

1 PLACE: Dobbs Building, Raleigh, North Carolina
2 DATE: January 29, 2020
3 DOCKET NO.: W-1274, Sub 7
4 TIME IN SESSION: 10:00 a.m. to 12:45 p.m.
5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
6 Chair Charlotte A. Mitchell
7 Commissioner Lyons Gray
8 Commissioner Daniel G. Clodfelter
9 Commissioner Kimberly W. Duffley
10 Commissioner Jeffrey A. Hughes
11 Commissioner Floyd B. McKissick, Jr.
12

13 IN THE MATTER OF:
14 Application by Lake Junaluska Assembly, Inc.,
15 19 Sleepy Hollow Drive,
16 Waynesville, North Carolina 28785,
17 for a Certificate of Public Convenience and Necessity
18 and Approval of Rates for Water and Sewer Utility
19 Service in Lake Junaluska Assembly Service Area
20 in Haywood County, North Carolina,
21 and for Approval of Rates
22

23 VOLUME 2
24

NORTH CAROLINA UTILITIES COMMISSION

1 A P P E A R A N C E S:

2 FOR LAKE JUNALUSKA ASSEMBLY, INC.:

3 Daniel C. Higgins, Esq.

4 Burns, Day & Presnell, P.A.

5 Post Office Box 10867

6 Raleigh, North Carolina 27605

7
8 FOR TIMOTHY PHELAN, INTERVENOR:

9 Timothy Phelan, Pro se

10 Post Office Box 598

11 Lake Junaluska, North Carolina 28745

12
13 FOR JOHN DAVIS, INTERVENOR:

14 No one present

15
16 FOR THE USING AND CONSUMING PUBLIC:

17 William E. Grantmyre, Esq.

18 Public Staff - North Carolina Utilities Commission

19 4326 Mail Service Center

20 Raleigh, North Carolina 27699-4300

1	T A B L E O F C O N T E N T S	
2	E X A M I N A T I O N S	
3	PREFILED DIRECT TESTIMONY OF JOHN L. DAVIS.....	10
4		
5	JACK CARLISLE, JERRY H. TWEED and	
6	SENDY CRENSHAW, as a Panel	
7	Direct Examination by Mr. Higgins.....	17
8	Carlisle Prefiled Direct and Rebuttal Testimony.	18
9	Tweed Prefiled Direct Testimony.....	38
10	Crenshaw Prefiled Direct Testimony.....	45
11	Cross Examination by Mr. Phelan.....	55
12	Redirect Examination by Mr. Higgins.....	87
13	Examination by Commissioner Hughes.....	88
14	Examination by Commissioner by Chair Mitchell...	92
15	Examination by Commissioner Clodfelter.....	93
16	Examination by Commissioner McKissick.....	96
17	Examination by Commissioner Gray.....	100
18	Examination by Commissioner Brown-Bland.....	100
19	Examination by Mr. Higgins.....	101
20	Examination by Commissioner Brown-Bland.....	102
21		
22	TIMOTHY F. PHELAN	
23	Examination by Commissioner Brown-Bland.....	107
24	Prefiled Direct Testimony.....	109

1	E X A M I N A T I O N S (Cont'd)	
2	Cross Examination by Mr. Higgins.....	109
3	Examination by Commissioner Clodfelter.....	119
4		
5	JUNE CHIU and GINA Y. CASSELBERRY,	
6	as a Panel	
7	Direct Examination by Mr. Grantmyre.....	127
8	Casselberry Prefiled Direct and Supplemental	
9	Testimony.....	129
10	Chiu Prefiled Direct Testimony.....	144
11	Cross Examination by Mr. Higgins.....	156
12	Examination by Commissioner Hughes.....	159
13	Examination by Commissioner McKissick.....	160
14	Examination by Commissioner Brown-Bland.....	162
15		
16	E X H I B I T S	
17	IDENTIFIED/ADMITTED	
18	Davis Exhibit A.....	10/10
19	Carlisle Rebuttal Exhibit 1.....	18/106
20	Application, Amended Application and	
21	Attachments.....	/106
22	Phelan Exhibits 1A, 1B, 2A, 3A and 4A...	109/109
23	Casselberry Exhibits 1 - 11.....	128/165
24	Chiu Exhibit 1, Schedules 1(a) - 4(b)...	144/165

P R O C E E D I N G S

COMMISSIONER BROWN-BLAND: Good morning.

Let's come to order and go on the record. I'm Commissioner ToNola D. Brown-Bland, the Presiding Commissioner for this hearing. And with me this morning are the other members of the Utilities Commission, Chair Charlotte A. Mitchell; Commissioners Lyons Gray, Daniel G. Clodfelter, Kimberly W. Duffley, Jeffrey A. Hughes, and Floyd B. McKissick, Jr.

I now call for hearing Docket Number W-1274, Sub 7, which is in the Matter of an Application by Lake Junaluska Assembly, Incorporated, hereafter LJA, for a Certificate of Public Convenience and Necessity and Approval of Rates for Water and Sewer Utility Service in LJA's Service Area in Haywood County, North Carolina.

On September 28th, 2018, LJA filed its Application for a Certificate of Public Convenience and Necessity, hereafter CPCN, to provide water and sewer utility service in Lake Junaluska Assembly service area in Haywood County, North Carolina, and for approval of rates.

On January 25th, 2019, LJA filed a request for interim authority to operate pursuant to

NORTH CAROLINA UTILITIES COMMISSION

1 Commission Rules R7-20 and R10-16 regarding
2 discontinuing service to customers which was granted
3 by Commission Order issued on February 13, 2019.

4 On August 12th, 2019, LJA amended its
5 Application and requested authority to pass through
6 the increased cost of purchased bulk sewer treatment
7 from the Town of Waynesville in the interim, pending
8 approval of the CPCN Application.

9 On September 23rd, 2019, the Commission
10 issued an Order approving pass through of purchased
11 bulk sewer service and requiring customer notice.

12 On October 9th, 2019, LJA filed its
13 Certificate of Service showing it provided notice to
14 customers.

15 On October 14th, 2019, the Commission issued
16 an Order Scheduling Hearings and Requiring Customer
17 Notice. The Order scheduled a public hearing for the
18 sole purpose of receiving testimony from the LJA
19 service area customers, which hearing was held on
20 Thursday, December 12th, 2019, at the Haywood County
21 Courthouse in Waynesville, North Carolina. The Order
22 also scheduled an evidentiary hearing for the purpose
23 of receiving expert testimony from LJA, the Public
24 Staff, and Intervenors, if any, for this date and

1 time, Wednesday, January 29th, 2020, in the Commission
2 Hearing Room in Raleigh, North Carolina.

3 The Public Staff's participation and
4 intervention is recognized pursuant to North Carolina
5 General Statute § 62-15(d) and Commission Rule
6 R1-19(e).

7 Timothy Phelan and John Davis filed Motions
8 to Intervene which were granted by separate Orders of
9 the Commission on November 22nd, 2019.

10 On November 5th, 2019, LJA filed its
11 Certificate of Service showing it had provided notice
12 of today's hearing or of the hearings.

13 And on December 9th, 2019, LJA filed the
14 direct testimony and exhibits of Jack Carlisle, Sendy
15 Crenshaw, and Jerry Tweed.

16 The intervening party John L. Davis filed
17 testimony on December 18th, 2019.

18 And the Public Staff filed an Affidavit of
19 Calvin C. Craig, III, and testimony and exhibits of
20 Gina Y. Casselberry and June Chiu on December 20th,
21 2019.

22 On December 23rd, 2019, intervening party
23 Timothy F. Phelan filed testimony and exhibits.

24 On January 6th, 2020, the rebuttal testimony

1 of Jack Carlisle was filed on behalf of LJA.

2 And subsequently on January 23rd, 2020, the
3 Public Staff filed the supplemental testimony of Gina
4 Y. Casselberry.

5 Pursuant to the requirements of the State
6 Government Ethics Act, I remind the members of the
7 Commission of our duty to avoid conflicts of interest,
8 and inquire at this time as to whether any
9 Commissioner has any known conflict of interest with
10 respect to this docket?

11 (No response)

12 The record will reflect that no conflicts
13 were identified.

14 And I now call upon counsel for the parties
15 to announce their appearance for the record as well as
16 the appearance -- the intervening parties are also
17 invited to state their appearances for the record, but
18 I will start with the Applicant.

19 MR. HIGGINS: Madam Commissioner and
20 Commissioners, good morning. I'm Dan Higgins. I'm
21 with Burns, Day and Presnell here in Raleigh. I'm
22 appearing on behalf of Lake Junaluska Assembly,
23 Incorporated.

24 COMMISSIONER BROWN-BLAND: Good morning,

1 Mr. Higgins. Thank you.

2 MR. PHELAN: Good morning. My name is Tim
3 Phelan. I'm here as an intervenor. I live at Lake
4 Junaluska. Thank you for your time this morning.

5 COMMISSIONER BROWN-BLAND: Thank you,
6 Mr. Phelan. We're glad to have you here.

7 MR. GRANTMYRE: Good morning. Bill
8 Grantmyre, Staff Attorney, Public Staff, representing
9 the Using and Consuming Public. With me today is
10 Public Staff Engineer Gina Casselberry, Public Staff
11 Accountant June Chiu, and Public Staff Economist
12 Calvin Craig, III, who filed an Affidavit, but he's
13 here for any questions that the Commissioner or
14 anybody else wants to ask him.

15 COMMISSIONER BROWN-BLAND: The record will
16 reflect that to my knowledge notice was not given in
17 accordance with the Rule for his appearance this
18 morning, Mr. Craig's appearance, however, at the
19 request of the Commission the Public Staff has been
20 kind enough to make him available, so we thank you for
21 that.

22 Are there any preliminary matters that need
23 to be addressed?

24 MR. GRANTMYRE: One matter, the Intervenor,

1 Mr. Davis, did not come because of some medical
2 emergencies. And the Public Staff would ask that his
3 testimony be copied into the record and entered into
4 evidence as if given orally. We're not going to
5 present any summary of it or deal with it further. I
6 don't think the Company objects to that.

7 MR. HIGGINS: No objection to that.

8 COMMISSIONER BROWN-BLAND: I'll accept that
9 as a motion at the current time and the testimony, the
10 prefiled testimony of the intervening party John L.
11 Davis will be received into evidence and treated as if
12 given orally from the witness stand. His exhibit will
13 be labeled for the purposes of this hearing as Exhibit
14 A and it will also be received into evidence at this
15 time.

16 (WHEREUPON, Davis Exhibit A is
17 marked for identification as
18 prefiled and received into
19 evidence.)

20 (WHEREUPON, the prefiled direct
21 testimony of John L. Davis is
22 copied into the record as if given
23 orally from the stand.)
24

LAKE JUNALUSKA ASSEMBLY, INC. DOCKET NO. W-1274, SUB 7

TESTIMONY OF JOHN L. DAVIS

December 18, 2019

1 Q1. PLEASE STATE FOR THE RECORD YOUR NAME AND ADDRESS.

2 A1. My name is John L. Davis. I reside at 6 Bomac Road, Lake Junaluska, North Carolina,
3 28745.

4 Q2. BRIEFLY STATE YOUR EDUCATION AND EXPERIENCE.

5 A2. I hold a bachelor of science in civil engineering degree from the University of Kentucky
6 and a master of science degree in civil engineering from Louisiana State University. I'm
7 a registered professional engineer in both civil and environmental disciplines, currently
8 inactive. I retired as director of a multi-billion dollar state office. I have decades of
9 experience in the financing, design and construction of infrastructure, and have worked
10 closely with government and civic leaders at all levels, including state legislators and two
11 governors. I was an elected member of the Junaluska Assembly Community Council
12 from 2016-2018. I did not seek re-election in 2018.

13 Q3. WHY DID YOU REQUEST TO BE AN INTERVENER FOR THIS DOCKET?

14 A3. First, I want to thank the Commission for granting my request to be designated an
15 intervener.

16 Lake Junaluska Assembly Inc. (LJA) is a nonprofit, non-stock corporation that manages,
17 owns, develops, and sells real property in Lake Junaluska Assembly, an unincorporated
18 area in Haywood County. LJA is a licensed North Carolina real estate brokerage firm.
19 LJA is governed by a Board of Trustees, the Trustees being appointed either by virtue of
20 positions in other organizations, or nominated and elected from within the LJA Board of
21 Trustees (most selected this way). LJA governs the Lake Junaluska Assembly area,
22 including by ownership and operation of the water and sewer systems. Lot/unit owners
23 in Lake Junaluska Assembly do not become members of LJA by virtue of lot/unit
24 ownership. The previously mentioned Community Council, while being a community
25 elected body, is advisory only, has no legal or contractual authority over LJA or in
26 governance of Lake Junaluska Assembly, and is not a legal entity.

27 Given these conditions, as a property owner with no elected representation in the
28 governance of the immediate area in which I live, I sought to participate in the
29 proceedings before the Commission so that I could perhaps have some meaningful input
30 on something that directly impacts me.

31 Q4. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION CONCERNING THIS
32 DOCKET?

A4. Based on my review of LJA's partial response to my data request, I support LJA being granted a Certificate of Public Convenience and Necessity ("CPCN") with its current rates, and request the Commission withhold approving the proposed rates at this time.

Q5. WHY DO YOU REQUEST THE COMMISSION WITHOLD APPROVING THE LJA PROPOSED RATES AT THIS TIME?

A5. My reasons can be grouped into four areas: (a) Inequitable Rate Structure, (b) Capital Plan, (c) Operations Budget, and (d) Incomplete Responses to My Data Request.

(a) Rate Structure: My comments herein relate to water, only, since the sewer rate structure essentially reflects the water rate structure. According to AWWA M1, a goal of a rate structure should be "that each customer class pays the costs allocated to the class and thus cross-class subsidies are avoided." From data provided by LJA in response to my data request, it appears that the LJA proposed rate structure is not equitable between residential and commercial customers. I conclude this because the percentage of revenue paid in by the residential customers for the volume of water consumed is significantly higher than that of the commercial (see Table 1). Under the LJA proposed rate structure, it appears the residential customers pay in approximately 74% of the revenue while consuming only 60% of the water. I believe comparing percent revenue generated by customer class versus percent volume consumed is an appropriate way to measure fairness since (a) the physical plant is already paid for, (b) there is no debt, depreciation or return on unrecovered investment, and (c) operating maintenance and electrical costs are minimal. In other words, distribution of costs allocated to the various cost components to customer class according to the respective responsibility of the customer classes for each of the component costs, can be considered uniform.

The LJA proposed rate structure is mostly a uniform rate (single block) with varying base charges. According to AWWA M1, uniform rate structures might be appropriate when "Customer groups or service classes exhibit similarities in usage (demand) characteristics." I don't think this is the case for LJA. For this reason, I'm not sure an equitable rate structure can be accomplished with a single block structure. See Table 2 for an example of an increasing block structure that would get closer to accomplishing the equity goal while providing essentially the same revenue. I believe that in the past, LJA has used a decreasing block rate structure, so having a rate structure different than a uniform rate (single block) is not without precedent.

I ask that the Commission require LJA propose a rate structure that is equitable across customer classes. I do agree with the LJA proposed use of a capital surcharge, and that the surcharge be structured based on meter size factors.

(b) Capital Plan: I'm not sure what 10-year capital plan is being referenced. If it is the Cavanaugh plan, then there has been significant work done outside the plan (including a large, phased meter replacement project which was considered and rejected in the

71 Cavanaugh plan). Further, according to the LJA answer to my data request, a buy/lease,
72 new/used financial analysis for the \$180,000 vacuum truck in the plan submitted to
73 NCUC has not been performed, "An economic analysis for the life cost of a replacement
74 vacuum water truck will be done in the fiscal year when the truck is to be acquired,
75 based on funding available at that time." Perhaps a better justified and defined 5-year
76 capital program would be in order.

77 I ask that the Commission require LJA propose a capital plan/program that is
78 unambiguous and where each line item therein has been formally justified.

79 (c) Operating Budget: The operating budget has increased dramatically. Back in 2012,
80 LJA prepared a very thorough study justifying the then doubling of rates to pursue a
81 capital improvement plan based on a \$150,000 operating budget (not considering
82 purchased water/sewer treatment to Waynesville) while providing at least \$200,000
83 per year for capital improvements (total for water and sewer). By 2016, operations had
84 increased to \$226,361 (51% increase, for perspective CPI increased 5% over those
85 years). The 2018 operating budget submitted in the Application to NCUC is \$362,240 (a
86 60% increase from 2016 and 141% increase from 2012). The audit submitted with the
87 Application is for LJA at-large (including its commercial activities), the water/sewer
88 program being part of a single line item for revenues and expenditures for "residential
89 services" (a/k/a Assembly Public Works), designated as unrestricted revenues and
90 expenditures, no less. Also, the 2018 budget on proposed rates submitted in the
91 Application to NCUC does not include a reserve line item. According to the LJA answer
92 to my data request, LJA considers the capital budget to be the reserve. This philosophy
93 was probably contributory to why so much of the funds supposed to go to capital in the
94 2013 rate increase ended up being spent on operations.

95 I ask that the Commission thoroughly review the LJA water and sewer operations
96 budget to determine appropriateness.

97 (d) Incomplete Responses to My Data Request: As an intervener, I made a data request
98 to LJA and received some of the information requested. See Exhibit A for my replies to
99 the LJA responses to this data request.

100 I ask that the Commission receive and evaluate the information I requested, and was
101 denied, prior to approving a rate structure.

102 Q6. DOES THIS CONCLUDE YOUR TESTIMONY?

103 A6. Yes.

Table 1. LJA Proposed Rate Structure, Water Used vs. Revenue Paid by Customer Class (not including capital surcharge)

		<i>Percent of total volume metered</i>	<i>Percent revenue</i>
W01	3/4" residential	56%	67%
W08	3/4" residential (water only; Holston)	3%	4%
W09	3/4" irrigation/landsc water only resid	1%	3%
W00	3/4" commercial	12%	5%
W02	1" commercial	4%	4%
W03	2" commercial	8%	5%
W04	3" commercial	3%	2%
W05	4" commercial	11%	8%
W06	4" gallons commercial	1%	2%
W07	1" irrigation/comm water only)	0%	0%

**Table 2. Example Increasing Block Structure to Improve Equity
between LJA Residential and Commercial Customers
(Test Year = 2017)**

		USAGE RATE	BASE CHARGE	% OF TOTAL VOLUME USAGE	% OF TOTAL REVENUE
W01	3/4" residential (1st 200 cf)	0.035	\$16.00	56%	60%
	3/4" residential (> 200 cf)	0.0555	\$16.00		
W08	3/4" residential (water only; Holston)(1st 400 c.f)	0.035	\$16.00	3%	3%
	3/4" residential (water only; Holston)(> 400 c.f)	0.0555			
W09	3/4" irrigation/landsc water only resid	0.075	\$16.00	1%	2%
W00	3/4" commercial (1st 600 cf)	0.035	\$16.00	12%	8%
	3/4" commercial (> 600 cf)	0.0555			
W02	1" commercial (first 700 cf)	0.035	\$100.00	4%	4%
	1" commercial (> 700 cf)	0.0555			
W03	2" commercial	0.035	\$250.00	8%	8%
W04	3" commercial	0.035	\$330.00	3%	2%
W05	4" commercial	0.035	\$550.00	11%	10%
W06	4" gallons commercial	0.035	\$550.00	1%	2%
W07	1" irrigation/comm water only)	0.075	\$16.00	0%	0%

1 COMMISSIONER BROWN-BLAND: Any other
2 preliminary matters?

3 MR. HIGGINS: Madam Commissioner, the only
4 other preliminary matter was I had filed a notice last
5 week proposing to present the three Lake Junaluska
6 Assembly witnesses as a panel. There has been no
7 objection and so I propose to proceed in that fashion.

8 COMMISSIONER BROWN-BLAND: And that is
9 acceptable to the Commission so you may do so when the
10 time comes.

11 MR. GRANTMYRE: Although the Public Staff
12 did not file notice, since the two Public Staff
13 witnesses testimony overlap we would like to present
14 Gina Casselberry and June Chiu as a panel and not
15 Mr. Craig, but he's available for any questions.

16 COMMISSIONER BROWN-BLAND: Thank you,
17 Mr. Grantmyre. Mr. Higgins, you may -- the case is
18 with you.

19 MR. HIGGINS: Thank you, Ma'am. Lake
20 Junaluska calls Jack Carlisle, Jerry Tweed and Ms.
21 Sendy Crenshaw to the stand, please.

22 MR. GRANTMYRE: I have an inquiry. Are you
23 going to do direct and rebuttal now or just direct?

24 MR. HIGGINS: I was going to do it all.

1 JACK CARLISLE, JERRY H. TWEED

2 and SENDY CRENSHAW;

3 having been duly sworn,

4 testified as follows:

5 COMMISSIONER BROWN-BLAND: You may be
6 seated.

7 DIRECT EXAMINATION BY MR. HIGGINS:

8 Q Mr. Carlisle, I'll start with you. State your
9 name for the record, please, sir.

10 A My name is Jack Carlisle.

11 Q And did you cause to be prepared testimony
12 consisting of 12 pages of -- direct testimony
13 consisting of 12 pages of written questions and
14 answers?

15 A Yes.

16 Q And did you cause to be prepared rebuttal
17 testimony consisting of six pages of written
18 questions and answers?

19 A Yes.

20 Q Do you have any changes or corrections to either
21 your direct or rebuttal testimony?

22 A No.

23 Q If I asked you the questions that are set forth
24 in your direct and rebuttal testimony today,

1 would your answers be the same as those that
2 appear in the written prefiled testimony?

3 A Yes.

4 MR. HIGGINS: At this time, Madam
5 Commissioner, I'd move the admission of Mr. Carlisle's
6 prefiled direct and rebuttal testimony. And there is
7 an exhibit to the rebuttal testimony as well.

8 COMMISSIONER BROWN-BLAND: That motion will
9 be allowed and the direct testimony and rebuttal
10 testimony that were prefiled by Mr. Carlisle will be
11 received into evidence and treated as if given orally
12 from the witness stand. And the exhibit will be
13 identified as it was when prefiled.

14 MR. HIGGINS: Thank you.

15 (WHEREUPON, Carlisle Rebuttal
16 Exhibit 1 is marked for
17 identification as prefiled.)
18 (WHEREUPON, the prefiled direct
19 and rebuttal testimony of JACK
20 CARLISLE is copied into the record
21 as if given orally from the
22 stand.)

23

24

**LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7**

**DIRECT TESTIMONY OF JACK CARLISLE
ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC.**

December 9, 2019

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS, AND
2 PRESENT POSITION.

