It is not appropriate to force an unaffiliated company (Integra) to acquire a North Carolina utility that the unaffiliated company does not want to acquire. Integra and ONSWC have a common owner, but that owner wants to keep his Alabama/Texas companies separate from his North Carolina company, and should have the right to so as long as Integra is not controlling or owning any part of ONSWC.

d. The next Public Staff proposal is for Integra and the Integra Affiliates to forgive a portion of ONSWC's outstanding debt. This is entirely unreasonable, as the Public Staff is asking for Integra and the Integra Affiliates to write off the loans and take a multi-million dollar loss. It also may be a taxable transaction for ONSWC, resulting in additional cost to the utility. The legality of this proposal is questionable at best, given that the Commission has no jurisdiction over Integra and the Integra Affiliates and given that it raises an issue of unconstitutional taking even if there were jurisdiction.

e. The third Public Staff proposal is for Mr. McDonald to make an equity infusion to ONSWC. The Public Staff does not say the size of the infusion, but it would have to be several million dollars to achieve a capital structure ratio in the range approved in recent North Carolina utility rate cases. This proposal is unjustified. ONSWC is not in need of a massive amount of new capital financing. It is not a "troubled" company, it is conducting utility operations reasonably well, and it has a commitment that Integra will provide additional financing if and when needed. To ask Mr. McDonald to invest several million dollars of his own money is to dictate an individual's personal spending purely to elevate form (capital structure) over substance (any financing needs of ONSWC). Mr. McDonald should be able to choose where and how to invest his personal funds without being forced to infuse equity into a company that presently does not need the equity.

f. The Public Staff also suggests that the Commission can "declare Mr. McDonald a *de facto* public utility under the definition of a public utility set forth in N.C.G.S. § 62-3(23)(a) based on his status as ONSWC's sole shareholder." ONSWC respectfully disagrees. If Mr. McDonald were acting as a *de facto* public utility, the Commission could declare him to be a *de jure* public utility. However, the facts do not support such action. Mr. McDonald has created Integra and ONSWC as lawful corporate entities, with their own staff and own financial statements and own tax and legal liabilities. When an individual is the majority or sole owner of a company, there should be a presumption that the company is a separate legal entity. An individual's ownership does not default to a merged identity with the corporation he owns. The alter ego doctrine applies only if there is a showing that the individual controls the company and uses that control to cause a fraud or wrong to another party.² No such showing has been made

² Piercing the corporate veil is an extraordinary remedy, as "[d]isregarding the corporate form is not to be

with respect to Mr. McDonald, particularly given that ONSWC utilizes a staff who conduct the day-to-day operations of the utility business.

g. The Public Staff's list of options does not include a proposal that ONSWC suggested to them. Namely, that some of the loans from Integra and/or the Integra Affiliates to ONSWC could be converted into equity upon the expiration of the term of the loans in December 2024. ONSWC does not believe recapitalization would benefit utility customers or improve financial viability for reasons stated above, and therefore does not recommend that a portion of the loans be converted to equity at the end of 2024. However, if the Commission disagrees and for reasons within its lawful authority decides recapitalization is required, then ONSWC believes the best path toward that goal is to convert enough of the loans to equity such that the capital structure reaches approximately 45% equity at the end of calendar 2024.

9. The Public Staff Report includes a section entitled "Other Issues" that are in addition to the topics identified in the Commission's ordering paragraph 12. The Public Staff notes that ONSWC has been slow to provide financial statements requested by the Public Staff, and that there are inconsistencies in the financial statements.

ONSWC accepts the accuracy of those allegations. Integra provides some back office support to ONSWC, including accounting services. Integra is well aware that it needs more staffing for this function, and is taking action in that regard. The rapid growth of Integra and ONSWC in recent years caused the companies to outgrow their accounting staff. The lead accountant at Integra was overworked, particularly under the pressure of a high volume of data requests during the rate case in addition to her regular work, and resigned from Integra this month. Integra has hired a new chief financial officer as of January 3, 2023. His

done lightly." *Green v. Freeman*, 367 N.C. 136, 145, 749 S.E.2d 262 (2013); see also *State ex rel. Cooper v. Ridgeway Brands Mfg., LLC*, 362 N.C. 431, 442, 666 S.E.2d 107 (2008)

However, liability may be imposed on an individual who is operating a corporation as a mere instrumentality when the individual has:

Control, not mere majority or complete stock control, but complete domination, not only of finances, but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own; and

Such control must have been used by the defendant to commit fraud or wrong, to perpetrate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal rights; and

The aforesaid control and breach of duty must proximately cause the injury or unjust loss complained of.

Glenn v. Wagner, 313 N.C. 450, 455, 329 S.E.2d 326, ____ (1985). (citation omitted; emphasis added)

resume is attached as confidential Attachment 1. Integra is also in the process of hiring another person to increase the accounting staff, and hopes to complete that process within 45 days.

It is also noteworthy that until late in 2020 much ONSWC business was handled by the Myers' owned contractor Envirolink, Inc. Now that Envirolink is no longer working for ONSWC, Mr. McDonald is taking steps to improve the accounting function that serves ONSWC. The contractor was supposed to have responsibility for providing guidance on regulatory accounting, including regulatory relations and compliance with Commission rules. When Mr. McDonald was forced to terminate the relationship with Envirolink, ONSWC struggled to find the regulatory accounting experience necessary to properly comply with rate case data requests and other Public Staff inquiries.

As part of improving the accounting capabilities at Integra, and therefore the accounting service provided to ONSWC, Mr. McDonald plans to hire an outside firm in the spring of 2023 to thoroughly review the accounting needs and processes and to perform an accounting review of ONSWC and its financial statements. This is intended as a cost-efficient way, without the expense, diversion of resources, and disruption of a full scale audit, to identify where improvements are needed. The timing is meant to allow new accounting staff first to be retained and learn a bit about the Integra and ONSWC books and processes, so they can work with the reviewers. ONSWC will provide a copy of this outside accounting review to the Public Staff and Commission upon request.

However, ONSWC does not agree that the difficulty with producing timely and consistent financial statements has a bearing on the recapitalization issue. It is obvious that the financing of ONSWC is mostly through debt instruments, and not equity, regardless of which financial statement one reviews. Recapitalization is not going to address the problems with timing and accuracy of financial statements – those problems are an independent issue and can only be remedied by hiring new accounting staff, which Integra is working on.

