

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Tuesday, March 8, 2022
DOCKET NO.: W-1300, Sub 60
TIME: 1:00 p.m. to 4:12 p.m.
BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
Commissioner Daniel G. Clodfelter
Commissioner Jeffrey A. Hughes.

IN THE MATTER OF:

Application by

Old North State Water Company, LLC,

3212 6th Avenue South, Suite 200,

Birmingham, Alabama 35222, for Authority to

Adjust and Increase Rates for Water Utility Service

in All Its Service Areas in North Carolina

VOLUME 2

1 A P P E A R A N C E S:
2 FOR OLD NORTH STATE WATER COMPANY, LLC:

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4 Fox Rothschild LLP
5 434 Fayetteville Street, Suite 2800
6 Raleigh, North Carolina 27601.

7
8 FOR THE USING AND CONSUMING PUBLIC:

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10 Reita D. Coxton, Esq.
11 Public Staff - North Carolina Utilities Commission
12 4326 Mail Service Center
13 Raleigh, North Carolina 27699-4300

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Old North State Water Company's -/156
Application, Schedules A-F, Actual
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Mar 11 2022

P R O C E E D I N G S

1
2 COMMISSIONER BROWN-BLAND: Good
3 afternoon. Let's come to order and go on the
4 record. I am Commissioner ToNola D. Brown-Bland
5 with the North Carolina Utilities Commission, the
6 presiding Commissioner for this hearing, and with
7 me this afternoon are Commissioners
8 Daniel G. Clodfelter and Jeffrey A. Hughes.

9 I now call for hearing Docket Number
10 W-1300, Sub 60, In the Matter of Application of Old
11 North State Water Company, LLC, 3212 Sixth Avenue
12 South, Suite 200, Birmingham, Alabama 35222, for
13 Authority to Adjust and Increase Rates for
14 Providing Water Utility Service in All Its Service
15 Areas in North Carolina, filed pursuant to
16 North Carolina General Statute 62-134, and
17 Commission Rules R1-15 and R1-17(a).

18 On June 29, 2021, Old North State Water
19 Company, LLC -- hereafter ONSWC, or applicant, or
20 Company -- filed an application requesting approval
21 to adjust and increase rates for all its water
22 utility systems. In support of its application,
23 ONSWC filed the direct testimony of John McDonald
24 and Laurie Oakman. The Company filed the revised

1 prefiled direct testimony of John McDonald on
2 July 29, 2021.

3 As filed, the Company's application
4 requests a 68 percent increase over the total
5 revenue generated by its currently
6 Commission-approved rates. The Company states in
7 its application that the requested increase is
8 necessary because it has been operating at a
9 substantial loss and its current allowed rates do
10 not support its current operation.

11 The applicant has also requested uniform
12 rates for all of its water service areas or systems
13 in North Carolina. The pending application for
14 increase is the first general rate case filed by
15 the Company since it began providing service in the
16 state of North Carolina in 2014.

17 On July 26, 2021, the Commission issued
18 an order establishing general rate case and
19 suspending rates.

20 On September 21, 2021, the Commission
21 issued order establishing discovery guidelines,
22 scheduling hearings, and requiring customer notice.
23 The order scheduled a public hearing for the
24 purpose of receiving customer and public witness

1 testimony by online video conference meeting using
2 the Webex platform on October 7, 2021; and further
3 set the hearing to receive testimony from expert
4 witnesses to begin on December 2, 2021.

5 On October 27, 2021, the Company and the
6 Public Staff, whose intervention and participation
7 on behalf of the using and consuming public, is
8 recognized pursuant to North Carolina General
9 Statute 62-15(d) and Commission Rule R1-19(e),
10 filed a joint motion to extend the testimony filing
11 deadlines and to reschedule the expert witness
12 hearing. In that motion, the Company waived its
13 right under North Carolina General Statute 62-134
14 to put new rates into effect 300 days after the
15 filing of its application.

16 On November 16, 2021, the Commission
17 issued an order rescheduling expert witness hearing
18 and extending time to provide testimony which,
19 among other things, rescheduled the expert witness
20 hearing to be held Tuesday, March 8, 2022, at
21 10:00 a.m. in the Commission hearing room in the
22 Dobbs Building, 430 North Salisbury Street in
23 Raleigh, North Carolina.

24 On November 23, 2021, the Company filed

1 updates to revenues, expenses, rate base, and cost
2 of capital.

3 On November 29, 2021, the Company filed
4 a notice of intent to place temporary rates into
5 effect, a motion for approval of financial
6 undertaking, and a motion for approval of notice to
7 customers of rescheduled hearing and temporary
8 rates.

9 On November 30, 2021, the Company filed
10 a correction to its notice to customers of
11 rescheduled hearing and temporary rates.

12 On December 14, 2021, the Commission
13 issued an order accepting financial undertaking and
14 approving notice to customers of rescheduled
15 hearing and temporary rates.

16 On February 8, 2022, the Public Staff
17 filed the testimony and exhibits of witnesses
18 Charles M. Junis, John R. Hinton, and Iris Morgan.

19 On February 22, 2022, the Company filed
20 rebuttal testimony and exhibits of John McDonald
21 and Laurie Oakman.

22 On February 24, 2022, the Company filed
23 the applicant's motion to file rebuttal to Public
24 Staff's supplemental testimony. And in its motion

1 the Company stated that the Public Staff had
2 indicated an intention to file supplemental
3 testimony by March 1, 2022, and requested an
4 opportunity to file rebuttal testimony thereto, as
5 well as opportunity for discovery related to the
6 Public Staff's anticipated supplemental testimony.

7 The Public Staff filed motion for leave
8 to file supplemental testimony in response to
9 ONSWC's motion on March 1, 2022.

10 Along with its motion, the Public Staff
11 filed the proposed supplemental testimony and
12 exhibits of witnesses Junis and Morgan.

13 On March 3, 2022, the Commission granted
14 the party's motions, allowing the Public Staff to
15 file supplemental testimony, allowing the Company
16 to file rebuttal testimony to the supplemental
17 testimony, and permitting the parties to take
18 discovery on the supplemental and supplemental
19 rebuttal testimony.

20 On March 7, 2022, the Company and the
21 public filed a joint motion to excuse witnesses.
22 And also on March 7th, the Company filed a
23 supplemental and rebuttal testimony of witness
24 Oak -- today, a number of filings have been made by

1 both parties, today being March the 8th. And
2 Commission's record shows the filing by the Company
3 of late-filed updated Exhibit 1 of Laurie Oakman,
4 of the Company and the Public Staff's joint
5 settlement agreement and stipulation with prefiled
6 exhibits, the Company's settlement testimony of
7 John McDonald, and the Public Staff settlement
8 testimony of witnesses Junis, Hinton, and Morgan.

9 Also today, the Commission issued an
10 order rescheduling the expert witness hearing and
11 denying the motion to excuse witnesses.

12 Pursuant to General Statute 163A-159(e),
13 I remind members of the Commission of our duty to
14 avoid conflicts of interest. And I inquire at this
15 time whether any Commissioner has any known
16 conflict of interest with respect to this docket.

17 (No response.)

18 COMMISSIONER BROWN-BLAND: The record
19 will reflect that no conflicts have been
20 identified.

21 And I will now call upon counsel for the
22 parties to announce their appearance for the
23 record, beginning with the applicant.

24 MR. DROOZ: David Drooz appearing on

1 behalf of Old North State Water Company.

2 COMMISSIONER BROWN-BLAND: Thank you,
3 Mr. Drooz.

4 MR. MAGARIRA: Munashe Magarira
5 appearing on behalf of the Public Staff and using
6 and consuming public.

7 COMMISSIONER BROWN-BLAND: Good
8 afternoon.

9 MS. COXTON: Rita Coxtton appearing on
10 behalf of the Public Staff and the using and
11 consuming public.

12 COMMISSIONER BROWN-BLAND: All right.
13 Good afternoon. Before we get started, number one,
14 I would like to ask, due to filings coming in sort
15 of rapidly here at the end, and due to a set of
16 complicated filings before then, if either of the
17 counsels notice that I got anything wrong in the
18 opening, I will give you a chance to correct that
19 now, if you picked up on anything. I think I
20 caught it, but if I missed coming.

21 (No response.)

22 COMMISSIONER BROWN-BLAND: The record
23 will reflect no one is coming forward, so we assume
24 that I had it correct.

1 Before we get started, ladies and
2 gentlemen, I don't like to have to do this, but I
3 feel compelled to. This hearing, as you know, was
4 originally scheduled for December 2nd, and on the
5 motion from the Public Staff, the Commission
6 rescheduled it for March 8th and extended all of
7 the deadlines for the initial and the rebuttal
8 testimony. And then the Public Staff asked for a
9 one-week extension of time to file its initial
10 testimony and along with the corresponding
11 extension for the Company's rebuttal testimony.

12 That shortened the time that was
13 available to Commission and the staff to review the
14 testimony, but we granted that motion because we
15 always like to be accommodating and work with the
16 parties to the extent that we can. We understand
17 everybody's under considerable pressure these days.

18 However, last week, a week before the
19 hearing, the Commission granted motions for the
20 parties to file supplemental and supplemental
21 rebuttal. And in that order, the Commission
22 reminded the parties that our schedules are
23 important and the orderly management of the matters
24 coming before the Commission were important. And

1 then, as of Thursday, March 3rd, the parties
2 communicated with Commission staff that it
3 anticipated filing a stipulation and that the
4 testimony would come in on Monday morning.

5 That was Thursday. Friday, Saturday,
6 and Sunday passed. And on Monday morning, the day
7 before the rescheduled hearing, the parties filed a
8 joint motion to excuse the witnesses signed by
9 counsel. And that motion stated that the parties
10 had resolved all the issues through a stipulation
11 and that that stipulation was being filed
12 contemporaneously with the motion. And, in fact,
13 no stipulation was filed with the motion to excuse
14 the witnesses or at any time on the Monday. So,
15 from the Commission's point of view, that was a
16 misrepresentation, and that misrepresentation --
17 the representation that the parties had a
18 stipulation, and it appears they didn't, and that
19 was disappointing to the Commission.

20 Monday came and went, and by email
21 today -- well, by email yesterday, the Commission
22 staff reached out at the direction of this
23 presiding Commissioner to the parties and told them
24 to expect an order rescheduling the hearing for

1 10:00 -- moving the hearing from 10:00 this morning
2 to 1:00 today, which is why we're here at this time
3 and hour, or this hour and date. And the
4 Commission -- but the Commission did not issue that
5 order, because we were still waiting to see if the
6 stipulation would come in and we would evaluate how
7 much time we would need for our staff to review and
8 understand the stipulation and we could -- so that
9 we could have meaningful dialogue here today and be
10 able to question the witnesses.

11 So through this whole time, it is my
12 understanding that the parties did not keep the
13 Commission and its staff in the loop, and only
14 answered questions about the status of the
15 stipulation when asked. At the scheduled time for
16 the hearing, 10:00 this morning, with no order
17 issued, we didn't receive communications from the
18 parties inquiring about the order, and
19 Commission -- Commissioners and staff came here to
20 see if anyone had come to the hearing room. And,
21 in fact, no representative for the parties had come
22 to inquire or otherwise make appearance.

23 Then, just minutes before we convened at
24 this time, we began receiving various filings. The

1 stipulation came in a little earlier, and then we
2 received testimony within the last hour, was still
3 being filed.

4 So I bring this up because that's not
5 the way the Commission expects the parties to --
6 who appear before us to deal with the Commission or
7 the Commission staff. First, the Commission is
8 accustomed to and expects no less than to be kept
9 informed and have constant communication of status
10 at any time when we are within a week of a
11 scheduled evidentiary hearing. And -- and when the
12 case, the issues, the witnesses, or anything having
13 to do with the case would affect the conduct or
14 could affect the conduct of the hearing, whenever
15 that is changing, is in flux and unresolved, we
16 expect to be kept in the loop. We expect the flow
17 of communications to be two ways and to be
18 continuous.

19 Second, it is -- it shows, in my
20 opinion, a level of indifference and disregard for
21 this tribunal, for our time, and for the Commission
22 process, and, quite frankly, for the customers and
23 the public who will be affected by your decisions
24 and the important decisions of this Commission. It

1 leads to inefficiencies in the process, and if the
2 Commission allows it, it could lead to additional
3 avoidable rate case expense.

4 Moreover, the message that the
5 Commission receives is that our process and our
6 procedures do not matter to the parties, and that
7 once the parties reach a conclusion or a settlement
8 on their own, that somehow the matter is resolved
9 or ends there. But this Commission is not just
10 window dressing. Our decisions are not expected --
11 should not be expected to be just rubber stamp.
12 And when the stipulation comes in, we need time to
13 review that and work with that.

14 So, needless to say, the Commission is
15 disappointed about that. We're starting late
16 today. We had hoped we would conclude the matter
17 in terms of taking in the evidence today. We're
18 not quite sure that will be able to happen, as
19 we've still been taking in and processing the filed
20 information. We'll do our best to make sure that
21 happens, but if it doesn't, we will just have to
22 come back and reconvene on another day, and you
23 will receive an order scheduling the time and the
24 date for that.

1 Having said that, and to be fair, we
2 will hear from the parties, starting with the
3 applicant, should you have anything you wish to say
4 in light of the Commission's understanding of what
5 has transpired and how we come to where we are
6 today.

7 So, Mr. Drooz, if you have anything to
8 say.

9 MR. DROOZ: This is certainly a process
10 we hope will not happen again. You know, I -- and
11 the witnesses here have been in pretty constant
12 contact with Public Staff last week through the
13 weekend today. We had a settlement late last week
14 based upon an oral negotiation. Getting that down
15 on paper and ironing out all the details took a lot
16 longer than expected. We really are regretful for
17 the problems it's caused the Commission.

18 You know, I do feel that coming in with
19 a case that the parties have settled is ultimately
20 beneficial to everyone involved. It's just
21 unfortunate it took so long to get there.

22 COMMISSIONER BROWN-BLAND: All right.
23 Thank you, Mr. Drooz.

24 Public Staff, is there any response or

1 anything you wish to say?

2 MR. MAGARIRA: I think we would sort of
3 endorse what counsel for Old North State has shared
4 with this Commission. We were working diligently
5 with Old North State to make sure that we had a
6 finalized settlement agreement that reflected, sort
7 of, the oral negotiations that our office and Old
8 North State engaged in on Thursday, sort of in the
9 flux of making sure that that language, sort of,
10 reflected what the parties agreed to.

11 We did not, as you put forward, alert
12 the Commission to all the ongoings or updates with
13 regards to making sure that the settlement
14 agreement would be filed along with testimony. And
15 again, we are very sorry and obviously will
16 endeavor to be much more mindful of the
17 Commission's need to have information when it
18 needs, and to, obviously, comply with the
19 procedural order.

20 And again, we just reiterate that we are
21 sorry for not showing in our actions, sort of, the
22 appropriate deference of the Commission and
23 obviously in addition to customers. So we
24 apologize with regards to that.

1 COMMISSIONER BROWN-BLAND: Thank you,
2 Mr. Magarira. And the Commission takes note of
3 what both of you had to say and the regrets that
4 you expressed. However, we do want to make sure
5 that message is received loud and clear, that we
6 are to stay in communications in situations like
7 these. We hope to avoid this type of limbo that
8 the Commission found itself in this time around.

9 So, with that, I would --
10 Commissioner Clodfelter?

11 COMMISSIONER CLODFELTER: Madam Chair,
12 for me, this goes a little bit beyond
13 disappointment. And it's not just about failure of
14 communication but also failure of process. I don't
15 appreciate receiving materials that are highly
16 important to the disposition of the case literally
17 within the hour or so before the hearing. And at
18 least during my time here, it's not been uncommon
19 when parties are confronted with the situation that
20 you face, for you to suggest that the Commission
21 consider postponing the hearing until such time as
22 you had an adequate opportunity to mobilize
23 yourselves and get your papers filed and allow the
24 Commission and the Commission staff adequate time

1 to review those papers and those filings to
2 determine the course of the hearing and the most
3 efficient way to conduct the hearing.

4 We're going to be proceeding this
5 afternoon in a way that I don't think is
6 necessarily going to be the most productive use of
7 anyone's time. This is not the only matter before
8 this Commission, and you know that. And so while
9 we've been treading water, we could have, in the
10 alternative, been making arrangements for an
11 alternative hearing, at which time we could have
12 all been better prepared and proceeded in a more
13 orderly fashion.

14 I will say this for myself. If -- if I
15 were appearing in front of this panel as one of the
16 counsel today, and if instead of on this dais, you
17 had the three of us -- instead, if you had
18 Howard Manning or Donald Stevens, then I would be
19 leaving this hearing room without my head. I'd be
20 carried out on a stretcher without my head. So for
21 me it's more than a matter of disappointment.

22 I guess we're going to proceed,
23 Madam Chair, but I, frankly, don't intend to be
24 forced to conclude this hearing until I've had an

1 adequate opportunity to study the papers put before
2 us and the new testimony filed for the first time
3 within the last hour.

4 COMMISSIONER BROWN-BLAND: All right.
5 So with that said, are there any other preliminary
6 matters regarding the substantive case before us?
7 Mr. Drooz?

8 MR. DROOZ: I would just note that the
9 Company filed a late-filed exhibit to update rate
10 case expense this morning, and so the --
11 ultimately, the revenue requirement, if the Public
12 Staff, upon reviewing it, agrees, would need to be
13 adjusted somewhat before that. And that's
14 something, of course, that the parties can take
15 care of in proposed orders.

16 COMMISSIONER BROWN-BLAND: All right.
17 Anything from the Public Staff?

18 MR. MAGARIRA: Nothing from the Public
19 Staff.

20 COMMISSIONER BROWN-BLAND: All right.
21 Then the case is now with the applicant.

22 MR. DROOZ: We'd call John McDonald to
23 the witness stand.

24 COMMISSIONER BROWN-BLAND: All right.

1 Mr. McDonald, I believe we are being streamed to
2 somebody, to the public, so be sure that you get
3 the mic close to you.

4 THE WITNESS: Yes, ma'am.

5 COMMISSIONER BROWN-BLAND: Place your
6 left hand on the Bible, raise your right.

7 Whereupon,

8 JOHN MCDONALD,
9 having first been duly sworn, was examined
10 and testified as follows:

11 COMMISSIONER BROWN-BLAND: All right.

12 Your witness.

13 DIRECT EXAMINATION BY MR. DROOZ:

14 Q. Mr. McDonald, would you state your name and
15 position with the Company for the record, please.

16 A. My name is John McDonald, and I'm the
17 managing member of Old North State Water Company.

18 Q. And did you cause to be prefiled on
19 June 29, 2021, 13 pages of direct testimony in this
20 docket?

21 A. I did.

22 Q. And did you also cause to be prefiled on
23 July 29th 13 pages of revised direct testimony?

24 A. I did.

1 Q. And did you cause to be prefiled 17 pages of
2 rebuttal testimony along with McDonald Rebuttal
3 Exhibits 1 and 2 on February 22, 2022?

4 A. Yes.

5 Q. And did you prefile today, March 8, 2022, two
6 pages of settlement testimony?

7 A. I did.

8 Q. Okay. Do you have any changes or corrections
9 to make to your prefiled direct testimony?

10 A. Yes. On pages 3 through 6, since the filing
11 of my direct testimony, the number of systems,
12 customers, and gallons sold have been updated, along
13 with the schedule showing performer rate base and
14 revenues and expenses. These changes are reflected in
15 the Company's rebuttal testimony but now have been
16 replaced by the numbers in the settlement agreement and
17 exhibit.

18 And also on page 6, lines 9 through 12, while
19 Old North State has never sought a general rate case
20 covering all of its water systems, I should clarify
21 that a water rate increase was granted in the transfer
22 docket for Twin Lake Farm, Sub 10, and a wastewater
23 rate increase was granted in the transfer docket for
24 Horse Creek Farms, Sub 19.

1 Q. And -- excuse me. With those changes, if
2 given orally from the witness stand today, would your
3 answers to the questions in all your prefiled
4 testimonies be the same today as when they were filed?

5 A. Yes, they would.

6 MR. DROOZ: Okay. At this time, we
7 would ask that the prefiled testimonies of
8 Mr. McDonald be incorporated into the record as if
9 orally read from the stand.

10 COMMISSIONER BROWN-BLAND: That motion
11 is allowed.

12 (Whereupon, the prefiled direct, revised
13 direct, rebuttal, and settlement
14 testimony of John McDonald were copied
15 into the record as if given orally from
16 the stand.)