3 A. My name is Jack Carlisle. My address is 201 Wesley Way, Waynesville, North
4 Carolina, 28785. Until I retired on September 27, 2019, I was employed by Lake
5 Junaluska Assembly, Incorporated (“LJA”) as Director of Assembly Public Works.
6 I have continued to work with LJA on a part-time basis as necessary to complete
7 the proceedings in this docket associated with LJA’s Application For a Certificate
8 of Public Convenience and Necessity and For Approval of Rates filed on September
9 28, 2018, pursuant to the Commission’s Order issued in Docket No. W-1274, Subs
10 5 and 6.

11 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE RELATING
12 TO WATER AND SEWER OPERATIONS AND RATE REGULATION.

13 A. I was employed as LJA’s Director of Assembly Public Works for five years. Prior
14 to that, I was employed by Hillsborough County Board of County Commissioners
15 in Tampa, FL for 27 years, of which 10 years was in various operational and staff
16 management roles in the Hillsborough County Water Department, a water, sewer
17 and reclaimed water enterprise with approximately 179,000 water, 171,000 sewer
18 and 18,000 reclaimed water connections. My education includes a BA in mass
19 communications from the University of South Florida, a Master of Liberal Arts

1 from Texas Christian University and a MS in Management from Florida Institute
2 of Technology.

3 Q. PLEASE DESCRIBE THE LAKE JUNALUSKA COMMUNITY AND ITS
4 HISTORY.

5 A. Lake Junaluska Assembly, Incorporated is a tax-exempt North Carolina non-profit
6 corporation, formed in 1938. Beginning in 1912, the predecessors to LJA
7 commenced development of a residential community in Haywood County, North
8 Carolina, to be known as Lake Junaluska. As stated in LJA's Certificate of
9 Incorporation, a principle objective when LJA was incorporated in 1938 was "to
10 acquire, establish, and maintain in Haywood County, North Carolina....a resort for
11 religious, charitable, educational, and benevolent purposes...." (LJA Certificate of
12 Incorporation §3(a)). The Lake Junaluska Assembly is an unincorporated
13 community consisting of homes, several businesses, and a Conference and Retreat
14 Center associated with the United Methodist Church.

15 Q. WHAT SERVICES DOES LJA PROVIDE TO RESIDENTS IN THE
16 COMMUNITY?

17 A. For many years LJA has provided various services to the residents of the Lake
18 Junaluska community and its Conference and Retreat Center, including water and
19 wastewater treatment services; road maintenance; security; garbage and recycling
20 collection services; other solid waste management services; and storm water
21 management. All of these services are provided through the Assembly Public
22 Works office, which I managed from September 2014 to September 2019.

23 Q. HOW DOES LJA PROVIDE WATER AND SEWER SERVICE?

1 A. LJA owns and operates water distribution and wastewater collection systems. For
2 many years it has purchased bulk water and wastewater treatment service from the
3 Town of Waynesville. LJA's water system is used to distribute purchased water to
4 the residences and businesses served by LJA, and the sewer system collects
5 wastewater which we deliver to Waynesville for treatment. As of November 26,
6 2019, LJA provided water service to 871 customers and sewer service to 832
7 customers.

8 Q. WHAT IS LJA'S REGULATORY STATUS?

9 A. LJA's regulatory status is currently in transition, as it moves from being exempt
10 from regulation by the Commission to being a regulated provider of water and
11 wastewater treatment services.

12 Q. WAS LJA HISTORICALLY REGULATED BY THE COMMISSION?

13 A. No. Up until 2007, LJA's provision of water and sewer service was not regulated
14 by the Commission. At the behest of the North Carolina Department of
15 Environment and Natural Resources, in 2007 LJA applied to the Commission and
16 was granted a Certificate of Public Convenience and Necessity ("CPCN") in
17 Docket W-1274, Sub 0 authorizing it to provide water and sewer service in the Lake
18 Junaluska community as a public utility. In its *Order Granting Petition For*
19 *Exemption From Regulation* issued on August 18, 2011, in Docket W-1274, Sub 4
20 ("the Exemption Docket"), the Commission found that LJA met the requirements
21 for its provision of water and sewer services to be exempted from regulation
22 pursuant to N.C. Gen. Stat. § 62-110.5. Since then, the rates, terms and conditions

1 on which water and sewer services are furnished to the Lake Junaluska community
2 have been established by the Junaluska Assembly Community Council.

3 In its *Order Ruling On Lake Junaluska Assembly, Inc., Status As A Public Utility*,
4 issued April 23, 2018, in Docket W-1274, Subs 5 and 6, the Commission revoked
5 LJA's exemption and directed that LJA file an Application for a new CPCN, which
6 it did on September 28, 2018.

7 Q. HOW IS THE LAKE JUNALUSKA COMMUNITY GOVERNED?

8 A. As noted above, the Lake Junaluska Assembly is an unincorporated community.
9 Except for the rates, terms and conditions on which water and sewer service are
10 furnished to the Lake Junaluska community, which have been set since 2011 by the
11 Junaluska Assembly Community Council, the Lake Junaluska community is
12 otherwise governed by a 31-member Assembly Board of Trustees. Three of the
13 Trustees are elected by the LJA community, three are Bishops of the United
14 Methodist Church, one is the President of a charitable support organization known
15 as the Junaluska Associates, and 24 are elected by the Board of Trustees. The Lake
16 Junaluska Assembly has been affiliated, since its creation, with the United
17 Methodist Church or its predecessor bodies. I understand that historically many
18 residents of the Lake Junaluska Assembly were retired Methodist clergy or other
19 individuals with professional or employment associations with the Methodist
20 Church. In recent years, that has changed, as an increasing number of property
21 owners in the Lake Junaluska community have no association with the United
22 Methodist Church.

1 The Board of Trustees manages and governs operation of the Assembly, other than
2 setting the rates, terms and conditions for water and sewer service. This means that
3 the Trustees approve budgets, and through the delegation of authority to the
4 Assembly's Executive Director, who makes employment decisions, supervise staff
5 and manage many aspects of the entire community and the Conference and Retreat
6 Center.

7 Q. ARE THERE ISSUES WITH LJA's WATER DISTRIBUTION AND SEWER
8 COLLECTION FACILITIES?

9 A. Yes, there are unmet needs for repair, replacement and refurbishment of LJA's aged
10 water and sewer infrastructure. As noted above, LJA was initially regulated by the
11 Commission in 2007. As documented in proceedings in Dockets W-1274, Sub 0
12 and Sub 2 in June of 2008, at that time there were significant problems relating to
13 extensive water leaks from LJA's aged infrastructure. The Commission's June 25,
14 2008 *Order Amending Prior Franchise Order, Approving Tariff Provision, and*
15 *Requiring Customer Notice* (the "June 25 Order") in those dockets described the
16 state of LJA's water system as follows:

17 Due to the extreme age of portions of the Lake Junaluska Assembly
18 water distribution system (some lines are 100 years old and 50% of
19 the lines are more than 50 years old), the various leaks, the
20 extremely high water pressures resulting from the mountain setting,
21 which at the lake elevation may exceed 200 psi, older meters, and
22 the necessary flushing of water and wastewater lines, the Public
23 Staff recommended a 25% unaccounted for water allowance to be
24 built into the revenue requirement and rates.

25 As established in the Public Staff's Motion to Amend Order and Approve Pass
26 Through filed in those dockets, in the first three months of LJA's operation under
27 the rates initially set for LJA by the Commission, LJA experienced a revenue

1 shortfall of \$24,540.00.¹ That shortfall was a product of LJA having incurred costs
2 of \$54,510 to purchase water and sewer service from Waynesville during that three-
3 month period, while it collected only \$29,970 from its customers for those services.
4 The Public Staff's Motion to Amend Order and Approve Pass Through in those
5 dockets included data from LJA relating to bulk water purchased and metered water
6 sold for the period January 2006 through April 2008. That data showed that in 2006
7 48% of the purchased water was not accounted for; in 2007 33% of the purchased
8 water was not accounted for; and in the first four months of 2008, 41% of the
9 purchased water was not accounted for.²

10 The Public Staff also recommended in its Motion to Amend Order that LJA "needs
11 to be incentivized to continue to reduce its unaccounted for water."³ The
12 Commission granted the Public Staff's Motion to Amend Order and revised LJA's
13 rates to include a 25% unaccounted for water allowance in the June 25 Order. That
14 arrangement meant that LJA was not able to recover the cost of a significant portion
15 of the unaccounted for water it purchased from Waynesville.

16 Q. DID LJA TAKE ACTION TO ADDRESS ITS EXTENSIVE WATER LOSSES?

17 A. Yes. Given the extent of the water loss and leakage it was experiencing, the other
18 infrastructure issues cited in the Public Staff's Motion to Amend Order and the June
19 25 Order, and the obvious economic incentive to minimize its loss of purchased
20 water,⁴ after the Commission exempted it from regulation LJA commissioned a

¹ <http://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=a1c4eb75-89e1-4fb4-a01d-0b7366b19064>

² Public Staff Motion to Amend Order ¶ 8.

³ Public Staff Motion to Amend Order ¶ 10.

⁴ Water losses increase Waynesville's billings to LJA for wastewater treatment, since those billings are based on the volume of water purchased by LJA.

1 study of its water distribution and wastewater collection systems by an engineering
2 firm in Asheville. The resulting report from Cavanaugh & Associates, P.A., issued
3 in May of 2012 (the “Cavanaugh Study”), included a 10-year Water and Sewer
4 Capital Improvements Plan (“the 10-Year Plan”).⁵ The Cavanaugh Study 10-Year
5 Plan recommended numerous projects to address issues and problems with LJA’s
6 infrastructure, principally focusing on detecting and eliminating leaks in the water
7 distribution system. That Plan projected total capital outlays over ten years for work
8 on the water distribution system of nearly \$1.2 million and nearly \$600,000 for
9 work on the wastewater collection system.

10 In 2013, LJA began implementing periodic rate increases in order to generate
11 capital necessary to fund the work called for in the 10-Year Plan to eliminate water
12 leaks and address other issues and problems in the water distribution and
13 wastewater collection infrastructure serving the Lake Junaluska community. LJA
14 was first able to begin using that funding to replace water and sewer lines in 2014.
15 Since then LJA has averaged spending approximately \$200,000 per year to repair,
16 replace, improve and modernize its water and sewer infrastructure, as shown in
17 Attachment 3B to LJA’s Application.

18 Q. HAS LJA MADE SIGNIFICANT PROGRESS IN ADDRESSING THESE
19 ISSUES?

20 A. Yes, LJA has seen great improvement as a result of those investments. Purchased
21 water losses, which averaged 33.29% in 2013, currently average 22.7%. The
22 frequency of water and sewer callouts for leaks, stoppages and overflows has been

⁵ http://www.lakejunaluska.com/i/downloads/CIP_Final.pdf

1 reduced from an estimated 3-5 per day to 3-5 per week currently. The 10-Year
2 Plan's recommended prioritization for water and sewer replacement projects was
3 divided into years 1-3, 4-7 and 8-10. Assembly Public Works has generally worked
4 from that schedule, while taking into consideration other water and sewer
5 infrastructure situations requiring attention that have arisen since then, such as
6 recent broken lines, for example, to undertake near-term capital improvement
7 projects. At this point, ten of the 14 initial projects identified in the Cavanaugh
8 Study have been completed. In addition, other water and sewer capital projects
9 addressing issues with LJA's 100-year-old infrastructure which arose after the 2012
10 study had to be given priority at times during the past five years. Capital
11 expenditures and work were reduced in 2018 and 2019 due to uncertainty regarding
12 the future availability of funding for capital spending to address system issues after
13 LJA's new rates are established, and while awaiting Commission approval of a
14 capital funding mechanism. Work under the 10-Year Plan is not complete, and
15 there are still problems to be addressed. Given the age of its water and sewer
16 infrastructure, LJA anticipates that it will commission another engineering study in
17 2020 or 2021 to identify and update any additional necessary improvements to the
18 water and sewer infrastructure serving the LJA community.

19 At this point, further work is required to reduce and eliminate water leaks and to
20 address issues with aging sewer infrastructure. For that reason, LJA's Application
21 includes a request that the Commission approve a customer assessment or other
22 funding mechanism in LJA's approved rates in order to generate sufficient funding
23 for it to continue the work called for in the 10-Year Plan.

1 Q. ARE THERE ENGINEERING AND MAINTENANCE ISSUES WITH OLDER
2 WATER AND SEWER SYSTEMS IN MOUNTAINOUS TERRAIN?

3 A. Yes. Materials used in older water systems create opportunities for leaks in the
4 system to occur, especially as those systems age. LJA's oldest water lines are made
5 of cast iron with lead joints and comprise an estimated 20% of the water lines in
6 the community. Eliminating lead solder joints continues to be a high safety
7 concern. Also, cast iron is susceptible to the high PH levels present in some soils
8 found in LJA's service area, causing pipes to erode where those conditions exist.
9 Another estimated 25-30% of LJA's water system consists of galvanized steel lines.
10 Those lines swell from the inside over time and negatively impact LJA's ability to
11 normalize water pressures. In its water system refurbishment projects LJA is
12 replacing cast iron and galvanized lines with ductile iron and plastic materials.
13 Because it is located in mountainous terrain, maintaining consistent water system
14 pressure poses an ongoing operational challenge for LJA. Water pressure increases
15 at night when Waynesville delivers water and our system is at its lowest point of
16 usage. Water pressure increases by design at points where pipe size is reduced.
17 Water pressure is impacted, not by design, when galvanized lines swell. Delivery
18 of water to certain higher elevation points in LJA's service area at an adequate
19 pressure can result in higher-than-needed pressures at points of service at lower
20 elevations. Erratic / fluctuating water pressures challenge the stability of aging
21 infrastructure and reinforce the need to replace older pipes that are beyond their
22 useful life. A 2009 engineering study of water pressures in the LJA system showed
23 wide variance across the system, with some pressures as high as 220 psi. That is

1 consistent with the Public Staff's recognition in its Motion to Amend Order and
2 Approve Pass Through in Dockets W-1274, Sub 0 and Sub 2, that "extremely high
3 water pressure resulting from [Lake Junaluska's] mountain setting" may exceed
4 200 psi at the lake level.⁶

5 Q. WHAT ARE THE CONSEQUENCES IF THESE ISSUES ARE NOT
6 ADDRESSED?

7 A. There are at least three long-term impacts to the water system: (1) Customer service
8 from service interruptions is negatively impacted as Assembly Public Works
9 continues to deal with unanticipated leaks from pipes and associated infrastructure
10 that has aged well beyond its intended useful life; (2) Operational costs will remain
11 higher due to the cost of unplanned materials and manpower expended in dealing
12 with leak events; and (3) Water loss will continue at a higher rate prior to leak
13 discovery and repair.

14 Q. HOW DO WATER LOSSES IMPACT LJA'S COST OF PROVIDING
15 SERVICE?

16 A. Because LJA resells bulk water purchased from Waynesville it is important to note
17 that unaccounted for water losses drive up LJA's cost of service in two ways. First,
18 purchased water lost through leaks in their system is gone but still has to be paid
19 for. Second, Waynesville charges LJA for bulk sewer service based on the volume
20 of water purchased by LJA. As a result, Waynesville's billings for sewer service
21 to LJA are increased by the water losses. Therefore, system improvements that

⁶ Public Staff Motion to Amend Order ¶ 8.

1 reduce water losses have a double impact on LJA's expenses by reducing
2 Waynesville's charges for both purchased water and bulk sewer service.

3 Q. EXPLAIN WHAT LJA'S SITUATION IS, IN TERMS OF RATE BASE?

4 A. LJA's situation and circumstances are unlike those of a typical water and sewer
5 public utility service provider. All of LJA's water and sewer plant has been paid
6 for by its customers. Thus, it has no rate base and its rates will be set by the
7 Commission based on the operating ratio methodology. Other than its customers,
8 LJA does not have access to other sources of capital sufficient to fund continuation
9 of the work called for in the 10-Year Plan. Further, even if LJA could borrow
10 money to fund this work, the typical ratemaking process would require filing of
11 sequential rate cases to enable it to cover the increasing level of debt. That approach
12 would not be in our customers' best interest, as the debt service and rate case
13 expenses would just increase the cost to LJA's rate payers of completing the work
14 called for in the 10-Year Plan.

15 Likewise, failure to continue efforts to complete the work called for in the 10-Year
16 Plan would not be in the best interest of LJA's customers, as continuing loss of
17 significant amounts of purchased water will continue to result in higher billings
18 from Waynesville - which billings are reduced as leaks and water loss issues are
19 addressed. The most feasible and practical source of capital to fund work on LJA's
20 water and sewer infrastructure is LJA's customers, who are the beneficiaries of the
21 work done to improve that infrastructure.

22 Based on its particular circumstances, LJA respectfully requests that the
23 Commission recognize its unique situation and approve its proposed rates for water

1 and sewer service at a level calculated to generate sufficient capital to fund the work
2 called for in the 10-Year Plan. With a new engineering study of LJA's water and
3 sewer infrastructure system planned for the next two to three years, the level of any
4 assessment to fund future capital improvements can be evaluated in future
5 proceedings before the Commission.

6 Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?

7 A. Yes.

**LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7**

**REBUTTAL TESTIMONY OF JACK CARLISLE
ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC.**

January 6, 2020

1 Q. ARE YOU THE SAME JACK CARLISLE THAT FILED DIRECT TESTIMONY
2 ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC. (“LJA”) IN THIS
3 DOCKET?

4 A. Yes.

5 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

6 A. My rebuttal testimony addresses some of the issues raised by the intervenors, Mr.
7 Timothy Phelan and Mr. John Davis. Most all of their complaints are irrelevant to
8 the issues presented by LJA’s Application requesting that the Commission issue it
9 a Certificate of Public Convenience and Necessity and set the rates it will charge
10 for water and sewer service. To the extent any of those complaints are either
11 relevant, or warrant a response, I address them here.

12 Q. WHAT ASPECTS OF THE INTERVENORS’ TESTIMONY DO YOU
13 ADDRESS?

14 A. I first address the testimony of Mr. Phelan and Mr. Davis relating to LJA’s water
15 and sewer operating expenses. I then address their opposition to the fact that the
16 assessment proposed by LJA includes funding for the future purchase of a new
17 sewer jetter truck. Finally, I address Mr. Davis’s opposition to the uniform water
18 usage rate structure proposed by LJA and supported by the Public Staff.

1 Q. WHAT IS THE ISSUE REGARDING LJA'S OPERATING EXPENSES?

2 A. Attachment 2A to LJA's Application filed with the Commission in September 2018
3 reflected an adjusted budget for annual operating expenses for 2018, not including
4 the cost of purchased water and sewer services, of \$362,430.17. Mr. Phelan and
5 Mr. Davis both question this, citing LJA's 2012 estimated budget for water and
6 sewer operations of \$150,000. In this regard, Mr. Phelan relies on his Exhibit 1A,
7 which is the May 8, 2012 Public Works Water And Sewer System Assessment and
8 Appraisal relating to LJA's water distribution and sewer collection systems that
9 was distributed to Assembly residents. Among other things, it informed them of
10 the \$150,000 budget estimate for water and sewer operations. The complete
11 statement regarding that figure, set forth at the bottom of page 4 of the Assessment
12 and Appraisal, puts that budget estimate in context:

13 Of the total APW [Assembly Public Works] water and sewer budget
14 of \$500,000, approximately \$350,000 is budgeted as a pass-through
15 to Waynesville. This pass-through to Waynesville includes Fire
16 Protection fees of approximately \$40,000 per year. The reason fire
17 protection is included in the Water and Sewer Budget is that the fire
18 protection is included in APW monthly utility bill and also in
19 Waynesville's monthly water and sewer billing to APW. **After the**
20 **pass-through payments to Waynesville, our operation and**
21 **maintenance budget is only around \$150,000. This includes**
22 **wages and benefits for two crew members, testing, licensing,**
23 **equipment, billing and postage, as well as the repair and**
24 **maintenance of the system.** Obviously, there is very little extra
25 funding to undertake the CIP.

26 (Phelan Exhibit 1A, p. 4) (Emphasis added).

27 The upcoming return to Commission regulation, and the need to have the
28 Commission set its water and sewer rates, required LJA to more accurately capture
29 the cost of providing water and sewer services to its ratepayers. LJA's Assembly

1 Public Works Department (“APW”) has nine employees, eight of whom support to
2 varying degrees LJA’s water and sewer operations.¹ The 2012 ballpark budget
3 number of \$150,000 only covered wages and benefits for two field personnel and
4 the miscellaneous other operating costs listed in the quoted paragraph on page 4 of
5 Phelan Exhibit 1A. That number does not reflect any allocation of the cost of the
6 other field personnel, administrative and management personnel that support LJA’s
7 water and sewer operations, and the \$150,000 budget number from 2012 does not
8 begin to accurately reflect the cost of LJA’s water and sewer operations.

9 As a final note on this point, the Public Staff audited LJA’s water and sewer
10 operations and found that its operating expenses during the test year, not including
11 the cost of purchased water and sewer, were \$340,835. (Chiu Exhibit 1, Schedules
12 3(a) and 3(b)).

13 Q. PLEASE ADDRESS THE INTERVENORS’ RECOMMENDATIONS THAT
14 THE COMMISSION NOT APPROVE ASSESSMENT FUNDING FOR A NEW
15 SEWER TRUCK.

16 A. Included in the list of projected capital projects set forth in Exhibit 3A to LJA’s
17 Application are three payments of \$60,000, reflecting the estimated \$180,000 cost
18 of a new sewer jetter truck. LJA’s current jetter truck is a 1995 Chevrolet 7500
19 Kodiak with a 1995 100 HP jetter pump. This truck was purchased used from the
20 Town of Waynesville in 2011 for \$15,000, after the Town purchased a new truck.
21 The mileage on the truck is unknown, as the odometer has exceeded its mechanical

¹ The Labor Allocation of those eight employees was shown in Attachment 1 to LJA’s responses to Mr. Phelan’s data requests, a copy of which is attached as Carlisle Rebuttal Exhibit 1.

1 limits. The pump's hour meter has not been functional since the truck was
2 purchased from Waynesville.

3 There are numerous maintenance problems with the current truck, including that
4 the transmission and steering components are failing, and the air brakes leak to the
5 point that they will not hold the truck on a hill. In addition, the jetter pump has
6 significant leaks and LJA has been told that repairs are cost-prohibitive, since
7 equipment is obsolete and parts hard to find.

8 APW personnel use this truck on a nearly daily basis to clear sewer back-ups, and
9 for routine maintenance per North Carolina regulations. This is a crucial piece of
10 equipment for the APW's sewer operations. Without it, we have no ability to
11 prevent and clear sewer blockages, which can result in hefty fines from the State.
12 LJA received a cost estimate from a vendor of \$180,000 for a new jetter truck with
13 basic options. LJA has not yet performed a full financial analysis comparing lease
14 versus purchase options for a replacement jetter truck, but will do so before moving
15 forward with a purchase.