Meanwhile, the Public Staff has declined to move contiguous extension filings of ONSWC to Staff Conference until updated financial statements are provided. That is, the Public Staff is exerting its own leverage to pressure ONSWC for updated financials, and of course Integra is striving to provide ONSWC with updated and accurate financials as soon as appropriate staff can be hired and have time to make the needed corrections.

Finally, the Public Staff Report states "The Public Staff also finds ONSWC's failure to seek Commission approval of debt issuances totaling over \$13,000,000 alarming." This comment would appear to repeat the legal compliance concerns discussed above, but it also appears that the Public Staff is alarmed because Mr. McDonald owns both Integra and ONSWC. Yet Mr. McDonald owned Integra and 95% of ONSWC during the rate case. He now owns 100% of ONSWC, so if

anything his interest in not having Integra foreclose on the loans has increased. In the rate case, Public Staff witness Hinton accepted the loan financing arrangement as acceptable, particularly in light of Mr. McDonald's commitment to have Integra continue to provide sufficient financing for ONSWC. In the rate case, the ratio of debt in the capital structure and the amount of debt did not preclude the Public Staff from entering a settlement with ONSWC. It should be emphasized that as the owner of ONSWC, Mr. McDonald has a strong interest in the financial success of ONSWC. It would not serve his interest to allow insolvency or abandon the millions of dollars of assets he has invested in the ONSWC North Carolina utility operations. And since the debt of ONSWC is owed to Integra and the Integra affiliates, which are owned by Mr. McDonald, there would be no purpose or advantage for Integra to attempt to make claims against ONSWC assets. In sum, ONSWC does not understand why the Public Staff is alarmed by the level of ONSWC debt. What matters is that ONSWC is adequately funded and is providing adequate service to customers.

For the reasons stated above, ONSWC asks the Commission to deny the recommendations in the Public Staff Report. ONSWC will provide updated financial statements and a reconciliation of the inconsistencies in past statements when it has the staff to do so (through accounting services provided by Integra). The forensic and management audits recommended by the Public Staff will not expedite that process; if anything, they will slow it down and be an additional drag on ONSWC finances. Nor will changing the ownership of ONSWC or declaring Mr. McDonald to be a utility achieve anything useful in this situation. The Public Staff has identified a non-problem – the debt ratio for ONSWC. It has also identified a real problem – the late and inconsistent financial statements. The Public Staff has not proposed a meaningful remedy. ONSWC, with accounting services from Integra, understands the financial reporting problem and is already working to address it.

This the 11th day of January, 2023.

FOX ROTHSCHILD LLP

/s/ David T. Drooz

David T. Drooz

North Carolina State Bar No. 10310

Fox Rothschild, LLC

434 Fayetteville Street

Suite 2800

Raleigh, North Carolina 27601

Telephone: 919.719.1258

ddrooz@foxrothschild.com

Attorney for Old North State Water Company,
Inc.

VERIFICATION

John McDonald, being duly sworn, deposes and says: that he is the President of Old North State Water Company, Inc., that he is familiar with the facts set out in the attached ONSWC Response to Public Staff Report; and that the same is true to the best of his knowledge.



John McDonald

State of Alabama
County of Jefferson

Sworn to and subscribed before me this

the 11th day of January, 2023.



Notary Public



My Commission Expires: July 14, 2024

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing ONSWC Response to Public Staff Report upon each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 11th day of January, 2023.

Electronically submitted
/s/ David Drooz

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:	)	OLD NORTH STATE WATER
Application by Old North State Water	)	COMPANY REPORT ON
Company, Inc., 3212 6 th Avenue	)	ACCOUNTING STAFF, MOTION
South, Suite 200, Birmingham,	)	ON ACCOUNTING REVIEW, AND
Alabama 35222, for Authority to	)	MOTION FOR EXTENSION OF
Adjust and Increase Rates for Water	)	TIME
Utility Service in All Service Areas in)	
North Carolina)	

Now comes Old North State Water Company, Inc. (ONSWC or Company), through undersigned counsel, and submits the following report pursuant to ordering paragraph number 1 in the Order Requiring Further Reporting and Directing Old North State Water Company, Inc. to Refrain from Certain Actions (May 19 Order), issued by the North Carolina Utilities Commission (Commission) in this docket on May 19, 2023. ONSWC also submits herein a motion in response to ordering paragraph 2 of the May 19 Order, and a motion for a revised hearing date.

Ordering paragraph number 1

1. Ordering paragraph number 1 in the May 19 Order states:

That ONSWC shall promptly notify the Commission by a filing in this docket of any financial staff whom it has hired since the date of the Public Staff Report or who are employed by Integra to provide accounting services to ONSWC, such notification to include their professional qualifications

2. The financial/accounting services for ONSWC are provided by Integra.

Integra has hired the following accounting staff on the dates indicated:

- | | | |
|--------------------|-------------------------|-----------------|
| a. Joseph Mitchell | Chief Financial Officer | January 2, 2023 |
| b. Kate Fox | Assistance Controller | March 29, 2023 |
| c. Bronte Frank | Staff Accountant | March 31, 2023 |

Integra also has an accounts payable manager who has been with the company a longer period of time. Integra is in the process of hiring an additional accounting assistant.

3. The foregoing hires represent a substantial increase in financial/accounting staff who will provide services for ONSWC since the departure of Laurie Oakman following the Company's rate case.
4. The confidential resumes of the three new hires, along with the confidential position description being advertised for the open accounting assistant position, are appended as Confidential Attachments 1, 2, 3, and 4.