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**NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

**IN THE MATTER OF:
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING
WATER UTILITY SERVICE IN ALL OF ITS SERVICE AREAS
IN NORTH CAROLINA**

PRE-FILED DIRECT TESTIMONY OF

OF

JOHN MCDONALD

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

JUNE 29, 2021

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

3 A. My name is John McDonald, and my business address is 3212 6th Avenue South,
4 Suite 200, Birmingham, Alabama 35222.

5

6 **Q. PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR**
7 **EMPLOYER.**

8 A. I am the Manager of Old North State Water Company, LLC (“ONSWC”). The
9 business address of ONSWC is 3212 6th Avenue South, Suite 200, Birmingham,
10 Alabama 35222.

11

12 **Q. WHAT IS YOUR CURRENT ROLE WITH OLD NORTH STATE WATER**
13 **COMPANY?**

14 A. As noted above, I am the Manager of ONSWC.

15

16 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WITH ONSWC.**

17 A. My responsibilities with ONSWC include general oversight of ONSWC’s day-to-
18 day operations, and direct oversight of all corporate, compliance, finance, and
19 regulatory matters related to ONSWC. I am also responsible for the strategic
20 direction of ONSWC.

21

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

2 A. I have a Bachelor of Science degree with honors in Natural Resource
3 Management from the University of the South in Sewanee, Tennessee.

4
5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

6 A. In addition to being the Manager of ONSWC, in 2004, I founded Integra Water,
7 LLC (“Integra Water”), a water and wastewater utility that is headquartered in
8 Birmingham, Alabama. I am the sole owner of Integra Water, as I hold one
9 hundred percent (100%) of its membership interests. Integra Water owns and
10 operates water and wastewater utility systems throughout the Southeastern United
11 States and the Gulf Coast of the United States. Prior to my founding of Integra
12 Water, I was involved in industrial real estate development in Alabama and
13 Georgia. I was also previously responsible for the management of various entities
14 ranging from telecommunications facilities to timber holdings.

15
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20 Water. In these capacities, I have been responsible for the management and
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6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
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9 Sub 9; W-1300, Sub 55; W-1320, Sub 0; and W-1320, Sub 2.
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5 A. At the end of the Test Year of December 31, 2020, ONSWC was serving a total of
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11 A. No. ONSWC has never requested rate increases for any of its water or wastewater
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19 of water systems to ONSWC, the current rates at the time of the transfer remained
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13 A. A uniform rate structure is the most appropriate means of allocating ONSWC's
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20 When systems are located close to one another geographically, as is the case in

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10 A. The schedules and exhibits to the Application were coordinated and prepared by
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13 **Q. WHAT TEST YEAR PERIOD DOES YOUR PRE-FILED TESTIMONY**
14 **ADDRESS?**

15 A. ONSWC is utilizing a Test Year in this proceeding of the twelve months ended
16 December 31, 2020.

17

18 **REVENUE REQUIREMENT AND RATE OF RETURN**

19 **Q. HAS ONSWC SUSTAINED INCOME LOSSES FOR ITS WATER**
20 **SYSTEMS DURING THE TEST YEAR?**

21 A. Yes. ONSWC experienced a net income loss of \$354,571.49 during the Test Year.

1

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3 **INCOME LOSSES DURING THE TEST YEAR.**

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6 adjusted to accurately reflect the operating costs and expenses. The substantial
7 net income loss was also the result of not having previously requested a rate
8 adjustment for any of the water systems to cover ONSWC's operating expenses.
9 From the time that ONSWC first began acquiring water systems in 2014, it has
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12 **Q. WHAT IS THE REVENUE INCREASE REQUESTED BY ONSWC?**

13 A. ONSWC's current pro-forma revenues based on the current rates are \$690,700.19,
14 and ONSWC's current expenses are \$1,045,500. These revenues currently leave
15 ONSWC operating at a net income loss of \$354,571.49. ONSWC proposes an
16 increase in revenue of \$506,794.02, for total revenue of \$1,257,538.78, which
17 represents an increase in revenue of 68%.

18

19 **Q. WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**
20 **RATE CASE?**

1 A. ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The
2 proposed cost of long-term debt is 7.34%. These ratios and cost rates are
3 consistent with the actual capital structure values as of the end of the Test Year
4 ended December 31, 2020. ONSWC requests that the Commission accept
5 ONSWC's current capital structure of 17% debt and 83% equity.

6

7 **Q. WHAT RATE OF RETURN DOES ONSWC'S CURRENT RATES YIELD?**

8 A. ONSWC's current rates yield a rate of return of -33.94%.

9

10 **Q. WHAT RATE OF RETURN WOULD ONSWC'S PROPOSED RATES**
11 **YIELD?**

12 A. The rates proposed by ONSWC would yield on overall rate of return on rate base
13 of 7.75%, based on a rate of return on common equity of 9.75%. ONSWC's
14 proposed rates would yield a rate of return that is consistent with the rates of return
15 allowed by the Commission for Carolina Water Service in Docket No. W-354, Sub
16 360 and for Aqua North Carolina in Docket No. W-2018, Sub 497, which are their
17 most recent rate cases. The average of the approved overall return on rate base in
18 those cases is 7.46% ($7.75\% + 7.17\% = 14.92\% \div 2 = 7.46\%$), which is based on
19 the average authorized rate of return on common equity in those two rate cases of
20 9.73% ($9.75\% + 9.70\% = 19.45\% \div 2 = 9.73\%$). ONSWC believes it appropriate
21 for the Commission to set a rate of return on common equity for ONSWC that is

1 comparable to the amounts that it set for Carolina Water Service and Aqua North
2 Carolina in their most recent rate cases.

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4 **Q. IS ONSWC ASKING THE COMMISSION TO AUTHORIZE A RATE OF**
5 **RETURN AT THAT LEVEL FOR ONSWC AT THIS TIME?**

6 A. Yes. ONSWC is asking the Commission to authorize an overall rate of return on
7 rate base for ONSWC of 7.75%, and a rate of return on common equity of 9.75%,
8 which is commensurate with what the Commission has recently approved for other
9 similar water and wastewater utilities.

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11 **Q. PLEASE EXPLAIN WHY ONSWC IS REQUESTING A RATE INCREASE**
12 **AT THIS TIME.**

13 A. Under ONSWC's current rates, ONSWC is earning a rate of return of -33.94%.
14 Under the current rates and with prudent management of its water systems,
15 ONSWC is unable to cover its operating costs and earn a reasonable return on its
16 investment for its water systems. ONSWC needs to be able to receive sufficient
17 revenue to cover its operating expenses, which will enable ONSWC to maintain
18 and improve the quality of service that it provides to its water customers.

19
20 During the Test Year, ONSWC experienced an overall a rate of return for its
21 operations of -33.94%. This rate of return is substantially below the currently-

1 authorized rates of return on rate base of other comparable water and wastewater
2 utilities in North Carolina (based on the above-referenced calculation of the average
3 rates of return recently approved for Carolina Water Service and Aqua North
4 Carolina), which average an overall rate of return on rate base of 7.46%, based on
5 an authorized rate of return on common equity of 9.73%.

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7 **Q. PLEASE EXPLAIN ONSWC'S RELATIONSHIP WITH INTEGRA**
8 **WATER.**

9 A. Integra Water provides support services to ONSWC's water and wastewater utility
10 systems, as well as to Integra Water's utilities in in the Southeastern United States
11 and the Gulf Coast of the United States. These support services include financial
12 and corporate management, as well as support, expertise, and assistance in the
13 areas of customer service, billing, regulatory compliance, engineering design,
14 construction, information technology, human resources, insurance, and accounting.
15 These corporate expenses are allocated across all of ONSWC's water and
16 wastewater utilities in North Carolina and Integra Water's water and wastewater
17 utilities, based on each operating entity's customer count relative to the total
18 number of customers served.

19
20 **Q. HAS ONSWC MADE ANY RECENT CAPITAL IMPROVEMENTS IN ITS**
21 **WATER SYSTEMS?**

1 A. Yes. ONSWC paid \$113,298 towards an approximately \$254,000 green sand filters
2 installation for Twin Lakes Farms in Docket No. W-1300, Sub 10. Before making
3 this capital investment for Twin Lakes Farms, ONSWC first attempted sequestration,
4 but was unable to lower the iron and manganese levels to comply with state water
5 quality standards.

6

7 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
8 **KNOWLEDGE, INFORMATION, AND BELIEF?**

9 A. Yes.

10

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

12 A. Yes. However, I reserve the right to update or amend this testimony upon receipt of
13 additional data or other information that may become available.

14

**NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

**IN THE MATTER OF:
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING
WATER UTILITY SERVICE IN ALL OF ITS SERVICE AREAS
IN NORTH CAROLINA**

REVISED PRE-FILED DIRECT TESTIMONY OF

OF

JOHN MCDONALD

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

JULY 29, 2021

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

3 A. My name is John McDonald, and my business address is 3212 6th Avenue South,
4 Suite 200, Birmingham, Alabama 35222.

5

6 **Q. PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR**
7 **EMPLOYER.**

8 A. I am the Manager of Old North State Water Company, LLC (“ONSWC”). The
9 business address of ONSWC is 3212 6th Avenue South, Suite 200, Birmingham,
10 Alabama 35222.

11

12 **Q. WHAT IS YOUR CURRENT ROLE WITH OLD NORTH STATE WATER**
13 **COMPANY?**

14 A. As noted above, I am the Manager of ONSWC.

15

16 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WITH ONSWC.**

17 A. My responsibilities with ONSWC include general oversight of ONSWC’s day-to-
18 day operations, and direct oversight of all corporate, compliance, finance, and
19 regulatory matters related to ONSWC. I am also responsible for the strategic
20 direction of ONSWC.

21

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

2 A. I have a Bachelor of Science degree with honors in Natural Resource
3 Management from the University of the South in Sewanee, Tennessee.

4
5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

6 A. In addition to being the Manager of ONSWC, in 2004, I founded Integra Water,
7 LLC (“Integra Water”), a water and wastewater utility that is headquartered in
8 Birmingham, Alabama. I am the sole owner of Integra Water, as I hold one
9 hundred percent (100%) of its membership interests. Integra Water owns and
10 operates water and wastewater utility systems throughout the Southeastern United
11 States and the Gulf Coast of the United States. Prior to my founding of Integra
12 Water, I was involved in industrial real estate development in Alabama and
13 Georgia. I was also previously responsible for the management of various entities
14 ranging from telecommunications facilities to timber holdings.

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16 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE IN**
17 **WATER AND WASTEWATER UTILITIES.**

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20 Water. In these capacities, I have been responsible for the management and
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15 (“CPCN”) to ONSWC to provide water utility service on July 21, 2014. The CPCN
16 was issued for Leone Landing Subdivision in Wake County, North Carolina in
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19 **Q. HAS ONSWC SUSTAINED INCOME LOSSES FOR ITS WATER**
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13 areas of customer service, billing, regulatory compliance, engineering design,
14 construction, information technology, human resources, insurance, and accounting.
15 These corporate expenses are allocated across all of ONSWC's water and
16 wastewater utilities in North Carolina and Integra Water's water and wastewater
17 utilities, based on each operating entity's customer count relative to the total
18 number of customers served.

19
20 **Q. HAS ONSWC MADE ANY RECENT CAPITAL IMPROVEMENTS IN ITS**
21 **WATER SYSTEMS?**

1 A. Yes. ONSWC paid \$113,298 towards an approximately \$254,000 green sand filters
2 installation for Twin Lakes Farms in Docket No. W-1300, Sub 10. Before making
3 this capital investment for Twin Lakes Farms, ONSWC first attempted sequestration,
4 but was unable to lower the iron and manganese levels to comply with state water
5 quality standards.

6

7 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
8 **KNOWLEDGE, INFORMATION, AND BELIEF?**

9 A. Yes.

10

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

12 A. Yes. However, I reserve the right to update or amend this testimony upon receipt of
13 additional data or other information that may become available.

14

**NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF:
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC FOR
AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING WATER
UTILITY SERVICE IN ALL ITS SERVICE AREAS IN NORTH CAROLINA

PRE-FILED REBUTTAL TESTIMONY

OF

JOHN MCDONALD

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

February 22, 2022

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH**
2 **OLD NORTH STATE WATER COMPANY, LLC, AND YOUR BUSINESS**
3 **ADDRESS.**

4 A. My name is John McDonald, and I am the Managing Member of Old North State
5 Water Company, LLC (ONSWC or Company). My business address is 3212 6th
6 Avenue South, Suite 200, Birmingham, AL 35222.

7 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, I filed direct testimony on June 29, 2021.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to respond to the following issues raised
12 by the Public Staff: (1) water quality for certain systems; (2) separate rates for
13 systems with purchased water; (3) a reduction in the base charge; (4) certain Public
14 Staff concerns about the in-service dates of water systems and the billing of
15 customers before Commission approval; (5) cost of capital for ONSWC; (6) change
16 in the actual capital structure for ONSWC; and (7) the appropriate method for
17 calculating whether a refund to customers is owed in regard to temporary rates.
18 Other issues are addressed in the rebuttal testimony of ONSWC witness Laurie
19 Oakman.

20 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS**
21 **ON WATER QUALITY AND SERVICE?**

1 A. After reviewing customer statements and North Carolina Department of
2 Environmental Quality (DEQ) records, Public Staff witness Junis first concludes
3 that ONSWC water quality generally meets the standards of the Safe Drinking
4 Water Act and is satisfactory; however, there have been instances of deficient
5 monitoring frequency, reporting, and public notice of water quality issues. He notes
6 that with the termination of the previous contract operations firm, and replacement
7 with direct operations employees beginning in October of 2020, ONSWC has seen
8 a significant decrease in water quality complaints.

9 I believe this is a fair conclusion. There have been past issues with water quality,
10 partly due to high levels of manganese and iron in the groundwater where our wells
11 are located, and partly because the former contract operations firm did not perform
12 up to expectations. I am committed to making ONSWC responsive to any ongoing
13 and future concerns regarding water quality and service quality. In fact, ONSWC
14 has installed green sand filters on one system, Twin Lake Farm, sequestration on a
15 second system, Blaney Farms, and has completed engineering for sequestration for
16 a third system, Brook Meadows. Construction will follow shortly. We worked
17 with the developer at Fish Hawk to correct the water quality by installing a third
18 Hydrus 36"x72" Iron and Manganese filter. We continue to monitor water quality
19 in these systems to ensure a high level of water quality. ONSWC anticipates a
20 radiological filtration system at Olde Mill Trace will be required and we have

1 completed engineering and are working on a cost sharing agreement with the
2 developer to install those filters when the water quality threshold is crossed. Last,
3 we have engineered and are waiting on construction to interconnect two water
4 systems - Avalyn and Kingston Manor - to alleviate low pressure issues. To show
5 the results of ONSWC efforts, I agree with witness Junis' recommendation that
6 ONSWC file at least a year of quarterly reports "including, if applicable, a customer
7 complaint log, water quality testing analysis results, and a description of actions the
8 Company has taken and/or planned that provide updates on the water quality issues
9 described by customers in the Fish Hawk Ranch, Olde Mill Trace, and Blaney Farms
10 systems."

11 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS**
12 **ON PURCHASED WATER RATES?**

13 **A.** ONSWC initially proposed uniform rates for all its North Carolina water systems.
14 This approach will simplify rate proceedings, compared to having separate rate
15 cases or a single rate case with separate calculations for every system. It will reduce
16 the risks of a small system shouldering very large costs for capital improvements,
17 as uniform rates act like an insurance pool by spreading such costs across all
18 systems. I believe these benefits can still be achieved while accepting the
19 recommendation of witness Junis to allow adjustment of rates through the North
20 Carolina statute that provides for expedited proceedings to pass through the rate

1 increases of third-party suppliers of purchased water. The recommendation of
2 witness Junis applies to the Blawell system, for which ONSWC purchases water
3 from the Town of Stedman, and the Rocklyn system, for which ONSWC purchases
4 water from the City of Winston-Salem. ONSWC agrees to modification of its
5 requested rate structure so that the new rates will be uniform, except that going
6 forward the Company will be able to seek pass-through rate increases for purchased
7 water for the Blawell and Rocklyn systems.

8 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS**
9 **ON THE RATIO OF BASE CHARGE TO USAGE CHARGE?**

10 **A.** The ONSWC application proposes a base charge of \$27.00 per residential customer
11 per month. Most of the present monthly base (fixed) charges are \$15.00, with
12 higher base charges at nine systems, ranging up to \$34.14. Witness Junis observes
13 that the present rates have a base charge to usage (variable) charge ratio of 37.25%
14 / 62.75%, and the rates proposed in the ONSWC application would have a ratio of
15 37.47% / 62.53%. In other words, the Company's proposed rate structure comes
16 close to preserving the ratio of the present rate structure.

17 Ms. Oakman informs me that when consumption is corrected for an error in our
18 original numbers, the base to usage ratios are: 39.34% base and 60.66% usage
19 under current rates, and 38.94% base and 61.06% usage under the rates we now
20 propose.

1 Witness Junis recommends a ratio of 30% base charge to 70% usage charge. His
2 reasons are that a lower base charge improves access to water service for customers
3 before they use any water, which I interpret as meaning it improves affordability
4 for customers who use less than average consumption. The other reason advanced
5 by witness Junis is that a lower base charge allows customers to have greater control
6 over their bills by implementing conservation.

7 I disagree with the Public Staff's recommendation. The ONSWC level of base rate
8 will provide greater revenue stability. This helps the Company with cash flow,
9 which in turn makes it easier to cover regular expenses. At the same time a
10 relatively higher base rate means the customers have less volatility in their monthly
11 bills.

12 Nor is there anything in the testimony of witness Junis to indicate his lower base
13 charge would move toward better cost causation in rates. By that, I mean a principle
14 of utility ratemaking is that rates should reflect the source of the costs, so that fixed
15 costs that are incurred regardless of usage should be recovered in fixed charges.
16 There is not likely to be a perfect match of fixed charges to fixed costs, and I do not
17 have a cost-of-service study for ONSWC, but in the absence of that information
18 there is no good reason to force the Company to make a major change in the fixed
19 charge ratio it has maintained for years.

1 Additionally, his water conservation reason would not be very effective. First, there
2 are better tools to encourage conservation, such as irrigation rates and higher rates
3 during times of water shortages such as summer months or droughts. Second, if
4 conservation did increase as a result of setting usage rates to a higher percentage
5 compared to base rates – and that is an open question – then the result would be to
6 reduce ONSWC revenues. Reduced revenues will increase the financial pressure
7 for the next rate case to be filed sooner, and a rate increase would counteract witness
8 Junis’ goal of more affordability and control over water bills. Conservation rates
9 should be targeted to the types of usage that are particularly wasteful or that create
10 service problems, not this broad-brush approach that loads more cost recovery into
11 usage rates regardless of the type of usage.

12 Finally, I note that the base charge approved for most of the water systems owned
13 by Aqua North Carolina is \$20.70 per month, as approved in the order dated
14 October 26, 2020, in Docket No. W-218, Sub 526. The base charge stipulated by
15 Carolina Water Service and the Public Staff in Docket No. W-354, Sub 384, on
16 January 3, 2022, is \$24.53. These base charges are in between the present and
17 proposed rates of ONSWC, and before making a substantial change in the ratio of
18 base charge to usage charge, it would be best to wait the outcome of Docket No.
19 W-100, Sub 59, which is cited in witness Junis’ testimony and which is a more
20 comprehensive review of water company rate design than the testimony in this case.

1 **Q. WHAT IS YOUR RESPONSE TO CONCERNS RAISED BY WITNESS**
2 **JUNIS ABOUT IN-SERVICE DATES AND THE BILLING OF**
3 **CUSTOMERS BEFORE COMMISSION APPROVAL?**

4 **A.** These concerns are raised in pages 21-25 of witness Junis' testimony. His page 23
5 items 5, 6, and 7 are addressed by Ms. Oakman in her testimony. With regard to
6 the other listed items from witness Junis, he notes that for some water systems,
7 ONSWC has departed from using the Commission's approval of a Certificate of
8 Public Convenience and Necessity (CPCN) or recognition of contiguous extension
9 as the in-service date. These exceptions occur because, as a practical matter, the
10 systems were "used and useful" prior to the CPCN or recognition of contiguous
11 extension dates. By using the earlier date, the Company is not only reflecting the
12 in-service date more accurately in those particular circumstances, but it also
13 benefits customers because depreciation starts earlier so there is less rate base in
14 the present proceeding.