16 Q. WHAT ASPECT OF MR. DAVIS'S TESTIMONY DO YOU ADDRESS?

17 A. I address only his contention that "the LJA proposed rate structure is not equitable
18 between residential and commercial customers. I conclude this because the
19 percentage of revenue paid in by the residential customers for the volume of water
20 consumed is significantly higher than that of the commercial." We disagree with
21 that assertion, as LJA's proposed water rate structure, which is supported by the
22 Public Staff, is equitable, in that every user pays the same rate per 1,000 gallons or
23 per 100 cubic feet ("CCF") of water. I understand that this approach is typically

1 used by the Commission in setting water rates, and we believe this is a fair and
2 equitable approach. Any alternative rate structure of the type described by Mr.
3 Davis, which would punish commercial users and year-round residents for their
4 normal usage patterns, is not shown to generate any specific level of revenue, much
5 less LJA's revenue requirement.

6 As reflected in their testimony, and based on my dealings with them during their
7 service on the Junaluska Assembly Community Council, I believe that Mr. Davis
8 and Mr. Phelan are unhappy with the fact that the Assembly is governed by the
9 Board of Trustees. I believe that one or both of them opposed LJA's efforts to be
10 annexed into the Town of Waynesville several years ago. Mr. Davis recently filed
11 a *pro se* lawsuit in Haywood County Superior Court against LJA seeking a ruling
12 relating to governance of the community.

13 Q. DOES LJA AGREE WITH THE RECOMMENDATIONS MADE IN THE
14 TESTIMONY FILED ON BEHALF OF THE PUBLIC STAFF?

15 A. Yes.

16 Q. WILL LJA USE THE FUNDS GENERATED BY THE PROPOSED
17 ASSESSMENT TO CONTINUE WORK UNDER CAVANAUGH
18 ENGINEERING'S 10-YEAR PLAN AND CONTINUE EFFORTS TO REDUCE
19 UNACCOUNTED FOR WATER LOSSES?

20 A. Yes, and it is essential to do so. As noted in my direct testimony, because LJA
21 resells purchased water, unaccounted for water losses drive up LJA's cost of service
22 in two ways. First, water purchased from Waynesville and lost through leaks in
23 LJA's system is gone but still must be paid for. Second, Waynesville charges LJA

1 for bulk sewer service based on the volume of water purchased by LJA. As a result,
2 Waynesville's billings for sewer service to LJA are increased by the water losses.
3 Therefore, system improvements that reduce water losses have positively impacted
4 LJA's expenses by reducing Waynesville's charges for both purchased water and
5 bulk sewer service.

6 Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

7 A. Yes.

1 BY MR. HIGGINS:

2 Q Now, Mr. Tweed, I'll turn to you for a moment.

3 Would you please state your name for the record?

4 A My name is Jerry Tweed.

5 Q And did you cause to be prepared testimony
6 consisting of five pages of written questions and
7 answers?

8 A Yes.

9 Q Do you have any changes or corrections to your
10 prefiled direct testimony?

11 A No.

12 Q If I asked you the questions that are set forth
13 in the prefiled direct testimony, would your
14 answers be the same as those that appear in your
15 testimony?

16 A Yes.

17 MR. HIGGINS: At this time, I'd move the
18 admission of Mr. Tweed's prefiled direct testimony?

19 COMMISSIONER BROWN-BLAND: Without
20 objection, that motion will be allowed and Mr. Tweed's
21 testimony will be received into evidence as if
22 given -- and treated as if given orally from the
23 witness stand.

24 MR. HIGGINS: Thank you.

1 (WHEREUPON, the prefiled direct
2 testimony of JERRY H. TWEED is
3 copied into the record as if given
4 orally from the stand.)
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7**

**DIRECT TESTIMONY OF JERRY H. TWEED
ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC.**

December 9, 2019

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS, AND
2 PRESENT POSITION.

3 A. My name is Jerry H. Tweed. My address is 103 Redgate Drive, Cary, North
4 Carolina. I am a Utilities Engineer Consultant.

5 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE RELATING
6 TO WATER AND SEWER OPERATIONS AND RATE REGULATION.

7 A. I am a graduate of The University of North Carolina at Charlotte with a
8 bachelor's degree in Civil Engineering. Until 2018 (when I gave up my
9 certificate) I was certified as a Grade IV Wastewater Treatment Plant
10 Operator. I was previously employed as a Utilities Engineer with the Public
11 Staff's Water and Sewer Division for over 16 years, nine of which were as
12 Division Director. I have also worked for three years with the Town of
13 Mooresville, North Carolina as superintendent of its wastewater treatment
14 facilities, for 1.5 years as Executive Vice President of Mid South Water
15 Systems, Inc. and over 15 years as Vice President of Heater Utilities, Inc.,
16 with the last two companies being investor-owned for profit water and sewer
17 companies regulated by the North Carolina Utilities Commission
18 (Commission).

1 Q. DID LAKE JUNALUSKA ASSEMBLY, INC. (LJA) HIRE YOU TO ASSIST IN
2 THE PREPARATION OF THE APPLICATION FOR A CERTIFICATE OF
3 PUBLIC CONVENIENCE AND NECESSITY IN THIS DOCKET?

4 A. Yes. I worked closely with Jack Carlisle (Director of Assembly Public Works),
5 Sendy Crenshaw (Finance Director for LJA), and Jenna Senocak (Assistant
6 Director of Assembly Public Works) in assisting them with preparing the
7 Application For a Certificate of Public Convenience and Necessity and For
8 approval of Rates filed by LJA on September 28, 2018. Jack Carlisle
9 recently retired but is providing testimony in this docket. I worked with Ms.
10 Crenshaw to insure that the Application reflected LJA's ongoing level of
11 revenues and operating expenses. Sendy Crenshaw primarily prepared the
12 estimated future expenses shown in LJA's Application. The future expense
13 estimates reflect actual historic expenses adjusted for known and
14 measurable changes. With regard to the estimated ongoing level of
15 revenues, with the assistance of Ms. Crenshaw, I performed a billing analysis
16 which was filed with the Application.

17 Q. HOW ARE RATES NORMALLY ESTABLISHED FOR WATER AND
18 WASTEWATER UTILITY COMPANIES REGULATED BY THE NORTH
19 CAROLINA UTILITIES COMMISSION?

20 A. Typically, companies regulated by the Commission are investor-owned for-
21 profit entities and they invest debt and equity capital into the installation and
22 ongoing upgrade/replacement of the infrastructure used to provide service.
23 Those utilities then request approval of rates that will allow them sufficient

1 revenues to recover all of their annual operating expenses, including income
2 taxes and depreciation expenses, and a return (profit) on the unrecovered
3 investment known at the Commission as rate base.

4 Q. HOW IS LJA DIFFERENT FROM THE TYPICAL INVESTOR-OWNED
5 COMPANY REGULATED BY THE COMMISSION?

6 A. LJA is a non-profit tax exempt entity affiliated with the United Methodist
7 Church. LJA does not seek to earn a profit and it does not claim depreciation
8 expense. It only seeks to recover both its operating costs and its capital
9 costs through its monthly rates. LJA, as a system not regulated by the
10 Commission, has been recovering its capital costs primarily through monthly
11 rates. It has therefore not built a rate base upon which to earn a return as
12 does the typical Commission regulated utility company.

13 I recommend that the Commission recognize this significant difference, and
14 the documented circumstances in LJA's water and sewer systems, and that
15 LJA be treated in a manner that is appropriate for a service provider that is
16 not an investor-owned for-profit utility company regulated by the Commission.

17 I recommend that it be allowed to continue to fund its capital expenditures
18 through monthly rates as it has in the past. I recommend, however, that the
19 monthly rates be structured to include a monthly user rate and a separate
20 monthly assessment component to fund capital expenditures, each of which
21 will be accounted for separately. The balance in the capital improvement
22 assessment account would be reported separately in LJA's annual report to

1 the Commission in order to track the total assessment amount collected and
2 spent on each capital project.

3 Q. DID YOU DESIGN PROPOSED RATES IN THIS PROCEEDING WHICH
4 WOULD ALLOW LJA TO RECOVER ITS ANNUAL OPERATING
5 EXPENSES AND ALLOW FOR FUNDING OF A CAPITAL BUDGET TO
6 CONTINUE TO REPLACE AND IMPROVE THE EXISTING WATER AND
7 SEWER INFRASTRUCTURE?

8 A. Yes. I designed proposed metered water and sewer rates to allow LJA to
9 recover its estimated normal operating expenses. Jack Carlisle advised me
10 that LJA needs an additional approximately \$200,000/year for capital
11 expenditures relating to water and sewer infrastructure. To fund a capital
12 budget at that level I proposed an \$8.14/month assessment for each
13 residential equivalent water customer and \$8.14/month assessment for each
14 residential equivalent sewer customer. This would support a total of
15 approximately \$200,000/year in funding for water and sewer system capital
16 expenditures.

17 Q. WHY DOES LJA NEED THIS CAPITAL ASSESSMENT FUNDING?

18 A. Some of LJA's infrastructure is as much as 100 years old. As documented in
19 prior Commission proceedings relating to LJA, this system is subject to
20 significant water leaks and other problems. Addressing those problems and
21 replacing those facilities requires significant capital expenditures. The funds
22 will be used primarily for replacement of aged water distribution and sewer
23 collection systems as shown in the Application. Because LJA resells bulk

1 water purchased from Waynesville the reality is that unaccounted for water
2 losses drive up LJA's cost of service in two ways. First, purchased water lost
3 through leaks in LJA's system is gone, but it has to be paid for. Second,
4 Waynesville charges LJA for bulk sewer service based on the volume of
5 water sold to LJA. As a result, Waynesville's billings for sewer service to LJA
6 are increased by the water losses. Therefore, system improvements that
7 reduce water losses reduce the charges for both purchased water and bulk
8 sewer service.

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

10 A. Yes.

1 BY MR. HIGGINS:

2 Q Now, Ms. Crenshaw, would you state your name for
3 the record, please, ma'am?

4 A Sendy Crenshaw.

5 COMMISSIONER GRAY: Ma'am, I'll ask you to
6 move closer, please.

7 A My name is Sendy Crenshaw.

8 Q And, Ms. Crenshaw, did you cause to be prepared
9 testimony consisting of two pages of written
10 questions and answers?

11 A Yes.

12 Q Do you have any changes or corrections to your
13 prefiled direct testimony?

14 A No.

15 Q If I asked you the questions that are set forth
16 in your written testimony, would your answers be
17 the same as those that appear in the written
18 testimony?

19 A Yes.

20 MR. HIGGINS: Madam Commissioner, at this
21 time I'd move the admission of Ms. Crenshaw's prefiled
22 direct testimony.

23 COMMISSIONER BROWN-BLAND: Without
24 objection, that motion will be allowed and her

1 testimony will be received and treated as if given
2 orally from the witness stand.

3 (WHEREUPON, the prefiled direct
4 testimony of SENDY CRENSHAW is
5 copied into the record as if given
6 orally from the stand.)
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7**

**DIRECT TESTIMONY OF SENDY CRENSHAW
ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC.**

December 9, 2019

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, ADDRESS, AND
2 PRESENT POSITION.

3 A. My name is Sendy Crenshaw. My address is Post Office Box 339, Lake Junaluska,
4 North Carolina 28745. I am Finance Director for Lake Junaluska Assembly, Inc.
5 (LJA).

6

7 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE RELATING
8 TO ACCOUNTING AND BOO KEEPING.

9 A. I have been employed by LJA in my present position as Finance Manager for five
10 years. My primary duties involve keeping the Assembly's books and financial
11 records. Prior to that, I worked in LJA's Accounts Receivable and Accounts
12 Payables offices for ten years. I graduated from Rust College in Holly Springs,
13 Mississippi, with a B.S. in Business Administration/Management in 2003 and have
14 worked in the accounting field since 2004.

15

16 Q. DID YOU PROVIDE THE FINANCIAL DATA USED TO DEVELOP THE
17 ESTIMATED ANNUAL REVENUES AND EXPENSES USED IN THE
18 APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND
19 NECESSITY IN THIS DOCKET?

1 A. Yes. I worked closely with Jerry Tweed (Utilities Engineer Consultant), Jack
2 Carlisle (Director of Assembly Public Works), and Jenna Senocak (Assistant
3 Director of Assembly Public Works). With their assistance and input I prepared
4 the estimated future expenses shown in LJA's Application. The projected expenses
5 shown in attachments to the Application are based on LJA's actual historic
6 expenses (based on LJA's books), adjusted for known and measurable changes. I
7 provided billing data which was used by Jerry Tweed for the billing analyses he
8 prepared, which were filed with the Application.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

11 A. Yes

1 BY MR. HIGGINS:

2 Q Mr. Carlisle, returning to you, do you have a
3 summary of your prefiled testimony?

4 A (Mr. Carlisle) Yes.

5 Q Would you please share that with the Commission?

6 (WHEREUPON, the summary of JACK
7 CARLISLE is copied into the record
8 as read from the witness stand.)
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

SUMMARY OF THE TESTIMONY OF JACK CARLISLE ON BEHALF OF LAKE JUNALUSKA ASSEMBLY, INC.

My name is Jack Carlisle. Until I retired in September, 2019, I was employed by Lake Junaluska Assembly, Inc. (LJA) as Director of Assembly Public Works. I held that position for five years. Prior to that I was employed by the Hillsborough County Board of County Commissioners in Tampa, Florida for 27 years, ten of which were spent in various operational and staff management roles. That County Water Department is a water, sewer, and reclaimed water enterprise with approximately 179,000 water customers and 171,000 sewer customers.

LJA is a North Carolina non-profit corporation. The Assembly has been affiliated, since its creation, with the United Methodist Church or its predecessor bodies. The Methodist Church began developing the Assembly community in the early 1900s and the Lake Junaluska Assembly is still an unincorporated community consisting of homes, several businesses and a conference and retreat center associated with the United Methodist Church. The Assembly Public Works Office provides various services to residents, including water and wastewater treatment services, road maintenance, security, garbage and recycling collection, other solid waste management services, and storm water management.

As of last November, LJA provided water service to 871 customers and sewer service to 832 customers. LJA owns and operates water distribution and wastewater collection systems and it purchases bulk water and wastewater treatment services from the Town of Waynesville, which is contiguous with the Assembly property.

The Commission first regulated LJA's provision of water and sewer service in 2007, and then exempted it from regulation in 2011. Since then, the rates for those services were set by the Junaluska Assembly Community Counsel (JACC). Except for the JACC's regulation of water and sewer rates, terms and condition, the Assembly community is governed by a 31-member Board of Trustees.

As documented in Commission proceedings when LJA was first regulated in 2007, there are and have been significant issues with LJA's aged water and sewer infrastructure, with the greatest problem being water losses and leakage. Due to the age of the system infrastructure and extremely high water system pressures that result from LJA's mountain setting, there are ongoing challenges with LJA's water and sewer systems. Due to the extent of its water losses, in 2008 the Commission approved inclusion of a 25% unaccounted for water allowance in LJA's rates.

The Commission exempted LJA from regulation in 2011. In 2012 LJA commissioned an engineering study by Cavanaugh & Associates, which yielded the 10-year water and sewer capital

improvements plan discussed in my testimony. The Cavanaugh 10-year plan prioritized a number of projects to address problems with LJA's infrastructure, mostly focused on detecting and eliminating leaks in the water distribution system.

In 2013 LJA began implementing periodic rate increases in order to generate the capital necessary to fund the work called for in the Cavanaugh 10-year plan. Since 2014 LJA has averaged spending approximately \$200,000 per year to repair, replace, improve, and modernize its water and sewer infrastructure. We've made great progress, reducing average purchased water losses to below 23%. We've also significantly reduced the frequency of calls for water and sewer leaks, stoppages, and overflows. Work under the Cavanaugh 10-year plan is not complete, and new challenges arise as LJA's infrastructure continues to age. LJA anticipates it will commission an updated engineering study in 2020 or 2021 to identify necessary improvements to the water and sewer infrastructure serving the Assembly community.

Because further work is required to further reduce water losses and to address other issues with aging water and sewer infrastructure, and the need for a new sewer jetter truck, LJA's Application requests that the Commission approve a customer assessment to generate funding for continued work under the Cavanaugh 10-year plan and to address new issues and equipment needs. This funding will allow LJA to continue to address system issues and to complete the work called for in the Cavanaugh 10-year plan, which will improve customer service by reducing service interruptions, avoid higher operational costs by limiting unplanned expenditures of materials and manpower to deal with leaks, and reducing purchase water costs. All witnesses who testified at the public hearing supported LJA's requested customer assessment.

It is important to note that water losses impact LJA's cost of providing water and sewer service in two ways. First, purchased water lost through leaks is gone, but still must be paid for. Second, Waynesville charges LJA for bulk sewer service based on the volume of water purchased. As a result, Waynesville's billings for sewer service are increased by water losses. Thus, system improvements that reduce water losses have a two-fold positive impact on LJA's expenses by reducing Waynesville's charges for both purchased water and bulk sewer service.

Based on LJA's unique circumstances as a non-profit entity with no rate base, we respectfully request that the Commission recognize the situation and approve LJA's proposed rates for water and sewer service at a level calculated to generate sufficient capital to fund the work called for in the 10-year Cavanaugh plan and as otherwise necessary to address infrastructure and equipment needs.

1 A This concludes my summary.

2 Q Thank you, Mr. Carlisle.

3 Ms. Crenshaw, do you have a
4 summary that you can share with the Commission?

5 A (Ms. Crenshaw) Yes.

6 Q Could you please read that?

7 (WHEREUPON, the summary of SENDY
8 CRENSHAW is copied into the record
9 as read from the witness stand.)
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**SUMMARY OF THE TESTIMONY OF SENDY CRENSHAW ON BEHALF OF
LAKE JUNALUSKA ASSEMBLY, INC.**

My name is Sendy Crenshaw.

I am employed by Lake Junaluska Assembly, Inc. (LJA) as Finance Manager. I have been in this position for five years. I worked in LJA's Accounts Receivable and Accounts Payables offices for ten years before that.

As Finance Manager my duties involve keeping LJA's books and financial records. LJA is a North Carolina non-profit corporation associated with the United Methodist Church.

I provided financial data used to develop the estimated annual revenues and expenses for LJA's water and sewer operations in the Application LJA filed with the Commission. With the assistance of Jerry Tweed, Jack Carlisle and Jenna Senocak (Assistant Director of Assembly Public Works), I prepared the estimated future expenses shown in LJA's Application.

The projected expenses shown in attachments to the Application are based on LJA's actual historic expenses, based on LJA's books, adjusted for known and measurable changes.

I also provided billing data which was used by Jerry Tweed for the billing analyses he prepared, which are part of the Application.

1 Q Thank you, Ms. Crenshaw.

2 Mr. Tweed, do you have a summary
3 of your testimony?

4 A (Mr. Tweed) Yes.

5 Q Please provide that.

6 (WHEREUPON, the summary of JERRY
7 TWEED is copied into the record as
8 read from the witness stand.)
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7**

**SUMMARY OF TESTIMONY OF JERRY H. TWEED
January 29, 2020**

As a consulting Utilities Engineer I worked with the staff of Lake Junaluska Assembly in preparing the Application filed in this docket. I worked with Sendy Crenshaw to insure that the Application reflected the ongoing level of operating expenses and revenue. I performed the billing analysis attached to the Application, and designed rates to recover the estimated operating expenses and to fund a capital budget of approximately \$200,000/year.

Lake Junaluska Assembly is not like the typical investor-owned for-profit utility company regulated by the Commission. Instead it is a non-profit tax exempt entity affiliated with the United Methodist Church. With these circumstances and the documented continuing need for capital improvements, I recommend that it be allowed to continue to fund its capital expenditures to address issues in its water and sewer systems through monthly rates as it has in the past. I further recommend that the revenues collected for the capital improvements be accounted for separately, along with the amount spent on each capital project, with regular reporting to the Commission and Public Staff.

That concludes my summary.

1 Q Thank you, Mr. Tweed.

2 MR. HIGGINS: The witnesses are available
3 for cross.

4 COMMISSIONER BROWN-BLAND: Mr. Phelan, do
5 you have questions for this panel?

6 MR. PHELAN: Yes, I do, Madam Chairman.

7 COMMISSIONER BROWN-BLAND: All right. You
8 may ask them at this time. And I'll just caution, if
9 you don't keep the mic up there, somebody will be
10 telling you to do that.

11 MR. PHELAN: Somebody will be telling me,
12 right?

13 COMMISSIONER BROWN-BLAND: Right.

14 MR. PHELAN: Thank you very much. Questions
15 to Jack Carlisle.

16 CROSS EXAMINATION BY MR. PHELAN:

17 Q Jack, the questions pertaining to the assessment,
18 and there's two exhibits that I'd like to have
19 you referencing and that is Exhibit 1B, and look
20 at also Attachment 3A and 3B.

21 A (Mr. Carlisle) 1B, 3A, 3B.

22 Q Right.

23 MR. HIGGINS: Mr. Phelan, I can't see but
24 are those all exhibits to Mr. Carlisle's testimony or

1 are they from another source as well?

2 MR. PHELAN: This is in reference to direct
3 testimony that I had filed and had referenced to Jack
4 Carlisle.

5 COMMISSIONER BROWN-BLAND: The exhibits,
6 Mr. Phelan, the exhibits you are referencing are
7 attached to your --

8 MR. PHELAN: -- direct testimony.

9 COMMISSIONER BROWN-BLAND: Your prefiled --

10 MR. PHELAN: My prefiled direct testimony,
11 correct.

12 A And, Tim, are you referring to attachments that
13 are contained in the Application?

14 Q Yes, I am. Thank you very much for asking that,
15 Jack. Filed in the Application, Attachment 3A
16 and 3B.

17 Jack, my questions are, first of
18 all, your objective is well stated and that is to
19 generate capital necessary to fund LJA's
20 continued work to address problems in the water
21 distribution and wastewater collection
22 infrastructure serving the Lake Junaluska
23 community. You have well said -- you stated this
24 well in both your rational, the direct testimony,

1 and also in rebuttal statement; is that correct,
2 Jack, that that is the objective of the continued
3 assessment?

4 A And where do you see that objective spelled out?

5 Q I'm looking at the rational, Page 1.

6 A Of what? Page 1 of what?

7 Q Of your rational of -- Page 1 of your rational,
8 Attachment 1D from the Application that was
9 submitted for the CPCN.

10 MR. HIGGINS: Just to be clear, Mr. Phelan,
11 you're referring to Attachment 1D to the Application?

12 MR. PHELAN: Yes.

13 MR. HIGGINS: Okay.

14 MR. PHELAN: Thank you.

15 A So are you reading from 1D?

16 Q Yes, I am. I'm reading from Page 1 of Attachment
17 1D submitted with the Application dated
18 September 28th, 2018.