Ordering paragraph number 2

5. Ordering paragraph number 2 in the May 19 Order states:

That as soon as practicable, but at any rate no later than 30 days of the date of this Order, ONSWC shall provide the Commission with a copy of the report of the accounting review it has commissioned

6. ONSWC has now received a confidential proposal from an accounting firm for the external professional review. It is appended as Confidential Attachment 5. Only the establishment of a price cap for the contract remains to be completed before the proposal will be accepted.
7. The proposal contemplates a completion date of July 15. That will be after the 30-day deadline (June 19) prescribed in the May 19 Order, and

ONSWC requests an extension of time to July 21, 2023, for filing the accounting review with the Commission. The reasons for the requested extension are:

- a. With the loss of Ms. Oakman, it made sense to Integra to first have new accounting staff in place to familiarize themselves with the Company's accounts and prepare to respond to the questions and requests of the external reviewers.
- b. It took longer than expected for Integra to find and hire a well-qualified Chief Financial Officer and additional accounting staff.
- c. As set out below, ONSWC is requesting a later date for the hearing currently scheduled for July 25, 2023; accordingly, the Public Staff and Commission will still have sufficient time to review the report of the external reviewer before the hearing if that hearing extension motion is granted.
- d. If the external review is received as contemplated on July 15 (a Saturday), ONSWC will need several days to absorb the findings and draft plans to resolve any concerns. This is why the extension is requested for July 21 instead of the first business day after July 15, 2023.

8. ONSWC requests a later hearing date to accommodate its need for more time to complete the external accounting review, and also because of a pre-existing commitment of John McDonald. Mr. McDonald has a long-planned family trip to Africa on July 8 – 24, 2023, returning to Birmingham, Alabama. On July 25 he will be in Birmingham, will undoubtedly be jet-lagged, and will have had no time to prepare for hearing. He is the only witness that ONSWC anticipates presenting in this matter, and the only witness with the historical knowledge of Company operations necessary to respond to the Public Staff's position.
9. Counsel for the Public Staff does not object to a revised hearing date, provided it is not during the September 18-29, 2023, timeframe. Mr. McDonald is unavailable from August 19-27. In light of these scheduling constraints, and mindful that the Commission's calendar is extremely busy, ONSWC respectfully requests that the hearing in this matter be rescheduled from July 25 to any date between August 1 and August 18 that is feasible for the Commission.

WHEREFORE, the Company requests that the Commission (i) accept the information reported herein as sufficient response to ordering paragraph number 1 in the May 19 Order; (ii) grant an extension of time to July 21, 2023, for ONSWC to file the external accounting review in response to ordering paragraph number 2 in the May 19 Order; and (iii) grant a change in the hearing date from July 25, 2023, to sometime in August 2023 but prior to August 19.

This the 25th day of May, 2023.

/s/ David T. Drooz
David T. Drooz
North Carolina State Bar No. 10310
Fox Rothschild LLP
434 Fayetteville Street
Suite 2800
Raleigh, NC 27601

Telephone: 919.719.1258
E-mail: ddrooz@foxrothschild.com

Attorney for
Old North State Water Company, Inc.

OFFICIAL COPY

May 19 2023

CERTIFICATE OF SERVICE

I do hereby certify that I have served a copy of the foregoing OLD NORTH STATE WATER COMPANY REPORT ON ACCOUNTING STAFF, MOTION ON ACCOUNTING REVIEW, AND MOTION FOR EXTENSION OF TIME upon each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 25th day of May, 2023.

Electronically submitted

/s/ David T. Drooz

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:

Application by Old North State Water)	
Company, Inc., 3212 6 th Avenue)	
South, Suite 200, Birmingham,)	
Alabama 35222, for Authority to	)	OLD NORTH STATE WATER
Adjust and Increase Rates for Water	)	COMPANY'S AMENDED MOTION
Utility Service in All Service Areas in	)	TO RESCHEDULE HEARING
North Carolina)	

Now comes Old North State Water Company, Inc. (ONSWC or Company), through undersigned counsel, and amends its May 25, 2023, motion to reschedule the hearing as described below.

1. The ONSWC report on its hiring of new accounting staff, filed on May 25, 2023, remains unchanged.

2. The ONSWC motion to extend the deadline for filing a report on the external accounting review required by the Commission's May 19, 2023, order in this docket remains unchanged. A July 21, 2023, filing date for that report is the earliest date that ONSWC can realistically submit the report.

3. However, the requested extension to July 21 for filing the external accounting review would impact the Public Staff's review time. Counsel for ONSWC had conferred with the Public Staff about rescheduling the hearing but not about the request to extend the date for filing the external accounting review. Upon receipt and review of the filed motion, the Public Staff expressed concern

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May 19 2023

that the requested extension for filing the accounting review will deprive them of review time compared to the 30 days in the original scheduling order, if the hearing is rescheduled to a date between August 1 and 18 as previously requested by ONSWC.

4. The Company agrees with the Public Staff that their review time should not be shortened, and therefore amends its May 25, 2023, motion to request that the hearing be rescheduled for a date between September 1st and 15th. This should accommodate the scheduling needs of both parties and should not result in any prejudice to either party or the ratepayers.

5. The Public Staff does not object to this Amended Motion to Reschedule Hearing.

WHEREFORE, the Company requests that the Commission (i) accept the information reported herein as sufficient response to ordering paragraph number 1 in the May 19 Order; (ii) grant an extension of time to July 21, 2023, for ONSWC to file the external accounting review in response to ordering paragraph number 2 in the May 19 Order; and (iii) grant a change in the hearing date from July 25, 2023, to sometime between September 1 – 15, 2023.

This the 30th day of May, 2023.

/s/ David T. Drooz
David T. Drooz
North Carolina State Bar No. 10310
Fox Rothschild LLP
434 Fayetteville Street
Suite 2800
Raleigh, NC 27601
Telephone: 919.719.1258
E-mail: ddrooz@foxrothschild.com

Attorney for
Old North State Water Company, Inc.

OFFICIAL COPY

May 19 2023

CERTIFICATE OF SERVICE

I do hereby certify that I have served a copy of the foregoing OLD NORTH STATE WATER COMPANY'S AMENDED MOTION TO RESCHEDULE HEARING on each of the parties of record in this proceeding or their attorneys of record by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 30th day of May, 2023.

Electronically submitted

/s/ David T. Drooz

Company states that it will provide a copy of this accounting review on request.

The Public Staff had requested a “management audit” of ONSWC, and a “full forensic audit” of both ONSWC and Integra in its report filed December 22, 2022, in this docket. A management audit and a forensic audit are quite different from an accounting review. They would require substantially more time and cost to complete. ONSWC believes the scope on the attached proposal complies with what is required by the Commission’s May 19 Order, and submits the proposal to make the scope clear at the outset.