15 There was discussion between the Public Staff and ONSWC about what dates
16 would be most appropriate to use as in-service dates. Attached as McDonald
17 Rebuttal Exhibit 1 is a spreadsheet that ONSWC sent to the Public Staff on
18 February 4, 2022, setting out relevant dates and offering to use earlier dates as "in-
19 service" dates. ONSWC has provided the Public Staff with the best information it
20 has on the in-service date possibilities and has accommodated Public Staff efforts

1 to push those in-service dates to earlier points in time before water was actually
2 being “used” (delivered to) customers.

3 Witness Junis also observes that ONSWC billed customers “in the formerly
4 pending systems” for some months before receiving CPCN approval or contiguous
5 extension recognition.

6 My first response is that ONSWC has no desire to ignore the North Carolina utility
7 laws and the Commission’s rules and authority. I understand that Commission
8 approval is legally required prior to charging rates, and I commit to compliance in
9 the future.

10 My second response is that the “formerly pending systems” involved extraordinary
11 circumstances. As shown on McDonald Rebuttal Exhibit 2, there was a
12 considerable lag between the dates when ONSWC applied for the CPCNs or
13 contiguous extension and the dates when they were approved. These applications
14 did not appear on the agenda for Commission staff conference very promptly, and
15 meanwhile the customers needed water service. The customers were not charged
16 more for water than the rates ultimately approved, so they have received fair value
17 for their utility payments. The situation the Company faced was to either (1) not
18 provide customers with water until Commission approval, which would have been
19 a disaster; or (2) provide water without billing, which would mean operating at a
20 loss for months or years because the Company’s applications were not being acted

1 upon; or (3) provide water with billing and hope for swift action on the applications.

2 In this situation, there were no good choices.

3 **Q. WHAT RECOMMENDATIONS DOES PUBLIC STAFF WITNESS**
4 **HINTON MAKE ON THE COST OF CAPITAL?**

5 **A.** The Public Staff recommends a cost of debt of 4.6%, a cost of equity of 9.4%, an
6 imputed debt/equity ratio of 50% / 50%, and thus a weighted average cost of capital
7 of 7.00%. Witness Hinton also proposes an alternative in the event that ONSWC
8 does not change its actual capital structure to 50% equity and 50% debt by the date
9 of the evidentiary hearing. The alternative would set rates based on a cost of debt
10 of 6%, a cost of equity of 9.4%, and an actual capital structure of 89.63% debt and
11 10.37% equity, which would result in a punitive weighted average cost of capital
12 of 6.35%. For comparison, the application of ONSWC requests an 83% debt ratio
13 at a cost rate of 7.34%, and a 17% equity ratio at a return rate of 9.75%, resulting
14 in an overall return (or weighted average cost of capital) of 7.75%

15 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS**
16 **HINTON ON THE COST OF CAPITAL?**

17 **A.** The Public Staff recommendations are unfair and unreasonable. However, I do
18 agree with use of a hypothetical capital structure of 50% debt and 50% equity for
19 ratemaking purposes. While the primary need for ONSWC is a fair and reasonable
20 weighted average cost of capital, it appears that use of a hypothetical capital

1 structure for ratemaking, and the associated costs of debt and equity, can lead to
2 more consistent outcomes across regulated utilities in North Carolina. For instance,
3 the most recent cost of capital for Aqua North Carolina (Aqua) (Docket No. W-
4 218, Sub 526; decided on October 26, 2020) and Carolina Water Service (CWS)
5 (Docket No. W-354, Sub 384; settlement filed on January 3, 2022) both have a
6 debt/equity ratio close to 50% / 50%. Both cases present a rate of return on equity
7 of 9.4%, and their different overall returns are mainly a function of different costs
8 of debt.

9 My direct testimony relied on the return on equity from earlier Aqua and CWS
10 cases. I acknowledge that the regulatory rate of return on equity has decreased
11 since then. The most recent water/sewer case I am aware of is that of CWS in
12 Docket No. W-354, Sub 384, where the Public Staff and the utility have stipulated
13 to a 7.14% return on equity.

14 **Q. WHAT IS THE BASIS FOR YOUR POSITION THAT THE PUBLIC**
15 **STAFF'S RECOMMENDATION WOULD BE UNFAIR TO ONSWC?**

16 **A.** The Public Staff recommendation of a 9.4% return on equity for ONSWC mirrors
17 the results in the most recent Aqua and CWS cases. However, witness Hinton
18 proposes a 4.6% cost of debt, which bears no relation to reality for ONSWC. He
19 notes that ONSWC receives all its financing from its parent company, Integra, and
20 that Integra has an actual a debt rate of 6.00%. The cost of debt is a known amount,

1 unlike estimates of a fair return on equity. The cost of debt is a function of when
2 the debt was issued, as interest rates change from time to time, and the perceived
3 risk to the creditor. ONSWC is a small company compared to CWS and Aqua and
4 has a history of losses. It is therefore riskier for creditors and that means it should
5 expect to pay a higher interest rate on debt. These same factors support a higher
6 return on equity as well as higher debt costs for ONSWC in comparison to Aqua
7 and CWS.

8 In my direct testimony, I proposed a cost of debt for ratemaking purposes that was
9 higher than the actual cost. The intent was to back into an overall return that was
10 comparable to the overall returns I found for a couple of other recent North Carolina
11 water utility cases. Given my agreement in this rebuttal testimony with witness
12 Hinton on the merits of a 50% / 50% capital structure for ratemaking purposes, and
13 the ability to document actual debt costs, I believe the most appropriate response to
14 the Public Staff position is to start with the 50% / 50% capital structure and actual
15 cost of debt, then develop a rate of return on equity and overall rate of return after
16 examining the most recent North Carolina water utility case, taking into
17 consideration individual differences among the utilities.

18 **Q. GIVEN THAT ONSWC HAS DEBT FROM ITS PARENT COMPANY,**
19 **HOW DO YOU KNOW THE ACTUAL 6.00% COST OF DEBT IS**
20 **REASONABLE AS OPPOSED TO EXPLOITATION BY THE OWNER?**

1 **A.** First, this is an embedded cost of debt, with loans issued from Integra Water to
2 ONSWC at a 6% interest rate so it is necessarily higher than current interest rates.
3 Second, the CWS debt cost cited in witness Hinton's testimony is 5.36%, so it is
4 reasonable that a smaller, riskier company like ONSWC would have a debt cost
5 higher than that. Third, this February I asked a commercial banker at Regions Bank
6 about financing for ONSWC. She stated that ONSWC would need a personal
7 guarantee from me to obtain financing. The reason is their underwriting standards
8 require a reliable secondary source of repayment because of the history of losses
9 for the utility. Fourth, Integra could have provided a higher proportion of equity
10 financing and been able to justify a rate of return on equity that is well above 6%,
11 so 6% is favorable to the ratepayers compared to an equity alternative. For all these
12 reasons, the 6.00% embedded cost of debt for ONSWC is reasonable.

13 **Q.** **BASED ON THE CURRENT COST OF DEBT TO ONSWC, HOW DOES**
14 **YOUR COST OF CAPITAL RECOMMENDATION COMPARE TO THAT**
15 **OF THE PUBLIC STAFF?**

16 **A.** As noted earlier, I agree with the use of a 50% / 50% capital structure for
17 ratemaking purposes. The actual cost of debt is known and reasonable at 6.00%.
18 Although I believe ONSWC is riskier for an investor than CWS and Aqua due to
19 its lack of financing options outside of its parent company, and its small size, with
20 a 50% / 50% hypothetical capital structure I believe it fair and reasonable to lower

1 the requested rate of return on equity to 9.4%, in line with CWS and Aqua. This
2 would result in a weighted average cost of capital of 7.70%, which is a slight
3 decrease from the original ONSWC request. An overall rate of return of 7.70%
4 would be higher than the most recent CWS and Aqua cases, which is justified
5 because the history of losses and very limited financing sources for ONSWC make
6 it a materially riskier investment. In my opinion a 9.40% return on equity and 7.7%
7 weighted average cost of capital is more reflective of the true cost of capital for
8 ONSWC than the overall (weighted average) cost rates of 7.00% and 6.35%
9 recommended by the Public Staff.

10 **Q. WHAT IS YOUR RESPONSE TO THE PUBLIC STAFF**
11 **RECOMMENDATION THAT INTEGRA BE ORDERED TO INFUSE**
12 **ENOUGH ADDITIONAL CAPITAL TO REACH AN ACTUAL CAPITAL**
13 **STRUCTURE OF 50% EQUITY AND 50% DEBT?**

14 **A.** I strongly disagree with that recommendation. Integra has chosen to finance
15 ONSWC primarily through debt for its own purposes. The end result for ONSWC
16 is that it has obtained the financing it needs to fund safe, reliable utility service, and
17 that is what should matter the most to ratepayers. Witness Hinton testifies that this
18 high level of leveraging would make it hard to obtain outside financing. The fact
19 is that outside financing is neither available as a practical matter, nor needed, for

1 ONSWC. Integra provides the debt and equity for ONSWC and has provided
2 sufficient financing at a reasonable cost.

3 The Public Staff recommendation would force Integra to provide additional funding
4 of approximately \$4.1 million to ONSWC to achieve a 50% equity ratio. That
5 assumes the additional equity would be used to retire enough debt to achieve a 50%
6 / 50% capital structure. The infusion would be much more if the Public Staff is
7 recommending infusion of enough equity to equal the current amount of debt. This
8 equity funding is not needed. It would have a cost associated with it. My main
9 objection, however, is that the Public Staff recommendation is an unwarranted
10 intrusion into management decision-making. Because ONSWC is adequately
11 financed at a reasonable cost, there is no justification for it to be ordered to change
12 its actual financing practices. Ratemaking should be focused on what is fair and
13 reasonable to both the utility and the ratepayers, and not turn into a takeover of the
14 actual management function.

15 **Q. ARE YOU AWARE OF ANY PRIOR CASES WHERE A UTILITY HAS**
16 **BEEN ORDERED TO CHANGE ITS ACTUAL CAPITAL STRUCTURE?**

17 **A.** No. Because this is such a novel concept to me, and I am not equipped to do in-
18 depth utility regulation research, ONSWC asked the Public Staff in a data request
19 to identify any dockets where the Public Staff had recommended that a utility
20 change its actual capital structure, and to identify any dockets where the

1 Commission had ordered a utility to change its actual capital structure. While
2 objecting to the data request as overly broad, the Public Staff replied that “upon
3 information and belief, the Public Staff has not previously recommended that a
4 utility be required to change its actual capital structure” and that “upon information
5 and belief, the Public Staff is not aware of the Commission ordering a utility to
6 change its actual capital structure.”

7 **Q. IS THERE A DIFFERENCE OF OPINION BETWEEN ONSWC AND THE**
8 **PUBLIC STAFF REGARDING HOW TO DETERMINE IF REFUNDS ARE**
9 **OWED FOR BILLS PAID UNDER TEMPORARY RATES?**

10 A. It appears there is a difference. In the ONSWC motion for temporary rates, filed
11 November 29, 2021, in this docket, the Company requested that it be approved to
12 calculate possible refunds by filing “a comparison of bills at the average usage of
13 4,750 gallons per month in each rate classification under temporary rates and under
14 the final rates.” The Company further noted that “the Public Staff may recommend
15 a comparison of bills under temporary rates to what the bills would have been under
16 final rates for every individual customer for each month of the temporary rates.”

17 **Q. WHY DOES THE METHOD OF CALCULATING POSSIBLE REFUNDS**
18 **MATTER TO ONSWC?**

19 A. A separate bill comparison for every customer during the temporary rate period
20 would be very burdensome and time-consuming. For 1,800 customers and three

1 months of bills, that would be 5,400 manual entries to make in a spreadsheet to do
2 the calculation. Legal counsel advises that the statute places an upper limit of 20%
3 on temporary rates for “any single rate classification.” ONSWC presently has five
4 different rates in effect and it is reasonable to interpret this as meaning the Company
5 has five different rate classifications. A review of possible refunds by rate
6 classification would be far more efficient than performing a billing calculation on
7 every individual customer’s bills. Moreover, counsel advises that it appears Aqua
8 North Carolina determined by “rate division” rather than individual customer that
9 no refunds were due on billings under temporary rates in Docket No. W-218, Sub
10 526. Upon information and belief, Aqua just compared its revenue requirement
11 under interim rates with its revenue requirement under the final approved rates,
12 concluded that no refunds were due, and the Public Staff accepted this approach.
13 Similarly, legal counsel notes that the Commission approved refund evaluations for
14 Duke Energy Carolinas and Duke Energy Progress in Docket Nos. E-7, Sub 1214,
15 and E-2, Sub 1219, based on revenues by rate classes, not individual customer bills.
16 ONSWC believes the approach used in the Aqua and Duke Energy cases would be
17 appropriate for the ONSWC refund calculation. I do not believe the method
18 proposed in the ONSWC motion for temporary rates is any better. The method the
19 Public Staff stated it would propose is not consistent with the cases noted above
20 and would create an unnecessary additional burden on ONSWC.

1 **Q. IF APPROVED, WHAT WOULD BE THE IMPACT TO CUSTOMERS**
2 **FROM THE COMPANY'S UPDATED RATE REQUEST?**

3 **A.** Under the Company's updated proposal, a typical water residential customer using
4 the corrected 4,984 average gallons/month as shown on Oakman Rebuttal Exhibit
5 2 would see an increase of approximately \$21.70 per month compared to the rates
6 in effect before the temporary increase. This would be about a 53% increase on
7 average.

8 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING PUBLIC**
9 **STAFF TESTIMONY?**

10 **A.** Yes. Public Staff witnesses refer to the possibility that they will file supplemental
11 testimony. ONSWC asks that it be allowed to file rebuttal to the supplemental
12 testimony if it contains adjustments or substantive positions that the Company does
13 not agree with. It is only fair for the Commission to hear from both sides on
14 disputed matters.

15 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

16 **A.** Yes, it does.
17
18
19
20

NORTH CAROLINA UTILITIES COMMISSION

RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF APPLICATION BY OLD NORTH STATE WATER
COMPANY, LLC FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR
PROVIDING WATER UTILITY SERVICE IN ALL ITS SERVICE AREAS IN
NORTH CAROLINA

SETTLEMENT TESTIMONY

OF

JOHN MCDONALD

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

March 8, 2022

Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH OLD NORTH STATE WATER COMPANY, LLC, AND YOUR BUSINESS ADDRESS.

A. My name is John McDonald, and I am the Managing Member of Old North State Water Company (ONSWC). My business address is 3212 6th Avenue South, Suite 200, Birmingham, AL 35222.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A. The purpose of this testimony is to support the Joint Settlement Agreement and Stipulation filed in this docket on March 8, 2022.

Q. DO YOU HAVE ANY SETTLEMENT EXHIBITS?

A. No, but ONSWC will be filing a late-filed exhibit to update rate case expense through the close of the proceeding. The Public Staff has agreed to an update of rate case expense, and they will likely want to review and comment on the numbers in the exhibit.

Q. DO YOU HAVE ANY GENERAL STATEMENTS TO MAKE ABOUT THE SETTLEMENT WITH THE PUBLIC STAFF?

A. Yes. ONSWC made some concessions in the course of reaching settlement, as did the Public Staff. While the Company would take different positions if the case was going to be litigated, the Joint Settlement Agreement and Stipulation represents a reasonable outcome provided that all the settlement provisions are considered together. I very much appreciate the Public Staff's willingness to work with us in achieving a settlement.

Q. THE SETTLEMENT AGREEMENT MENTIONS A COMMITMENT BY INTEGRA WATER, LLC. WILL YOU EXPLAIN THAT COMMITMENT?

A. Yes. As noted in my rebuttal testimony, Integra is the source of financing for ONSWC. I have the authority to commit Integra to continuing to finance the capital needs of ONSWC,

and I do make that commitment. As a practical matter, ONSWC is on sound footing for its financial needs.

In conjunction with that financing commitment, the Public Staff has agreed to withdraw its recommendation for an infusion of equity to create an actual capital structure of 50% debt and 50% equity, and has agreed to withdraw its recommendation of audited financial statements.

Q. DOES THIS COMPLETE YOUR SETTLEMENT TESTIMONY?

A. Yes, it does.

1 MR. DROOZ: And we'd ask that his
2 exhibits be marked for identification as indicated
3 on the prefilings.

4 COMMISSIONER BROWN-BLAND: And that
5 motion is also allowed.

6 (McDonald Rebuttal Exhibits 1 and 2 were
7 identified as they were marked when
8 prefiled.)

9 Q. Mr. McDonald, do you have a summary you're
10 prepared to deliver at this time?

11 A. I do. I would like to ad lib just a bit here
12 and add my apologies to those of counsel to the
13 Commission. I regret that this is the first time we've
14 appeared before you-all and it's in this manner.

15 Due to the significant financial losses under
16 the existing rates, Old North State Water Company filed
17 a rate case last June. This has been a difficult rate
18 case for two reasons. First, we have not previously
19 prepared a rate case in North Carolina. The accounting
20 procedures are very different from our utility business
21 in Alabama, and previous employees and a partner with
22 regulated utilities experience were to serve as the
23 liaisons with Public Staff and the Commission. Since
24 those relationships were terminated, we were left

1 without the experience some utilities have in house.

2 Second, we had significant operational and
3 service problems with the former operations contractor
4 that was handling our North Carolina systems.

5 Fortunately, the Public Staff worked extensive with us
6 to get Old North State's filings in proper order.

7 Since terminating the operations contractor in 2020,
8 I'm proud to say we have hired operations staff that
9 made significant investment in operational
10 improvements, which resulted in better water quality
11 and better service to our customers.

12 Water quality issues and the improvements we
13 were making and continue to make are addressed in the
14 report on consumer comments that we filed on
15 October 27, 2021, and in my rebuttal testimony. We
16 have agreed with the Public Staff to file quarterly
17 reports on water quality issues at the systems of
18 greatest concern: Fish Hawk Ranch, Olde Mill Trace and
19 Blaney Farms.

20 Other areas of concern are the recordkeeping
21 on in-service dates for our water systems, billing of
22 customers before Commission approval of rates at
23 certain systems, and the failure to collect tax
24 gross-up on CIAC from developers for the Bella Terra,

1 Arlington Manor, and Brook Meadow systems.

2 Despite the confusion created by the previous
3 employees and regulatory liaisons, I take full
4 responsibility for those oversights and commit to the
5 Commission going forward the Company will not charge
6 rates prior to Commission approval; nor will the
7 Company collect tax gross-up on CIAC as required. The
8 Company and Public Staff have agreed to resolutions on
9 these concerns.

10 My rebuttal testimony addressed the method
11 for calculating whether refunds should be made for
12 bills under temporary rates. We've agreed to work with
13 the Public Staff to establish an appropriate
14 methodology for determining if refunds are due with
15 respect to temporary rates.

16 Old North State Water Company supports the
17 terms of the settlement agreement and its exhibits as
18 reasonable compromises when taken as a whole. I urge
19 the Commission to approve the settlement and establish
20 new rates in accordance with the settlement.

21 This concludes my summary. Thank you.

22 MR. DROOZ: Mr. McDonald is available
23 for questions.

24 COMMISSIONER BROWN-BLAND: All right.

1 Is there any cross?

2 MR. MAGARIRA: No cross from the Public
3 Staff.

4 COMMISSIONER BROWN-BLAND: All right.
5 The Commission does have some questions.

6 EXAMINATION BY COMMISSIONER BROWN-BLAND:

7 Q. So, Mr. McDonald, you acknowledge that the
8 Company had unlawfully billed customers for water
9 service prior to receiving a CPCN or approval for a
10 contiguous extension, and you have committed to
11 compliance in the future.

12 What's your understanding of why the
13 Company's applications posed a problem in this regard
14 for the Company, and what would you do differently in
15 the future in this situation?

16 A. I believe that there were delays on several
17 sides. There weren't any good answers, but the short
18 answer, I believe, is that we would file promptly and
19 then stay on top of staff to make sure that they're
20 addressed in a timely fashion as well.

21 Q. These customers that receive these bills
22 before proper approval, were they being served prior to
23 the Company starting to provide service?

24 A. No, ma'am. These were new systems, I

1 believe.

2 Q. These were new systems.

3 And did you have discussions with the Public
4 Staff about seeking to have temporary rates placed into
5 effect?

6 A. At that time, those discussions would have
7 been had by previous employees and/or a previous
8 partner that was handling all liaison with the Public
9 Staff. So I can't state as to whether or not they had
10 those conversations.