19 A The first sentence states the purpose.

20 Q Right.

21 A So you're reading that first -- that first
22 paragraph; is that correct?

23 Q That's correct, Jack, yes.

24 A Okay.

1 Q And that is correct?

2 A Yes.

3 Q And that the rational is to generate capital to
4 continue the work called for in the Cavanaugh
5 Plan, problems in the water distribution and
6 wastewater system?

7 A The language in 1D is not exactly that, Tim. It
8 says to generate capital necessary to fund LJA's
9 continued work to address problems in the water
10 distribution and wastewater collection
11 infrastructure. It does not reference the
12 Cavanaugh Plan in particular.

13 Q And that is correct. And on Page 4 of that same
14 attachment, the very last paragraph, you're
15 asking the Commission to approve its proposed
16 rates for water and sewer system -- sewer service
17 at a level calculated to generate sufficient
18 capital to fund the work called for in the
19 10-year plan?

20 A Yes. That's what -- that's what it says.

21 Q So the objective would be then to complete the
22 work called for in the Cavanaugh 10-Year Plan; is
23 that correct?

24 A Our work would be to include the work in the

1 Cavanaugh Plan and any additional work that's
2 necessary.

3 Q Okay. Thank you, Jack. Also, then from your
4 direct testimony, on Page 7, lines 7 through 9,
5 the scope of the project is stated as for water
6 \$1.2, for sewer \$600,000, and that's over a
7 10-year time period; is that correct?

8 A That's not stated in your reference. What's
9 stated in lines 7 through 9 are that -- is a
10 statement that says 10 of the 14 initial projects
11 identified in the Cavanaugh Study have been
12 completed.

13 Q On Page 7, lines 7 through 9.

14 A On the prior page is the question, *has LJA made*
15 *significant progress in addressing these issues?*
16 On the page that follows, which is in my count is
17 seven pages in.

18 MR. HIGGINS: Mr. Carlisle, you may be
19 looking at your rebuttal testimony. I'm not sure. I
20 believe that the gentleman's question --

21 MR. PHELAN: This is from your direct
22 testimony.

23 A It says direct testimony.

24 MR. HIGGINS: Okay.

1 A Two, three, four, five, six, seven. Okay. You
2 are correct. *That plan projected total capital*
3 *outlays over 10 years for work on the water*
4 *distribution system of nearly \$1.2 million and*
5 *nearly \$600,000 for work on the wastewater*
6 *collection system.*

7 Q Thank you, Jack. So looking at Exhibit 1B, the
8 Cavanaugh Engineering Study on Pages 3 and 4 --

9 MR. HIGGINS: Exhibit 1B to what?

10 MR. PHELAN: Oh, I'm sorry. Thank you.
11 From my direct testimony, Exhibit 1B, the Cavanaugh
12 Engineering Study.

13 MR. HIGGINS: Mr. Carlisle, do you have --

14 A I don't believe I have it.

15 MR. HIGGINS: May I approach?

16 COMMISSIONER BROWN-BLAND: Yes.

17 (Counsel hands exhibit to witness)

18 A Okay. I'm now in possession of 1B, Tim. Tell me
19 where you're going.

20 BY MR. PHELAN:

21 Q I just wanted to confirm that basically this
22 confirms the amounts and the projects that you
23 identify on Page 7 of lines 7 through 9, the
24 scope of the project.

1 Water capital outlay on 1B is a
2 \$1,184,000 and they've rounded it up here to a
3 \$1.2. And for sewer it's \$588,720 rounded up to
4 \$600,000. And the projects are broken out
5 between -- prioritized between high, medium and
6 low.

7 A Exhibit 1B, table 2, under Sewer System Capital
8 Outlay reflects \$588,000 for sewer.

9 Q Right.

10 A And in the prior page on Exhibit 1B on Page 3,
11 the total water outlay is, in round numbers,
12 \$1.2, \$1,184,826.

13 Q So that's an agreement with what you have put in
14 your direct testimony, correct, is the actual
15 engineering study?

16 A That's where we started this conversation I
17 believe.

18 Q That's correct. Okay. I just wanted to see that
19 the engineering report confirms what you have
20 listed in your direct testimony.

21 Also, on Page 7, Jack, line 15 --

22 A Of what?

23 Q -- of your direct testimony. Page 7, line 15,
24 states the amount of the annual average spending

1 approximately \$200,000; is that correct?

2 A Line 15, since LJA has averaged spending
3 approximately \$200,000 per year --

4 Q Thank you, Jack.

5 A -- to repair, replace infrastructure, yes, the
6 water sewer infrastructure.

7 Q And, Jack, while you have your direct testimony
8 open on Page 8, lines 7 to 9, *ten of the 14*
9 *initial projects have been completed.* Let me
10 restate, *at this point, ten of the 14 initial*
11 *projects identified in the Cavanaugh Study have*
12 *been completed?*

13 A You're right, that's what it says.

14 Q Now, referring to the Application that you have
15 submitted, the Lake Junaluska Application for the
16 CPCN, looking at Attachment 3B and 3A.

17 A Yes.

18 Q On Attachment 3B, now this was dated with the
19 Application September 28th, 2018, so completed
20 projects on Attachment 3B are through that year
21 2018 is correct, and then over on 3A, Attachment
22 3A, which is we are now through the end of 2019.
23 What projects that you have listed in 2019 have
24 already been completed or are they still waiting

1 to be completed?

2 A I've been retired since last September --

3 Q Right.

4 A -- so I would need to consult with the current
5 public works director to state with precision an
6 answer to your question.

7 Q May I ask you then has Atkins Loop been
8 completed?

9 (The witness refers to audience member)

10 A Atkins Loop has not been completed.

11 Q Has Holston Village Road been completed?

12 (The witness refers to audience member)

13 A No. Holston Village Road has not been completed.

14 Q Has North Lakeshore Drive been completed?

15 UNKNOWN SPEAKER: It's underway.

16 A That project is underway.

17 Q And Siler Circle, has that been completed?

18 (The witness refers to audience member)

19 A No, that has not been completed.

20 Q So trying to determine, you say that there are
21 four projects that continue to be outstanding.
22 Ten of the 14 have been completed, therefore,
23 four would be not completed; is that correct?

24 A I'm not following your math, Tim.

1 Q You stated that 10 of the 14 initial projects
2 identified in the Cavanaugh Study have been
3 completed. So subtracting the 10 from the 14,
4 there is four additional projects that remain to
5 be completed?

6 A The projects that are listed on Attachments 3A
7 and 3B do not delineate. There's not a column
8 that indicates whether it's a part of the
9 Cavanaugh Plan or not. Some of these projects
10 that have been completed were done because of
11 other intervening circumstances, typically
12 dealing with a situation.

13 Q And I'm just trying to determine if the original
14 Cavanaugh Study identified 14 projects. And the
15 scope of the project was \$1.2 for water and
16 \$600,000 for sewer. What is the value of the
17 uncompleted or incompleted projects waiting to be
18 done?

19 A I don't have that information at hand without
20 consulting the Cavanaugh Plan and the estimates
21 that were provided within the Cavanaugh Plan.

22 Q Are there other projects in the Cavanaugh Plan
23 that are not identified here?

24 A When this was compiled the Cavanaugh Plan

1 projects were included.

2 Q Okay.

3 A But what I'm saying is it is a subset of a total
4 work that has been done as well as work to be
5 done.

6 Q Right. And I'm just trying to back up, I mean
7 the objective of the assessment is to complete
8 the work called for in the 10-year plan?

9 MR. HIGGINS: Objection. Asked and
10 answered.

11 COMMISSIONER BROWN-BLAND: I'll overrule the
12 objection.

13 If you have knowledge about this, or anyone
14 on the panel, you should testify to answer his
15 questions as best you can. You earlier indicated you
16 did not know, you needed to check. And is that
17 something that you can provide to the Commission
18 either as a late-filed exhibit or before we adjourn
19 this hearing, the answers to his question?

20 MR. HIGGINS: Maybe. Madam Commissioner,
21 may I be heard momentarily?

22 COMMISSIONER BROWN-BLAND: Yes.

23 MR. HIGGINS: I had understood the question
24 was, from Mr. Phelan was whether or not the assessment

1 was proposed in order to complete the funding called
2 for in the Cavanaugh 10-Year Plan, and I thought and
3 believed that Mr. Carlisle answered that earlier, so I
4 think that was a question that he's already answered.
5 But it was not about -- I did not understand his
6 question to be about anything other than just coming
7 back to that which was is the purpose of the
8 assessment to provide funding for the remaining
9 projects recommended in the Cavanaugh Plan.

10 COMMISSIONER BROWN-BLAND: But right now
11 he's asked has that funding been completed. I mean,
12 what remains uncompleted and the value of what remains
13 uncompleted. And that's what I think he did not
14 answer or was not able to answer yet.

15 MR. PHELAN: Thank you. Yes.

16 A (Mr. Carlisle) The \$200,000 a year includes
17 completion of the Cavanaugh Plan as a part of the
18 whole plan. There are, the Cavanaugh Plan was
19 produced in 2012, and since then there have been
20 other circumstances with our water and sewer
21 system - other leaks, other, you know, greater
22 priorities beyond perhaps a specific project that
23 made us redirect our efforts towards today's
24 crisis dealing with a 100-year old

1 infrastructure. So both the work reflected in
2 the work that has been done as well as some of
3 the projects delineated for the work to be done
4 includes the work of the Cavanaugh Plan plus
5 additional work that needs to be done in our
6 community with water and sewer infrastructure.

7 COMMISSIONER BROWN-BLAND: Continue,
8 Mr. Phelan.

9 MR. PHELAN: Thank you.

10 BY MR. PHELAN:

11 Q I did an estimate, Jack, if I -- just looking on
12 down through on Attachment 3A, and believing that
13 the Cavanaugh Plan called for repairing pipes and
14 leaks on our water system, when you tally up all
15 of the outstanding projects that have yet to be
16 done - Atkins Loop, Holston Village Road, North
17 Lakeshore Drive, Siler Circle - that's in 2019;
18 2020, Oxford Road, White Dogwood Road; and then
19 in 2021, Oxford Road continued; and in 2022,
20 County Road, and the sum total of that is around
21 \$450,000. If you were to add those up it comes
22 up to about \$450,000. And where I'm going with
23 that question is we're funding \$200,000 a year;
24 is that correct?

1 A The request is for \$200,000 a year of capital
2 money to complete the work of the Cavanaugh Plan
3 and additional needed work, along with worn out
4 equipment.

5 Q Thank you, Jack. Again, I just wanted -- the
6 outstanding work, according to a spreadsheet,
7 Attachment 3A of the Application, the sum total
8 is about \$450,000.

9 COMMISSIONER BROWN-BLAND: Mr. Phelan, right
10 now is your time to ask questions and you'll have a
11 later time to testify what you've found.

12 MR. PHELAN: Okay. Thank you.

13 COMMISSIONER BROWN-BLAND: So ask questions
14 right now regarding to his testimony and his exhibits
15 and the Application.

16 MR. PHELAN: Thank you.

17 BY MR. PHELAN:

18 Q We are six years into our funding. We are six
19 years into our project, 2014 to 2019, at \$200,000
20 a year, \$1.2 million so far; would you agree?

21 A The total in Attachment 3B is \$855,000.

22 Q Jack, this is in terms of revenue received for
23 the Cavanaugh Project. Can I make that
24 calculation and say \$200,000 a year?

1 A \$200,000 over the last four years.

2 Q Last six years, 2014 to 2019.

3 MR. HIGGINS: Mr. Phelan, point of
4 clarification, are you talking about expenditures or
5 revenues?

6 MR. PHELAN: Revenues received.

7 A Revenues received are -- is a different, is a
8 different -- the revenues received by the water
9 and sewer system is a total number. And the way
10 that we have operated has been the total revenues
11 received less operational expenses has provided
12 us with the capital funding to work our capital
13 plan.

14 Q Would -- your budgeting expenses of \$200,000 a
15 year, correct?

16 A Generally speaking, it's been a number around
17 that. Yes. It is reflected in Exhibit 3B.

18 Q So we would at least have hopefully revenue that
19 would equal that expense?

20 A We would need revenue to operate the system plus
21 the \$200,000 a year.

22 Q And, therefore, going forward 2020 to 23 -- 2023
23 when the 10 years will be up in the Cavanaugh
24 Plan, another \$800,000?

1 A As I indicated in my summary and in the testimony
2 that's been provided, we plan to revisit with
3 another engineering study in the next year or two
4 to identify needs going forward beyond the 2023
5 timeframe.

6 Q Again, I'm asking about the assessment because
7 your objective is to complete the work called for
8 in the Cavanaugh 10-Year Plan?

9 A No. Our objective is to include the work
10 identified in the Cavanaugh Plan plus additional
11 necessary work in order to keep us moving ahead
12 to have the necessary equipment and to have the
13 necessary funds available for other projects that
14 may be identified due to circumstances at the
15 time.

16 Q Your recommendation as continued in both the, in
17 your direct testimony and in the Application is
18 to complete the work called for in the Cavanaugh
19 Plan total scope \$1.8 million. You've stated
20 that 10 of the 14 initial projects have been
21 completed, therefore, doing the math on that it
22 comes up with four additional projects needed to
23 be done?

24 A I'm following your math. Do you have a question?

1 Q I looked through both exhibits, and in my direct
2 testimony I also filed Exhibit 1A and 1B, and I
3 don't see anything listed in there about a truck
4 of \$180,000. Can you help me understand where I
5 would find that?

6 A When we do our capital planning, we look at the
7 Cavanaugh Plan and we assess our operational, our
8 capital needs into the future. Included in that
9 was identified a need for a new sewer truck
10 because of the current sewer truck's current
11 condition and its daily use.

12 Q All right.

13 A And so, the sewer truck is included in that -- in
14 the -- in 3A as a part of our plans to move
15 forward so that we have the necessary tools
16 and equipment, or the necessary equipment to be
17 responsive to the needs of our system.

18 Q And again, I'm going to go back to the objective
19 for the 10-year, excuse me, for the assessment is
20 to complete the work called for in the 10-year
21 plan?

22 COMMISSIONER BROWN-BLAND: Mr. Phelan,
23 that's been asked and answered so he's given you the
24 answer that the plan is not completely about the

1 Cavanaugh Plan, that there's additional work included,
2 and he's answered that several times.

3 MR. PHELAN: Yes.

4 COMMISSIONER BROWN-BLAND: And you are
5 limited to the answer he's given.

6 MR. PHELAN: Okay.

7 COMMISSIONER BROWN-BLAND: You can testify
8 when it's your time about any difference you have with
9 that.

10 MR. PHELAN: Okay. Thank you.

11 COMMISSIONER BROWN-BLAND: So I'm going to
12 ask you to move on and not ask him that particular
13 question again.

14 MR. PHELAN: I have no additional questions
15 to ask of the assessment. I do have questions that I
16 would like to ask concerning his rebuttal.

17 COMMISSIONER BROWN-BLAND: You may do so.
18 Continue.

19 MR. PHELAN: I can continue?

20 COMMISSIONER BROWN-BLAND: Yes.

21 BY MR. PHELAN:

22 Q A couple of questions, Jack, concerning your
23 rebuttal questions, or your rebuttal, and the
24 rebuttal is dated January 6th of 2020. I'm

1 looking at Page 2, lines 5 and 6, *Mr. Phelan*
2 *relies on his Exhibit 1A*, contained in my direct
3 testimony, estimated budget for water and sewer
4 at that time or -- excuse me, estimated budget
5 for water and sewer of \$150,000. And you then go
6 on line 10 is to put this in context, at line 12,
7 and then you reference Page 4 of Exhibit 1A; is
8 that correct?

9 A That's stated on line 26, yes.

10 Q And you have stated that obviously there's very
11 little extra funding to undertake the CIP; is
12 that correct? On the bottom of Page 4. It's the
13 last paragraph on Page 4. The bottom of Page 4,
14 direct testimony Exhibit 1A.

15 MR. HIGGINS: I'm sorry, Mr. Phelan, are you
16 referring to the rebuttal testimony itself or to the
17 attachment?

18 MR. PHELAN: To the attachment.

19 MR. HIGGINS: The attachment to your
20 testimony?

21 MR. PHELAN: Correct. Yes. Thank you, sir.

22 MR. HIGGINS: Actually, Mr. Carlisle, I have
23 it here. I don't think -- I don't know that you have
24 it.

1 A I don't think I do.

2 MR. HIGGINS: Just to be clear, Mr. Phelan,
3 that's your Exhibit 1A?

4 MR. PHELAN: Yes. Correct. Page 4.

5 MR. HIGGINS: Just give me a second and I'll
6 give it to Mr. Carlisle.

7 (Mr. Higgins hands exhibit to the witness)

8 A Okay. I'm looking at the 2012 assessment of the
9 sewer system that was done by a graduate student
10 and the former director of public works.

11 BY MR. PHELAN:

12 Q Correct.

13 A Page 4.

14 Q Page 4. Very last paragraph on Page 4,
15 especially the last sentence that says, *obviously*
16 *there is very little extra funding to undertake*
17 *the CIP*. And you were referencing there the
18 estimated operations budget of \$150,000; is that
19 correct?

20 A This is a 2012 -- this report was published in
21 the spring of 2012. I began my tenure in 2014.
22 But the way budgets were done at that point for
23 water and wastewater included only two,
24 100 percent dedicated operators for the system.

1 All of the other support costs were not a part of
2 that, the way that budgets were done at that
3 point.

4 Sendy, is that correct?

5 A (Ms. Crenshaw) That is correct.

6 Q Was that of me? You were asking me?

7 A (Mr. Carlisle) I asked Sendy if my statement was
8 correct. She affirmed that it is.

9 Q I relied on -- I'm relying on Exhibit 1A, who it
10 was prepared by, and was Buddy Young your
11 former -- the former director of APW?

12 A He was the director of Assembly Public Works at
13 that time.

14 Q You preceded him -- or he preceded you, correct?

15 A That's correct.

16 Q And also the study and the report is prepared by
17 Andrew d'Adesky, UNC School of Government.

18 A That's correct. He was a graduate student that
19 worked with Buddy.

20 Q Okay. So I'm -- let's go over then, Jack, if you
21 would, turn to Page 5.

22 COMMISSIONER BROWN-BLAND: Page 5, still of
23 Exhibit 1A to your testimony?

24 MR. PHELAN: Thank you. Yes. Page 5,

1 Exhibit 1A.

2 Q And the very first paragraph on Page 5, they
3 discuss usage rates, and actually there was a
4 mark up on the usage rate at that time of
5 30 percent. But let's take a look at the second
6 paragraph, Jack.

7 MR. HIGGINS: Is there a question?

8 MR. PHELAN: Coming.

9 Q Do you see where they state *the arithmetic for*
10 *financing our CIP under our current rate*
11 *structure is simple*. And then they go on to
12 state that the operating budget -- or the
13 operations and maintenance, \$150,000. And then
14 continuing on, Jack, they develop estimates for
15 the Capital Investment Plan. And then they end
16 with the rates that would be used to fund that
17 budget of \$150,000 for operations and
18 approximately \$180,000 on Capital Investment
19 Plan.

20 COMMISSIONER BROWN-BLAND: Mr. Phelan, this
21 is all what you read in the second paragraph?

22 MR. PHELAN: Everything is in the second
23 paragraph.

24 COMMISSIONER BROWN-BLAND: Do you see what

1 he's referring to Mr. Carlisle?

2 A I don't see the \$180,000 for -- per year for
3 capital.

4 BY MR. PHELAN:

5 Q Jack, I did -- the calculation is, they state
6 that the water budget, \$189,500 for the water
7 which includes \$75,000 for operations, \$138,360
8 for sewer less \$75,000 for the operations, so the
9 total is, I rounded it up to \$180,000. It
10 actually works out to \$177,860.

11 So my question is these are the
12 same rates that we pay today, \$21.80 for water
13 base rate, and \$15.26 base rate for sewer with
14 the exception that there's been two 1 percent CPI
15 inflation increases?

16 COMMISSIONER BROWN-BLAND: Is that correct,
17 Mr. Carlisle, the last part of his question, the --

18 A Sendy and Jerry, can you help me verify what the
19 current base rate is? Did you have something
20 else you wanted to observe, Jerry?

21 A (Mr. Tweed) I'm having a hard time following all
22 this math coming from these old documents that --
23 I don't think he quoted the correct base rates
24 for water and sewer currently in effect.

1 COMMISSIONER BROWN-BLAND: Could you tell us
2 what the correct rates for today are, Mr. Tweed?

3 A (Mr. Carlisle) It's in the Application I think.

4 MR. HIGGINS: The Application is the first
5 item in that book.

6 A (Mr. Tweed) \$22.24 base rate for water, \$15.94
7 for sewer. I don't remember what he said but I
8 don't think it was that.

9 COMMISSIONER BROWN-BLAND: So that is some
10 increase over the numbers that you quoted, Mr. Phelan.
11 Do you have a question about those numbers, about the
12 numbers that Mr --

13 MR. PHELAN: No. Those are good numbers.
14 Those are the existing rates off of the -- out of the
15 Exhibit 1A with two 1 percent CPI increases.

16 COMMISSIONER BROWN-BLAND: Do you agree with
17 the increases?

18 MR. TWEED: I didn't -- I didn't calculate
19 any CPI increases, I just used the current rates.

20 MR. PHELAN: And, Mr. Tweed, that's how we
21 got to the current rates was took these rates plus did
22 1 percent per year times two.

23 There was two increases right, Jack, two
24 1 percent increases?

1 A (Mr. Carlisle) I don't recall.

2 COMMISSIONER BROWN-BLAND: Does anyone on
3 the panel know we got to the increase and did it
4 involve the CPI increases?

5 A (Mr. Tweed) The increases occurred in a period
6 when they were not regulated by the Commission.
7 I don't know what went in to what percent of
8 increase or how that was calculated.

9 COMMISSIONER BROWN-BLAND: Every one on the
10 panel agree with what Mr. Tweed just said?

11 A (Mr. Carlisle) I agree. What typically happened
12 during that period of time when we were not
13 regulated is that a percentage increase was laid
14 over the entire rate table, and that's
15 generally -- that was approved previously by the
16 Commission.

17 COMMISSIONER BROWN-BLAND: Do you know if
18 the percentage increase was based on the CPI?

19 A Yes, typically, or the pass through from when --
20 of the cost of water -- or the cost of water or
21 the cost of sewer service from Waynesville.

22 COMMISSIONER BROWN-BLAND: Was the CPI in
23 the total basis of the increase or there may have been
24 other components?