Respectfully submitted, this the 7th day of June, 2023.

/s/ David T. Drooz
David T. Drooz
North Carolina State Bar No. 10310
Fox Rothschild LLP
434 Fayetteville Street
Suite 2800
Raleigh, NC 27601
Telephone: 919.719.1258
E-mail: ddrooz@foxrothschild.com

Attorney for
Old North State Water Company, Inc.

CERTIFICATE OF SERVICE

I do hereby certify that I have served a copy of the foregoing SUPPLEMENT TO OLD NORTH STATE WATER COMPANY'S AMENDED MOTION TO RESCHEDULE HEARING on each of the parties of record in this proceeding or their attorneys of record, and the NC Public Staff, by emailing them an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 7th day of June, 2023.

Electronically submitted

/s/ David T. Drooz

Haynes  Downard LLP
Certified Public Accountants and Business Advisors

May 23, 2023

John McDonald, CEO
Old North State Water Company, Inc.
3212 6th Avenue South
Suite 200
Birmingham, AL 35222

We truly appreciate the opportunity to submit the enclosed proposal to perform accounting and review services for Old North State Water Company, Inc.

The purpose of the enclosed presentation is to describe to you our qualifications and experience under the following categories:

- Profile of Haynes Downard LLP
- Review Approach
- Scope of the Engagement
- Engagement Team
- Fees

We believe our proposal will demonstrate that as a full service accounting firm, including audit, management consulting, regulatory filing, government compliance reporting, and tax services; we are especially well qualified to serve your needs.

Thank you again for this opportunity and if you have any questions regarding our Firm or this proposal, please do not hesitate to contact us. We greatly appreciate your consideration of our Firm.

Very truly yours,



Joseph M. Campbell, Jr., CPA

**Old North State Water Company, Inc.
Proposal for Accounting and Review Services**

Firm Profile

Haynes Downard LLP is a firm of certified public accountants and management consultants with offices in Birmingham and Jasper, Alabama. The firm is a member of the American Institute of Certified Public Accountants and the Alabama Society of Certified Public Accountants. The firm is licensed by the Alabama State Board of Public Accountancy. The firm has 18 employees, 6 of which are licensed as certified public accountants by the State of Alabama.

Our firm undergoes a peer review on a three year cycle, which is conducted by an independent third party firm. Our Firm is committed to adhering to documented quality control standards. As such, we devote time to internal quality reviews conducted on a random selection basis in years in which the firm is not subjected to an outside quality control review. The firm has experienced no enforcement actions and there have been no charges of substandard audit or review engagements.

We are a full-service public accounting firm in that we offer services in the areas of auditing, accounting, tax, regulatory compliance, management consulting, and litigation support services. We are unique in that we provide a myriad of services to various non-profit and governmental organizations within our region.

In order to perform quality and efficient opinion engagements, our professionals obtain extensive training in order to keep up to date with the ever changing compliance requirements and ensure our professionals possess the highest technical knowledge.

Review Approach

Assign Experienced Personnel

The personnel we will assign to this engagement have significant experience in conducting reviews of various types of organizations. It is our firm's policy to assign the same key staff members to an engagement each year in order to provide a greater understanding of the client's structure and environment and to enhance communication with your Staff and Board.

Scope of Review

The objective of our engagement is to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's *Code of Professional Conduct*, including the ethical principles of integrity, objectivity, professional competence, and due care.

A review engagement includes primarily applying analytical procedures to your financial data and making inquiries of management. A review engagement is substantially less in scope than an audit engagement, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review engagement does not contemplate obtaining an understanding of the Company's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents; or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion regarding the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Company or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our review procedures that indicates fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our review procedures regarding noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies or material weaknesses in your internal control as part of this engagement.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our responsibility is to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARS:

- 1) The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements.
- 2) The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America.
- 3) The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.¹
- 4) The prevention and detection of fraud.
- 5) To ensure that the Company complies with the laws and regulations applicable to its activities.
- 6) The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement.
- 7) To provide us with—
 - access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - additional information that we may request from you for the purpose of the review engagement.
 - unrestricted access to persons within the Company of whom we determine it necessary to make inquiries.

Scope of the Engagement

We will perform a review of the financial statements of Old North State Water Company, Inc. for the year ended December 31, 2022. Assuming anticipated cooperation from your staff we anticipate that our review procedures will be completed and our report issued by July 15, 2023.

Fees

Fees for the review of the financial statements will be billed at our standard hourly rate which are estimated to be \$200 per hour based on anticipated staffing.

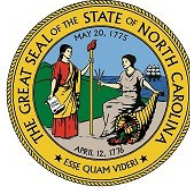
The Engagement Team

Max Campbell, CPA – engagement partner

Max received a B.S. degree in accounting from the University of Alabama in Huntsville, a Masters degree in accounting from the University of Alabama at Birmingham, and further graduate level work at Auburn University. Max has been in the accounting profession for twenty nine years, with six years as an accountant in industry and twenty three years in public accounting. He is a member of the American Institute of Certified Public Accountants and the Alabama Society of CPAs. Max will conduct the review and provide supervision of staff involved.

Lewis Jones, CPA – managing partner

Lewis received a B.S. degree in accounting from the University of Alabama at Birmingham. Lewis has been practicing public accounting since 1984 and has experience in multiple industries. He is a member of the American Institute of Certified Public Accountants and the Alabama Society of CPAs. Lewis has made numerous presentations to various industry groups on such topics as reading, understanding, and interpreting financial statements, budgeting, board responsibilities, and internal controls for limited accounting staff environments.