11 Q. Now, if the customers weren't receiving
12 service, I assume they had not moved into their homes;
13 is that a reasonable assumption?

14 A. Yes, ma'am.

15 Q. And so -- and until they would have water
16 service, they would not have certificates of occupancy,
17 it would be my understanding?

18 A. As I understand it, yes.

19 Q. And so, from the Commission's point of view,
20 you would either -- the proper thing to do is either
21 get the temporary approval or just not provide the
22 service; but I understand from your testimony, you felt
23 there was no viable alternative?

24 A. I thought the decisions that we had to make,

1 none of those were good. Either not provide service or
2 not bill and increase our losses. I didn't -- they
3 were all bad choices, I suppose.

4 Q. Well, it's a very bad choice to violate the
5 regulations that are in place -- put in place by your
6 regulator.

7 A. I could not agree with you more.

8 Q. All right. My next question is, you've --
9 the Public Staff has accepted Integra's commitment to
10 fund the capital needs of Old North State in exchange
11 for withdrawing its proposal that Integra inject or
12 infuse equity into the Company.

13 What resources does Integra have to support
14 the commitment?

15 A. Integra has adequate financial resources and
16 a balance sheet to fund Old North State on a go-forward
17 basis, and has been doing so and will continue to do
18 so.

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

21 A. We have cash and the investor, Integra.

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

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

1 Q. With regard to Old North State, there was an
2 indication that they had to have your signature in
3 order to do it.

4 Is Integra able to borrow without having --

5 A. Yes, ma'am.

6 Q. -- some such security?

7 A. It is.

8 Q. All right. Now, what's the capital structure
9 of Integra that values the debt to equity ratio?

10 A. It's -- I believe it is about 40 percent
11 equity.

12 Q. And then 60 percent debt?

13 A. Yes, ma'am.

14 Q. What debt, if any, has recourse to Old North
15 State utility assets? In other words, is any of
16 Integra's debt secured by the Company's assets?

17 A. No, ma'am.

18 Q. Has the Company considered applying for
19 low-interest loans due to the state's Drinking Water
20 State Revolving Fund to finance eligible water
21 infrastructure improvements?

22 A. No, ma'am. My experience with those funds is
23 they generally are allocated to public entities first.
24 But we would certainly be interested, if that's a

1 viable alternative.

2 Q. Is that something you're willing to check
3 into?

4 A. Yes, ma'am.

5 Q. All right. And initially, the Company
6 proposed uniform rates for all of its systems,
7 including the purchase water systems.

8 Could you explain the reasoning for that
9 request, just generally and specifically as it regards
10 to purchase water systems?

11 A. I believe we felt like uniform rates across
12 all systems were what was anticipated or desired, if
13 you will; and then through subsequent discussions with
14 Public Staff, have learned that it is better to have
15 those rate structures slightly different to reflect
16 those purchase water rates.

17 Q. All right. And were there -- within --
18 within the Company, were there some systems that have
19 large and unique costs as compared to others in the
20 system?

21 A. In the purchase water systems or in general?

22 Q. In general.

23 A. There are some that have some -- I mean,
24 operationally, they're all similar. There's some that

1 have had some more capital needs due to filtration and
2 things and such. I'm not sure if I answered your
3 question.

4 Q. In your opinion, there's not one system or a
5 number of systems that have -- that are outstanding or
6 extreme, in terms of their cost, compared to the other
7 systems within the Company?

8 A. Operationally, I think they're all fairly
9 similar.

10 Q. And you expect that situation to continue
11 over time?

12 A. Yes, ma'am.

13 Q. Are there any systems that are unusually
14 cost-effective to operate or maintain?

15 A. Probably the purchase water systems.

16 Q. Why would that be? What makes the
17 difference?

18 A. Well, it's a -- you know, you're reselling
19 water that you purchased from a local water entity, so
20 there's not as much treatment associated with those
21 systems, if any.

22 Q. So the question was -- and you answered with
23 regard to the purchase water systems, and you're
24 saying -- the question was, was it unusually

1 cost-effective to operate or maintain, and you say the
2 purchase water systems are less -- less -- have less
3 cost; is what that you're saying?

4 A. I would submit they may be a bit more
5 efficient to operate because you don't have to treat
6 the water.

7 Q. And you expect that situation to continue
8 over time as well?

9 A. Yes, ma'am.

10 Q. All right. And in your opinion, are all the
11 systems in acceptable working order at the current
12 time?

13 A. Currently, yes.

14 Q. And on average, they should have similar
15 upgrade and maintenance costs?

16 A. On average, yes.

17 Q. If the Company were to continue to have
18 system-specific rates, would some of the customers
19 potentially experience extreme or -- extreme changes in
20 their billings or what we call rate shock?

21 A. Very much so.

22 Q. And do you have an instance in mind that you
23 can describe?

24 A. Yes, ma'am. For example, Twin Lake Farms,

1 one of the systems that we just installed greensand
2 filters for about \$250,000, and it's a relatively small
3 system. And so trying to recover that capital cost
4 would be difficult and expensive.

5 Q. And when you install those filters, is that
6 something you worked with the Public Staff on? Did you
7 have discussions with the Public Staff about the
8 greensand filter?

9 A. We did have some discussions. I don't know
10 how far ahead of time it was, to be honest with you.
11 It was just -- it was going to be a requirement as we
12 understood it, so we made the investment to -- we take
13 our customer service rather seriously, and so that was
14 going to be a requirement. And, frankly, to provide
15 good water to those customers, we really wanted to make
16 that investment.

17 Q. And then, conversely, by moving to primarily
18 uniform rates as proposed, are there systems where the
19 customers are going to experience rate shock?

20 A. I think that the rate shock and moving to
21 uniform rates would be less than if we kept individual
22 rates for the systems, because the burden is spread
23 across all the customers.

24 Q. Is there any one or more of the systems,

1 though, that is going to face a sudden increase in
2 rates?

3 A. I think the majority of the systems have the
4 lower rates, and so I don't think any one of the
5 systems would be singled out; no, ma'am.

6 Q. And for the record, do the separate system
7 rates create administrative difficulties for the
8 Company and/or the Public Staff?

9 A. Yes, ma'am. It's complex and complicated.

10 Q. Tell us a little bit about those
11 difficulties.

12 A. Well, just trying to track the different base
13 rates and different user rates can lead to potential
14 errors when trying to bill or making sure you get the
15 right rate codes, et cetera, right? It's just a level
16 of complexity that's not necessarily beneficial, if you
17 will.

18 Q. And does that necessarily mean -- if they're
19 separate, does that necessarily mean that they're more
20 costly to maintain, or is it the case with regard to
21 this company?

22 A. If the separate rates are more -- I would
23 submit yes, it is more costly to maintain separate
24 rates.

1 Q. And what, if any, economies of scale do you
2 expect to have for the uniform rates?

3 A. I think more than the economies of scale, the
4 customers will benefit by less rate adjustments for
5 those systems that do require heavy adjustments. So
6 I'm not sure there's a large economy of scale to gain
7 there.

8 Q. Is there any economy of scale that you take a
9 note of, or not really at this point?

10 A. Perhaps. I mean, I think the less
11 administrative complexity means less time invested by
12 our staff in maintaining those separate rates, so there
13 may be some.

14 Q. All right. Are you aware that the
15 North Carolina statute allows water utility to seek
16 adjustments to rates if the rate it is paying is for
17 purchase water changes?

18 A. Yes, ma'am.

19 Q. And if the Commission's order in this case
20 set uniform rates for all the systems -- all the
21 Company's systems -- would it create substantial
22 administrative difficulties adjusting customer bills if
23 the purchase water expense changes?

24 A. As I understand, yes, ma'am.

1 Q. And it receive -- and you would receive the
2 Commission's permission to adjust those rates?

3 A. Yes, if we can -- I think if I understood
4 your question correctly, if there's a pass-through
5 rate, that would be significantly less expensive and
6 burdensome.

7 Q. And I'm asking if whether having uniform
8 rates increases the difficulty -- the administrative
9 difficulties?

10 A. If there were uniform rates for those
11 purchase water systems, yes, ma'am.

12 Q. It would create more difficulty?

13 A. Well, as I understand it, if we would have
14 to --

15 Q. Adjusting the customer bills?

16 A. Yes, ma'am. If I understand properly, if we
17 had uniform rates and didn't have the ability to pass
18 those purchase water rate increases through, we'd have
19 to come back to the Commission for approval to do that,
20 and that would be more expensive, I would think.

21 Q. All right. My last question right now is,
22 there was a customer complaint that we -- that was
23 filed on February 8th, and it was -- that we didn't
24 think it was addressed in the Company's rebuttal. And

1 that was Nicholas Egan of Ashcroft Park in Greensboro.
2 And he discussed having the red and brown stains in his
3 sinks and toilets, and stated that he'd installed a
4 whole-house filter that he changes monthly, and that
5 the water pressure was low. And he opposes the
6 increase in light of his water quality issues.

7 Did you look into his specific complaint?

8 A. I think we did have the operator look into it
9 and did not -- couldn't find a source for his
10 complaint. But we will certainly check into it again
11 and report back should we find a culprit for those
12 water quality issues.

13 Q. When you find -- a minute ago we were talking
14 about the greensand filter, and so I ask this way.

15 When you find a water quality issue, or could
16 be water quality issues within a system, and -- but it
17 matches the primary drinking water standards, do you
18 think that that always resolves the issue or is there
19 more that the Company would seek to do?

20 A. Depending on the system and depending on the
21 nature of the issue, if it meets primary drinking water
22 standards but it's resulting in continual customer
23 complaints, then we would likely investigate, try to
24 determine a cause, and then work with Public Staff to

1 try to address those secondary complaints or water
2 quality issues.

3 Q. And is there anything that you know, sitting
4 here today, that you can share with us about the
5 Ashcroft Park system and its water quality or water
6 conditions?

7 A. Not on -- no, ma'am, not on Ashcroft. I'm
8 not aware of any concerns there. We do know the
9 complaint, and we did have our operators check into it,
10 but I'm not aware of a continuing issue there.

11 Q. All right.

12 COMMISSIONER BROWN-BLAND: Commissioner
13 Clodfelter, do you have questions?

14 COMMISSIONER CLODFELTER: Yes.

15 EXAMINATION BY COMMISSIONER CLODFELTER:

16 Q. Mr. McDonald, good afternoon.

17 A. Good afternoon.

18 Q. You indicate you're the managing member of
19 Old North State, and at least as I've reviewed the
20 filings so far, it seems there's at least one other
21 member; am I correct, Mr. Michael Myers?

22 A. Yes, sir, currently.

23 Q. Are there any other members, besides yourself
24 and Mr. Myers?

1 A. No, sir.

2 Q. Does Mr. Myers have any management role with
3 Old North State?

4 A. Currently none whatsoever.

5 Q. So it's a member managed LLC?

6 A. I believe it's a manager managed LLC.

7 Q. Manager -- excuse me. Thank you for
8 correcting me. Manager managed LLC.

9 A. Yes, sir.

10 Q. And you are the designated manager?

11 A. Yes, sir.

12 COMMISSIONER CLODFELTER: Without
13 getting into confidential information, Mr. Drooz, I
14 want to ask a question, but you tell me if it's
15 confidential and we'll see if we can navigate
16 around it.

17 Q. So what provisions are there in the LLC for a
18 change of manager? How can you be displaced or
19 replaced under the LLC agreement?

20 A. I am not aware of a methodology whereby I
21 would be replaced by any rational sense. I mean, is
22 that --

23 Q. Do you hold an interest in the Company -- an
24 equity interest in Old North State large enough to

1 prevent you from being replaced as manager; is
2 that right?

3 A. Yes, sir, absolutely.

4 Q. All right.

5 COMMISSIONER CLODFELTER: Mr. Drooz,
6 they're not in my materials, but are the articles
7 of operating agreement and the articles of
8 organization of record with the Commission?

9 MR. DROOZ: Not that I know of.

10 COMMISSIONER CLODFELTER: Thank you.

11 Q. Mr. McDonald, Mr. Myers does or does not have
12 any position of any kind with Integra?

13 A. None whatsoever.

14 Q. None whatsoever.

15 He's not a member, he's not a manager?

16 A. He's not operations anything, he is --

17 Q. He's not under contract or anything --

18 A. No, sir.

19 Q. So Integra is just you?

20 A. Yes, sir.

21 Q. And you are the sole owner?

22 A. Yes, sir.

23 Q. And therefore the manager?

24 A. Yes, sir.

1 Q. Of Integra?

2 A. Yes, sir.

3 Q. Okay. Thank you.

4 COMMISSIONER CLODFELTER: Mr. Drooz, I
5 want to ask a couple of questions about some
6 material in the application that are marked
7 confidential, but I'm gonna try to ask the
8 questions in a way that doesn't elicit confidential
9 answers. So you tell me if the question is gonna
10 work or if it's gonna call for confidential
11 information. Okay?

12 MR. DROOZ: I'll do my best.

13 COMMISSIONER CLODFELTER: All right.

14 MR. DROOZ: And I might add,
15 Mr. McDonald may also have an even better sense of
16 whether it gets into a trade secret territory than
17 I do. So I would also ask him to let us know if he
18 feels it's confidential.

19 COMMISSIONER CLODFELTER: All right. I
20 will try to ask the questions in a general way so
21 we don't get anything detailed or specific.

22 Q. On the balance sheet that was filed with the
23 application, Old North State shows an amount of current
24 assets including notes receivable.

1 Do you know what those are?

2 A. Yes.

3 Q. Do you know -- can you disclose, without
4 telling confidential information, who is obligated to
5 Old North State on those notes receivable?

6 A. I'm not sure I can disclose that without
7 getting into those.

8 Q. Has that information been provided to the
9 Public Staff?

10 A. I'm not sure of that answer.

11 Q. All right. I will hold that one and think on
12 it for a while. Okay?

13 A. Okay.

14 Q. Also on the balance sheet, under long-term
15 liabilities, the Company is showing an obligation or a
16 liability for notes payable?

17 A. Yes, sir.

18 Q. You know -- I take it you know what those
19 are?

20 A. Yes, sir.

21 Q. And without disclosing confidential
22 information, can you disclose to whom those notes are
23 payable?

24 A. Integra Water.

1 Q. All of them?

2 A. Yes, sir.

3 Q. The entire balance shown on the confidential
4 balance sheet is payable to Integra?

5 A. I believe so; yes, sir. The notes
6 receivable -- I apologize, you caught me a little bit
7 flat-footed there.

8 Q. That's all right.

9 A. Those, I believe, are -- if it's the one I'm
10 thinking about, it's probably a receivable from ONSWC
11 Chatham North, which was an entity that was set up. It
12 was constructing a -- it was for a sewer system.
13 Constructing an interconnect between two adjacent sewer
14 systems that did not move forward.

15 Q. It did not move forward, but it generated an
16 obligation from Old North State Chatham to Old North
17 State?

18 A. Yes, sir, because it was --

19 Q. For funds advanced?

20 A. There were funds advanced, because it was
21 anticipated that the large sewer system that Old North
22 owns was going to be carved out with a separate entity.
23 So that was what was anticipated.

24 Q. There are other matters that we won't go

1 through there, but do you -- do you -- you're still
2 carrying that as a collectible asset?

3 A. Yes, sir, for now.

4 Q. And you believe that to be collectible?

5 A. In some amount; yes, sir. I don't know what
6 face, but --

7 Q. I'll take the answer for today.

8 A. Okay.

9 Q. We'll go into it later if we need to.

10 A. Fair enough.

11 Q. I want to be sure I heard you correctly in an
12 answer you gave to Commissioner Brown-Bland, that the
13 Integra capital structure is approximately 40 percent
14 equity and approximately 60 percent debt?

15 A. Yes, sir.

16 Q. Okay.

17 COMMISSIONER CLODFELTER: Mr. Drooz, are
18 the balance sheet -- again, because I couldn't find
19 them in the application or don't know if elsewhere
20 in the record, are the balance sheets of Integra
21 included in the application or have they been made
22 part of the record?

23 MR. DROOZ: The answer is no. The
24 Company did provide a confidential financial

1 statement of Integra to the Public Staff in this
2 proceeding, but we have not entered that as any
3 exhibit.

4 COMMISSIONER CLODFELTER: I suspected as
5 much, because Mr. Hinton talks about it, so I had a
6 hunch they had it. But I just wanted to know if it
7 was in the record so we and the Commission could
8 see it.

9 Q. Mr. McDonald, have Integra and Old North
10 State Water Company entered into any sort of written
11 agreement for financial support?

12 A. No written agreement; no, sir.

13 Q. There's nothing in the nature of a guarantee
14 or a commitment to fund or anything that -- on paper
15 that obligates Integra to advance funds?

16 A. There's a commitment that I made to Public
17 Staff in this, but is there aside from that, no.

18 Q. Sure. All right. Thank you.

19 COMMISSIONER CLODFELTER: For the
20 present, and I qualify that with "for the present"
21 because of the circumstances, that's that I have
22 right now.

23 COMMISSIONER BROWN-BLAND: Commissioner
24 Hughes?

1 EXAMINATION BY COMMISSIONER HUGHES:

2 Q. Just a few follow-up questions from my
3 colleagues. Just on the last, when you say you
4 provided that commitment, just to be clear, because I
5 saw that in the settlement, that's just a -- was that a
6 verbal, as you're discussing the settlement, that you,
7 as an individual, commit Integra to be the financial
8 backstop? There wasn't any kind of attestation or
9 anything, just you saying "trust me," essentially?

10 A. I suppose, yes. Public Staff very much
11 wanted that, and I take it seriously, but yes, I mean,
12 it's a statement.

13 Q. I just want to understand there's not another
14 financial assurance. I think Commissioner Clodfelter
15 has that.

16 A. Yes.

17 Q. Okay. I'm really interested, as the owner
18 of -- you know, for you, thinking about your different
19 systems, your original proposal did have this proposal,
20 a uniform rate, you know. And I think that it was to
21 split costs over all the customers evenly. In the end,
22 you -- you're backtracking a little bit, I think, as
23 part of the stipulation on a few of those systems.

24 Putting apart the ability to collect that

1 change in purchase water price, from a technical
2 standpoint, walk me through, again, the types of
3 systems you have. Just in really short terms, because
4 I know you have a lot of different systems. Just talk
5 a little about what kind of systems they are and how
6 varied they are.

7 A. Okay. Sure. So sort of the simple end,
8 there's purchase water systems, right, where we buy
9 water from the City of Winston-Salem or somebody and
10 resell it to the customers. There are groundwater
11 systems with a hydropneumatic tank where there's
12 chlorine added and then the water is distributed. And
13 then, on the more complex side, there are greensand
14 filters and there's some radiological filtration
15 systems on some of the systems to remove those elements
16 before the water is distributed.

17 Q. Okay. And those -- the customers served by
18 those systems, if they were just cut separately, would
19 be faced with different rates?

20 A. Very much so. I'll give you an example. One
21 of the -- one of the water systems we're looking at
22 have an add radiological filtration on it. And we're
23 working with the developer on the cost-sharing
24 agreement. We haven't really addressed this with the

1 Public Staff that much yet, but the anticipated cost is
2 somewhere around half a million dollars.

3 Again, we don't have a cost-sharing agreement
4 yet, we haven't gotten through that with the developer,
5 but you can imagine a significant rate increase on the
6 size of systems we have are less than 200 customers.
7 So that would be a significant burden to an individual
8 system.

9 Q. And that burden, though, would be shared with
10 all of your customers? Or who would that burden be
11 shared with under the post-settlement?

12 A. Across all of the water customers.

13 Q. Including the purchase water systems?

14 A. Yes, sir. The purchase -- so they all have a
15 base rate, but the purchase water systems have a
16 separate variable per-thousand rate.

17 Q. So the base rate for the purchase systems,
18 what's your philosophy? What should be in that base
19 rate to make sure that they're sharing the cost?

20 A. As I understand it, you try to address fixed
21 cost with fixed -- with base rate. And so a lot of
22 that burden is shared across that base rate. I'm not
23 sure if I answered your question. I'm trying.

24 Q. I think so. So if someone has -- if I had a

1 purchase water system, I'm going to be carrying some of
2 the load of that more expensive system that is on the
3 other part of the state?