1 A The CPI was the basis of the increase. The
2 reason that this is an apples and oranges issue
3 now is because we trued up the true cost of
4 providing water and wastewater service in 2017,
5 as indicated in the testimony, to provide in
6 anticipation of providing this Commission the
7 true cost of what it takes to provide service.
8 So all of this analysis with the past is -- it's
9 really not relevant to what we're doing today.

10 COMMISSIONER BROWN-BLAND: I appreciate your
11 position but I would ask you, Mr. Phelan is
12 representing himself and I would ask to the extent
13 that you can understand and follow his questions or
14 ask him back clarifying questions to help you
15 understand, that you make a fair attempt to answer the
16 question.

17 Mr. Phelan, has that answered the question
18 you are now attempting to ask?

19 MR. PHELAN: I'm satisfied with that.

20 COMMISSIONER BROWN-BLAND: All right. Move
21 on to your next question.

22 BY MR. PHELAN:

23 Q In my prefiled testimony I included Exhibit 3A
24 and it's, the date is June of 2017.

1 A (Mr. Carlisle) His prefiled testimony.

2 MR. HIGGINS: If I can approach, I think I
3 gave you all my -- I gave you all of the exhibits to
4 Mr. Phelan's testimony.

5 (Mr. Higgins approaches the witness stand)
6 What's the number please, sir?

7 MR. PHELAN: Exhibit 3A. It's the Assembly
8 Public Works Director's Report dated June of 2017.

9 A (Mr. Carlisle) Yes.

10 BY MR. PHELAN:

11 Q Okay. And on Page 2 of that report, the pages
12 are not numbered so the second page of that
13 report, at the top, the second bullet, you
14 reallocated expenses that had previously been
15 paid from the service charges, waste products and
16 now added to the sewer budget, I mean water and
17 sewer, correct?

18 A That is correct.

19 Q And then continuing down, what are the impact of
20 these changes? Your statement *put in more*
21 *water/sewer expenses into that budget will impact*
22 *the dollars we'll have available for renewal and*
23 *refurbishment of our water and sewer system; is*
24 *that correct?*

1 A That is correct. Because of the way that we
2 operate, by adding those expenses into our
3 operating expense that provided fewer dollars
4 available for capital work.

5 Q So the operations budget was increased?

6 A That would be the result of that; yes, sir.

7 Q And was there a result in increase in the rates
8 to fund that increase? Was there even a request
9 to increase rates to fund that increase?

10 A No, not at that time.

11 Q So going back again to Page 5 of Exhibit 1A.

12 MR. HIGGINS: Mr. Phelan, which Exhibit 1A?

13 MR. PHELAN: Thank you very much. My direct
14 testimony Exhibit 1A.

15 MR. HIGGINS: Is that the spring 2012 --

16 MR. PHELAN: It is.

17 MR. HIGGINS: -- report?

18 MR. PHELAN: Yes. The Lake Junaluska
19 Assembly Public Works Water and Sewer System
20 Assessment and Appraisal, Spring of 2012.

21 A Okay. I have Exhibit 1A in my hands.

22 COMMISSIONER BROWN-BLAND: He referred you
23 to Page 5.

24

1 BY MR. PHELAN:

2 Q Page 5.

3 A (Mr. Carlisle) Thank you.

4 Q Now, the operations budget included in there as
5 you see is \$150,000; is that correct?

6 A That's what it says from 2012.

7 Q And now with the funds being transferred, the
8 operation expense being transferred from the
9 sewer -- excuse me, into the sewer from the
10 service charges that has increased substantially;
11 is that correct, the operations budget?

12 A The operational expense is greater because as a
13 result of correcting and making representative, a
14 true representation of the cost of providing the
15 service, yes.

16 Q The rates that were currently charged are the
17 rates that went into effect November 1st, 2013,
18 and there was two 1 percent increases to get to
19 the \$22.24 and the \$15 that Jerry Tweed stated.
20 There's been no changes. Have you requested rate
21 increases to fund the increased cost of
22 operations?

23 A No, not to my recollection.

24 Q My question to you --

1 A The requested increases during that period of
2 time reflected CPI changes in terms of the
3 inherent costs going up on the operational side
4 and then any additional pass through costs from
5 the Town of Waynesville. Those represent the
6 majority of the additional expenses.

7 Q I believe you in the Application, and I don't
8 remember what page that's on, I'm sorry, but in
9 your rebuttal --

10 May I have one minute?

11 COMMISSIONER BROWN-BLAND: If you need the
12 document, Mr. Phelan, you can look for it, but if you
13 know the question you can just ask him.

14 MR. PHELAN: Thank you.

15 BY MR. PHELAN:

16 Q The operations total that you know lists in the
17 Application submitted to the Commission is now
18 greater than \$362,000, \$362,437?

19 MR. HIGGINS: Is there a reference, please,
20 sir?

21 MR. PHELAN: I'm sorry, I can't supply that.
22 I don't have that.

23 MR. GRANTMYRE: I believe he's talking about
24 rebuttal testimony, Page 2, line 4.

1 MR. PHELAN: Yes. Thank you very much,
2 Mr. Grantmyre.

3 A (Mr. Carlisle) Page 4, line 2?

4 MR. GRANTMYRE: Page 2, line 4.

5 A Line 4 of Page 2 says that the \$362 -- Attachment
6 2A to our Application, filed on September of '18,
7 reflects an adjusted budget for annual operating
8 expenses for 2018, not including the cost of
9 purchase of water and sewer services of
10 \$362,430.17.

11 BY MR. PHELAN:

12 Q So Jack, you would agree, substantially higher
13 operations costs still trying to target \$200,000
14 capital improvements, essentially we're being
15 charged the same rate as of right this moment.
16 And my question to you is this, whether we are
17 sitting here before the Commission or if we're
18 continuing to operate under an exemption,
19 wouldn't you have to request a rate increase to
20 fund for the higher cost of operations?

21 A That's the reason we're here, Mr. Phelan.

22 Q The reason that we're here is to -- the way I
23 understand is --

24 COMMISSIONER BROWN-BLAND: Mr. Phelan, work

1 your way to a question. Don't argue with the witness.

2 MR. PHELAN: Okay. Thank you.

3 BY MR. PHELAN:

4 Q Under exemption from regulation as we are
5 currently --

6 A No, we're not.

7 Q -- who had responsibility for approving the
8 Assembly Public Works' water and sewer budget?

9 MR. HIGGINS: Madam Commissioner, I realize
10 Mr. Phelan is pro se and I'm -- but the issue before
11 the Commission in this proceeding is whether or not
12 you're going to issue a Certificate of Public
13 Convenience to them and how the rates are going to be
14 set. And so I would say that the question about how
15 they set rates when they were exempted is irrelevant
16 to the issue before the Commission which is what's the
17 cost of providing the service and should -- are they
18 fit to provide it, so I object.

19 COMMISSIONER BROWN-BLAND: Mr. Phelan, I'm
20 going to sustain that objection but I will in general,
21 as I have been doing, grant you leeway, and there's no
22 magic to how you ask the questions so if you have
23 questions just get to the heart of it and ask him what
24 you want to ask him.

1 MR. PHELAN: Thank you.

2 COMMISSIONER BROWN-BLAND: But not questions
3 related to how the rates were set when they were
4 exempt.

5 MR. PHELAN: I have no further questions to
6 ask.

7 COMMISSIONER BROWN-BLAND: Thank you, sir.
8 So cross examination from the Public Staff?

9 MR. GRANTMYRE: The Public Staff has no
10 questions.

11 COMMISSIONER BROWN-BLAND: Questions from
12 the Commission? Sorry. Redirect?

13 MR. HIGGINS: Just a couple.

14 REDIRECT EXAMINATION BY MR. HIGGINS:

15 Q Mr. Carlisle, what's the date of the Cavanaugh
16 Study?

17 A May 1st, 2012.

18 Q Is the sole purpose of the assessment that's been
19 requested by Lake Junaluska in this proceeding to
20 complete the work recommended in the Cavanaugh
21 Study?

22 A Did you say the sole purpose?

23 Q Yes, sir, that's what I said.

24 A Okay. The purpose of the request is to

1 include -- it includes the completion of the
2 Cavanaugh Study plus additional work that is
3 needed.

4 Q What is the sewer jetter truck?

5 A When we get a call about a stopped up line the
6 sewer jetter truck provides the necessary
7 resources for us to clear that line. It could be
8 in a manhole. It could be down or somewhere else
9 down the line. And that sewer jetter truck is
10 used several times a week, if not daily, to clear
11 those lines, those mains where they may have been
12 impacted by tree roots or other factors that
13 exist in our 100-year old system.

14 Q And is it true that it's a 25-year old truck that
15 y'all bought used from the Town of Waynesville
16 about 10 years ago?

17 A That is correct.

18 MR. HIGGINS: No further questions.

19 COMMISSIONER BROWN-BLAND: Thank you. Now
20 questions from the Commission? Do you have questions
21 of these witnesses? Commissioner Hughes.

22 EXAMINATION BY COMMISSIONER HUGHES:

23 Q For your future work have you investigated low
24 interest loans that would spread the amount that

1 you had to pay over a longer period of time and
2 you could accelerate your Capital Improvement
3 Plan if need be?

4 A (Mr. Carlisle) Right. That strategy has been
5 explored and discussed. And our conclusion with
6 that is that, because our customers bear the
7 brunt of our capital improvements, they would
8 experience both the cost of doing the work itself
9 plus the cost of the low interest loans, thereby
10 rendering the work -- the burden on our customers
11 to be even greater than the approach that we're
12 taking which is basically a pay-as-you-go system.

13 Q Thank you. So we've talked and heard that there
14 is significant unaccounted for water in your
15 system and you are paying Waynesville for --
16 essentially paying Waynesville for that, and then
17 based on the nature of the sewer contract or
18 agreement you have with them you're also paying
19 for sewer. Do you have any evidence that there
20 are significant inflow and infiltration problems
21 in your sewer lines so that you are potentially
22 sending storm water to Waynesville? Has that
23 been something that you've looked at?

24 A Every two years we lower the lake. Our mains

1 that connect to Waynesville are under the lake.
2 Waynesville does I&I at that point. And we do
3 visual inspections. We did some smoke testing.
4 Wait a minute.

5 MR. CARLISLE: (Asking an audience member)
6 Did we do smoke testing this year?

7 UNKNOWN SPEAKER: We are doing smoke
8 testing.

9 A We are doing smoke testing to figure out if I&I
10 issues exist.

11 Q And has there been evidence that there are
12 significant I&I in the past?

13 A Not during my tenure.

14 UNKNOWN SPEAKER: (Inaudible)

15 A We don't know the results of this year's
16 inspection, but not during my tenure, no.

17 Q And has there ever been broaching the subject
18 with Waynesville about a potential renegotiated
19 sewer agreement so that you could get some sort
20 of discount for not paying for the water loss in
21 the -- what you pay for sewer services? Does
22 that make sense?

23 A I understand the question. Waynesville is set up
24 with a bulk rate that pertains to Lake Junaluska

1 Assembly, our system, as well as our neighboring
2 Junaluska Sanitary District, and so we work under
3 the same rules or we work under the -- you know,
4 the same set that --

5 What am I trying to say? What
6 Junaluska Sanitary District pays for we also pay
7 for under the bulk rate that's established by the
8 Town of Waynesville.

9 Q I understand. What other revenue sources does
10 the Assembly have to deal with their general
11 costs other than the water and sewer monthly? So
12 before when you mixed it together, I understand
13 the water and sewer rates were covering part of
14 it, that there were other charges.

15 A Yeah.

16 Q Can you just describe what those are?

17 A Sure. To pay for the additional services of
18 Assembly Public Works, to provide this city-type
19 services beyond the water and sewer system, we
20 have what are called service charges. We take
21 the property appraiser's evaluation of a home and
22 multiply that by millage that's established and
23 approved by our Board of Trustees and then we
24 bill and collect those service charges and that

1 provides the -- that's the other significant
2 source of revenue for the Assembly Public Works
3 operation.

4 Q And then last question. So moving forward with
5 this new number that you've calculated in your
6 allocation of costs. Are you more confident
7 moving forward that you -- you're taking account
8 of the actual cost of water and sewer, and water
9 and sewer rates and charges will be more
10 accurately able to be designed to cover the
11 actual cost?

12 A Yeah, absolutely.

13 COMMISSIONER HUGHES: No further questions.

14 COMMISSIONER BROWN-BLAND: Chair Mitchell.

15 EXAMINATION BY CHAIR MITCHELL:

16 Q Question for the panel. Just reading through the
17 Affidavit submitted by Public Staff witness, or
18 Affiant Craig, he recommends a 7.5 percent margin
19 on expenses and he says he arrived at that number
20 based on his understanding of the cost of capital
21 for small water and sewer companies, and he also
22 suggests that factors that the Commission
23 consider when judging the adequacy of a return is
24 interest coverage and he lists several others.

1 So can you help me understand, is the -- are you
2 all currently paying interest on any debt?

3 A (Mr. Tweed) Not included in this proceeding at
4 all that I know of. The 7.5 percent operating
5 margin that he is recommending is acceptable to
6 the Company or to Lake Junaluska as being a
7 reasonable margin for operating. They're not
8 looking to make any profit. They're a nonprofit
9 group. So a 7.5 percent margin on operating
10 expenses is very acceptable to the Company.

11 Q And is that just for contingency purposes? Or
12 what is the purpose of the margin?

13 A If you set the rates exactly what the expenses
14 are, you're going to exceed that. That's just
15 natural. It's going to happen. You need that
16 margin to cover anything that may be
17 unanticipated.

18 MS. MITCHELL: Thank you.

19 COMMISSIONER BROWN-BLAND: Commissioner
20 Clodfelter.

21 EXAMINATION BY COMMISSIONER CLODFELTER:

22 Q Would any of the three of you care to comment on
23 Mr. Davis' position which as I understand it is
24 that the proposed rate structure would result in

1 residential customers subsidizing usage by
2 commercial customers. Would y'all like to
3 comment on that position?

4 A (Mr. Tweed) I personally disagree with his
5 assessment. I think the residential customers
6 under our proposed rate structure are paying
7 their way, the commercial customers are paying
8 their way. I don't think there's any subsidizing
9 there. He alleges because the -- that the
10 commercial customers use more water than the
11 residential customers on average that more of the
12 revenue requirement should go over there but
13 they're paying more for that water. They're
14 paying a rate per 100 cubic feet, the same as the
15 residential are, so I don't agree with his
16 point.

17 Q If they are paying the same then what accounts
18 for the difference in the percentage of revenue
19 relative to the percentage of usage? Is that the
20 meter charge? Is that the --

21 A My belief is basically it's a -- the residential
22 rates, consumption is very low. It's an average
23 of 2000 gallons per month per customer
24 essentially. And they're paying a base rate of

1 \$22.00. If someone is an absentee resident for
2 six months of the year and they're paying \$22.00
3 per month for zero usage, that's going to result
4 in the skewing of the numbers as shown in
5 Mr. Davis' exhibit.

6 Q Well I thought that might be the answer. It's
7 the base charge that accounts for that disparity.
8 Have you done any calculation to verify that and
9 confirm that that is, in fact, the case?

10 A I have not but I believe that to be the case.

11 Q Thank you.

12 A Because of the very low average consumption of
13 2000 gallons per month per customer average
14 across the state. For the residential customer
15 would be more like 6,000 gallons a month.

16 Q Thank you, sir.

17 A And excuse me for speaking in gallons instead of
18 cubic feet, which is what they use here, because
19 I don't speak very well in cubic feet.

20 Q I can speak either language. I've worked with
21 both.

22 (Laughter)

23 COMMISSIONER BROWN-BLAND: Commissioner
24 McKissick.

1 COMMISSIONER McKISSICK: Thank you, Madam
2 Chairman.

3 EXAMINATION BY COMMISSIONER McKISSICK:

4 Q I guess the question addresses an issue that
5 emerged in my mind when I heard Mr. Carlisle
6 speak of the Junaluska Sanitary District. Is
7 there some reason why this particular development
8 is not part of the Sanitary District because they
9 would obviously have authority to impose ad
10 valorem taxes which would, in my mind, perhaps be
11 a longer term approach to help finance what
12 you're proposing to do. Is there a reason why
13 that has not occurred over the years?

14 A (Mr. Carlisle) Our Board of Trustees is the
15 owner of the water and sewer system. So any
16 decision about that would be discussed by our
17 owners.

18 Q Are your boundaries --

19 A And there has --

20 Q Go ahead.

21 A To my knowledge there's been -- well, I can't
22 make the statement because I've only been around
23 for five years and the system has been around a
24 lot longer. I don't know the history.

1 Q Are your borders contiguous with the Sanitary
2 District?

3 A Yes.

4 Q And the Sanitary District, it provides services
5 to, if you know, to about how many customers?

6 A I don't know their numbers.

7 Q Okay. And how are their rates compared to what
8 you charge? You're all getting water from the
9 Town of Waynesville, right?

10 A The Sanitary District and Lake Junaluska Assembly
11 both buy water from Waynesville and send their
12 wastewater to Waynesville. And we're both under
13 the same bulk rate in terms of what we pay for
14 that service as established by the Town of
15 Waynesville.

16 Q Okay. And I guess the last follow up is simply
17 this, the question was raised by Commissioner
18 Hughes about infiltration/inflow analysis and
19 frequently a mechanism for detecting whether
20 there are problems is video technology. So I
21 mean has that been done to perhaps identify
22 issues or problems where you could be able to
23 determine whether there is infiltration/inflow as
24 opposed to actual water consumption that's

1 passing through?

2 A When we become aware of issues we use our video
3 camera as one way of exploring what's going on
4 with a particular pipe.

5 Q And have you had much success in identifying
6 whether there are issues or problems because that
7 would certainly be able to help you determine
8 whether this is leakage from water or not or
9 whether the water is actually going through the
10 lines and getting down to the wastewater sewer
11 treatment plant?

12 A Right. Because we pick low apples first in terms
13 of addressing our both water and wastewater line
14 issues, I can tell you that we're better today
15 than we were, as reflected in the metric around
16 water loss. I know that doesn't pertain directly
17 to your question. However, we pay attention --
18 we pay attention to both and have made
19 improvements both on the water and sewer side
20 using or addressing our oldest lines, either
21 oldest lines or lines that have been having
22 problems first.

23 Q Okay.

24 A But we do not have a metric around I&I.

1 Q You do not?

2 A No, sir.

3 Q And I noticed the Cavanaugh Study, that goes back
4 I think to 2012 or so, and you're projecting
5 updating that analysis I think around 2021 or
6 '22. I mean --

7 A Yes.

8 Q -- do you have any thoughts about whether it is
9 likely to project or show a greater need for
10 repairs or whether the repairs that are being
11 done are adequately addressing the problem as
12 well as the anticipated cost moving forward?

13 A My belief is that we have been adequately
14 addressing the highest priorities. I don't
15 expect a lot of surprises along the way because
16 we're -- our service area is contained, it's
17 relatively small, and we're out in the community
18 every single day covering -- we're in the
19 neighborhood so if there are issues we're finding
20 them and addressing them along the way. So the
21 short answer is no I do not expect any
22 significant surprises.

23 COMMISSIONER McKISSICK: Thank you.

24 COMMISSIONER BROWN-BLAND: Commissioner

1 Gray.

2 EXAMINATION BY COMMISSIONER GRAY:

3 Q Mr. Tweed, in your summary of your testimony --

4 A (Mr. Tweed) Yes, sir.

5 Q -- you recommend that the revenues collected for
6 the capital improvements be accounted for
7 separately and the amount spent on each capital
8 project with regular reporting to the Commission
9 and the Public Staff; is that correct?

10 A Yes, sir.

11 Q Have the Lake Junaluska Assembly agreed to your
12 recommendations?

13 A Yes, sir.

14 COMMISSIONER GRAY: Thank you.

15 COMMISSIONER BROWN-BLAND: One question for
16 Mr. Carlisle.

17 WITNESS CARLISLE: Yes, ma'am.

18 EXAMINATION BY COMMISSIONER BROWN-BLAND:

19 Q Public Staff witness Gina Casselberry recommended
20 that the Company post a \$50,000 bond for water
21 and sewer operations of Lake Junaluska. Does the
22 Company agree with the amount of the bond
23 recommended? And what is the expected timing
24 with respect to posting?

1 UNKNOWN SPEAKER: Yes, we do and we're doing
2 the paperwork now.

3 A (Mr. Carlisle) Yes, we agree to the proposal and
4 we're doing the paperwork now to secure the bond.

5 Q And so you expect to post that as soon --

6 A Yes, ma'am.

7 Q -- as you can get approval?

8 COMMISSIONER BROWN-BLAND: Are there
9 questions on the Commission's questions?

10 MR. HIGGINS: Yes, I have a question.

11 EXAMINATION BY MR. HIGGINS:

12 Q Mr. Carlisle, with respect to Commissioner
13 McKissick's question about the Sanitary
14 District's proximity, is the Lake Junaluska
15 Assembly contiguous to the Town of Waynesville?

16 A (Mr. Carlisle) Yes, it is.

17 Q And was there an effort in some years ago to
18 have -- did Lake Junaluska seek to be annexed
19 into the Town of Waynesville?

20 A Yes, we did.

21 Q And was that effort successful?

22 A It was not.

23 Q Was it supported by the Town of Waynesville?

24 A It was.

1 Q Was it supported by -- was it supported by a
2 majority of the residents of the Assembly?

3 A Yes, it was, according to extensive survey work
4 that was done at the time.

5 Q But it did not come to pass?

6 A It did not.

7 MR. HIGGINS: Thank you, sir. I don't have
8 any other questions.

9 COMMISSIONER BROWN-BLAND: Mr. Higgins, I
10 apologize, but the Commission had some additional
11 questions that our staff wanted us to ask so I'll come
12 right back around to you. And they go to Mr. Tweed.

13 Thought you were off. I'm sorry.

14 EXAMINATION BY COMMISSIONER BROWN-BLAND:

15 Q On the last page of Mr. Phelan's testimony he
16 expressed four additional considerations or
17 requests and his Item 2 was for the Commission to
18 determine the estimated capital cost to complete
19 those remaining four projects. You've heard him
20 asking questions about that.

21 Would the Company be able to
22 include in the quarterly reports to be filed, as
23 has been recommended by the Public Staff, the
24 information regarding the estimated cost to

1 complete those projects for public viewing of the
2 customers?

3 A (Mr. Tweed) I don't know specifically what those
4 four projects are, but I'm sure the Company could
5 report on those four projects as well as any
6 other projects that they anticipate having.

7 Q And then Item 4, Mr. Phelan requested that the
8 Commission determine the capital funds needed for
9 the next five years to complete the remaining
10 four projects and also to determine if those
11 projects include the \$30,000 new engineering
12 study in 2022 or the new water truck. Would the
13 Company be able to include that in its quarterly
14 reports, again as recommended by the Public
15 Staff, the projected capital expenditures for
16 each year of the next five years by descriptive
17 category and the amount for public viewing by the
18 customers?