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

September 5, 2023

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

Re: Docket No. W-1300, Sub 60 – Public Staff Response to Paragraph 5 of the Commission’s Order Granting Motion of Old North State Water Company, Inc. for Extension of Time to File Report and Rescheduling Hearing

Dear Ms. Dunston:

On January 11, 2023, Old North State Water Company, Inc. (ONSWC) filed Old North State Water Company, Inc.’s Confidential Response to Public Staff Report filed on December 12, 2022 (January 11th Filing). According to page 8 of the January 11th Filing, ONSWC stated that “Mr. McDonald plans to hire an outside firm in the Spring of 2023 to thoroughly review the accounting needs and processes and to perform an accounting review of ONSWC and its financial statements.” Later, on June 12, 2023, the Commission issued its Order Granting Motion of Old North State Water Company, Inc. for Extension of Time to File Report and Rescheduling Hearing (June 2023 Order) directing ONSWC to: “file the outside accounting review with the Commission no later than August 4, 2023.” The Commission directed the Public Staff to: “notify the Commission of any updates or modifications to the recommendations made in [the Public Staff’s Report on ONSWC’s Compliance with Laws and Recapitalization Plan], specifically including, but not limited to, its response to ONSWC’s proposal for Integra to convert some of its secured debt to an equity interest in ONSWC” no later than September 5, 2023. The Public Staff is submitting this letter in response to that directive.

The Public Staff reviewed the filing ONSWC made on August 4, 2023, submitting the outside accounting review (August 4th Filing) as well as the January 11th Filing. The recommendations the Public Staff made in the Public Staff Report

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

on ONSWC's Compliance with Laws and Recapitalization Plan (PS December 2022 Report) filed on December 12, 2022, that have not already been addressed by the Commission remain unchanged. In short, the Public Staff continues to recommend the Commission do the following: (1) consider declaring John McDonald a *de facto* public utility based on his ownership interest in ONSWC; (2) order a management audit pursuant to North Carolina Gen. Stat. § 62-37(b); (3) order a full forensic audit of ONSWC's books and records; and (4) order a full forensic audit of the financial statements of Integra Water, LLC, and its subsidiaries (specifically, Integra Water Madison County, LLC; Integra Water Creola, LLC; and Integra Water Vinemont, LLC).

The Public Staff continues to have concerns about ONSWC's accounting function and is conducting discovery in an attempt to better understand the basis for the information shown in the financial statements included in the August 4th filing. The outside accounting review completed by Haynes Downward LLP does not provide a full and complete assessment of ONSWC's accounting needs and processes and its financial statements. According to the scope of work set forth in the proposal provided by Haynes Downward LLP and filed by ONSWC in this docket on June 7, 2023, the review does not involve obtaining an understanding of ONSWC's internal controls; assessing fraud risk; testing accounting records by obtaining sufficient and appropriate audit evidence through inspection, observation, confirmation, or examination of source documents; or expressing an opinion regarding ONSWC's financial statements. In fact, the proposal states that the firm "will not express an opinion regarding the financial statements" and its work "cannot be relied upon to identify or disclose financial statement misstatement." Equally important, the evaluation criteria used to complete the limited examination is based on Generally Accepted Accounting Principles (GAAP) without any consideration for regulatory and ratemaking accounting concepts. Commission Rules R7-35 and R10-21 require water and wastewater utilities, respectively, to maintain books and records in accordance with the Uniform System of Accounts. A review should consider ONSWC's accounting capabilities through that lens as well in order to provide a comprehensive assessment.

In addition, in the Public Staff's view, the accounting review completed by Haynes Downard LLP does not satisfy the Commission's request because the scope of the review does not align with the Commission's instructions set forth in the June 2023 Order. Further, the review does not provide in-depth coverage of the transactions between ONSWC and Integra Water, LLC; Integra Water Madison County, LLC; Integra Water Creola, LLC; Integra Water Vinemont, LLC; John McDonald; Chatham North Holdings, Inc.; and ONSWC-Chatham North, LLC. Specific discussion of those transactions is limited to Note 5 to the financial statements included in the August 4th filing. This coverage is of limited value because the information contained therein is already known.

Ms. A. Shonta Dunston, Chief Clerk

Page 3

September 5, 2023

Lastly, the Public Staff continues to have concerns about ONSWC's capital structure because ONSWC is highly leveraged. ONSWC's offer to convert a portion of the long-term debt presently owed to Integra Water, LLC (or an Integra Water affiliate) does not ameliorate those concerns because there is presently nothing to compel Mr. McDonald to follow through on that commitment (absent a Commission order requiring him to do so) facts and circumstances ONSWC discussed in CONFIDENTIAL Paragraph 8b of the January 11th Filing remain unresolved when the loans mature in December 2024. Those concerns, notwithstanding, the Public Staff intends to explore this issue in more detail in the upcoming hearing scheduled to convene on October 2, 2023, at 2:00 p.m. before completely discounting this as a viable option.

If you have any questions, please do not hesitate to reach out to me.

Sincerely,
/s/ Reita D. Coxton
Staff Attorney

OFFICIAL COPY

Sept 19 2023

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:)	ONSWC PUBLIC REDACTED MOTION FOR APPROVAL OF ASSET TRANSFER
Application by Old North State)	
Water Company, Inc., 3212 6 th)	
Avenue South, Suite 200,)	
Birmingham, Alabama 35222, for)	
Authority to Adjust and Increase)	
Rates for Water Utility Service in All)	
of Its Serve Areas in North Carolina)	

NOW COMES Old North State Water Company, Inc. (ONSWC or Company) through the undersigned counsel and requests that the North Carolina Utilities Commission (Commission) issue an order approving transfer of the ownership of the wastewater force main serving Briar Chapel, and related property, from ONSWC-Chatham North to ONSWC. In support of this public redacted Motion, ONSWC shows the following.

1. On May 19, 2023, the Commission issued its Order Requiring Further Reporting and Directing Old North State Water Company, Inc. to Refrain from Certain Actions (May 19 Order) in the above-captioned docket. The recital of evidence in the May 19 Order includes the statement that:

ONSWC loaned CNH [previously defined as Chatham North Holdings, Inc.] \$5,000,000 in December of 2020 with a maturity date of December of 2024. In connection with that loan, CNH granted ONSWC a security interest in all of its assets and signed a promissory note. ONSWC-C[N]¹ [previously defined as ONSWC-

¹ The Commission's order inadvertently used the term "ONSWC-CH" in the quoted language instead of the previously defined "ONSWC-CN."

Chatham North, LLC] provided an unconditional guarantee. Mr. McDonald executed the loan agreement on behalf of both ONSWC and CNH. CNH has not repaid any portion of the loan.