4 A. Some, yes, sir.

5 Q. Okay. I think that's the philosophy, from
6 what I understand, of the uniform rates. And because
7 you have an expense one day might mean that you don't
8 have an expense the next day and your neighboring
9 system down the road has an expense. So I understand
10 that.

11 I think what -- Commissioner Brown-Bland was
12 asking for the, I guess, billing costs of that. If
13 there was a situation where you could still recover a
14 change in purchase rates, expeditiously, by changing
15 the rates of all of your customers, would that pose a
16 significant different administrative burden than going
17 in and just changing the price for the two or three
18 separate purchase systems?

19 A. In a perfect world, no, but I think in the
20 complexity of that and addressing the rates and sort of
21 working it through the whole model, I think that
22 becomes difficult to pin down minor purchase water cost
23 to allocate it across all the system. You can imagine
24 the complexity of -- with 60 water systems, right, with

1 however many -- 1,800 customers at the moment,
2 approaching 1,900.

3 And then if the purchase water rate goes up,
4 call it \$0.05 per 1,000, try to allocate that across
5 the 18- or 1,900 customers in the 60 separate -- the
6 calculation gets super complex very quickly, I would
7 submit. But, I mean, you know, it's certainly at the
8 Commission's pleasure either way.

9 Q. Okay. I think that's all. I'll bring it up
10 again with Public Staff.

11 COMMISSIONER HUGHES: No further
12 questions.

13 COMMISSIONER BROWN-BLAND: Mr. McDonald,
14 I do have one more follow-up.

15 EXAMINATION BY COMMISSIONER BROWN-BLAND:

16 Q. So in a response you had made on page 14 of
17 your rebuttal, and the Public Staff had recommended --
18 you were responding to their recommendation that
19 Integra provide additional funding of approximately
20 4- -- well, you say that their recommendation that
21 they -- that you infuse the equity would cause you to
22 have to provide additional funding of \$4.1 million to
23 achieve a 50 percent equity ratio.

24 Just help me understand what was -- what was

1 behind your answer there, how you arrived at that
2 figure when the outstanding debt appeared to be
3 \$1.4 million.

4 A. I'm not sure about the \$1.4 million.
5 Ms. Oakman is my numbers whiz, so I'm looking at her,
6 but that doesn't feel right.

7 Q. All right.

8 (Pause.)

9 MR. DROOZ: We can follow up on an
10 answer to that question with the next witness.

11 COMMISSIONER BROWN-BLAND: All right.
12 And it may be just my error. Give me a second to
13 check.

14 (Pause.)

15 Q. All right. Mr. McDonald, I think it was my
16 error on that, and I consider your answer satisfactory.
17 Thank you.

18 COMMISSIONER BROWN-BLAND: Are there
19 questions on Commissions' questions?

20 MR. DROOZ: Yes.

21 REDIRECT EXAMINATION BY MR. DROOZ:

22 Q. Mr. McDonald, you were asked about the --
23 what are called the formerly pending systems where
24 billing began before there was CPCN approval.

1 Can you turn to your rebuttal testimony,
2 Exhibit 2?

3 A. Yes, sir.

4 Q. And what -- does that show the date of
5 application and the date of the Commission order for
6 each of those systems?

7 A. Yes, sir.

8 Q. Now, at the time, were you aware that
9 applying for temporary rights was an option in
10 North Carolina?

11 A. I was not.

12 Q. Okay. Are you aware of that now?

13 A. Very much so.

14 Q. Okay. Thank you. Would you be willing, if
15 the Commission's interested, in filing a confidential
16 late-filed exhibit that is the financials of Integra?

17 A. Yes.

18 Q. Okay. Thank you. You mentioned that system
19 where radiological filters would be required.

20 Is that Olde Mill Trace?

21 A. I believe so, yes.

22 Q. Okay.

23 A. Yes.

24 Q. And these are just kind of randomly following

1 up on the questions, but you were also asked about the
2 difference in cost or operations for purchase water
3 systems.

4 Do you have to install and maintain wells for
5 those systems?

6 A. Not for those systems.

7 Q. Do you have to install and maintain
8 filtration for those systems?

9 A. No.

10 Q. So they are less expensive to operate on that
11 account?

12 A. Correct.

13 Q. Okay. If you did separate billing for these
14 44 different water systems in North Carolina, is that
15 gonna be more administrative work and cost for the
16 Company?

17 A. Yes.

18 Q. With regard to the customer complaint, I
19 believe it was Nicholas Egan regarding the Ashcroft
20 Park, are you willing to file late-filed exhibit
21 updating the Commission on what you have found out
22 about that complaint, whether there are stain or
23 mineral problems in the water?

24 A. I'd very much like to do so.

1 Q. Thank you. Are you also willing to file as a
2 late-filed exhibit the papers by which Old North State
3 filed with the North Carolina Secretary of State to be
4 an LLC?

5 A. Yes.

6 Q. The articles of incorporation, as it were?

7 A. Yes.

8 Q. Okay. Or the equivalent.

9 COMMISSIONER CLODFELTER: Mr. Drooz, I
10 think we'd need the operating agreement, too, which
11 doesn't have to be filed with the Secretary of
12 State.

13 MR. DROOZ: Okay.

14 THE WITNESS: I would be happy to
15 provide both.

16 MR. DROOZ: We will add that to the
17 late-filed exhibit, thank you.

18 COMMISSIONER CLODFELTER: I'm sorry to
19 interrupt you, but I knew what you were trying to
20 do and wanted to make sure you got done what you
21 wanted to get done.

22 MR. DROOZ: And we want to make sure you
23 get all of those that you want.

24 Q. So there was some question about whether

1 there's a contract by Integra to backstop financing for
2 Old North State.

3 What is your position with Integra?

4 A. I'm the sole member.

5 Q. Okay.

6 A. And manager.

7 Q. And so do you, as a practical matter, control
8 what Integra does?

9 A. Absolutely.

10 Q. And have you provided sworn testimony in this
11 proceeding that you will see that Integra provides the
12 funding that ONS needs?

13 A. Yes.

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

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

18 MR. DROOZ: Thank you. That's all my
19 follow-up.

20 COMMISSIONER BROWN-BLAND: Thank you.
21 Any questions from the Public Staff?

22 MR. MAGARIRA: No questions from the
23 Public Staff.

24 COMMISSIONER BROWN-BLAND: All right.

1 Just a second.

2 (Pause.)

3 EXAMINATION BY COMMISSIONER BROWN-BLAND:

4 Q. Mr. McDonald, I had one last question, and
5 I'll try this one, see if I have better luck.

6 How was the XXXXXXXXXXXX in debt accumulated on
7 this level of rate base?

8 A. Some of it was operational losses. A lot of
9 it was capital expenditures to maintain these systems.

10 Q. So -- and the level of rate base we see is
11 about \$1.5 million, and on that we have XXXXXXXXXXXX?

12 A. I think that's for the entity as a whole,
13 right? So there's some wastewater systems as well in
14 there that have had some significant gaps.

15 COMMISSIONER BROWN-BLAND: Mr. Drooz, do
16 you want to follow up on that.

17 MR. DROOZ: I think we can follow up
18 with the next witness.

19 COMMISSIONER BROWN-BLAND: Okay. All
20 right. Mr. Drooz, your motion?

21 MR. DROOZ: We would ask that all the
22 prefiled exhibits of Mr. McDonald be admitted into
23 evidence.

24 COMMISSIONER BROWN-BLAND: And

1 identified as they were when prefiled?

2 MR. DROOZ: Yes, ma'am.

3 COMMISSIONER BROWN-BLAND: That motion
4 will be allowed.

5 (McDonald Rebuttal Exhibits 1 and 2 were
6 admitted into evidence.)

7 COMMISSIONER BROWN-BLAND: And just to
8 be -- out of abundance of caution, I have already
9 allowed the introduction of the direct and revised
10 direct, the rebuttal and supplemental [sic] and
11 settlement testimonies of this witness,
12 Mr. McDonald. They will be allowed as if given
13 orally from the witness stand. You may introduce
14 them into the record.

15 All right. Mr. McDonald, you're
16 excused.

17 THE WITNESS: Thank you for your time.

18 COMMISSIONER BROWN-BLAND: Thank you.
19 I'm correcting, for now you're excused. That
20 applies throughout in the event -- I believe that
21 when we conclude, whenever we do here today, we
22 will hold the record open in the event that the
23 Commission finds that we need to have you back in.

24 THE WITNESS: Okay.

1 COMMISSIONER BROWN-BLAND: Thank you,
2 Mr. McDonald.

3 THE WITNESS: Thank you-all.

4 MR. DROOZ: Old North State calls
5 Laurie Oakman to the stand.

6 COMMISSIONER BROWN-BLAND: All right.
7 Whereupon,

8 LAURIE OAKMAN,
9 having first been duly sworn, was examined
10 and testified as follows:

11 COMMISSIONER BROWN-BLAND: All right.
12 Mr. Drooz?

13 DIRECT EXAMINATION BY MR. DROOZ:

14 Q. Would you state your name and position or
15 relation to Old North State Water Company for the
16 record, please.

17 A. Laurie Oakman. I'm the accounting manager
18 for Integra Water, LLC, and I oversee the accounting
19 for Old North State Water Company because Integra has
20 an operating agreement, whereby it provides support to
21 ONSWC.

22 Q. Did you cause to be prefiled on
23 June 29, 2021, 11 pages of direct testimony in this
24 docket?

1 A. Yes, I did.

2 Q. And do you have 10 pages of rebuttal
3 testimony, along with Oakman Rebuttal Exhibits 1 and 2,
4 that was prefiled on February 22, 2022?

5 A. Yes, I do.

6 Q. Okay. And finally, do you have four pages of
7 supplemental rebuttal testimony, along with Oakman
8 Supplemental Rebuttal Exhibit 1 that was prefiled on
9 March 4, 2022?

10 A. Yes.

11 Q. Okay. Do you have any changes or corrections
12 to make to your prefiled testimonies?

13 A. Yes. At page 8 of my rebuttal testimony, the
14 formula error that is addressed at lines 13 and 14 was
15 discussed with Public Staff, but after they filed their
16 testimony, not before, I stated in lines 6 and 7.

17 Q. Okay.

18 A. And the settlement exhibit reflects the
19 revenues, expenses, rate base, cost of capital, and
20 revenue requirement that the Company has agreed are
21 appropriate for the settlement.

22 Q. And with those changes, if orally given from
23 the witness stand today, would your answers to the
24 questions in the prefiled testimonies be the same as

1 when those testimonies were filed?

2 A. Yes.

3 Q. Okay.

4 MR. DROOZ: We would move to have
5 Ms. Oakman's prefiled testimonies incorporated into
6 the record as if orally given from the stand, and
7 her exhibits be identified for the record as
8 marked.

9 COMMISSIONER BROWN-BLAND: Mr. Drooz,
10 did you ask about the settlement exhibit
11 separately? I have it as the Late-Filed Exhibit 1.

12 MR. DROOZ: Yes, that -- we have not
13 called that a settlement exhibit. That is
14 separately a late-filed exhibit, and we would ask
15 that that also be identified as marked.

16 COMMISSIONER BROWN-BLAND: And that --
17 she prepared that one as well?

18 MR. DROOZ: Yes, with the assistance of
19 Darlene Peedin who has served as an accounting
20 consultant to the Company on this case.

21 COMMISSIONER BROWN-BLAND: All right.
22 That's correct, Ms. Oakman --

23 THE WITNESS: That's correct.

24 COMMISSIONER BROWN-BLAND: -- you

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prepared Late-Filed Exhibit 1?

THE WITNESS: Yes, ma'am.

COMMISSIONER BROWN-BLAND: All right.

Mr. Drooz, your motion will be allowed, and her direct, rebuttal, and supplemental testimonies will be received into evidence as if given orally from the witness stand; and all exhibits filed with those testimonies will be identified at this time as they were marked when prefiled.

(Oakman Rebuttal Exhibits 1 and 2 and Oakman Supplemental Rebuttal Exhibit 1 were identified as they were marked when prefiled.)

(Whereupon, the prefiled direct, rebuttal, and supplemental testimony of Laurie Oakman were copied into the record as if given orally from the stand.)

**NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

**IN THE MATTER OF:
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING
WATER UTILITY SERVICE IN ALL OF ITS SERVICE AREAS
IN NORTH CAROLINA**

**PRE-FILED DIRECT TESTIMONY OF
OF
LAURIE OAKMAN
ON BEHALF OF
OLD NORTH STATE WATER COMPANY, LLC**

JUNE 29, 2021

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

3 A. My name is Laurie Oakman. My business address is 3212 6th Avenue South, Suite
4 200, Birmingham, Alabama 35222.

5

6 **Q. PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR**
7 **EMPLOYER.**

8 A. I am employed by Integra Water, LLC (“Integra Water”). The business address for
9 Integra Water is 3212 6th Avenue South, Suite 200, Birmingham, Alabama 35222.

10

11 **GENERAL INFORMATION**

12 **Q. WHAT ARE YOUR CURRENT ROLES WITH ONSWC AND INTEGRA**
13 **WATER?**

14 A. I am employed by Integra Water as the Accounting Manager. Integra Water has an
15 operating agreement with Old North State Water Company, LLC (“ONSWC”) to
16 provide support services to ONSWC.

17

18 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS ACCOUNTING**
19 **MANAGER FOR INTEGRA WATER.**

20 A. I support ONSWC’s and Integra Water’s operations through financial oversight of
21 ONSWC and six other water and wastewater companies owned or managed by

1 Integra Water. In that capacity, I monitor and analyze accounting data, produce
2 periodic financial statements, and keep the Manager of ONSWC and Integra
3 Water up-to-date on budget performance. I am also responsible for the daily
4 operations of the accounting department of Integra Water that provides
5 accounting services for ONSWC and Integra Water. I provide daily cash balances
6 for ONSWC and Integra Water-owned entities, and I provide financial data for
7 operations and capital improvements to the management team. I also work as the
8 human resources liaison for Integra Water to assist with payroll and benefits for
9 employees.

10

11 **Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND.**

12 A. I have a Bachelor of Science degree from the University of Montevallo, and I have
13 a Master of Accountancy from the University of Alabama at Birmingham. I have
14 been certified as an Alabama State Board Certified Public Accountant since
15 February, 2003.

16

17 **Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.**

18 A. I began working for Integra Water in December 2016. Prior to that time, I worked
19 in the telecommunications industry for fifteen years with BellSouth/AT&T in
20 various management level accounting roles, including Carrier Access Billing and

1 Revenue Accounting. I also worked as the Accounting Manager for a local
2 chemical distribution company.

3

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
5 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

6 A. No.

7

8 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. My testimony supports ONSWC’s request for an increase in rates as provided in
10 the Application for Rate Increase and attached schedules. My testimony
11 specifically addresses certain financial aspects of the rate case, including
12 ONSWC’s pro-forma revenues and expenses, pro-forma adjustments, capital
13 structure, rate design, and taxes.

14

15 **Q. WHAT ROLE DID YOU HAVE IN THE PREPARATION OF THE**
16 **APPLICATION FOR RATE INCREASE AND THE SUPPORTING**
17 **SCHEDULES?**

18

19 A. My role was to prepare the Application for Rate Increase and prepare the
20 schedules attached to the Application. I also developed the requested revenue
21 requirement and rates.

1 **Q. WHAT TEST YEAR PERIOD IS ONSWC USING IN ITS APPLICATION**
2 **FOR A RATE INCREASE?**

3 A. ONSWC is utilizing a Test Year in this proceeding of the twelve months ended
4 December 31, 2020.

5

6 **Q. WAS ONSWC'S APPLICATION FOR RATE INCREASE AND THE**
7 **SCHEDULES ATTACHED TO THE APPLICATION PREPARED BY YOU**
8 **OR BY SOMEONE UNDER YOUR SUPERVISION?**

9 A. Yes.

10

11 **Q. PLEASE DESCRIBE THE SCHEDULES TO BE CONSIDERED IN THIS**
12 **PROCEEDING.**

13 A. Attached to the Application for Rate Increase are schedules to support the requested
14 adjustment in rates. The schedules consist of the following:

- 15
- Balance sheet as of December 31, 2020 (Schedule A).

16

 - Income statement for the Twelve Months Ended December 31, 2020
17 (Schedule B).

18

 - Calculation of Rate Base and Rate of Return (Schedule C).

19

 - Calculation of Revenues Under Present Rates (Schedule D).

- 1 • Number of Customers Served, List of Systems, and Current Rates (Schedule
- 2 E).
- 3 • Original Cost of Utility Systems (Schedule F).
- 4

5 **PRO-FORMA REVENUES AND EXPENSES**

6 **Q. HAS ONSWC SUSTAINED INCOME LOSSES FOR ITS WATER**
7 **SYSTEMS DURING THE TEST YEAR?**

8 A. Yes. ONSWC experienced a net income loss of \$352,220.35 during the Test Year.

9

10 **Q. PLEASE EXPLAIN THE REASONS THAT ONSWC SUSTAINED**
11 **INCOME LOSSES DURING THE TEST YEAR.**

12 A. ONSWC's substantial net income loss of \$352,220.35 during the Test Year was
13 due to acquiring water systems since 2014 with set rates that had not been
14 adjusted to accurately reflect the operating costs and expenses. The substantial
15 net income loss was also the result of not having previously requested a rate
16 adjustment for any of the water systems to cover ONSWC's operating expenses.
17 From the time that ONSWC began acquiring water systems in 2014, it has never
18 requested a rate increase until this request.

19

20 **Q. WHAT IS THE REVENUE INCREASE REQUESTED BY ONSWC?**

1 A. ONSWC's current revenues based on the current rates are \$690,700.19, and
2 ONSWC's current expenses are \$1,042,920.54. These revenues currently leave
3 ONSWC operating at a net income loss of \$352,220.35. After annualizing present
4 rates, the pro-forma revenues are \$750,744.71. ONSWC proposes an increase in
5 revenue of \$512,619.29, for total revenue of \$1,263,364.01, which represents an
6 increase of 68% over present annual total revenues.

7

8 **Q. WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**
9 **RATE CASE?**

10 A. ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The
11 proposed cost of long-term debt is 7.34%. These ratios and cost rates are
12 consistent with the actual capital structure values as of the end of the Test Year
13 ended December 31, 2020. ONSWC requests that the Commission accept
14 ONSWC's current capital structure of 83% debt and 17% equity.

15

16 **Q. WHAT RATE OF RETURN DOES ONSWC'S CURRENT RATES YIELD?**

17 A. ONSWC's current rates yield a rate of return of -33.77%.

18

19 **Q. WHAT RATE OF RETURN WOULD ONSWC'S PROPOSED RATES**
20 **YIELD?**

1 A. The rates proposed by ONSWC would yield on overall rate of return on rate base
2 of 7.75%, based on a rate of return on common equity of 9.75%.

3

4

PRO-FORMA ADJUSTMENTS

5 **Q. DID ONSWC MAKE ANY PRO FORMA ADJUSTMENTS TO TEST YEAR**
6 **ACTUAL REVENUES OR EXPENSES?**

7 A. Yes. ONSWC made pro forma adjustments to both Test Year revenues and
8 expenses.

9

10 **Q. PLEASE EXPLAIN THE PRO-FORMA ADJUSTMENTS ONSWC MADE**
11 **TO THE TEST YEAR REVENUES AND EXPENSES IN COMPUTING THE**
12 **PRO-FORMA PRESENT RATE REVENUES.**

13 A. ONSWC completed a bill analysis to compile the base rate activity for the Test
14 Year. The Test Year revenue amounts have been adjusted to reflect a full year of
15 consumption with the customer count/bill count as of the end of the Test Year, due
16 to several recent acquisitions that did not have data available for the entire Test
17 Year. Specifically, the following water systems were acquired in 2020:

- 18 • W-1300, Sub 46: Bingham Woods Mobile Home Park in Orange County.
- 19 • W-1300, Sub 48: Autumn Ridge Subdivision in Guilford County.
- 20 • W-1300, Sub 53: Carriage Cove Subdivision in Guilford County.
- 21 • W-1300, Sub 54: Yardley Subdivision in Wake County.

1 ONSWC calculated an adjustment to various expenses based on an average 10%
2 customer growth rate across all of its water systems. ONSWC does not employ
3 administrative and office personnel, so this customer base growth has a direct
4 impact on administrative expenses related to customer service, billing and
5 collections, and accounting, which require additional outside resources. The 10%
6 growth rate also directly impacts the maintenance and repair expenses; electric
7 power expenses required for additional pumping and distribution of water; and
8 chemical treatment expenses needed to treat the additional water.