19 A I'm going to have to defer on that one.

20 COMMISSIONER BROWN-BLAND: He's deferring to
21 you, Mr. Carlisle.

22 A (Mr. Carlisle) Yes, ma'am. I want to point to
23 the correct exhibit or attachment in the
24 Application where those projects are spelled out,

1 and certainly reporting against that schedule is
2 an appropriate thing to do. It includes the four
3 projects from the Cavanaugh Plan, it includes
4 projects beyond the Cavanaugh Plan that in the
5 judgment of our management and our operator in
6 charge are needed, and so there should be no
7 problem. Our monthly report -- our quarterly
8 report that we've already agreed to is, after
9 submittal, is public record.

10 Q And you will include those projected capital
11 expenditures for each year for the next five
12 years in that quarterly reporting?

13 UNKNOWN SPEAKER: Yes.

14 A Current management says yes. I'm the retired
15 guy.

16 Q And in regard to Item 3, he requested that the
17 Commission determine that the rates are adequate
18 to fund the remaining projects based on the
19 original expense estimates. Is it the Company's
20 intent that the proposed capital surcharge for
21 water and sewer will be adequate to fund the four
22 remaining projects of the Cavanaugh 10-Year Plan,
23 and can you explain?

24 A The proposed surcharge includes completion of the

1 Cavanaugh work as well as additional work that's
2 needed.

3 Q And you -- it's your opinion that that is
4 adequate?

5 A Yes.

6 COMMISSIONER BROWN-BLAND: Now, Mr. Higgins,
7 any more questions on the Commission's last set of
8 questions?

9 MR. HIGGINS: No, ma'am.

10 COMMISSIONER BROWN-BLAND: In total, are
11 there questions on the Commission's questions over
12 here?

13 MR. GRANTMYRE: The Public Staff has no
14 questions.

15 COMMISSIONER BROWN-BLAND: There being no
16 further questions, Mr. Higgins, I think you have some
17 business to attend to?

18 MR. HIGGINS: I do. I move the admission of
19 the prefiled testimony and exhibits attached to it.

20 COMMISSIONER BROWN-BLAND: I had not
21 received the exhibit yet.

22 MR. HIGGINS: And so I'll -- with that, that
23 would be the case for the Assembly.

24 COMMISSIONER BROWN-BLAND: The exhibit that

1 was attached to the rebuttal testimony of Witness
2 Carlisle will be received into evidence without
3 objection.

4 (WHEREUPON, Carlisle Rebuttal
5 Exhibit 1 is admitted into
6 evidence.)

7 COMMISSIONER BROWN-BLAND: And with regard
8 to the Application and the exhibits?

9 MR. HIGGINS: Yes, ma'am, we'd move the
10 admission of the Application and the exhibits and
11 schedules attached to it.

12 COMMISSIONER BROWN-BLAND: They will be
13 received into evidence without objection.

14 (WHEREUPON, Application, Amended
15 Application and Attachments are
16 admitted into evidence.)

17 COMMISSIONER BROWN-BLAND: The panel may
18 be excused.

19 (The witnesses are excused)

20 COMMISSIONER BROWN-BLAND: And the
21 Commission will take a 15-minute break and come back
22 on the record at 12:00.

23 (A recess was taken at 11:45 a.m.,
24 until 12:00 p.m.)

1 COMMISSIONER BROWN-BLAND: Let's come back
2 to order.

3 Mr. Phelan, we're at the stage of the
4 hearing now that you can put on your case, and so if
5 you'd come to the stand, let us get you sworn in.

6 TIMOTHY F. PHELAN;

7 having been duly sworn,

8 testified as follows:

9 COMMISSIONER BROWN-BLAND: You may be
10 seated.

11 EXAMINATION BY COMMISSIONER BROWN-BLAND:

12 Q So if you would just state your name and address
13 and then from there we might have a few questions
14 for you about your prefiled testimony.

15 A First of all, I'd like to say thank you very much
16 for the opportunity to speak with you before the
17 Commission. I appreciate that very, very much.

18 My name is Tim Phelan. My wife
19 Judy and I live at Lake Junaluska and we've lived
20 there now for 15 years. Both of us are retired.
21 I retired after 37 years from a financial
22 planning and investment management practice that
23 I began in 1976. I obtained my CFP, Certified
24 Financial Planner, designation in 1983. I have a

1 bachelor of science degree in biology, a master
2 of science degree in zoology. I served as an
3 elected member of the Lake Junaluska Community
4 Council for two years, September of 2016 to
5 August of 2018. I chose not to seek reelection
6 in 2018.

7 Q Okay. Mr. Phelan, and just keep your place right
8 there because I'm going to ask you to come back
9 to that in a minute but let us get your testimony
10 into the record if possible.

11 So let me start but asking you the
12 testimony that you filed on December 23rd, 2019,
13 as your direct testimony, it was four pages, with
14 five exhibits that were marked 1A, 1B, 2A, 3A and
15 4A. Did you prepare that testimony yourself?

16 A Yes, I did.

17 Q Do you have any corrections today that you would
18 make to that testimony?

19 A I have no corrections.

20 Q If you were asked those same questions that you
21 posed to yourself in your direct testimony, would
22 your answers be the same today?

23 A Yes, they would be.

24 COMMISSIONER BROWN-BLAND: If there is no

1 objection by any of the other parties, I would receive
2 his evidence -- his prefiled testimony and his
3 exhibits marked as they were when prefiled into
4 evidence at this time?

5 MR. HIGGINS: No objection.

6 MR. GRANTMYRE: No objection.

7 COMMISSIONER BROWN-BLAND: That will be so
8 received.

9 (WHEREUPON, Phelan Exhibits 1A,
10 1B, 2A, 3A, and 4A are marked for
11 identification as prefiled and
12 received into evidence.)

13 (WHEREUPON, the prefiled direct
14 testimony of TIMOTHY F. PHELAN is
15 copied into the record as if given
16 orally from the stand.)

**Lake Junaluska Assembly, Inc
Docket No. W-1274, Sub 7**

Direct Testimony of Timothy F. Phelan

December 17, 2019

Q. STATE FOR THE RECORD MY NAME, ADDRESS, AND PRESENT POSITION

A. My name is Timothy F. Phelan. My wife Judi and I live at 48 Hoosier Court, Lake Junaluska, NC 28745. We've resided at this address for 15 years (February 2005). Originally from Waterbury, Connecticut, I moved to the Waynesville, NC area in 1976, soon to be 44 years ago. My present position: Retired.

Q. QUALIFICATIONS AND EXPERIENCE

A. I retired on September 30, 2013 from Phelan Financial Services, Inc., a Financial Planning and Investment Management practice that I began in July 1976. My office was located in Waynesville, NC. I obtained my CFP (Certified Financial Planner) designation in December 1983. I was blessed to have worked in this profession for 37 years. Additionally, I have a BS degree in Biology and a MS degree in Zoology. I served as an elected member of the Community Council for two years, September 2016-August 2018. I chose not to seek reelection in 2018.

Q. DESCRIBE THE LAKE JUNALUSKA (LJA) COMMUNITY

A. We, like many other residents, have chosen to live at Lake Junaluska because we love the area. It's a beautiful place to live. This area offers easy access to Waynesville and other towns west of us. Access to Asheville, and all that it offers, is a short drive away. My wife and I both enjoy walking, hiking, and for me, cycling. We've found this area offers us many opportunities to enjoy the outdoors.

Q. EXPLAIN YOUR RATIONALE FOR FILING A FORMAL COMPLAINT

A. First, I want to thank the Commission for considering the Formal Complaint I filed on October 11, 2017, in Docket No. W-1274, Sub 5. I was concerned, that as an elected member of the Community Council, I was charged with the responsibility and liability of setting rates to fund a budget that was prepared, approved, and monitored by another entity, namely the LJA Board of Trustees. The Position Paper submitted with the Formal Complaint lists several Issues that caused me concern. Lake Junaluska Assembly, Inc. filed their response on November 1, 2017, in Docket No. W-1274, Subs 5 and 6, denying the Issues I presented, but consented to be regulated by the Commission. On April 23, 2018 in Docket W-1274, Subs 5 and 6, the Commission issued an Order revoking the exemption granted to Lake Junaluska Assembly, Inc. Personally, my preference is that Lake Junaluska Assembly, Inc. would be exempt from Commission regulation. However, given the concerns I've

stated above and having had limited access to detailed financial information, both as a resident of our Community and as an elected member of the Community Council, at this time I feel it prudent that Lake Junaluska Assembly, Inc. Water and Sewer be regulated by the Commission as requested in Lake Junaluska Assembly's, application for a Certificate of Public Convenience and Necessity

Q. ARE THERE ISSUES WITH LAKE JUNALUSKA'S WATER DISTRIBUTION AND SEWER COLLECTION FACILITIES

A. Approximately seven or eight years ago, our Community was made aware there was a compelling need to significantly increase the levels of spending on our water and sewer system infrastructure replacement and upgrades. The Community was told that much of our infrastructure and equipment was approaching the end of its useful life and in need of repair or replacement. This matter was presented to the Community at multiple Municipal Task Force meetings as well as the monthly Community Council meetings. Annexation into Waynesville was the solution favored by the Board of Trustees, the governing body for Lake Junaluska Assembly, Inc. This was an option that myself and several other members of the Community opposed. We believed our Community had the talent and the wherewithal to address and fix the infrastructure repairs needed. Once it became apparent that our Community would not be annexed into the Town of Waynesville, the Community Council and the Trustees recommended moving forward with capital improvements. Two capital improvement plans (Cavanaugh and Martin McGill) were evaluated and presented to our Community. At the September 3, 2013 Community Council meeting, the Council approved the budget based on The Cavanaugh Plan (10-Year Plan).

Q. DID LAKE JUNALUSKA ASSEMBLY TAKE ACTION TO ADDRESS ITS EXTENSIVE WATER LOSSES?

A. Yes. In the Spring 2012, Buddy Young (Assembly Public Works Director at that time) and Andrew d'Adesky (UNC School of Government) presented to the Community their study titled Lake Junaluska Assembly Public Works Water and Sewer System Assessment and Appraisal. As stated in the Executive Summary, "this Assessment and Appraisal is being released along with the Capital Improvement Plan (CIP) that has been completed by Cavanaugh and Associates, PA. The CIP spells out in detail the areas of our water and sewer systems that are in critical need of repair and the estimated cost of those repairs over the next ten years. This Assessment and Appraisal is an attempt to put the CIP into perspective, to inform our Community about our water and sewer systems, and to help us as a community to identify the best ways to move forward with this plan and integrate it into our overall strategic planning process." As stated above, The Cavanaugh Plan was approved on September 3, 2013. The plan became the blueprint for Assembly Public Works to address problems in the water and sewer needed infrastructure repairs.

The Assessment and Appraisal report prepared by Buddy Young and Andrew d'Adesky contains a wealth of information presented to our Community (**Exhibits 1A and 1B**). The following information can be found in **Exhibit 1A**, namely:

1. Need for repairs and upgrades: pgs. 2 & 3
2. Estimated 10 Year expense to upgrade water and sewer systems: pg. 5
3. Estimated base rate increase needed to provide funds annually for capital improvements: pg. 5
4. Operation and maintenance budget of \$150,000: pgs. 4 & 5
5. Markup for water and sewer usage due to water loss: pg. 5
6. "APW's water and sewer rate structure has been established and approved by the North Carolina Utility Commission": pg. 5
7. "To continue operation of our system without putting in place the funding and planning to carry out these projects soon, will surely force painful and expensive decisions before much longer": pg. 7

Q. HOW WAS THE COMMUNITY MADE AWARE OF THE RATE INCREASES NEEDED TO FUND THE CAPITAL IMPROVEMENT PLAN

A. Detailed reports regarding the infrastructure improvements needed for the Community's Water and Sewer Systems were made publically available at the Lake Junaluska website. Additionally, a letter dated October 22, 2013 was mailed to the Community, highlighting the annual cost of improvements as well as the new rate structure to fund the improvements. (**Exhibit 2A**)

Q. HAS LAKE JUNALUSKA MADE PROGRESS IN ADDRESSING THESE ISSUES

A. Yes. I believe LJA has made progress in addressing these issues. Since the Capital Improvement work began in 2014, purchased water losses have decreased. Recently, it was reported that 10 of the initial 14 projects identified in the Cavanaugh Plan have been completed. This is wonderful news for our Community. However, it has also been reported that Radio Read Meters have been installed that cost the Capital Plan \$157,530. Radio Read (digital meters) were considered in the Cavanaugh Plan but were not included due to the estimated additional cost of \$196,000. (**Exhibit 1A, pg. 3**). Additionally, we were informed that APW was re-allocating certain expenses that previously were funded from Service Charge Revenues. They would now be included in the Water and Sewer budget. The June 2017 APW Director's Report advised the Community Council, that "putting more water/sewer expenses into that budget will impact the dollars for renewal and refurbishment of our water and sewer system." (**Exhibit 3A, pg. 2**) In both cases, it appears that funds intended for Capital Improvement were not used for that purpose.

Q. HAVE YOU RECEIVED ALL INFORMATION FROM LJA THAT YOU REQUESTED IN YOUR DATA REQUEST No. 1?

A. No. Please see enclosed response from Daniel C. Higgins on behalf of LJA. (Exhibit 4A)

Q. ADDITIONAL CONSIDERATIONS OR REQUESTS?

A. Yes. Prior to the Commission approving LJA's request for new rates, will the Commission consider the following:

1. A Certified Audit of Water and Sewer of LJA Assembly Public Works utility service for the period November 2013 to December 2019, to include Revenues and Expenses for both Capital Improvements and for Operations. Our Community was told that beginning November 1, 2013, the water and sewer rate increases called for in the Cavanaugh 10-Year Plan, approved by both the Community Council and LJA Board of Trustees, were intended to fund Capital Improvements of approximately \$180,000 per year for 10 years, and \$150,000 per year for operations. The Operation expenses listed in LJA attachments #2A and #2B total \$362,430, excluding the cost of water paid to the Town of Waynesville. This represents an increase of \$212,430 (approximately 142%) in expenses for Operations in five years since our rates were increased on November 1, 2013.

2. Determine the estimated capital cost to complete the remaining 4 projects that were identified in the initial Cavanaugh 10-Year Plan.

3. Determine if the current rates stated in LJA attachment #1A and #1B are adequate to fund the 4 remaining projects, based on original expense estimates for Capital Improvements and Operations, called for in the Cavanaugh 10-Year Plan.

4. Determine the Capital Funds needed for the next five years to complete the remaining 4 projects identified in the initial Cavanaugh 10-Year Plan, to include the \$30,000 estimate for a new engineering study in 2022, but exclude the \$180,000 cost listed for a new sewer truck at this time. The expense listed for a sewer truck was not part of the work called for in the Cavanaugh 10-Year Plan that was approved in 2013. Perhaps a sewer truck can be considered after the completion of a new engineering study updates the status of our water and sewer system infrastructure.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

1 BY COMMISSIONER BROWN-BLAND:

2 Q Mr. Phelan, if you would complete, go ahead where
3 you left off with your summary we'll be in
4 business.

5 A Thank you.

6 The Lake Junaluska Community was
7 made aware in 2011-2012 that we needed to
8 significantly increase the levels of spending on
9 our water and sewer infrastructure replacement
10 and upgrades.

11 This was presented at several
12 Municipal Task Force meetings as well as monthly
13 Community Council meetings.

14 Annexation into Waynesville was
15 one of the solutions considered. Many members of
16 the Community, including myself, were not in
17 favor of annexation. Annexation was not
18 approved.

19 Two Capital Improvement Plans were
20 considered: the Cavanaugh 10-Year Plan and
21 Martin-McGill.

22 The Community Council on September
23 3rd, 2013, chose to go forward with the Cavanaugh
24 10-Year Plan and they approved that budget at

1 that meeting.

2 Details of the Cavanaugh Plan are
3 contained in the exhibits that I've already
4 prefiled: Exhibit 1A and 1B.

5 Both reports can still be found on
6 the Lake Junaluska Community Plans website.

7 In addition to the Exhibits 1A and
8 1B is Exhibit 2A, which was a letter that was
9 mailed to our community highlighting the 10-year
10 annual cost of improvements, as well as the new
11 rate structure to begin November 1st, 2013, to
12 fund improvements. This is the same rate
13 structure that is in place today, save the two
14 1 percent CPI increases.

15 Implementation of the Cavanaugh
16 10-Year Plan began in 2014. And to date, 10 of
17 the 14 initial projects identified in the
18 Cavanaugh 10-Year Plan have been completed.

19 I ask myself the question were
20 there additional requests and I have two and
21 they're stated here:

22 I would ask that the Commission
23 approve Lake Junaluska's request for the
24 assessments to complete the remaining four of the

1 original 14 projects called for in the Cavanaugh
2 10-Year Plan.

3 I would ask Lake Junaluska to
4 determine the capital funds that are needed to
5 complete the remaining four projects.

6 I would ask the Commission to
7 approve the assessments for a specified period of
8 time going forward, say five years; reevaluate
9 the additional capital investment that would be
10 needed after a new engineering study is
11 completed.

12 I'm asking the Commission to
13 approve the request for \$30,000 capital estimate
14 for the new engineering study to be conducted in
15 2022.

16 I'm asking the Commission to
17 exclude the \$180,000 that was included for the
18 cost of a new sewer truck at this time. The
19 expense for a new sewer truck was not part of the
20 work called for in the Cavanaugh 10-Year Plan.

21 I'm also asking the Commission to
22 authorize a certified audit of the water and
23 sewer of Lake Junaluska Public Works Utility
24 service for the period November 1st, 2013 to

1 December 31st, 2019. Why? As we've discussed
2 plans, plans were evaluated, the Community was
3 informed, a budget was approved, rates were set
4 to fund the Cavanaugh 10-Year Plan, and these are
5 found in Exhibits 1A, 1B and 2A. The Community
6 should be informed by Lake Junaluska Assembly
7 Public Works how our money was actually spent
8 versus what we were told.

9 The budget approved in 2013 was
10 based on \$180,000 per year for 10 years for the
11 capital improvements, and \$150,000 per year for
12 operations.

13 The Cavanaugh 10-Year Plan budget
14 was changed but the rates today are the same as
15 those that went into effect on November 1st,
16 2013.

17 To date, approximately \$157,530
18 has been expensed for radio read meters.

19 In Exhibit 1A, on Page 3, the last
20 paragraph, digital radio meters -- digital meters
21 were considered but were not approved. They were
22 excluded because of the additional cost it would
23 add to the Capital Improvements Plan. It was
24 estimated at that time to be \$196,000. I'm not

1 sure why it was not included but it was not
2 included. Seemingly, adding another \$196,000 to
3 a \$1.8 million project, I think it could have
4 been financed over 10 years but it was not, it
5 was excluded.

6 The operations budget has changed.
7 You can see this in Exhibit 3A. But again, the
8 water and sewer rates remain the same.

9 At the June 2017 Community Council
10 meeting, Exhibit 3A, the Assembly Public Works
11 Director Report stated that putting more
12 water/sewer expenses -- water and sewer expenses
13 into that budget will impact the dollars we'll
14 have available for renewal and refurbishment of
15 our water and sewer system. He stated that
16 previously employees had been paid out of service
17 charge or solid waste funds. Interesting, our
18 service charges were not reduced by a like amount
19 to reflect the amount that was transferred to the
20 water and sewer operations. \$150,000 was the
21 budget for operations projected in the Lake
22 Junaluska Application, Attachments 2A and 2B, net
23 of the water -- the charge to the Town of
24 Waynesville for the cost of water, we're now

1 looking at \$362,430 of operations expense.

2 This concludes my summary.

3 COMMISSIONER BROWN-BLAND: Mr. Phelan, so
4 now is the time when the other parties get to ask you
5 questions about what you've testified to, if they have
6 any.

7 I'll start with Mr. Higgins. Do you have
8 questions of this witness?

9 MR. HIGGINS: I do.

10 COMMISSIONER BROWN-BLAND: All right.

11 CROSS EXAMINATION BY MR. HIGGINS:

12 Q Mr. Phelan.

13 A Mr. Higgins.

14 Q Do you oppose the funding of any work on the Lake
15 Junaluska water and sewer systems that was not
16 identified in the 2012 Cavanaugh Study?

17 A Would you please restate that?

18 Q Do you oppose the funding of any work on the Lake
19 Junaluska water and sewer system which was not
20 identified in the Cavanaugh --

21 A I do not.

22 Q -- 2012 study?

23 A No.

24 Q You do not oppose?

1 A I don't.

2 Q Okay. You make the point -- I'm going to refer
3 you to your summary, Page 2 of your summary, and
4 you make the point in bold, about the middle of
5 the page where you're talking about the fact
6 that an October 2013 letter was mailed to the
7 Community highlighting the rate structure. This
8 is the same rate structure that's in place today.
9 Are you with me?

10 A I am.

11 Q And that rate structure that's in place today has
12 funded the work that has been done to date on the
13 water and sewer system, hasn't it?

14 A Yes, it has.

15 Q And that includes 10 of the 14 projects
16 identified in the Cavanaugh Study from 2012 as
17 well as other work, doesn't it?

18 A Best I can tell, yes, it does. My answer of the
19 10 of the 14 was from Mr. Carlisle's direct
20 testimony.

21 Q Understood. Fair enough. With your regard --
22 with regard to your complaint that the water and
23 sewer operations budget was \$150,000 in 2012 and
24 now has been increased to over \$300,000, please

1 turn if you would to your Exhibit 1A.

2 A I have it.

3 Q Page 4, the paragraph at the bottom. Tell me
4 when you're there.

5 A I am there.

6 Q Is it accurate, Mr. Phelan, for me to quote that
7 to say that as follows, and this is the last four
8 lines, *our operation and maintenance budget is*
9 *only around \$150,000. This includes wages and*
10 *benefits for two crew members, testing,*
11 *licensing, equipment, billing and postage, as*
12 *well as the repair and maintenance of the system.*
13 Is that an accurate quotation?

14 A Yes, it is.

15 Q Now, is it fair to say, Mr. Phelan, that you know
16 from your service on the Junaluska Assembly
17 Community Council that more than two Lake
18 Junaluska employees support the water and sewer
19 operations?

20 A Mr. Higgins, I do not know that for sure.

21 Q Okay. Do you know if the, for example, the
22 director of Assembly Public Works devotes any
23 time to water and sewer matters?

24 A I would -- yes.

1 Q Okay. And the accounting personnel who work in
2 that office, would you accept the premise that
3 they devote time to supporting the water and
4 sewer operations?