2. CNH is the manager of ONSWC-CN. ONSWC-CN and CNH have no ongoing business activity and no revenues.

3. CNH and ONSWC-CN are not public utilities and are not affiliates of ONSWC under Chapter 62 of the North Carolina General Statutes. The Commission has no jurisdiction over these entities.

4. The \$5,000,000 loan from ONSWC to CNH related to construction of a force main that is used to carry effluent from the commercial customers of the SD East and SD West Commercial Areas of Briar Chapel, in addition to wastewater from Lift Station A, old force main bypass, to the wastewater treatment facility located in the Briar Chapel subdivision that is operated by ONSWC. See Attachments 1 and 2 for maps showing the force main location and the service area. It also related to construction of a pipeline for water reclamation that is not being used. Both the force main and the reclamation pipeline are owned by ONSWC-CN.

5. ONSWC has been maintaining and using this force main under an informal agreement approved by John McDonald, on behalf² of ONSWC, ONSWC-CN, and CNH, but ONSWC has no formal written rights to continued use of the force main at this time.

6. ONSWC has the authority to provide sewer service to the customers

² Mr. McDonald is the President and sole director of ONSWC and of CNH. CNH is the Managing Member of ONSWC-CN. Mr. McDonald therefore has the authority to act on behalf of all parties to this informal arrangement.

in the SD East and SD West Commercial Areas of Briar Chapel and to residential customers in the Briar Chapel subdivision pursuant to an order issued by the Commission issued on April 20, 2015, approving transfer of the water and sewer Certificate of Public Convenience and Necessity from Briar Chapel Utilities, LLC, to ONSWC in Docket Nos. W-1300, Sub 9 and W-1230, Sub 1.

7. It would be preferable for ONSWC to secure the formal ownership right to the force main used to serve its sewer customers rather than continue to rely on an informal agreement.

8. ONSWC has valued the force main and related property at

██████████. Attachment 3 is confidential.

9. ONSWC has entered into an Asset Purchase Agreement with ONSWC-CN under which ownership of the force main and related property would be transferred from ONSWC-CN to ONSWC in exchange for satisfaction of ██████████ of the \$5,000,000 owed by its parent company CNH to ONSWC. Attachment 4 is confidential.

10. The May 19 Order, in ordering paragraph 5, provides “[t]hat ONSWC shall take no action with respect to the loan to CNH and the guarantee from ONSWC-CN without submitting such action to the Commission for review and approval”.

11. ONSWC-CN and CNH have no assets of current value to ONSWC except the force main and related property that are described in Attachment 3. ONSWC-CN and CNH have no sources of revenue. Therefore, the force main and

related property are the only likely sources of even partial satisfaction of the debt that CNH owes to ONSWC.

12. The proposed transfer of the force main and related property from ONSWC-CN to ONSWC in exchange for satisfaction of [REDACTED] of the \$5,000,000 owed by CNH to ONSWC is in the public interest:

- The transfer will remove most of a paper asset (the loan) on the ONSWC books and replace it with physical property that is used and useful in providing utility service to ONSWC customers.
- The transfer will formally provide ONSWC with the rights to assets needed to provide utility service, rather than rely on an informal agreement to use those assets.
- The attached valuation for the assets in the proposed transfer is fair and reasonable.

13. CNH was created with the intent that it would take ownership of the Briar Chapel and Fearington Village utilities, in anticipation that those two utilities would be combined. CNH through ONSWC-CN constructed the pipelines to transfer wastewater from Fearington Village to Briar Chapel, and clean effluent from Briar Chapel to Fearington Village's discharge point.

14. Due to numerous operational and pipeline failures in Briar Chapel by the then contract operator, the residents of Briar Chapel demanded the interconnection project between Briar Chapel and Fearington Village not be approved. Once the interconnection project became non-viable due to public opposition, the need for the reclaimed line was obviated and there was no reason to transfer Briar Chapel into ONSWC-CN and CNH. Additionally, the SD East lift station had to be completed to serve the SD East and SD West commercial areas of Briar Chapel, as the apartments, gas station and Food Lion were already under

construction or were breaking ground shortly. The logical path was to complete the force main and related lift stations for the use of ONSWC.

15. Any remaining loan debt which cannot be repaid will likely be written off at some point in the future.

WHEREFORE, Old North State Water Company, Inc., requests that the Commission issue an order approving the transaction described in Attachment 4 and the valuation of the assets, as shown in Attachment 3, for purposes of vesting ONSWC with ownership of assets it uses to provide utility service and to determine their rate base value for ONSWC.

This the 25th day of September, 2023.

FOX ROTHSCHILD LLP

/s/ David T. Drooz

David T. Drooz

North Carolina State Bar No. 10310

Fox Rothschild, LLC

434 Fayetteville Street

Suite 2800

Raleigh, North Carolina 27601

Telephone: 919.719.1258

ddrooz@foxrothschild.com

Attorney for Old North State Water Company,
Inc.

VERIFICATION

John McDonald, being duly sworn, deposes and says: that he is the President of Old North State Water Company, Inc., that he is familiar with the facts set out in the attached ONSWC MOTION FOR APPROVAL OF ASSET TRANSFER; and that the same is true to the best of his knowledge.

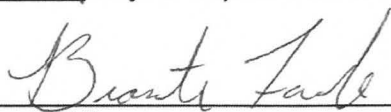


John McDonald

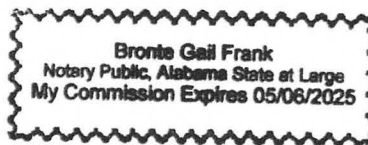
State of Alabama
County of Montgomery

Sworn to and subscribed before me this

the 22nd day of September 2023.