9
10 ONSWC also made an adjustment to Purchased Water based on the following two
11 purchased water systems: Blawell Subdivision in Cumberland County and Rocklyn
12 Subdivision in Davidson County. The adjustments are based on a 2% customer
13 growth rate in the Blawell Subdivision and a 28% customer growth in the Rocklyn
14 Subdivision.

15
16 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**
17 **ACCUMULATED DEPRECIATION.**

18 **A. No adjustments were made to accumulated depreciation.**

19
20 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**
21 **DEPRECIATION EXPENSES.**

1 A. ONSWC made adjustments to depreciation expense to annualize depreciation
2 based on all Utility Placed in Service as of the end of the Test Year.

3

4 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE TO**
5 **OPERATION AND MAINTENANCE EXPENSES.**

6 A. ONSWC made an adjustment to Purchased Water based on the following two
7 purchased water systems: Blawell Subdivision in Cumberland County in Docket
8 No. W-1300, Sub 31, and Rocklyn Subdivision in Davidson County in Docket No.
9 W-1300, Sub 24. The adjustments are based on a 2% customer growth rate in the
10 Blawell Subdivision and a 28% customer growth in the Rocklyn Subdivision.

11

12 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE FOR**
13 **WORKING CAPITAL.**

14 A. ONSWC made no adjustments for working capital.

15

16 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT ONSWC MADE FOR**
17 **INCOME TAXES.**

18 A. ONSWC made adjustments to recognize income taxable at the state income rate
19 of 2.5% and the federal rate of 21%. ONSWC has not generated taxable income
20 to date.

21

1 **Q. HAS ONSWC PROPOSED ANY ADJUSTMENTS TO THE TEST YEAR**
2 **EXPENSES FOR PERSONAL OR REAL ESTATE PROPERTY TAXES?**

3 A. ONSWC's Application does not include adjustments to the Test Year amounts for
4 personal or real estate property taxes.

5

6 **CAPITAL STRUCTURE**

7 **Q. WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**
8 **RATE CASE?**

9 A. ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The
10 proposed cost of long-term debt is 7.34%. These ratios and cost rates are
11 consistent with the actual capital structure values as of the end of the Test Year.
12 When including the proposed rate of return on common equity of 9.75%, the
13 resulting proposed overall rate of return is 7.75%.

14

15 **INCOME TAXES AND TCJA**

16 **Q. WHAT INCOME TAX RATES HAS ONSWC USED IN THIS**
17 **PROCEEDING?**

18 A. At present, because ONSWC is not earning any income, ONSWC is not paying
19 any federal or state income tax. Under the proposed rate increase, ONSWC will
20 begin paying federal and state income taxes at the current rates of 2.5% for state
21 income tax and 21% for federal income tax.

1

2 **Q. IS ONSWC PROPOSING ANY CHANGES TO THE IMPACTS AND**
3 **TREATMENT PERTAINING TO THE TCJA?**

4 A. No. As ONSWC has not been required to pay any federal income tax because
5 ONSWC is operating at a loss, there is no need to adjust for any impacts from
6 TCJA.

7

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes. However, I reserve the right to update or amend this testimony upon receipt of
10 additional data or other information that may become available.

11

NORTH CAROLINA UTILITIES COMMISSION

RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF:

APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC FOR
AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING WATER
UTILITY SERVICE IN ALL ITS SERVICE AREAS IN NORTH CAROLINA

PRE-FILED REBUTTAL TESTIMONY OF

OF

LAURIE OAKMAN

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

February 22, 2022

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH OLD**
2 **NORTH STATE WATER COMPANY, LLC, AND YOUR BUSINESS ADDRESS.**

3 A. My name is Laurie Oakman, and I am the Accounting Manager of Integra Water, LLC
4 (Integra). I oversee accounting for Old North State Water Company, LLC (ONSWC or
5 Company) because Integra has an operating agreement whereby it provides support
6 services to ONSWC. My business address is 3212 6th Avenue South, Suite 200,
7 Birmingham, AL 35222.

8 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?**

9 A. Yes, I filed direct testimony on June 29, 2021.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to respond to the following issues raised in Public
12 Staff testimony: (1) purchased water expense; (2) maintenance and repair expense; (3)
13 electric power for pumping; (4) chemicals for water treatment; (5) depreciation expense
14 for the Carriage Cove system; (6) removal of vehicle costs associated with sewer
15 operations; (7) accumulated depreciation and depreciation expense for vehicles; (8) cash
16 working capital; (9) bad debt expense; (10) insurance expense; (11) miscellaneous expense;
17 (12) rate case expense; (13) regulatory fee; (14) state and federal income taxes; (15) use of
18 the Uniform System of Accounts; (16) in-service dates for utility plant; (17) adjustment to
19 service revenues.

20 **Q. DO YOU HAVE ANY REBUTTAL EXHIBITS?**

21 A. Yes. Oakman Rebuttal Exhibit 1 reflects changes to the Update Exhibit filed by ONSWC
22 on November 24, 2021. The changes are the result of my review of the Public Staff's

1 prefiled direct testimony, discovery requests on that testimony, and discussions with the
2 Public Staff after they filed their direct testimony. Oakman Rebuttal Exhibit 2 reflects
3 corrections to consumption data, associated service revenues changes, and updated
4 requested rate design.

5 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
6 **PURCHASED WATER EXPENSE?**

7 **A.** Witness Junis at pages 20-21 of his direct testimony recommends for the Rocklyn System,
8 an annual purchased water expense amount of \$31,947 for the updated test year
9 consumption at the City of Winston-Salem's current rates. ONSWC agrees to accept this
10 amount for the Rocklyn System.

11 With regard to the Blawell System witness Junis recommends an annual purchased water
12 expense amount of \$3,228 after applying a system specific growth factor of 2.71% to
13 annualize consumption and the current usage charge for the Town of Stedman. ONSWC
14 has some concerns regarding this amount because the consumption readings from the Town
15 of Stedman are unreliable. The consumption shown by the Town of Stedman is 1,047,430
16 for the period of August 21, 2020, through August 20, 2021. ONSWC sold 1,785,152
17 gallons to customers during the same period. It is impossible to sell more water to
18 customers than you purchased for the customers. The Town of Stedman bills are very
19 inconsistent during and after the test period. ONSWC personnel are confident in the
20 accuracy of ONSWC customer meters and we have found no inaccuracies. ONSWC has
21 consistently reached out to the Town of Stedman to determine the inaccuracies in their
22 billings to ONSWC with no resolution as of the date of writing this rebuttal testimony.

1 Witness Junis proposes to use the amount that ONSWC purchased from the Town of
2 Stedman as the current ongoing level for this system. That approach would seem very
3 reasonable on the surface; however, given that ONSWC meter readings for the Blawell
4 system show a higher consumption, the purchased water expense from the Town of
5 Stedman should be corrected to reflect actual consumption on the system. The Town of
6 Stedman has been alerted to the problem with its readings and it stands to reason they will
7 correct their error and ONSWC will be charged purchased water expense that, going
8 forward, that reflects the consumption shown on customer meters. Moreover, the most
9 recent bill from the Town shows it is moving closer to the proper level of sales to ONSWC
10 customers than past bills.

11 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
12 **MAINTENANCE AND REPAIR EXPENSE?**

13 **A.** Witness Junis on page 17 recommends removal of the maintenance and repair expense for
14 Carriage Cove on the grounds that this system presently has no customers and contract
15 operations of systems that are now being handled by salaried employees or other contract
16 operators. ONSWC accepts the removal of Carriage Cove expenses adjustment in the
17 amount of \$4,262 as recommended by witness Junis. Witness Junis also removes a portion
18 of maintenance and repair expenses in the amount of \$16,807 related to Pace Analytical
19 and Research and Analytical Labs to adjust these contract operations to the current ongoing
20 rates. ONSWC accepts the removal of a portion of the maintenance and repair expenses
21 for Pace Analytical and Research Analytics to reflect an ongoing level for these

1 contractors. ONSWC also agrees with witness Junis' adjustment to remove \$35,566 of
2 maintenance and repair expenses for invoices that ONSWC paid to previous contractors.

3 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
4 **ELECTRIC POWER FOR PUMPING?**

5 **A.** Witness Junis on pages 17-18 does not recommend any adjustment to the Company's
6 expense for electric power for pumping as shown in the ONSWC Revised Exhibit 1. There
7 was no adjustment indicated for the removal of this expense for Carriage Cove. For
8 consistency, ONSWC has removed \$613 of expense from electric power for pumping
9 expense.

10 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS JUNIS ON**
11 **CHEMICALS EXPENSE?**

12 **A.** Witness Junis on pages 18-19 adjusts chemicals expense. ONSWC accepts the Public
13 Staff's adjustment for the removal of \$143 for Chemicals Expense, but we do not agree
14 with the adjustment for the growth factor adjustment for Chemicals in the amount of \$614.
15 We requested clarification of the \$614 amount in a data request. The response received
16 from Public Staff did not clarify the issue. Witness Junis identifies in testimony the annual
17 amount for Chemicals Expense should be \$10,314 after his recommended adjustments.
18 However, the numbers provided in his testimony of \$143 actual chemical expenses and a
19 growth factor adjustment amount of \$614 do not yield the \$556 adjustment presented in
20 Witness Morgan's Exhibit I, Schedule 3. ONSWC disputes any amount of a growth factor
21 adjustment due to the fact the actual growth factor of zero for Carriage Cove was applied
22 to the "\$1,027 of Company adjustments" referenced in witness Junis' testimony. The

1 Public Staff was provided a detailed supporting file as response to Public Staff's Data
2 Request Number 55, Rate Case Rev-Exp Update Pro Forma – WITH LINKS.xlsx, showing
3 the system specific customer growth adjustments made. As noted, there are no customers
4 currently in Carriage Cove, therefore no customer growth factor was added to the
5 company's pro forma adjustments. Furthermore, no additional customer growth factor
6 adjustments are available to be disallowed for Carriage Cove. The removal of the actual
7 chemicals expenses results in an annual level of \$10,727.

8 **Q. WHAT IS YOUR RESPONSE TO THE PUBLIC STAFF POSITION ON**
9 **DEPRECIATION EXPENSE FOR CARRIAGE COVE?**

10 **A.** ONSWC agrees with the removal of Depreciation Expense for Carriage Cove system since
11 there are no customers in the subdivision.

12 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
13 **VEHICLE COSTS AND RELATED ACCUMULATED DEPRECIATION AND**
14 **DEPRECIATION EXPENSE?**

15 **A.** Witness Morgan, at pages 6-8 of her direct testimony, made an adjustment to reduce plant
16 in service due to removal of vehicle costs for sewer operations, and associated accumulated
17 depreciation and depreciation expense. I accept these adjustments.

18 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
19 **CASH WORKING CAPITAL?**

20 **A.** Witness Morgan calculates cash working capital as 1/8 of total operations and maintenance
21 expense. This is the same approach used by ONSWC. Any dollar difference is the result
22 of different recommendations for operations and maintenance expense.

1 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
2 **UNCOLLECTIBLES?**

3 **A.** Witness Morgan reclassified \$852 of bad debt expense as uncollectibles expense. I have
4 no objection to this change, as it has no impact on the revenue requirement.

5 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
6 **INSURANCE EXPENSE?**

7 **A.** Witness Morgan on page 9 removed \$2,488 of insurance expense. I agree with this
8 adjustment.

9 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
10 **MISCELLANEOUS EXPENSE?**

11 **A.** For purposes of the present case ONSWC does not challenge witness Morgan's adjustment
12 for miscellaneous expense.

13 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
14 **RATE CASE EXPENSE?**

15 **A.** Witness Morgan, on page 10 of her testimony, adjusted the amount of annual expense for
16 rate case expense by amortizing the expenses for the present rate case over three years, in
17 contrast to the Company's amortization over two years. In my opinion, the amortization
18 period should be a reasonable estimate of the amount of time until the utility will seek
19 another rate case. ONSWC expects to file another rate case for its North Carolina water
20 systems within two years, so we believe two years would be an appropriate amortization
21 period for this expense item.

1 In addition, the Company requests to be allowed to update its rate case expense by filing
2 at the close of the evidentiary hearing its actual costs to that date and its estimated costs for
3 preparing and filing a proposed order. Otherwise, the amount of rate case expense used to
4 set rates will fall short of the actual expense to be incurred. Whatever amortization period
5 is approved by the Commission, ONSWC requests that the Company be allowed receive
6 any unamortized balance of this rate case expense in expenses in its next rate case.

7 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN**
8 **ON REGULATORY FEE?**

9 **A.** Witness Morgan adjusted the regulatory fee to reflect the statutory rate. I agree with this
10 adjustment. The dollar impact will depend on the amount of revenues approved by the
11 Commission for rate case purposes.

12 **Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF WITNESS MORGAN ON**
13 **INCOME TAXES?**

14 **A.** Witness Morgan adjusts the amount of state and federal income tax according to the
15 amount of recommended taxable income. I agree with this adjustment, and the dollar
16 impact will depend on the amount of taxable income approved by the Commission for rate
17 case purposes.

18 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION OF WITNESS**
19 **MORGAN THAT ONSWC INTEGRATE THE UNIFORM SYSTEM OF**
20 **ACCOUNTS INTO ITS UTILITY OPERATIONS?**

1 **A.** ONSWC already incorporates the Uniform System of Accounts into its utility operations.
2 The Company uses a prefix to the account number to identify each of the 43 specific
3 systems and a suffix to the account number for more specific financial reporting.

4 **Q.** **ARE THERE OTHER ISSUES YOU WOULD LIKE TO ADDRESS?**

5 **A.** Yes. On pp. 21-25, witness Junis addresses concerns related to how ONSWC has recorded
6 UPiS and CIAC. I will address his enumerated paragraphs 5, 6 and 7. Prior to the Public
7 Staff filing its direct testimony, ONSWC:

8 (1) provided the Public Staff with a list of systems and the dates that could be considered
9 for use as in-service dates, including the dates of DEQ approval, CPCN issuance, and
10 builder application for water service;

11 (2) discussed with the Public Staff the failure to collect gross-up on CIAC for three
12 systems;

13 (3) discussed the identification of a formula error in the Company's Excel-based CIAC
14 amortization schedule; and

15 (4) discussed an issue regarding the Company's use of a composite amortization rate for
16 CIAC instead of breaking out each different plant item and showing its individual
17 amortization rate which coincides with the particular plant category.

18 With regard to items (1), (3) and (4) above, after the Public Staff filed its direct testimony
19 in this case, the Company and the Public Staff convened a virtual meeting to discuss the
20 issues identified above. On February 17, 2022, the Company provided the Public Staff
21 with the corrections to in-service dates, as well as a file correcting the error identified in
22 the CIAC amortization spreadsheet and, an Excel file breaking out each contributed plant

1 item by identifying the system plant account and its associated amortization rate as opposed
2 to using a composite amortization rate for the contributed plant.

3 With regard to (1) above related to the in-service dates for Vernon Place, Kanata Mills,
4 Ashcroft Park and Meadow Lake, ONSWC disagrees in principle with the date used by the
5 Public Staff; however, we will accept the Public Staff's recommendation for purposes of
6 this case.

7 With regard to (2) above, ONSWC has not asked for rate recovery of the gross-up amount
8 that it did not collect from the developer, and ONSWC plans to absorb any taxes due. The
9 Public Staff said it would provide further information to ONSWC regarding any associated
10 impacts on ratepayers, including examples, and we are waiting on that.

11 With regard to (3) and (4) above, we have provided the information to the Public Staff as
12 requested. We concede the calculation error in (3) and have provided a correction.

13 We expect the Public Staff will address these potential issues in their supplemental
14 testimony. To the extent we are unable to reach agreement with them on any of these
15 issues, ONSWC asks that it be allowed a reasonable amount of time to file rebuttal
16 testimony on the Public Staff's supplemental testimony.

17 **Q. ARE THERE OTHER ADJUSTMENTS YOU WOULD LIKE TO ADDRESS?**

18 **A.** On February 21, 2022, I discovered an error in the water consumption data that ONSWC
19 provided to the Public Staff. Water consumption for the Bella Vista system was
20 significantly overstated. The data included an erroneous meter reading entry of 8,997,200
21 gallons for a single residential customer. I sent the corrected consumption data and
22 supporting documentation from our customer service department to witness Junis on

1 February 21. As a result, the service revenues and proposed rates should be adjusted to
2 reflect the correct consumption level. We have included the necessary correction in the
3 adjustments to service revenues in Oakman Rebuttal Exhibit 1 as well as the recalculation
4 of requested rates identified in Oakman Rebuttal Exhibit 2.

5 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

6 **A.** Yes, it does.

7

NORTH CAROLINA UTILITIES COMMISSION

RALEIGH

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF:

APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING
WATER UTILITY SERVICE IN ALL ITS SERVICE AREAS IN NORTH CAROLINA

PRE-FILED SUPPLEMENTAL REBUTTAL TESTIMONY

OF

LAURIE OAKMAN

ON BEHALF OF

OLD NORTH STATE WATER COMPANY, LLC

March 4, 2022

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH OLD**
2 **NORTH STATE WATER COMPANY, LLC, AND YOUR BUSINESS ADDRESS.**

3 A. My name is Laurie Oakman, and I am the Accounting Manager of Integra Water, LLC
4 (Integra). I oversee accounting for Old North State Water Company, LLC (ONSWC or
5 Company) because Integra has an operating agreement whereby it provides support
6 services to ONSWC. My business address is 3212 6th Avenue South, Suite 200,
7 Birmingham, AL 35222.

8 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?**

9 A. Yes, I filed direct testimony on June 29, 2021, and rebuttal testimony on February 22, 2022.

10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
11 **TESTIMONY?**

12 A. The purpose of my supplemental rebuttal testimony is to respond to issues raised in the
13 Public Staff's supplemental testimony that was filed on March 1, 2022. However, the
14 Company and the Public Staff are discussing settlement possibilities, so some or all of the
15 issues in this proceeding may be resolved after we file this testimony.

16 **Q. DO YOU HAVE ANY SUPPLEMENTAL REBUTTAL EXHIBITS?**

17 A. Yes, Oakman Supplemental Rebuttal Exhibit I shows a reconciliation with line item
18 differences between the Company and the Public Staff on revenue requirement issues.

19 **Q. WHAT IS YOUR RESPONSE TO THE SUPPLEMENTAL TESTIMONY OF**
20 **WITNESS JUNIS ON UTILITY PLANT IN SERVICE?**

21 A. The Company accepts the positions stated in pages 3 – 8 of Mr. Junis' supplemental
22 testimony. We have provided the Public Staff with an estimate of the amount of uncollected

1 contribution in aid of construction (CIAC) income tax gross-up for the three systems in
2 issue, as discussed on page 7 of witness Junis' testimony, and we are waiting to hear if the
3 Public Staff agrees with those amounts.

4 **Q. WHAT IS YOUR RESPONSE TO THE SUPPLEMENTAL TESTIMONY OF**
5 **WITNESS JUNIS ON BILLING ANALYSIS AND RATE DESIGN?**

6 **A.** ONSWC agrees with the number of customers and annual consumption shown on page 9
7 of Junis' supplemental testimony and in his Exhibit 2 (Revised).

8 **Q. WHAT IS YOUR RESPONSE TO THE SUPPLEMENTAL TESTIMONY OF**
9 **WITNESS JUNIS ON BILLING ANALYSIS AND RATE DESIGN?**

10 **A.** The ONSWC position on the Public Staff recommendation for a 30% / 70% ratio of fixed
11 charge to variable charge is addressed in the ONSWC rebuttal testimony of witness
12 McDonald, and that has not changed as a result of the supplemental testimony of witness
13 Junis at page 11.

14 The service revenue requirement and recommended rates of the Public Staff, stated in the
15 supplemental testimony of witness Junis at page 11, should be adjusted to reflect the
16 correction to Bella Vista consumption that witness Junis accepted in this supplemental
17 testimony. I understand the Public Staff has agreed to make that change, which has a
18 \$51,243 revenue impact, in its accounting exhibits. I reflect the adjustment to service
19 revenues correction for test year usage on Line 12 of Oakman Supplemental Rebuttal
20 Exhibit I.