5 A Yes.

6 Q In fact, every facet from payroll to human
7 resources to everything else that goes on at Lake
8 Junaluska supports in some way to some extent the
9 water and sewer operations, doesn't it?

10 A Yes.

11 Q Are -- you are aware that the Commission's rate
12 setting process requires an accurate allocation
13 of the cost of providing water and sewer service,
14 are you not?

15 A I don't know. I would -- I would guess that the
16 answer on that should be yes.

17 Q You are also aware, Mr. Phelan, that the Public
18 Staff audited Lake Junaluska's financial data and
19 its recommended rates and it has made a
20 recommendation as to rates based on its audit?

21 A For the test year 2018, yes.

22 Q Yes, that's the basis for the recommendation
23 they've made in terms of rates, correct?

24 A Yes.

1 MR. HIGGINS: I don't have any other
2 questions for Mr. Phelan.

3 COMMISSIONER BROWN-BLAND: Okay.

4 MR. GRANTMYRE: The Public Staff has no
5 questions.

6 COMMISSIONER BROWN-BLAND: Mr. Phelan, in
7 response to the questions that were just propounded to
8 you, if you have further testimony that you would like
9 to make or further state what your position is
10 regarding this Application, the Commission will give
11 you the time to do that now. This will be your form
12 of redirect.

13 THE WITNESS: Mr. Higgins, would you please
14 look at Page --

15 COMMISSIONER BROWN-BLAND: No, not to ask
16 him questions but to provide your testimony, what you
17 would say --

18 THE WITNESS: Thank you.

19 COMMISSIONER BROWN-BLAND: -- what you would
20 tell us and have us to --

21 THE WITNESS: I would just ask you to look
22 at Page 5 of Exhibit 1A, beginning in the second
23 paragraph, to explain how our existing rate structure
24 was developed, based on \$150,000 operations cost,

1 \$180,000 for capital improvements, and that is the
2 same rate structure in effect today except for the two
3 1 percent inflation increases.

4 So when you increase your operations cost by
5 more than double and keep the same rates, something
6 has to give. Either I have to increase my rates to
7 fund the new budget or I have to stop working on my
8 Capital Improvements Plan to keep the same rate, or
9 I'd have to lower my operations cost. But no, we need
10 a rate increase to fund higher cost of operations and
11 to continue the capital improvements. That's -- I
12 have nothing else to say.

13 COMMISSIONER BROWN-BLAND: All right. Thank
14 you for that.

15 Commissioners, any questions from the
16 Commission? Commissioner Clodfelter.

17 EXAMINATION BY COMMISSIONER CLODFELTER:

18 Q Mr. Phelan, you can help me just understand the
19 structure of things. I think my questions really
20 are just to be sure I understand how the system
21 is operated.

22 So the service charge, that's set
23 by the Board of Trustees and not by the Community
24 Council; am I right about that?

1 A That's correct.

2 Q And that's true for the solid, whatever the solid
3 waste fee is?

4 A Solid waste.

5 Q Okay. And the budget for those functions of the
6 Public Service -- Public Works Department, other
7 than water and sewer, who approves that budget?
8 Did the Community Council approve the budget for
9 street maintenance and solid waste collection,
10 and those sort of -- did the Board of Trustees
11 approve that budget?

12 A Correct.

13 Q So the decision to move those expenses from the
14 funding by the service charge over to the -- and
15 the solid waste funds over to self-funding
16 through the water and sewer charge, that was made
17 by the Board of Trustees or by the Community
18 Council?

19 A It was not by the Community Council.

20 Q It was made by the Board of Trustees.

21 A Yes.

22 Q Was there any discussion between the Community
23 Council and the Board of Trustees about that
24 reassignment of the expenses from one account to

1 the other account?

2 A There was not.

3 Q There was not. I'm just curious, do you know --
4 some revenue got freed up, revenue from the
5 service charge got freed up as a result of that
6 transfer of those expenses, do you know what was
7 done with that revenue?

8 A I do not.

9 Q Just curious. I'm just curious. Don't know?

10 A I'd have to rely on Assembly Public Works.

11 Q That's fine. I'm not needing you to give me an
12 answer, I'm just curious. Thank you. That's all
13 I have.

14 A You're welcome.

15 COMMISSIONER BROWN-BLAND: Mr. Phelan, I've
16 already received your testimony and exhibits into the
17 record so you are -- if there's no further questions
18 for this witness -- wait, I'm losing track.

19 Did you have questions on Commissioner
20 Clodfelter's questions? I'm sorry. Any questions,
21 Mr. Higgins?

22 MR. HIGGINS: No.

23 MR. GRANTMYRE: We have no questions.

24 COMMISSIONER BROWN-BLAND: Then now,

1 Mr. Phelan, you may be --

2 A Thank you very much.

3 COMMISSIONER BROWN-BLAND: -- you may be
4 excused and return to the counsel table.

5 (The witness is excused)

6 MR. GRANTMYRE: The Public Staff would call
7 Ms. Chiu and Ms. Casselberry.

8 Mr. Craig is available but we're not
9 presenting him. If you have questions he would be
10 delighted to answer them.

11 JUNE CHIU and GINA Y. CASSELBERRY;

12 having been duly sworn,

13 testified as follows:

14 COMMISSIONER BROWN-BLAND: You may be
15 seated.

16 DIRECT EXAMINATION BY MR. GRANTMYRE:

17 Q I would address Gina Casselberry first. Gina,
18 could you please state your name and who you work
19 for?

20 A My name is Gina Casselberry. I'm a Utilities
21 Engineer with the Public Staff - Water, Sewer,
22 and Telecommunications Division. I work at 430
23 North Salisbury Street, Raleigh, North Carolina.

24 Q Did you cause to be filed on December 20, 2019,

1 direct testimony consisting of 11 pages and
2 Exhibits 1 through 11?

3 A Yes.

4 Q If I were to ask you those same questions again,
5 would your answers be the same?

6 A Yes.

7 Q And do you have any corrections?

8 A No.

9 Q And do you also cause to be filed on January 23,
10 2020, supplemental testimony consisting of two
11 pages?

12 A Yes.

13 Q And do you have any corrections or additions to
14 that?

15 A No.

16 Q And if I were to ask you those same questions
17 again today, would your answers be the same?

18 A Yes.

19 MR. GRANTMYRE: Madam Chair, we would
20 request that her testimony be copied into the record
21 as if given orally and her exhibits be identified?

22 COMMISSIONER BROWN-BLAND: There being no
23 objection, that motion is allowed.

24 (WHEREUPON, Casselberry Exhibits

1 1 - 11 are marked for
2 identification as prefiled.)
3 (WHEREUPON, the prefiled direct
4 and supplemental testimony of GINA
5 Y. CASSELBERRY is copied into the
6 record as if given orally from the
7 stand.)
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**LAKE JUNALUSKA ASSEMBLY, INCORPORATED
DOCKET NO. W-1274, SUB 7**

**TESTIMONY OF GINA Y. CASSELBERRY
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

December 20, 2019

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS**
2 **ADDRESS, AND PRESENT POSITION.**

3 A. My name is Gina Y. Casselberry. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Utilities Engineer with the Public Staff's Water, Sewer and Telephone
6 Division.

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE**
8 **RELATING TO YOUR PRESENT POSITION WITH THE PUBLIC**
9 **STAFF.**

10 A. I graduated from Michigan Technology University, receiving a Bachelor
11 of Science Degree in Civil Engineering. I have been with the Public
12 Staff's Water Division since February 1992. I have presented
13 recommendations in rate increase proceedings, new franchise and
14 transfer applications and other matters before the Commission for the
15 past twenty-seven years.

16 **Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?**

17 A. My duties with the Public Staff are to monitor the operations of

1 regulated water and sewer utilities with regard to service and rates.
2 Included in these duties are field investigations to review, evaluate, and
3 recommend changes, when needed, in the design, construction, and
4 operations of regulated water and sewer utilities; presentation of expert
5 testimony in formal hearings; and presentation of information, data,
6 and recommendations to the Commission.

7 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN**
8 **THIS CASE.**

9 A. On September 28, 2018, Lake Junaluska Assembly, Incorporated (LJA
10 or Company) filed an application with the Commission seeking to
11 acquire a water and sewer utility franchise for Lake Junaluska
12 Assembly in Haywood County, North Carolina. My investigation
13 included a review of customer complaints, a review of company
14 records, and an analysis of revenues at existing and proposed rates. I
15 have also assisted Public Staff Accountant June Chiu in reviewing
16 expenses and plant in service.

17 **Q. BRIEFLY DESCRIBE THE HISTORY OF THE SERVICE AREAS.**

18 A. In Docket No. W-1274, Sub 0, the Commission granted a franchise
19 to Southeastern Jurisdictional Administrative Council, d/b/a Lake
20 Junaluska Assembly, dated December 19, 2007. However, on June
21 23, 2009, Lake Junaluska Assembly, Incorporated (LJA), formerly
22 known as Southeastern Jurisdictional Administrative Council,
23 Incorporated, filed a petition with the Commission requesting an

1 exemption from regulation pursuant to Gen. Stat. § 62-110.5. LJA is
2 a North Carolina non-profit corporation, formed in 1938. LJA is
3 affiliated with The United Methodist Church, and the Internal
4 Revenue Service recognized LJA as a tax exempt charitable
5 organization in 1959. On August 18, 2011, the Commission granted
6 LJA's petition and LJA was exempt from Commission regulation,
7 unless and until such time that circumstances change so that the
8 regulation of LJA, is required.

9 On October 11, 2017, Docket No. W-1274, Sub 5, Timothy F. Phelan
10 (Complainant), filed a complaint with the Commission against LJA,
11 alleging that the organization is no longer eligible for exemption from
12 Commission regulation and must file for a certificate of public
13 convenience and necessity (CPCN); and on October 18, 2017,
14 Docket No. W-1274, Sub 6, Walt Logan (Complainant), filed a
15 complaint with the Commission against LJA, alleging that the
16 organization refuses to make available financial information
17 regarding its operation of utility services and should no longer be
18 exempt from Commission regulation. Subs 5 and 6 were
19 consolidated and on April 23, 2018, the Commission issued an Order
20 revoking the exemption granted to LJA in Docket No. W-1274, Sub 4,
21 and further Ordered that LJA file an application for a CPCN within 120
22 days of the date of the Order.

1 On August 20, 2018, LJA, by and through counsel, filed a Motion for
2 Extension of Time. On August 21, 2018, the Commission granted LJA
3 an extension until September 29, 2018, to file its application for a CPCN.
4 LJA filed its application for a CPCN on September 28, 2018.

5 **Q. PLEASE DESCRIBE THE SERVICE AREAS.**

6 A. The Lake Junaluska Assembly is an unincorporated community
7 located in Haywood County. It is home to The United Methodist
8 Church Conference and Retreat Center and other offices under The
9 United Methodist Church. The service area consists of 1,250 acres,
10 similar to a small municipality. LJA purchases bulk water and sewage
11 treatment from the Town of Waynesville and provides water and
12 sewer service to approximately 782 water and 748 sewer residential
13 metered customers, 25 residential and 4 commercial flat rate sewer
14 customers, and 73 water and 43 sewer metered commercial
15 customers.

16 **Q. WHAT ARE LJA's PRESENT AND PROPOSED RATES?**

17 A. On August 12, 2019, LJA requested authority to pass on the
18 increased cost of purchased bulk sewer treatment from the Town of
19 Waynesville, in the interim pending approval of the certificate of
20 public convenience and necessity (CPCN). On September 23, 2019,
21 the Commission approved the pass through, increasing the sewer
22 rate by \$0.31 per 100 cubic feet (CCF), or \$0.41 per 1,000 gallons.
23 LJA is also proposing a customer assessment or other funding

1 mechanism to complete the work called for in its 10-year Water and
2 Sewer Improvement Plan (10-year plan) to combat leakage and water
3 loss. LJA's present and proposed rates for water and sewer utility
4 service are shown in Casselberry Exhibit Nos. 1 and 2.

5 **Q. PLEASE DESCRIBE THE TEST YEAR?**

6 A. The Company used its adjusted budget for 2018 to determine
7 expenses for the test year. The Public Staff updated the test year to
8 reflect the actual expenses and plant in service for the twelve months
9 ending December 31, 2018.

10 **Q. HAVE YOU RECEIVED ANY CUSTOMER COMPLAINTS AS A**
11 **RESULT OF CUSTOMER NOTICE IN THIS PROCEEDING?**

12 A. Other than the two formal complaints filed in the consolidated
13 application, the Public Staff has only received the two formal
14 complaints filed in Docket No. W-1274, Subs 5 and 6.

15 Waynesville Hearing

16 Approximately 20 customers attended the hearing in Waynesville.
17 Four customers testified at the hearing: Charles Lipp, Karen
18 Greenwaldt, Jim Correll, and Mike Jordan. All four customers
19 testified that they were pleased with the progress LJA has made in
20 reducing water loss and supported the proposed assessment fee
21 100%. They also testified that the service was excellent and praised
22 the work that was being done to replace the aged infrastructure,

1 LJA's quick response to water leaks and breaks, and LJA's regular
2 progress reports on water loss.

3 **Q. WHAT ARE THE ANNUAL SERVICE REVENUES UNDER**
4 **PRESENT AND PROPOSED RATES?**

5 A. My calculations for service revenues at present and proposed rates
6 are shown in Casselberry Exhibit Nos. 3, 4, 5, and 6.

7 **Q. HAVE YOU RECOMMENDED ANY ADJUSTMENTS TO**
8 **EXPENSES RELATED TO WATER AND SEWER OPERATIONS?**

9 A. Yes, I have provided Public Staff Accountant Chui with
10 recommendations for purchased power, permit fees, testing expenses
11 for water operations, purchased water and purchased sewer
12 treatment.

13 Purchased Power

14 LJA expensed \$4,100 for power for water and sewer operations
15 combined. Based on my review of invoices, \$1,844 was power for the
16 maintenance shop, which facilitates water and sewer operations. I
17 allocated 50 percent (\$922) of the expense to water operations and 50
18 percent (\$922) to sewer operations. I recommend \$3,178 for
19 purchased power associated with water operations and \$922 for
20 purchased power associated with sewer operations.

1 Permit Fees

2 LJA expensed \$2,377 for taxes, licenses, and fees for water and sewer
3 operations combined. Based on my review of invoices, \$1,268 was for
4 vehicle registrations. I reclassified \$634 to transportation expenses for
5 water operations and \$634 to transportation expenses for sewer
6 operations. I removed \$32 for fees outside the test year, resulting in
7 \$92 for water permit fees and \$985 for sewer permit fees. In addition
8 to the \$92, I reclassified \$870 from testing expenses to water permit
9 fees. I recommend \$962 for water permit fees and \$985 for sewer
10 permit fees.

11 Testing Expenses for Water Operations

12 LJA expensed \$1,674 for testing expenses. As I previously stated, I
13 reclassified \$870 from testing expenses to water permit fees. I
14 recommend \$888 for testing expenses. My recommendation for
15 testing expenses reflects required tests under the Safe Drinking
16 Water Act, based on the number or frequency of each test, and
17 current testing costs, represented over the required frequency
18 (monthly, annually, and every three, six, or nine years).

19 Purchased Water Expenses

20 LJA expensed \$162,513 for purchased water expenses. Based on my
21 review of invoices, I reclassified \$776 from purchased water expenses
22 to administrative and office expenses for water purchased from LJA for

1 the maintenance shop. I recommend \$161,737 for purchased water
2 expenses.

3 Purchased Sewer Treatment

4 LJA expensed \$193,325 for purchased sewer treatment. I updated
5 purchased sewer treatment to reflect the increased cost of bulk sewer
6 treatment from the Town of Waynesville and LJA's recent pass
7 through. My calculations are as shown in Casselberry Exhibit No. 7. I
8 reclassified \$552 from purchased sewer treatment to administrative
9 and office expenses for sewage treatment purchased from LJA for the
10 maintenance shop. I recommend \$216,995 for purchased sewer
11 treatment.

12 **Q. BRIEFLY DESCRIBE THE HISTORY BEHIND LJA'S 10-YEAR**
13 **WATER AND SEWER CAPITAL IMPROVEMENT PLAN (10-YEAR**
14 **PLAN).**

15 A. In Docket W-1274, Sub 0, the Commission granted the franchise to
16 LJA and approved rates. Approximately three months after LJA
17 began charging the Commission approved rates, LJA experienced a
18 revenue shortage due to the aging infrastructure and excessive
19 water loss. The Public Staff reviewed the matter and in its Motion to
20 Amend Order, the Public Staff revised its recommended rates to
21 include an unaccountable allowance for water loss. The Public Staff
22 also recommended that LJA needed to be incentivized to continue
23 reducing its water loss. In response to the Public Staff's

1 recommendation, LJA commissioned an engineer to analyze its
2 water distribution system and wastewater collection system,
3 primarily focusing on detecting and eliminating leaks. As a result, a
4 10-year capital improvement plan for main replacement was
5 developed, consisting of approximately \$1.2 million for the water
6 distribution system and \$600,000 for the wastewater collections
7 system. LJA began implementing the plan in 2014, in \$200,000
8 increments. As a non-regulated utility, LJA increased its rates
9 periodically to cover the cost.

10 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION**
11 **CONCERNING THE MONTHLY SURCHARGE TO FINANCE**
12 **CAPITAL PROJECTS?**

13 A. LJA is proposing a monthly surcharge of \$8.14/REU for water and
14 \$8.14/REU for sewer so they can continue to implement its 10-Year
15 Plan, generating revenue of \$101,880 for water improvements and
16 \$100,317 for sewer improvements, see Casselberry Exhibits Nos. 8
17 and 9. It is the Public Staff's opinion that LJA is unique in that it is a
18 nonprofit organization and does not have capital investors to provide
19 the funds necessary for replacing its aged infrastructure. The Public
20 Staff believes that it would be in the customers' best interest to add
21 a monthly surcharge to recover the cost to replace its aged
22 infrastructure versus acquiring a loan or multiple loans; and then
23 applying for a rate increase or multiple rate increase to recover the

1 cost of the improvements. The loans and rate cases would take
2 longer and add additional costs such as interest on loans, rate case
3 expenses, attorney fees, and other expenses. Since customers have
4 paid for all of the plant in service and “basically own” the system, any
5 surcharge collected would flow directly to benefit the customers in
6 new improved infrastructure, which would also reduce purchased
7 water and sewer treatment costs.

8 The Public Staff has reviewed LJA’s 10-Year Plan and recommends
9 the Commission approve the applied for surcharges. The Public Staff
10 recommends that LJA file quarterly reports with the Commission in a
11 mutually agreed upon format regarding the funds collected through the
12 assessments, the amount of assessed funds on hand, the projects
13 completed, and the amount spent on capital expenditures.

14 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING LJA’S**
15 **PROPOSED RATES?**

16 A. The Public Staff recommends service revenues of \$356,979 for water
17 and \$418,434 for sewer. The Public Staff recommends a rate reduction
18 for water service and LJA’s proposed rates for sewer service. The
19 Public Staff also recommends an alternate rate design for water
20 service. The Public Staff recommends setting the usage charge for
21 water service the same as the usage charge for the Town of
22 Waynesville (Town). Should the Town of Waynesville increase the
23 purchased water rates, LJA has the opportunity to apply for a pass

1 through, and the new usage charge can be passed onto customers.
2 The Public Staff's calculations and recommend rates are shown in
3 Casselberry Exhibit Nos. 10 and 11.

4 **DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7

SUPPLEMENTAL TESTIMONY OF GINA Y. CASSELBERRY
ON BEHALF OF THE PUBLIC STAFF

JANUARY 23, 2020

1 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL
2 TESTIMONY?

3 A. The purpose of my supplemental testimony is to recommend a bond
4 amount.

5 Q. WHAT AMOUNT OF BOND DOES THE PUBLIC STAFF
6 RECOMMEND?

7 A. In LJA's original franchise Docket No. W-1274, Sub 0, in 2007, the
8 Commission approved the minimum bond in the amount of \$20,000
9 for water and sewer. The minimum bond amount of \$10,000 was
10 established with the enactment of N.C. Gen. Stat. § 62-100.3 in
11 1987, more than 30 years ago. The Public Staff recommends that
12 Lake Junaluska Assembly, Inc. (LJA) be required to post a \$50,000
13 bond to comply with N.C. Gen. Stat. § 62-110.3. LJA purchases bulk
14 water and sewage treatment from the town of Waynesville. The water
15 and sewer systems primarily consist of a water distribution system
16 and a sewer collection system. As I have previously testified, the
17 Public Staff is in support of LJA's 10-Year capital improvement plan

1 for main replacement and its proposed monthly surcharge. It is the
2 Public Staff opinion that LJA is taken the necessary steps to replace
3 its aging systems and that \$50,000 is sufficient.

4 **DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

5 A. Yes.

1 BY MR. GRANTMYRE:

2 Q Now, Ms. Chiu, could you please state your name
3 and address?

4 A Yes. My name is June Chiu. And my business
5 address is 430 North Salisbury Street, Raleigh,
6 North Carolina.

7 Q And did you cause to be filed on December 20,
8 2019, direct testimony consisting of seven pages
9 and Chiu Exhibit 1, Schedules 1A through 4B?

10 A Yes.

11 Q And do you have any corrections or additions to
12 your testimony?

13 A No.

14 Q And if I were to ask you those same questions
15 again today, would your answers be the same?

16 A Yes.

17 MR. GRANTMYRE: Going to Ms. Casselberry --
18 I would ask that Ms. Chiu's testimony be copied into
19 the record as if given orally and that her exhibits be
20 identified?

21 COMMISSIONER BROWN-BLAND: That motion will
22 be allowed and her exhibits will be identified as --
23 one exhibit with eight schedules; is that correct, 1A,
24 1B, 2A, 2B, 3A, 3B, and 4A, and 4B?

1 MR. GRANTMYRE: Yes.

2 THE WITNESS: (Ms. Chiu) Yes.

3 (WHEREUPON, Chiu Exhibit 1,
4 Schedules 1A, 1B, 2A, 2B, 3A, 3B,
5 4A, and 4B are marked for
6 identification as prefiled.)

7 (WHEREUPON, the prefiled direct
8 testimony of JUNE CHIU is copied
9 into the record as if given orally
10 from the stand.)
11
12
13
14
15
16
17
18
19
20
21
22
23
24

**LAKE JUNALUSKA ASSEMBLY, INCORPORATED
DOCKET NO. W-1274, SUB 7**

**TESTIMONY OF JUNE CHIU
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

December 20, 2019

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **PRESENT POSITION.**

3 A. My name is June Chiu and my business address is 430 N. Salisbury
4 Street, Raleigh, North Carolina. I am a Staff Accountant with the
5 Accounting Division of the Public Staff – North Carolina Utilities
6 Commission, and represent the using and consuming public.