Notary Public



My Commission Expires: 05/06/2025

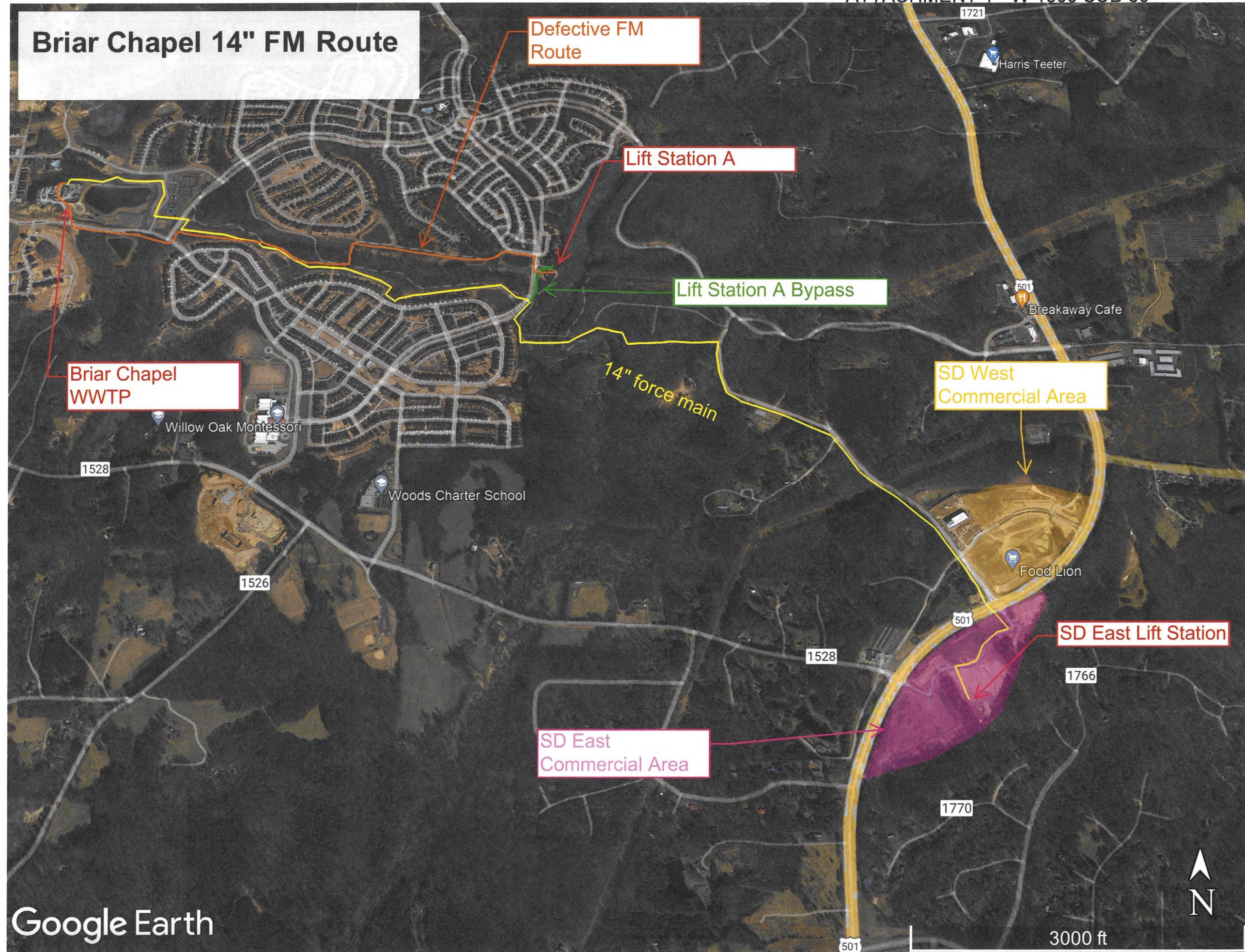
CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing ONSWC PUBLIC REDACTED MOTION FOR APPROVAL OF ASSET TRANSFER upon all parties of record in this proceeding by emailing the parties, or their counsel of record, an electronic copy or by causing a paper copy of the same to be hand-delivered or deposited in the United States Mail, postage prepaid, properly addressed to each.

This the 25th day of September, 2023.