21 **Q. WHAT IS YOUR RESPONSE TO THE SUPPLEMENTAL TESTIMONY OF**
22 **WITNESS MORGAN ON HER ADJUSTMENTS?**

1 A. At pages 3 – 7 of her supplemental testimony, witness Morgan lists Public Staff
2 adjustments to plant in service, accumulated depreciation, CIAC, accumulated
3 amortization of CIAC, customer advances, miscellaneous expense (bond expense),
4 depreciation expense, and amortization expense for CIAC. ONSWC accepts these
5 adjustments.

6 **Q. WHAT IS YOUR RESPONSE TO THE ACCOUNTING RECOMMENDATION IN**
7 **THE SUPPLEMENTAL TESTIMONY OF WITNESS MORGAN?**

8 A. On pages 7 – 8 witness Morgan makes an accounting recommendation and states that “No
9 amount of the taxes paid by ONSWC should be included in the Company’s rate base or
10 otherwise reflected in the Company’s revenue requirement.” I have committed to not seek
11 recovery of uncollected CIAC tax gross-up from ratepayers, and ONSWC stands by that
12 commitment. The taxes on CIAC that ONSWC must pay, and that were not collected from
13 developers, will be absorbed by ONSWC; they are not included in the cost of service in
14 the present case and will not be included in the cost of service in future rate requests.

15 The Public Staff asked in supplemental testimony that ONSWC show what accounting
16 entries it will make for the uncollected CIAC tax gross-up. ONSWC has provided an
17 example in Excel format, and we are waiting to hear from the Public Staff if it is acceptable
18 to them.

19 In addition, the Company requests to be allowed to file an exhibit updating its rate case
20 expense through the close of the evidentiary hearing and its estimating costs for any work
21 on a proposed order. We understand the Public Staff is agreeable to this request, with no
22 return on the unamortized balance. ONSWC also requests that if the Company does not

1 recover all its rate case expense before the next general rate case, that it be allowed to roll
2 any unamortized balance of this rate case expense into expenses in its next rate case.

3 **Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?**

4 **A.** Yes, it does.

1 MR. DROOZ: And just as a point of
2 clarification, we will not be moving into admission
3 of evidence the late-filed exhibit until the Public
4 Staff has had at a chance to review and ask us any
5 questions on that, which -- so I anticipate that
6 will be post hearing.

7 COMMISSIONER BROWN-BLAND: Okay. Thank
8 you for that.

9 Q. Do you have a summary of your testimony?

10 A. I do.

11 My direct, rebuttal, and supplemental
12 rebuttal testimony, and exhibits addressed accounting
13 issues in this general rate case. Those issues have
14 been resolved in the settlement agreement between
15 Public Staff and Old North State Water Company. We
16 have agreed to work with Public Staff to develop
17 appropriate accounting entries to ensure that customers
18 will not pay for any uncollected tax gross-up on CIAC.
19 That process is already underway.

20 In my opinion, the settlement agreement, as a
21 whole, and its exhibits, are a reasonable compromise of
22 the issues in this case. The settlement is fair to
23 both the ratepayers and the Company. I urge the
24 Commission to approve the settlement and establish new

1 rates in accordance with the settlement. This
2 concludes my summary.

3 MR. DROOZ: Ms. Oakman is available for
4 questions.

5 COMMISSIONER BROWN-BLAND: Any questions
6 from the Public Staff of this witness?

7 MR. MAGARIRA: No questions from the
8 Public Staff.

9 COMMISSIONER BROWN-BLAND: All right.
10 Ms. Oakman, I have just a couple. My colleagues
11 might have others.

12 EXAMINATION BY COMMISSIONER BROWN-BLAND:

13 Q. But first, we've noted on your rebuttal
14 testimony you state that the Company will adopt the
15 pass-through rate mechanism for the purchase water
16 systems of -- is it Blawell and Rocklyn subdivisions?

17 A. Yes.

18 Q. And your Rebuttal Exhibit 2, page 14 --

19 A. Yes.

20 Q. -- you use a charge there of \$5.77 per
21 1,000 gallons for Rocklyn?

22 A. Yes, ma'am.

23 Q. And Public Staff witness Junis, on his
24 Exhibit 2, page 17, used a charge of \$5.57. Can we --

1 A. That could be a typographical error. Let
2 me --

3 Q. Are you able to tell by looking at the two?

4 A. What I can say is that we were anticipating
5 agreeing with what Mr. Junis' calculation was for that
6 rate, so my apologies if that is a typographical error
7 on my exhibit. But yes, we were going with the Public
8 Staff's recommendation on Rocklyn.

9 Q. So it's either \$5.77 or \$5.57?

10 A. Yes, ma'am.

11 Q. And between the two of you, so we'll make
12 sure we know which one is correct.

13 A. Yes, mostly definitely.

14 Q. As of the time that you filed the rebuttal
15 testimony, the Company was still resolving with the
16 Town of Stedman the discrepancy between the Company's
17 customer meter readings of 1.7 million gallons and some
18 change on that, and the gallons that the Town billed,
19 which was 1,047,000. Has that been resolved?

20 A. We are still working with the Town to ensure
21 that the readings are accurate on both sides. So there
22 is no resolution as of today. But again, the
23 discussion is still ongoing and we're both working
24 to --

1 Q. And the Company maintains it has the
2 1.7 million gallons?

3 A. I believe so, yes, ma'am.

4 Q. In other words, you still stand by that
5 number at this point?

6 A. Yes, ma'am.

7 Q. So do you have a plan? How do you plan on
8 resolving it for the purposes of this rate case?

9 A. As far as I know, just open negotiation with
10 the Town to ensure that their master meters are reading
11 as they should.

12 MR. DROOZ: Madam Chair, there may be
13 some confusion on the witness' part about resolving
14 this with the Town versus the Public Staff. We
15 have covered this in the settlement agreement.

16 COMMISSIONER BROWN-BLAND: All right.

17 MR. DROOZ: And we went with the Public
18 Staff's number, I believe.

19 THE WITNESS: Yes. As far as this rate
20 case is concerned, yes, we are in agreement with
21 the Public Staff's assessment.

22 Q. So the Public Staff numbers will be used for
23 purpose of setting rates at this point in time?

24 A. Yes, ma'am.

1 Q. All right. Thank you. I think that's all
2 the questions I have for you.

3 COMMISSIONER BROWN-BLAND: Questions,
4 Commissioner Clodfelter?

5 COMMISSIONER CLODFELTER: Thank you.

6 EXAMINATION BY COMMISSIONER CLODFELTER:

7 Q. Ms. Oakman, I asked Mr. McDonald some
8 questions related to some items on the Company's
9 balance sheet, and I want to follow a little bit with
10 you on those. Again, I'm gonna stay away from the
11 numbers so we can avoid confidential information. But
12 I'm sure you are familiar with the balance sheet that
13 was filed with the application?

14 A. Yes, sir.

15 Q. And the long-term liabilities, in the form of
16 notes payable, that are shown on the balance sheet.
17 When I look at Exhibit B to the application, which is
18 the income statement, there is no -- nothing shown that
19 would indicate that those notes are amortizing. Tell
20 me about those notes. Are they payable on demand or do
21 they have a fixed maturity?

22 A. They are pay -- they are --

23 MR. DROOZ: That is a question I think
24 Mr. McDonald might be in a better position to

1 answer.

2 COMMISSIONER CLODFELTER: I'm very
3 sorry.

4 THE WITNESS: My apologies.

5 MR. DROOZ: And he can go back on the
6 witness stand and answer it at any point.

7 COMMISSIONER CLODFELTER: Well, let me
8 see if -- maybe we may need to do that for other
9 purposes. I misunderstood who was going to know
10 that.

11 Q. In any event, the income statement filed with
12 the application shows no payment.

13 Is that -- those notes are not amortizing
14 currently, correct?

15 A. Correct.

16 Q. On the balance sheet also, I asked
17 Mr. McDonald about the item carried as notes
18 receivable.

19 A. Yes, sir.

20 Q. And as I understand it from Mr. McDonald, and
21 I just want to be sure -- I may not have heard him
22 correctly -- what's carried on the balance sheet is the
23 face amount --

24 A. Yes, sir.

1 Q. -- on those receivables?

2 It's not been discounted for any adjustments
3 for collectability or the anything?

4 A. No, sir.

5 Q. And on the income statement filed as Exhibit
6 B, there's nothing that I can see under revenues that
7 shows that that note is amortizing either, that the
8 Company is collecting currently any --

9 A. That is correct, there are no collections.

10 Q. In fact, there are no collections currently
11 on that note?

12 A. Yes, sir.

13 Q. All right. Let me leave you alone with that.
14 That's good enough for now. Thanks.

15 COMMISSIONER BROWN-BLAND: All right.
16 Questions on Commission's questions?

17 (No response.)

18 COMMISSIONER BROWN-BLAND: All right.
19 Ms. Oakman, you're getting off light for now.

20 THE WITNESS: Thank you.

21 COMMISSIONER BROWN-BLAND: Mr. Drooz?

22 MR. DROOZ: We would move that

23 Ms. Oakman's exhibits as premarked and prefiled
24 would be admitted into evidence with the late-filed

1 exhibit coming later.

2 COMMISSIONER BROWN-BLAND: All right.

3 The -- the exhibits that were prefiled with witness
4 Oakman's testimonies will be received into evidence
5 at this time and identified as they were marked
6 when prefiled.

7 (Oakman Rebuttal Exhibits 1 and 2 and
8 Oakman Supplemental Rebuttal Exhibit 1
9 were admitted into evidence.)

10 MR. DROOZ: And if the Commission would
11 like Mr. McDonald to resume on the stand, we can
12 perhaps follow up on some of those questions now
13 and get them out of the way.

14 COMMISSIONER BROWN-BLAND: All right.
15 That's good. Mr. McDonald, if you'll return to the
16 stand and remember you remain under oath.

17 Whereupon,

18 JOHN MCDONALD,
19 having previously been duly sworn, was examined
20 and continued testifying as follows:

21 EXAMINATION BY COMMISSIONER CLODFELTER:

22 Q. Mr. McDonald, let me see if I can do it the
23 simplest way possible.

24 Has the Company provided to the Public Staff

1 the documentation showing that the terms: the maturity,
2 the tenor, the amortization schedules for these notes
3 payable that are carried on the balance sheet?

4 A. I don't know that we've ever provided the
5 notes to the Public Staff.

6 Q. Same question for the notes receivable.

7 A. No, sir, I don't believe so. And they're not
8 amortized.

9 Q. Are they -- let's talk about the notes
10 payable first that the Company is carrying under
11 long-term liabilities.

12 Are those on demand or do they have a
13 maturity?

14 A. I believe they're term notes.

15 Q. They're term notes?

16 A. Yes, sir.

17 Q. But they're not amortized, so they have a
18 balloon payment at the end?

19 A. Correct.

20 Q. And they accrue interest until repayment?

21 A. Yes, sir, correct.

22 Q. What about the note receivable -- the notes
23 receivable? Are those --

24 A. I believe those are structured the same way.

1 Q. They're not on demand, they have a fixed
2 maturity?

3 A. Yes, sir.

4 Q. But they're not amortizing and they accrue
5 interest until maturity?

6 A. Correct.

7 Q. Okay.

8 COMMISSIONER CLODFELTER: Mr. Drooz,
9 what I think I'll do is probably just ask for a
10 confidential late-filed exhibit, which would
11 consist of the evidence of the instruments
12 themselves.

13 MR. DROOZ: We will file that.

14 COMMISSIONER CLODFELTER: Okay. And
15 that would be filed, I assume, confidentially.

16 MR. DROOZ: Yes.

17 COMMISSIONER CLODFELTER: Okay. Thank
18 you. Thank you, Mr. McDonald.

19 THE WITNESS: Yes, sir.

20 COMMISSIONER BROWN-BLAND: Commissioner
21 Hughes?

22 COMMISSIONER HUGHES: Yeah, I'll ask a
23 question.

24 EXAMINATION BY COMMISSIONER HUGHES:

1 Q. Same thing, I thought maybe that the other
2 witness was more suited for, but it will probably be
3 you.

4 In the start of your summary of your
5 testimony, you say the whole reason you're here is
6 because of the significant loss that the Company has
7 been facing.

8 Could you just describe when that loss
9 started, you know, since you've been operating in
10 North Carolina; and had -- early on, has it been
11 positive and then recently it's turned negative or has
12 it been negative for a while?

13 A. It's been negative for a while. And in
14 conjunction with former employees and a partner, it was
15 always intended to come in for a rate case that was
16 going to be handled by others, it was assumed. And
17 when that became clear that was not going to happen, we
18 pushed forward on our own. Green as we were, if you
19 will.

20 Q. Okay. So it wasn't a strategic decision to
21 get to this point of your losses and then come in, it
22 was --

23 A. Nothing strategic about it whatsoever. I
24 promise you.

1 Q. That gives me some confidence. No further
2 questions.

3 EXAMINATION BY COMMISSIONER BROWN-BLAND:

4 Q. Mr. McDonald, do you have firsthand knowledge
5 of who prepared the Company's application and exhibits
6 to the application?

7 A. Yes, ma'am.

8 Q. Who was that?

9 A. Mr. Drooz and Ms. Oakman and me.

10 MR. DROOZ: I'll add I was not employed
11 at the law firm at that time, with regard to the
12 application and direct testimony.

13 COMMISSIONER BROWN-BLAND: Okay.

14 Q. And so those actual -- the actual numbers and
15 information that went into the application, those were
16 prepared by Mr. Drooz?

17 A. Well, I think on the original application,
18 that was prepared by Ms. Kemerait and Ms. Oakman.

19 Q. Ms. Oakman? And then what about -- to your
20 knowledge, did Ms. Oakman also prepare the updates to
21 the revenues and expenses, rate base, and cost of
22 capital that was filed with us on October 13th?

23 A. Yes, ma'am, in conjunction with Ms. Peedin.

24 COMMISSIONER BROWN-BLAND: All right.

1 Mr. Drooz, I ask about those two items because I'm
2 hoping you're gonna move them into evidence.

3 MR. DROOZ: I'm sorry?

4 COMMISSIONER BROWN-BLAND: The Company's
5 application and the update that Ms. Oakman --

6 MR. DROOZ: Yes. Certainly. I mean,
7 it's already there in the record and we would move
8 that into evidence, please.

9 COMMISSIONER BROWN-BLAND: All right.
10 Those will be received at this time.

11 MR. DROOZ: Thank you.

12 (Old North State Water Company's
13 Application, Schedules A-F, Actual Test
14 Year Revenue Expenses, Annual
15 Depreciation Schedule, and Confidential
16 Schedule A; Old North State Water
17 Company - Update to Revenues, Expenses,
18 and Rate Base, and Cost of Capital -
19 Confidential and Public were admitted
20 into evidence.)

21 COMMISSIONER BROWN-BLAND: Mr. McDonald,
22 you may step down.

23

24

1 THE WITNESS: Thank you.

2 COMMISSIONER BROWN-BLAND: You now
3 understand that we mean -- we mean it when we say
4 again?

5 THE WITNESS: Yes, ma'am. Happy to come
6 up again.

7 COMMISSIONER BROWN-BLAND: All right.
8 Mr. Drooz, anything further?

9 MR. DROOZ: That concludes the Company's
10 case, unless and until the Commission calls us
11 back.

12 COMMISSIONER BROWN-BLAND: All right.
13 And we're going to take a brief break and come back
14 on the record at 2:40.

15 (At this time, a recess was taken from
16 2:28 p.m. to 2:42 p.m.)

17 COMMISSIONER BROWN-BLAND: Let's come
18 back on the record.

19 All right. I believe the case is now
20 with the Public Staff.

21 MR. MAGARIRA: Thank you, Chair. The
22 Public Staff calls Charles M. Junis and Iris Morgan
23 as a panel to testify. I will conduct direct and
24 redirect of Mr. Junis while Ms. Coxton will conduct

1 direct and redirect of Ms. Morgan.

2 COMMISSIONER BROWN-BLAND: All right.

3 Mr. Junis and Ms. Morgan, left hand on the Bible,
4 raise your right.

5 Whereupon,

6 CHARLES M. JUNIS AND IRIS MORGAN,

7 having first been duly sworn, were examined
8 and testified as follows:

9 COMMISSIONER BROWN-BLAND: All right.

10 Mr. Magarira?

11 MR. MAGARIRA: And, Ms. Chair, I omitted
12 to mention something. So as the parties have been
13 provided, obviously, with summaries for each of the
14 witnesses, and at the discretion of the Commission,
15 the witnesses are obviously willing to read those
16 summaries into the record. But, obviously, at the
17 Commission's discretion. So I just wanted to flag
18 that before I got into everything, so.

19 COMMISSIONER BROWN-BLAND: All right.

20 We will -- as we have done of recent times, we will
21 receive the summaries but we will dispense with the
22 reading of the summary.

23 MR. MAGARIRA: Okay. And they're
24 willing and ready to read those.

1 DIRECT EXAMINATION BY MR. MAGARIRA:

2 Q. All right. Mr. Junis, could you state your
3 name, business address, and position for the record.

4 A. (Charles M. Junis) Yes. My name is
5 Charles M. Junis. My business address is 4030 -- I'm
6 sorry, 430 North Salisbury Street, Dobbs Building,
7 Raleigh, North Carolina. I'm the director of the
8 water, sewer, and telephone division of the Public
9 Staff.

10 Q. And on February 8, 2022, did you cause to be
11 prefiled in the Old North State Water Company, LLC rate
12 case, direct testimony in question and answer form
13 consisting of 54 pages [sic] and two exhibits marked
14 Junis Exhibits 1 and 2?

15 A. Yes, sir.

16 Q. Do you have any changes or corrections to
17 your prefiled direct testimony that you would like to
18 make today?

19 A. No. Just to sort of state the obvious.
20 There was a billing error in Bella Vista has been
21 incorporated in supplemental testimony, but that
22 correction has not been made in the direct testimony.

23 Q. Thank you. And do you have any changes or
24 corrections to the exhibits to your direct testimony

1 that you'd like to make today?

2 A. No.

3 Q. Okay. And, obviously, incorporated in the
4 changes already in your supplemental testimony, if I
5 were to ask those questions today, would your answers
6 be the same?

7 A. Yes.

8 Q. Thank you. And on March 1, 2022, did you
9 cause to be prefiled supplemental testimony in the Old
10 North State Water Company, LLC rate case consisting of
11 29 pages [sic] and one exhibit marked Junis Exhibit 2
12 Revised?

13 A. Yes.

14 Q. Do you have any changes or corrections to
15 your supplemental testimony that you would like to make
16 today?

17 A. Yes, one correction. On page 7, the sentence
18 starting on line 1 that states "Public Staff
19 witness" -- or starts with "Public Staff witness," that
20 that sentence was included in error and should be
21 struck.

22 Q. Thank you. And do you have any changes or
23 corrections to your exhibit to your supplemental
24 testimony you'd like to make?

1 A. No.

2 Q. And so with those changes, obviously with
3 that line deleted, if I were to ask you those same
4 questions today, would your answers be the same?

5 A. Yes.

6 Q. Thank you. And on March 8, 2022, did you
7 prefile testimony in support of the joint settlement
8 agreement and stipulation consisting of 23 pages [sic]
9 and one exhibit marked Junis Settlement Exhibit 1?

10 A. Yes.

11 Q. Do you have any changes or corrections to
12 your prefiled settlement testimony you would like to
13 make today?

14 A. No.

15 Q. Do you have any changes or corrections to the
16 exhibit to your settlement testimony?

17 A. No.

18 Q. If I were to ask you those same questions
19 today, would your answers be the same?

20 A. Yes.

21 MR. MAGARIRA: Commissioner, I would
22 move that Mr. Junis' prefiled direct testimony,
23 supplemental testimony along with changes and
24 corrections made on the stand today, and settlement

1 testimony be entered into the record in this
2 proceeding and copied into the record in their
3 entirety as if given orally from the stand in this
4 docket at the appropriate time; and that Mr. Junis'
5 exhibits attached as prefiled direct testimony --
6 excuse me, testimony be identified as Junis ONS
7 Direct Exhibits 1 and 2; and that Mr. Junis'
8 supplemental exhibit attached to his supplemental
9 testimony be identified as Junis ONS Direct
10 Exhibit 2 Revised; and Mr. Junis' settlement
11 exhibit attached with settlement testimony be
12 identified as Junis ONS Settlement Exhibit 1.

13 COMMISSIONER BROWN-BLAND: Mr. Magarira,
14 that was a mouthful, but that motion will be
15 allowed in its entirety. The testimony will be
16 received and treated as if given orally from the
17 witness stand, and the exhibits will be identified
18 as Mr. Magarira requested.