7 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC**
8 **STAFF?**

9 A. I have been employed by the Public Staff since October 17, 2017.

10 **Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND**
11 **EXPERIENCE?**

12 A. I am a graduate of Drake University with a Masters of Business
13 Administration degree. Prior to joining the Public Staff, I worked for
14 the Iowa state government and Fortune 500 companies including
15 Novo Nordisk and Rieter Textile. My duties there varied from
16 performing audit engagement to supervision of the accounting and
17 internal controls and preparing SEC filings.

1 **Q. WHAT ARE YOUR DUTIES?**

2 A. I am responsible for analyzing testimony, exhibits, and other data
3 presented by parties before this Commission. I have the further
4 responsibility of performing the examinations of books and records
5 of utilities involved in proceedings before the Commission, and
6 summarizing the results into testimony and exhibits for presentation
7 to the Commission.

8 **Q. MRS. CHIU, WHAT IS THE NATURE OF THE APPLICATION IN**
9 **THIS PROCEEDING?**

10 A. On September 28, 2018, Lake Junaluska Assembly, Incorporated
11 (Lake Junaluska or Company) filed an application with the
12 Commission to seeking to acquire a water and sewer utility franchise
13 for Lake Junaluska Assembly in Haywood County, North Carolina.
14 My investigation included a review of the application filed by Lake
15 Junaluska, an examination of the Company's books and records for
16 the test year, and a review of additional documentation provided by
17 the Company in response to written data requests.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony in this proceeding is to present the
21 results of my investigation of the levels of revenue, expenses, and
22 investment filed by Lake Junaluska in support of its franchise
23 application.

1 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**
2 **YOUR TESTIMONY AND EXHIBITS?**

3 A. Yes. My testimony contains a discussion of each issue resulting from
4 my investigation, and my exhibit consists of schedules showing the
5 calculation of my adjustments to revenues, expenses, and rate base.
6 My schedules also reflect adjustments recommended by other Public
7 Staff witnesses. Schedules 1(a) and 1(b) of my Exhibit I present the
8 margin on operating revenue deductions requiring a return under
9 present rates, Company proposed rates, and Public Staff
10 recommended rates. Schedules 2(a) and 2(b) of my Exhibit I present
11 the original cost rate base for water and sewer operations. Schedules
12 3(a) and 3(b) of Exhibit I present the calculation of net operating
13 income for a return under present rates, Company proposed rates,
14 and Public Staff recommended rates. Schedules 4(a) and 4(b) of
15 Exhibit I present the Public Staff calculation of operating ratios.

16 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**
17 **COMPANY'S RATE REQUEST FOR WATER OPERATIONS?**

18 A. Based on my investigation, Lake Junaluska's water original cost rate
19 base at December 31, 2018, is \$19,025. The level of operating
20 revenue deductions requiring a return (total operating expenses
21 excluding regulatory fee and income taxes) is \$331,642. As allowed
22 under G.S. 62-133.1, I have used the operating ratio method to
23 evaluate the Company's proposed revenue requirement.

1 I have calculated a decrease in the gross revenue requirement using
2 the operating margin of 7.5%, the reasonable rate recommended by
3 Public Staff Financial Analyst Craig. Use of this return on operating
4 revenue deductions produces a decrease in the gross water revenue
5 requirement of \$73,917. The resulting total revenue requirement will
6 be \$356,979, all of which is service revenues. Therefore the Public
7 Staff recommends that water service rates be set to reflect a \$73,917
8 decrease, resulting in an annual level of service revenues of
9 \$356,979.

10 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**
11 **COMPANY'S RATE REQUEST FOR SEWER OPERATIONS?**

12 A. Based on my investigation, Lake Junaluska's sewer original cost rate
13 base at December 31, 2018, is \$19,277. The level of operating
14 revenue deductions requiring a return (total operating expenses
15 excluding regulatory fee and income taxes) is \$388,920. As allowed
16 under G.S. 62-133.1, I have used the operating ratio method to
17 evaluate the Company's proposed revenue requirement.

18 Based on the results of my investigation, I have concluded that the
19 revenues generated by the Company's proposed sewer rates are not
20 unreasonable and would not be unfair to its customers. Therefore, I
21 recommend that the revenue requirement as proposed by the
22 Company for sewer utility service be granted.

1 **Q. DOES CHIU EXHIBIT I REFLECT ADJUSTMENTS SUPPORTED**
2 **BY OTHER PUBLIC STAFF WITNESSES?**

3 A. My exhibit reflects the following adjustments supported by other
4 Public Staff witnesses:

5 1. The recommendation of Public Staff Financial Analyst Craig
6 regarding the margin on operating revenue deductions.

7 2. The recommendation made by Public Staff witness
8 Casselberry for the following items:

- 9 (a) Service revenues at present rates
- 10 (b) Service revenues at Company proposed rates
- 11 (c) Administrative and office
- 12 (d) Maintenance and repairs
- 13 (e) Transportation
- 14 (f) Electric power (Power for Pumping)
- 15 (g) Permit fees
- 16 (h) Purchased water
- 17 (i) Purchased sewer treatment
- 18 (j) Testing

19 **Q. WHAT ADJUSTMENTS WILL YOU DISCUSS?**

20 A. The Company provided consolidated financial information for water
21 and sewer systems on its application. In response to a Public Staff
22 data request, Lake Junaluska provided the amount of revenue and
23 expense that should be directly assigned and/or allocated to water
24 and sewer systems. I agree with the amount of revenue and expense
25 items that should be directly assigned to each system. The remaining
26 indirect revenue and expenses I allocated 50% to water operations
27 and 50% to sewer operations based on the recommendation of

1 Public Staff witness Casselberry. My adjustment to allocate the
2 consolidated revenues and expenses are reflected on Schedules
3 3(a) and 3(b) of my Exhibit I.

4 In addition, the accounting and ratemaking adjustments that I will
5 discuss relate to the following items:

- 6 (a) Cash working capital
- 7 (b) Average tax accruals
- 8 (c) Regulatory fee
- 9 (d) State and federal income taxes

10 **CASH WORKING CAPITAL**

11 **Q. PLEASE DESCRIBE YOUR CALCULATION OF CASH WORKING**
12 **CAPITAL.**

13 A. Cash working capital provides the Company with the funds
14 necessary to carry on the day to day operations of the Company. In
15 my calculation, I have included 1/8 of total O&M expenses, less
16 purchased water and sewer expenses, as a measure of cash working
17 capital.

18 **AVERAGE TAX ACCRUAL**

19 **Q. HOW DID YOU CALCULATE AVERAGE TAX ACCRUAL?**

20 A. Average tax accruals, calculated as 1/5 of payroll tax, is a tax which
21 the Company collects in rates but does not pay to the government
22 agency every month. Since the Company has the use of this money
23 until it is paid to the government agency, this tax accrual should be
24 deducted from rate base.

1 **REGULATORY FEE**

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REGULATORY FEE.**

3 A. I have adjusted the regulatory fee to reflect the statutory rate of .13%
4 applied to revenues under present rates, Company proposed rates
5 and Public Staff recommended rates.

6 **STATE AND FEDERAL INCOME TAX**

7 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO FEDERAL INCOME**
8 **TAX?**

9 A. The Company is exempt from paying state and federal taxes as it is
10 a non-profit organization. I have not included an amount for these
11 taxes.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A. Yes, it does.

1 BY MR. GRANTMYRE:

2 Q Ms. Casselberry, do you have a summary of your
3 testimony?

4 A Yes, I do.

5 Q Please proceed with your summary.

6 A On September 28th, 2018, Junaluska --

7 MR. GRANTMYRE: I think we've handed them
8 out. I don't -- they're not handed out?

9 A I put a stack of them up there.

10 MR. GRANTMYRE: Okay. I'm sorry. It's very
11 short. Please proceed with your summary.

12 (WHEREUPON, the summary of GINA Y.
13 CASSELBERRY is copied into the
14 record as read from the witness
15 stand.)
16
17
18
19
20
21
22
23
24

LAKE JUNALUSKA ASSEMBLY, INC.
DOCKET NO. W-1274, SUB 7
SUMMARY OF TESTIMONY OF GINA Y. CASSELBERRY

On September 28, 2018, Lake Junaluska Assembly, Incorporated (LJA or Company) filed an application with the Commission seeking to acquire a water and sewer utility franchise for Lake Junaluska Assembly in Haywood County, North Carolina.

My investigation included a review of customer complaints, a review of company records, and an analysis of revenues at existing and proposed rates. I also assisted Public Staff Accountant June Chiu in reviewing expenses and plant in service.

The Public Staff updated the test year to reflect the actual expenses and plant in service for the twelve months ending December 31, 2018. In addition, the Public Staff updated the cost of purchased sewer treatment to reflect the increased cost of bulk sewer treatment from the Town of Waynesville approved by the Commission on September 23, 2019, in LJA's recent pass through. I have also provided recommendations for purchased power, permit fees, testing expenses for water operations and purchased water.

LJA is also proposing a monthly surcharge of \$8.14/REU for water and \$8.14/REU for sewer so LJA can continue to implement their 10-Year Plan necessary for water and sewer main replacements.

The Public Staff has reviewed LJA's 10-Year Plan and recommends the Commission approve the applied for surcharges. The Public Staff further recommends that LJA file quarterly reports with the Commission in a mutually agreed upon format regarding the funds collected through the assessments, the amount of assessed funds on hand, the projects completed, and the amount spent on capital expenditures.

The Public Staff recommends a rate ^{decrease} reduction for water service and LJA's proposed rates for sewer service. The Public Staff also recommends an alternate rate design for water service. The Public Staff recommends setting the usage charge for water service the same as the usage charge for the Town of Waynesville (Town). Should the Town of Waynesville increase the purchased water rates, LJA has the opportunity to apply for a pass through, and the new usage charge can be passed onto customers.

This concludes my summary.

1 BY MR. GRANTMYRE:

2 Q Ms. Chiu, could you please provide the summary of
3 your testimony?

4 A Yes.

5 (WHEREUPON, the summary of JUNE
6 CHIU is copied into the record as
7 read from the witness stand.)
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Lake Junaluska Assembly, INC.
DOCKET NO. W-1274, SUB 7
SUMMARY OF JUNE CHIU

Lake Junaluska Assembly, Incorporated (Lake Junaluska or Company) filed a rate increase application on September 28, 2018. I performed an investigation of the data in the application as well as the Company's books and records, and prefiled testimony and an exhibit on December 20, 2019. I now summarize my more significant adjustments.

I allocated the indirect revenue and expenses evenly between the two systems based on the recommendation of Public Staff witness Casselberry.

I included one-eighth of total O&M expenses, less purchased water and sewer expenses, as a measure of cash working capital.

I included average tax accruals, calculated as one-fifth of payroll tax.

I adjusted the regulatory fee to reflect the statutory rate of .13% applied to revenues under present rates, Company proposed rates and Public Staff recommended rates.

The Company is exempt from paying state and federal taxes as it is a non-profit organization. I have not included an amount for these taxes.

This concludes my summary.

1 MR. GRANTMYRE: The witnesses are available
2 for cross examination.

3 COMMISSIONER BROWN-BLAND: Mr. Higgins.

4 MR. HIGGINS: Yes, ma'am, just a very few
5 questions.

6 The first question is for Ms. Casselberry.

7 CROSS EXAMINATION BY MR. HIGGINS:

8 Q Ms. Casselberry, you attended the public hearing
9 at the Waynesville, at the courthouse in
10 Waynesville in December in this case, did you
11 not?

12 A (Ms. Casselberry) Yes, I did.

13 Q And did all the customers who testified at the
14 public hearing support the assessment that's been
15 proposed by Lake Junaluska Assembly?

16 A Yes.

17 Q Now, this question is for the panel because I'm
18 not sure which one of you is -- wants to answer
19 it.

20 Based on the Public Staff's audit
21 in connection with this docket, what did the
22 Public Staff determine were Lake Junaluska's
23 water and sewer operating expenses excluding the
24 cost of purchased water and sewer service during

1 the test year?

2 And I might venture, I guess, that
3 this information might be found on Ms. Chiu's
4 exhibit, Schedules 3A and 3B.

5 A The Public Staff, total operating expenses was
6 \$324,831. That would include the \$161,737 for
7 purchased water.

8 Q So if -- are you looking at Ms. Chiu's Schedule
9 3A?

10 A That's correct.

11 Q So, would it be correct to take the amount that
12 appears on line 30, which is the total operating
13 revenue deductions \$332,000 -- \$332,202 and
14 deduct from it the purchased water amount that
15 appears on line 11, \$161,737, and the net result
16 would be the operating cost associated with water
17 operations during the test year; is that correct?

18 A Yes, that's correct.

19 Q And if you did the same thing, if you turn to her
20 Schedule 3B, and if you did the same thing in the
21 per Public Staff column, what's the amount shown
22 for Public Staff for total operating revenue
23 deductions on line 30?

24 A That would be \$389,464.

1 Q And if you subtracted from that the purchased
2 sewer expense shown on line 11, the delta would
3 be the operating cost associated with sewer,
4 correct?

5 A That's correct. And those costs were \$216,995.

6 Q Right. That's the -- that was the purchased
7 sewer cost?

8 A That's correct.

9 Q Okay. Would you accept subject to check that the
10 delta from those two schedules, that is the
11 operating cost associated with providing water
12 service and the operating cost associated with
13 providing sewer service net of the purchased
14 water and purchased sewer cost is approximately
15 \$355,000?

16 A Subject to check, yes.

17 Q Thank you.

18 MR. HIGGINS: I don't have any other
19 questions.

20 COMMISSIONER BROWN-BLAND: All right.

21 MR. GRANTMYRE: We have no redirect.

22 COMMISSIONER BROWN-BLAND: Well, hold just a
23 second and let's see if Mr. Phelan -- Mr. Phelan, do
24 you have any cross?

1 MR. PHELAN: I have no questions.

2 COMMISSIONER BROWN-BLAND: And there's no
3 redirect. Questions from the Commission?
4 Commissioner Hughes.

5 EXAMINATION BY COMMISSIONER HUGHES:

6 Q I know we're looking forward, but in your
7 analysis of test year 2018, with the quote,
8 "corrected or more accurate operating costs", if
9 they went up significantly and you had to cover
10 that increase with the water and sewer rates
11 would you be able to continue to have the same
12 type of capital investment using the old rates?

13 A (Ms. Casselberry) No. I think the surcharge is
14 required for them to be able to do the capital
15 improvements that they desire. This amount just
16 covers their expenses and not capital
17 improvements. There is a little bit in there
18 with the rate of return that would provide some
19 capital but nothing near what they would need for
20 the improvements that they're talking about.

21 Q So I understand that they were able to generate
22 money for the capital investment with the old
23 rate structure because they were using the wrong
24 number for the actual operating costs. So they

1 were able to spend \$180, \$170,000 a year under
2 the old rate structure largely because they were
3 underestimating the actual operating cost?

4 A Yes, that is my understanding.

5 Q So moving forward, if they want to continue to
6 pay the \$180,000, they're going to need some
7 source of new revenue on top of their rate
8 structure?

9 A Yes.

10 Q And you, based on your testimony, think that this
11 assessment is the best way moving forward?

12 A Yes. That's the Public Staff's position.

13 Q When you combine the assessment with the new --
14 with the rate structure you're going to be
15 generating additional revenue moving forward; is
16 that correct?

17 A Yes.

18 Q Thank you.

19 COMMISSIONER BROWN-BLAND: Commissioner
20 McKissick.

21 EXAMINATION BY COMMISSIONER McKISSICK:

22 Q With this surcharge which has been recommended by
23 the Public Staff, did you give any consideration
24 to how long of a period of time the surcharge

1 might be required to adequately fund the 10-year
2 plan as well as any modifications of that plan
3 that might be implemented as a result of a new
4 study that would be conducted?

5 A No. The Public Staff did not look into that. We
6 just agreed to what they had requested in the
7 surcharge and we also -- they had said that they
8 were going to do a new study and with us auditing
9 that we can always require that we can bring them
10 in to look at that if we need to so, as far as
11 the surcharge goes. And we will be auditing that
12 as we go along so we will have an idea of where
13 they are and what kind of projects are completed
14 and what needs to be done going forward.

15 Q And it's my understanding those updates will
16 occur quarterly; is that correct?

17 A Yes, I believe that's what we recommended, that
18 they be on a quarterly basis.

19 Q And if there comes such a time that based upon
20 their ability to complete the projects in a
21 timely way as well as any other projects that
22 might be contemplated as a result of the new
23 study, would there be a recommendation at such
24 point in time that the surcharge would be

1 eliminated or reduced?

2 A Yes, that -- we could always eliminate. Yes, the
3 Commission has the authority to eliminate that.

4 Q And would that recommendation be coming back
5 before us based upon the Public Staff's review at
6 that time?

7 A Yes.

8 Q Thank you.

9 EXAMINATION BY COMMISSIONER BROWN-BLAND:

10 Q Ms. Casselberry, in your supplemental testimony
11 you had recommended that LJA post a \$50,000 bond.
12 Is that bond amount to be equally divided between
13 the water and sewer operations, and can you
14 explain how you would divide it?

15 A Yes, that would be fine. We just put \$50,000 but
16 usually it's split 50/50.

17 Q And that's the --

18 A That would be twenty-five for water and
19 twenty-five for sewer if we wanted to designate.

20 Q And that's -- is that the intent or the plan from
21 the Public Staff's point of view?

22 A Yes. That would be our recommendation that we
23 could split it 50/50.

24 Q Okay. And Witness Carlisle's direct testimony he

1 discussed the unaccounted for water and indicated
2 that the Commission had granted the Public
3 Staff's motion to amend the Order and revised
4 LJA's rates to include a 25 percent unaccounted
5 for water allowance in a 2008 Order; do you
6 recall that?

7 A Yes, I do.

8 Q He also, as he testified to here earlier,
9 addressed the water loss issues and the level of
10 percentage losses over the most recent time
11 period. In your recommendation in this
12 proceeding, is the Public Staff including an
13 allowance for unaccounted for water of
14 approximately 25 percent in the purchased water
15 expense?

16 A No, I did not.

17 Q Would you explain your recommendation including
18 the percent of unaccounted water loss adjustment
19 that is recommended --

20 A My adjustment was the actual cost for purchased
21 water that they purchased from the Town of
22 Waynesville. I did not make an adjustment for
23 any water loss, and they're about 20 percent, and
24 this further encourages them to make improvements

1 for that unaccountable water, so we did not make
2 that adjustment.

3 Q All right. Because --

4 A Or maybe the full expense.

5 Q Because otherwise they would be paying that
6 additional money, that's why you say it
7 encourages them?

8 A Correct.

9 Q And regarding the surcharge, this is really a
10 follow up just to be sure from what
11 Commissioner McKissick just asked, but you
12 recommended quarterly reports in an agreed upon
13 format regarding the funds collected through the
14 assessments, the amount of assessed funds on
15 hand, the projects completed, and the amount
16 spent on capital expenditures. Would it be the
17 Public Staff's intent to review this information
18 quarterly and update the Commission on an annual
19 basis outside of a general rate case, whether the
20 surcharges should continue at the same rates that
21 might be approved in this proceeding?

22 A The Public Staff can do that. Usually accounting
23 does but I'm sure accounting will agree with
24 that.

1 MR. GRANTMYRE: The Public Staff would agree
2 to that. That's a good recommendation. I know I'm
3 not allowed to testify but I do it all the time.

4 A We didn't really work out the specifics but, yes,
5 we are okay with that.

6 COMMISSIONER BROWN-BLAND: Are there any
7 questions on the Commission's questions?

8 MR. HIGGINS: No ma'am.

9 MR. GRANTMYRE: No.

10 COMMISSIONER BROWN-BLAND: Mr. Phelan, do
11 you have any questions on the Commission's questions?

12 MR. PHELAN: I have no questions.

13 COMMISSIONER BROWN-BLAND: Well, we've
14 received the testimony into evidence.

15 MR. GRANTMYRE: Yes, we would move that the
16 testimony and exhibits of Gina Casselberry and
17 Ms. Chiu be entered into evidence.

18 COMMISSIONER BROWN-BLAND: That motion will
19 be allowed and the exhibits will remain marked as they
20 were when prefiled and received into evidence at this
21 time.

22 (WHEREUPON, Casselberry Exhibits
23 1 - 11 and Chiu Exhibit 1,
24 Schedules 1A - 4B are admitted

1 into evidence.)

2 COMMISSIONER BROWN-BLAND: Is there anything
3 else from the parties to come before the Commission?

4 MR. GRANTMYRE: No.

5 MR. PHELAN: Nothing from me.

6 MR. HIGGINS: No.

7 COMMISSIONER BROWN-BLAND: Well, we thank --
8 I don't know what the question is. I'm
9 being asked if the Commission can ask Mr. Higgins a
10 question. I'm going to allow it.

11 COMMISSIONER CLODFELTER: Mr. Higgins, I'm
12 curious about something because I just don't know tax
13 law very well, and it's not that it's necessarily
14 pertinent here, but I'd like to understand all of the
15 background of moving parts here.

16 The Assembly is not a unit of local
17 government but the service fee is assessed based on
18 tax valuation and set by millage rate. Is it eligible
19 for tax deduction? Is there any way in which the
20 property owner can deduct that from taxes?

21 MR. HIGGINS: I can't answer that question.

22 COMMISSIONER CLODFELTER: Do any of the
23 Assembly members here know? Is that fee tax
24 deductible?

1 MR. HIGGINS: I don't think any of these
2 folks -- apparently none of the -- I'm sorry.

3 COMMISSIONER CLODFELTER: Okay. I'm just
4 curious. Thank you.

5 COMMISSIONER BROWN-BLAND: If I neglected to
6 say so the witnesses are excused from the stand. You
7 may step down.

8 (The witnesses are excused)

9 COMMISSIONER BROWN-BLAND: And proposed
10 orders due 30 days from the availability and
11 publication of the transcript?

12 MR. GRANTMYRE: That is fine.

13 MR. HIGGINS: Yes.

14 COMMISSIONER BROWN-BLAND: And,
15 Mr. Grantmyre, to the extent that you can, will you
16 provide some assistance to Mr. Phelan so that he can
17 participate in that part of the proceeding?

18 MR. GRANTMYRE: Yes. I've already briefed
19 him and I'll go over it with him again.

20 COMMISSIONER BROWN-BLAND: We appreciate
21 that. There being nothing else this afternoon, we'll
22 stand adjourned.

23 (The proceedings were adjourned)
24

C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that
the Proceedings in the above-captioned matter were
taken before me, that I did report in stenographic
shorthand the Proceedings set forth herein, and the
foregoing pages are a true and correct transcription
to the best of my ability.



Kim T. Mitchell
Court Reporter