Electronically Submitted
/s/ David Drooz

Briar Chapel 14" FM Route



Google Earth

BRIAR CHAPEL™

by
Newland COMMUNITIES

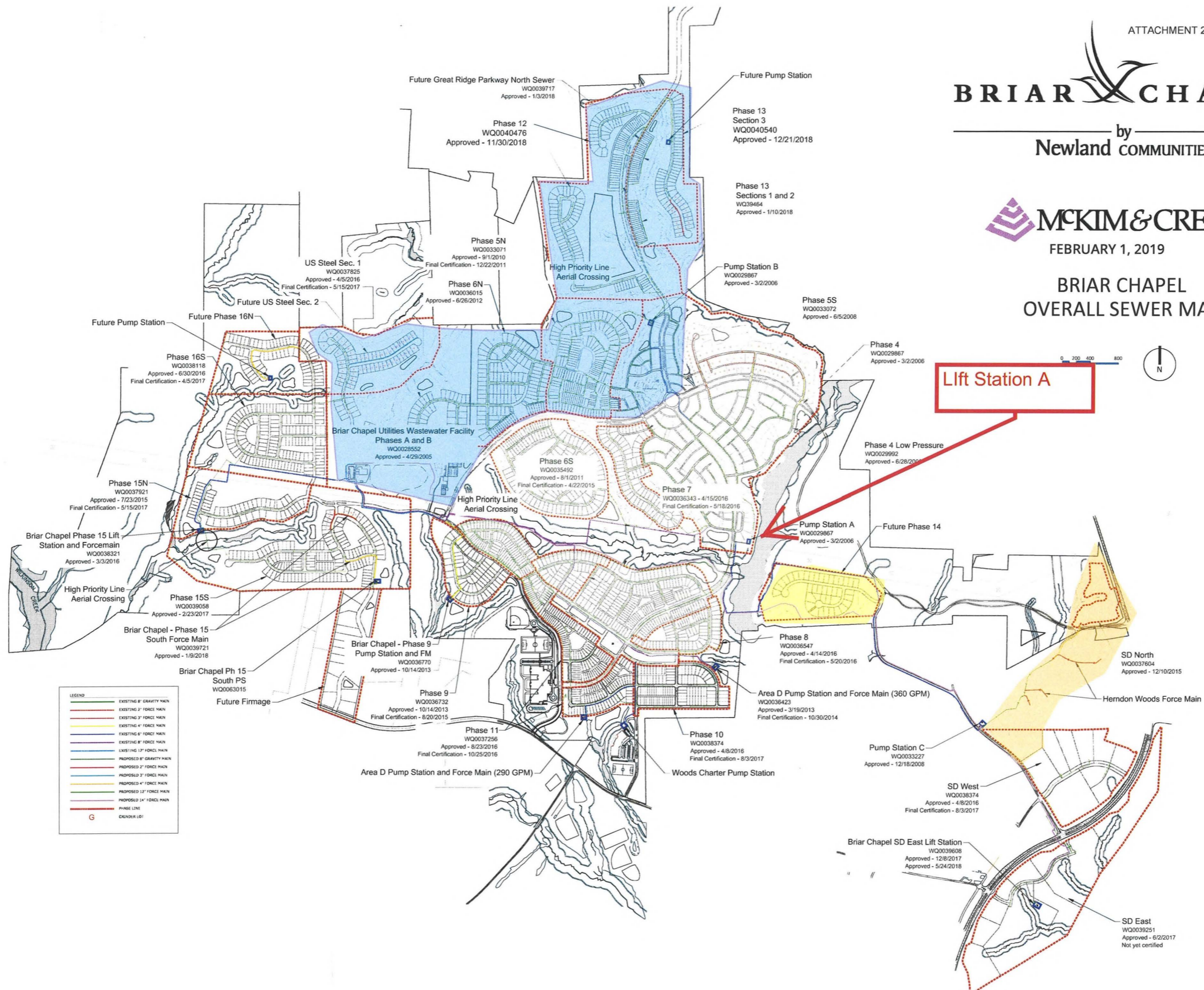


FEBRUARY 1, 2019

BRIAR CHAPEL OVERALL SEWER MAP

OFFICIAL COPY

Exp 1/5/2023



**Old North State Water Company, LLC
Docket No. W-1300, Sub 60
Public Staff Data Request No. 74
Date Requested: August 9, 2022
Date Due: August 19, 2022**

I/A

Public Staff Legal Contacts:

**Reita Coxton
Phone #: (919) 733-0970
Email: reita.coxton@psncuc.nc.gov**

**Gina Holt
Phone #: (919) 733-0971
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**Jessica Heironimus
Phone #: (919) 733-0969
Email: jessica.heironimus@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 Old North State Water Company, LLC (ONSWC or the Company) by the Public Staff in the above-captioned proceeding.

Topic: Chatham North Holdings, Inc. and ONSWC-Chatham North, LLC

1. Please provide organizing documents for Chatham North Holdings, Inc. (CNH) and ONSWC-Chatham North, LLC (ONSWC-CN).
2. Please list the owner(s) of CNH and ONSWC-CN.
3. Please provide financial statements (including Balance Sheets, Income Statements, and Statements of Cash Flow) for CNH and ONSWC-CN for the following periods:
 - a. The calendar year ending on December 31, 2020;
 - b. The calendar year ending on December 31, 2021; and
 - c. The six month period ending on June 30, 2022.
4. Please describe the current operational status of CNH and ONSWC-CN.
5. Please describe how ONSWC is connected to CNH and ONSWC-CN.

6. Please provide copies of all contracts between any combination of the following entities: CNH, ONSWC-CN, and ONSWC.
7. Please describe Michael Myers's direct and indirect past, present, and expected future involvement with CNH and ONSWC-CN.
8. Please answer the following questions based on the content of the attached email.
 - a. Please identify the preferred stockholder.
 - b. What consideration did Integra Water, LLC and Two River Holdings, LLC contribute in exchange for the 5,000 common shares of CNH?
 - c. Please discuss why ONSWC is the ultimate beneficiary of the \$5 million stockholder's investment.
 - d. Please provide copies of all contracts related to the Briar Chapel/Fearrington Project that any of the following entities entered into: CNH, ONSWC-CN, and ONSWC

From: [Kemerait, Karen](#)
To: [Grantmyre, William](#); [Coxton, Reita D](#); [Magarira, Munashe](#)
Cc: [Drooz, David T.](#); [John McDonald](#)
Subject: [External] Old North State Water Company, LLC-Chatham North Holdings, Inc. Loan
Date: Thursday, October 14, 2021 5:50:33 PM

CAUTION: External email. Do not click links or open attachments unless you verify. Send all suspicious email as an attachment to [Report Spam](#).

Hi Bill, Reita, and Munashe,

Old North State Water Company, LLC (“ONSWC”) loaned \$5,000,000 to Chatham North Holdings, Inc. (“CNH”) in December, 2020 as part of a series of intercompany transactions by affiliated entities. The purpose of the loan was to facilitate and document the buyout by CNH of its preferred stockholder, an unaffiliated third-party investor. The preferred stockholder had invested \$5,000,000 in capital (through a special purpose entity that it controlled) into the Briar Chapel system, along with the proposed interconnection of the Briar Chapel and Fearrington systems (“Briar Chapel/Fearrington Project”), in November, 2018. In exchange for its investment, the preferred stockholder received 5,000 preferred shares of stock in CNH. CNH issued 5,000 common shares to Integra Water and Two River Holdings (owned by Michael Myers), of which Integra Water owns 95% of the shares and Two Rivers Holdings owns 5% of the shares. Shortly after CNH’s receipt, the capital invested by the preferred stockholder was used by CNH, via a newly created wholly-owned subsidiary (ONSWC-Chatham North, LLC), to fund the work in the Briar Chapel/Fearrington Project in accordance with a transfer application that was subsequently filed with the Commission.

At the time of the preferred stockholder’s investment, the understanding was that the funds it invested would be utilized in the Briar Chapel/Fearrington Project. When that plan did not materialize (following ONSWC’s withdrawal of the transfer application), the preferred stockholder ultimately requested that it be repaid the \$5,000,000 that it had invested in the Briar Chapel/Fearrington Project. To accommodate that request, and to relieve ONSWC from additional high cost dividend obligations (the effective capital cost was about 11%) as well as other preferred stockholder preferences, Integra Water agreed to fund the buyout through a loan to ONSWC, which in turn loaned the money to CNH. As noted above, ONSWC had been the ultimate beneficiary of the preferred stockholder’s investment.

The principal effect of changing the \$5,000,000 equity from the preferred stockholder into debt is that the capital cost for ONSWC went from 11% to 6%.

We look forward to discussing this with you in more detail during the meeting tomorrow morning.

Best regards, Karen

Karen Kemerait

Partner

Fox Rothschild LLP

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