19 (Junis ONS Direct Exhibits 1 and 2,
20 Junis ONS Direct Exhibit 2 Revised, and
21 Junis ONS Settlement Exhibit 1 were
22 identified as they were marked when
23 prefiled.)

24 (Whereupon, the prefiled direct,

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supplemental, settlement testimony, and
summaries of Charles M. Junis were
copied into the record as if given
orally from the stand.)

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Mar 11 2022

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of
 Application by Old North State Water)
 Company, LLC, 3212 6th Avenue)
 South, Suite 200, Birmingham,)
 Alabama 35222, for Authority to Adjust)
 and Increase Rates for Water Utility)
 Service in All Its Service Areas in North)
 Carolina)

TESTIMONY OF
 CHARLES M. JUNIS
 PUBLIC STAFF – NORTH
 CAROLINA UTILITIES
 COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-1300, SUB 60****TESTIMONY OF CHARLES M. JUNIS****ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION****FEBRUARY 8, 2022**

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

3 A. My name is Charles M. Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Director of the Water, Sewer, and Telephone Division of the Public
6 Staff – North Carolina Utilities Commission (Public Staff).

7 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

8 A. I graduated from North Carolina State University, earning a Bachelor
9 of Science Degree in Civil Engineering. I am a licensed Professional
10 Engineer in North Carolina. I have over ten years of engineering
11 experience, and since joining the Public Staff in April 2013, have
12 worked on general rate cases, new franchise and transfer
13 applications, emergency operations proceedings, customer
14 complaints, rulemakings, and other aspects of utility regulation. Prior
15 to joining the Public Staff, I worked for Farnsworth Group, an
16 engineering and architectural consulting firm.

1 **Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY AND**
2 **PROVIDE A BRIEF OVERVIEW OF THIS PROCEEDING.**

3 A. The purpose of my testimony is to describe my investigation,
4 findings, and recommendations concerning the general rate case
5 application filed with the Commission by Old North State Water
6 Company, LLC (ONSWC or the Company) on June 29, 2021, in
7 Docket No. W-1300, Sub 60, which seeks authority to adjust and
8 increase the Company's rates for providing water utility service in all
9 of its service areas in North Carolina (Application).

10 The Application included 37 water systems. The Company does not
11 serve any customers in Carriage Cove (Sub 53; therefore, those
12 system costs should be excluded for ratemaking purposes.
13 Otherwise, rates would be set unfairly if those system costs were
14 recovered from customers served by other systems. In addition, the
15 Company was serving customers in seven additional service areas,
16 Arlington Manor (Sub 61), Bella Terra (Sub 67), Brook Meadow (Sub
17 58), Fish Hawk Ranch (Sub 65), Prescott (Sub 57), Sterling Crest
18 Phase 2 (Sub 66), and Thatcher Woods (Sub 59), subject to pending
19 filings with the Commission at the time the Application was filed, all
20 of which the Commission has now approved or recognized. The
21 Company provides water utility service to customers in 43 water
22 systems in eight counties, which are included in the Company's

1 update filings and the Public Staff's schedules and
2 recommendations.

3 The Application test year is the 12 months ended December 31,
4 2020. The test period appropriate for use in this proceeding is the
5 updated 12 months ended August 31, 2021.

6 **Q. PLEASE BRIEFLY DESCRIBE YOUR INVESTIGATION.**

7 A. In coordination with Public Staff Financial Analysts Iris Morgan and
8 Darrell Brown, I have reviewed expenses, including maintenance and
9 repair, electric power for pumping, chemicals for treatment, testing
10 fees, permit fees, and purchased water treatment, and reviewed utility
11 plant in service (UPIS) and contributions in aid of construction (CIAC).
12 In addition, I have reviewed customer complaints and the Company's
13 Report on Customer Comments from Public Hearing Held on October
14 7, 2021 that was filed on October 27, 2021 (Customer Report), North
15 Carolina Department of Environmental Quality (DEQ) records, and
16 billing determinant data and calculated revenues at present rates,
17 Company proposed rates, and Public Staff recommended rates.

18 **PLANT CONDITIONS AND OPERATIONS**

19 **Q. HAVE YOU INSPECTED THE COMPANY'S WATER SYSTEMS?**

1 A. No. Given the COVID-19 pandemic and the entirely remote public
2 witness hearing, the Public Staff did not conduct site visits prior to
3 the filing of its testimony.

4 **Q. HOW HAVE YOU ASSESSED THE COMPANY'S WATER**
5 **SYSTEMS, OPERATIONS, AND CUSTOMER SERVICE?**

6 A. I have thoroughly reviewed the six consumer statements filed in Sub
7 60CS, twelve public witness testimonies, and the Customer Report.
8 In addition, I have reviewed water quality testing results available
9 from the Drinking Water Watch online database that DEQ's Public
10 Water Supply Section maintains and communicated with DEQ staff.

11 **Q. HAS THE PUBLIC STAFF RECEIVED ANY CUSTOMER**
12 **STATEMENTS AS A RESULT OF THE CUSTOMER NOTICES IN**
13 **THIS PROCEEDING?**

14 A. Yes. The Public Staff has reviewed 11 written customer statements of
15 position as of February 8, 2022. The statements were in the forms of
16 emails and website forms. Approximately six of the statements detailed
17 issues with water quality. Three of those statements were general
18 statements that the water was not drinkable.

19 David Schnell, a customer in Mornington Estates, filed a statement
20 describing concerns with the magnitude of the rate increase, the
21 Company's failure to monitor the water system, and scum in sinks and
22 toilets due to poor water quality.

1 In the Customer Report on page 11, ONSWC states:

2 ONSWC received a monitoring violation and was
3 required to send a notice to Morningson customers.
4 The violation occurred in October of 2019 when
5 Envirolink was the operator; ONSWC received the
6 violation from Public Water Supply in June of 2021 and
7 notified customers that same month. Please note this
8 was a monitoring violation, not a water quality violation.

9 Statements provided by Cindi Treschl and Diana Needham, customers
10 in the Bingham Woods Mobile Home Park, described multiple outages
11 lasting as long as three days. Ms. Needham stated that there had not
12 been low pressure or outage events for a “few months.” Kelly Germain
13 from the Rocklyn community stated she was concerned about the rate
14 increase given her already higher than average bills.

15 In the Customer Report on pages nine and ten, ONSWC states:

16 When ONSWC took over operations from the prior
17 contract operator, the piping from the remote well was
18 not in good condition.

19 . . .

20 However, ONSWC determined that the distribution line
21 was compromised and needed to be moved because
22 accessing any repairs in the swamp was very difficult
23 due to the very wet conditions. A contractor was hired
24 to install over 1000 feet of a new 2" schedule 80 water
25 line that did not run through the swamp. The cost of this
26 repair was \$13,000 and the Company has not had any
27 low water pressure issues since July 2021.

28 Melissa Bertonica from the Fish Hawk Ranch subdivision described
29 experiencing brown water with a “very bad odor” and provided pictures
30 supplementing the testimony she provided at the public hearing. Wes
31 Hohenstein from the Brook Meadow neighborhood described

1 experiencing brown water on a “regular basis” and included pictures of
2 discolored water and/or residue in sinks, tubs, and a glass. Nicholas
3 Egan from Ashcroft Park described low pressure and having a whole
4 house water filtration system installed to address water quality and
5 red/brown stains in his sinks and toilets. Miles Komuves from the
6 Senter Farm neighborhood noted that his “community has
7 experienced, on many occasions, absolutely filthy (red clay, mud, other
8 sediment) water” and many residents, including his family, have
9 installed home filtration systems costing nearly \$10,000. Luke
10 Marshaus, who also lives in Senter Farm, described experiencing
11 brown water and stated the following: “The water is putting extreme
12 strain on filtration systems causing added cost as well as damage to
13 toilets, sinks, appliances, and pipes.” Adam Guinn from the Senter
14 Farm neighborhood recounted that residents have “already purchased
15 their own water treatment systems” and relayed his concerns about
16 rate recovery and uniform rates. Cynthia Black, who lives in the Blawell
17 neighborhood and testified during the public hearing, described her
18 concerns about paying “two middlemen” for water service. Almost all
19 of the customers specifically objected to the magnitude of the proposed
20 rate increase.

21 **Q. PLEASE SUMMARIZE THE PUBLIC HEARINGS CONDUCTED**
22 **IN THIS CASE.**

1 A. The Commission conducted a remote hearing to receive testimony
2 from public witnesses. The hearing took place on October 7, 2021 at
3 6:30 p.m. Individuals who submitted testimony pre-registered for the
4 hearing and testified by calling in over the phone. Twenty-eight total
5 customers pre-registered to testify at the hearings and twelve
6 customers testified on the record during the hearing. The service
7 areas represented and (number of customers that testified) are Fish
8 Hawk Ranch (one), Mendenhall (two), Shiloh (one), Olde Mill Trace
9 (one), Leone Landing (one), Blawell (one), Blaney Farms (two),
10 Rocklyn (one), Ethan's Meadow (one), and Senter Farm (one).

11 Fish Hawk Ranch

12 Melissa Bertonica, who also submitted a written statement of
13 position, testified that she has contacted ONSWC about water quality
14 issues, including yellow/brown water affecting laundry and fixtures,
15 and that she has continued to experience these issues since moving
16 into her home in November 2020.

17 In the Customer Report on page two, ONSWC states:

18 The discoloration is due to high levels of naturally
19 occurring iron and manganese in the ground water.
20 The original engineering design called for the
21 installation of three 36 x 72-inch iron and manganese
22 filters. ONSWC was not involved in the installation, as
23 the developer retained a third-party firm to oversee
24 construction and operations. ONSWC took over direct
25 operations in October 2020 and realized only two 36 x
26 72-inch filters were installed. ONSWC started working
27 with the engineer and developer to correct the
28 installation. The third filter was installed in September
29 of 2021 and will greatly help with water quality.

1 The Fish Hawk Ranch water system consists of two wells
2 interconnected for combined treatment at Well No. 2. The Public
3 Staff reasonably expects that the installation of the third filter media
4 vessel of the filtration system in accordance with the approved
5 engineering plans and specifications and pH adjustment will have
6 improved the system's water quality. In the Customer Report on page
7 3, ONSWC concludes as follows: "ONSWC would like to monitor the
8 effects of the recent addition of a third filter and a change in pH to
9 see if they adequately address the discoloration caused by iron and
10 manganese before investing in additional remediation measures."

11 Mendenhall

12 Chuck Mosher testified that he experiences water pressure issues
13 once or twice a month and described his concerns regarding the
14 magnitude of the proposed rate increase in light of being retired and
15 on a fixed income.

16 Mayuri Coleman testified that her main concern is the magnitude of
17 the rate increase and she experiences temporary water pressure
18 issues a few times a month.

19 In the Customer Report on pages three and four, ONSWC states it
20 was unaware of pressure issues in the system and that "operators
21 now check water pressure daily." In addition, pages three and four of
22 the Customer Report recount the following changes to the
23 Company's customer service practices:

1 As of September 2021, if a customer calls during
2 regular business hours and the line is busy with
3 another customer, the caller is prompted to leave a
4 message. ONSWC strives to return all messages
5 within 10 minutes. Calls after business hours are
6 routed to a phone tree. If it is an emergency situation
7 such as an outage or water quality issue, customers
8 are able to select their area and be routed directly the
9 emergency operator on call. Any calls that reach a
10 voicemail are returned or addressed by the operator.
11 Calls that are non-emergency in nature, i.e. needing to
12 pay a bill or start service are routed to our answering
13 service. Calls of that nature are returned the next
14 business day.

15 The Public Staff finds this policy and procedure to be reasonable and
16 appropriate to better serve customers and respond to their concerns.

17 Shiloh

18 Brian Vervynckt testified about water quality issues affecting
19 appliances and fixtures and concerns about the magnitude of the
20 proposed rate increase. In addition, Mr. Vervynckt observed
21 ONSWC employees or contractors driving too fast in the
22 neighborhood and not wearing identification.

23 In the Customer Report on page four, ONSWC states:

24 Based on testing results, the water quality has
25 improved since ONSWC changed from the original
26 contract operation [Envirolink] to new personnel in
27 October 2020. The previous contract operator was not
28 flushing the system, and the result was sediment
29 buildup and stains. ONSWC current operations have a
30 regular flushing schedule. The flushing schedule has
31 improved water quality due to the water not sitting
32 stagnant in the water lines for long periods of time.
33 There is an occasional low water pressure issue during
34 the flushing period, but it is minimal and for a short
35 period of time. The flushing is scheduled for late

1 morning or early afternoon to avoid peak water usage
2 times.

3 Olde Mill Trace

4 Anthony Noto testified about experiencing water quality issues,
5 including black slime, odor, and low pressure, prior to installation of
6 a home filtration system at his own cost. He added that neighbors
7 without filter systems still have water quality issues.

8 In the Customer Report on page five, ONSWC states:

9 ONSWC is not aware of water quality issues due to
10 odor of the water or brown water with black slime.
11 Residents have not previously notified ONSWC of any
12 such issue. ONSWC has instructed the water operator
13 of this subdivision to investigate any potential issue.
14 Testing currently shows compliance with regulatory
15 standards.

16 Olde Mill Trace's most recent Inorganic Chemical Analysis (IOC)
17 results from February 17, 2021 showed the iron concentration level
18 to be 0.105 mg/L, which is below the applicable Secondary Maximum
19 Contaminant Level (sMCL) of 0.3 mg/L. The IOC analysis showed
20 the manganese level to be 0.057 mg/L, which is slightly above the
21 applicable sMCL of 0.05 mg/L. Prior IOC results from August 5, 2019
22 showed the concentration level for iron to be 0.207 mg/L and
23 manganese to be 0.067 mg/L.

24 Leone Landing

25 Thomas Flynn testified that he has experienced staining on his
26 fixtures and water pressure issues since relocating to Leone Landing

1 in July 2017 and described his concerns regarding the magnitude of
2 the proposed rate increase.

3 In the Customer Report on page five, ONSWC states:

4 This is another system where ONSWC was not aware
5 of water discoloration that is causing stains or water
6 pressure issues. Residents have not previously notified
7 ONSWC of any such issues. ONSWC has instructed
8 the water operator of this subdivision to investigate any
9 potential issue, and the Company is not aware of any
10 issue occurring now.

11 Blawell

12 Cynthia Black, who also submitted a written statement of position,
13 testified about her concerns regarding the magnitude of the
14 proposed rate increase and the present rates that are a result of
15 purchasing water from the Town of Stedman.

16 ONSWC did not specifically address Ms. Black's testimony in the
17 Customer Report.

18 Blaney Farms and Senter Farm

19 Martin Francis-Kallukalam testified that his main concern is the
20 magnitude of the rate increase and the discolored water has
21 improved over the past few months.

22 Jolieann Kilpatrick testified that she and her family have experienced
23 water quality issues, including dirty water, high chlorine residuals,
24 and manganese, since moving into the neighborhood in May 2019.

25 In addition, she described mouth sores and skin irritation that she
26 believes are from the water.

1 In the Customer Report on page six, ONSWC states:

2 ONSWC worked extensively with state regulators at
3 Public Water Supply in 2020 to determine a solution for
4 brown water in Blaney Farms. It was determined that
5 sequestering would be the best and most cost-effective
6 approach to correct the brown water. Sequestering
7 was engineered and approved by Public Water Supply
8 in the first quarter of 2021. The sequestering
9 equipment was installed in April 2021. Since then,
10 ONSWC has seen a 50% reduction in calls from first
11 quarter 2021 to second quarter 2021, and there was
12 only one customer complaint in the third quarter of
13 2021.

14 ONSWC has submitted quarterly reports to Public
15 Water Supply for this system.

16 Nicholas Aronne testified about experiencing water quality issues,
17 including discolored and smelly water, since moving into a new home
18 in August 2019. He had a home filtration system installed. He
19 suggested that operations improved with Dale Boyette of the Rock
20 Water Group Diversified, LLC (Rock Water Group), which replaced
21 Envirolink, Inc.

22 In the Customer Report on pages eight and nine, ONSWC states:

23 Previously, chlorination of combined iron and
24 manganese resulted in brown water, whereas
25 sequestering means the iron and manganese are
26 chlorinated separately, which should correct the brown
27 water issue. Testing shows the iron and manganese to
28 be well below regulatory limits. If testing levels rise, the
29 Company will consider installing filters.

30 The Blaney Farms water system consists of three active wells and
31 serves Blaney Farms, Blaney South, and Senter Farm (also known
32 as Senter Road) subdivisions. The most recent IOC results for Well

1 No. 2 from November 3, 2021 showed the concentration level for iron
2 to be 0.095 mg/L and manganese to be 0.052 mg/L. The most recent
3 IOC results for the combined entry point of Well Nos. 5 and 6 from
4 November 3, 2021 showed the concentration level for iron to be
5 0.094 mg/L and manganese to be 0.056 mg/L. The iron
6 concentration levels for Well Nos. 2, 5, and 6 are below the
7 applicable sMCL, while the manganese levels are slightly above the
8 applicable sMCL. DEQ issued a Notice of Deficiency for elevated iron
9 and manganese concentrations on March 9, 2020.

10 Rocklyn

11 Mary Matton testified that she opposes the magnitude of the
12 proposed rate increase and described hardness issues.

13 In the Customer Report on page seven, ONSWC states:

14 The water for Rocklyn is purchased from the city of
15 Winston-Salem and distributed to customers through
16 ONSWC lines. The Company was not previously
17 aware of high calcium in the water or a rotten egg
18 smell. ONSWC has notified the operator of the need to
19 investigate this complaint. The operator did a site visit
20 after the public hearing and did not observe any issues.
21 ONSWC has asked Winston-Salem to check if the city
22 has identified a problem calcium or odor in its water.

23 Ethans Meadow

24 Jeffrey Craig testified that Aqua North Carolina, Inc. (Aqua NC)
25 serves neighboring homes and the customers there pay less. He
26 testified that he had a whole house filtration system installed in
27 January 2019, which was approximately one month after he moved

1 into his home and has since addressed most of his water quality
2 issues.

3 In the Customer Report on page eight, ONSWC states that “[t]his the
4 first time ONSWC has heard of staining from the water. An ONSWC
5 operator investigated after the public hearing and did not see any
6 basis for staining at that time.”

7 **Conclusions**

8 It is the Public Staff’s understanding that the Company’s water quality
9 generally meets the standards promulgated under the Safe Drinking
10 Water Act and is satisfactory; however, there were multiple instances
11 of deficient monitoring frequency, reporting, and public notification of
12 water quality and system issues during the review period of 2019
13 through 2021. The Public Staff believes that, with the exception of
14 certain systems and compliance issues resulting from its former
15 contract operator,¹ a majority of which the Company has addressed
16 or is in the process of resolving, the overall quality of service is
17 adequate. The Public Staff believes additional reporting and/or
18 corrective action is appropriate and reasonable for certain systems
19 and, therefore, recommends that for a period of no less than one
20 year, ONSWC be required to file quarterly reports (including, if

¹ In the Customer Report on page nine, ONSWC states the following: “The previous contract operations firm, Envirolink, was terminated due to numerous service issues, performance issues, and customer complaints. Beginning in October 2020, ONSWC hired direct employees as operators, and as a result has seen a significant decrease in water quality complaints.”

1 applicable, a customer complaint log, water quality testing analysis
2 results, and a description of actions the Company has taken and/or
3 planned) that provide updates on the water quality issues described
4 by customers in the Fish Hawk Ranch, Olde Mill Trace, and Blaney
5 Farms systems.

6 **Q. PLEASE DESCRIBE THE COMPANY'S SERVICE TO**
7 **CUSTOMERS.**

8 A. Based on the quantity and nature of customer complaints,
9 information the Company has provided, the Public Staff's review of
10 available records, and records and observations from DEQ, I
11 conclude that, overall, ONSWC is providing adequate service to
12 customers.

13 **EXPENSES**

14 **Q. DESCRIBE YOUR REVIEW OF THE OPERATING EXPENSES**
15 **AND YOUR RECOMMENDED ADJUSTMENTS.**

16 A. I have analyzed the operating expenses by reviewing invoices and
17 records the Company provided and conducting discovery for
18 additional documentation. I recommend adjustments to the levels of
19 maintenance and repair, chemicals for treatment, and purchased
20 water expenses.

21

22

1 **MAINTENANCE AND REPAIR**

2 The Application states the Company incurred maintenance and
3 repair expense totaling \$558,638 for the 12-month period ending
4 December 31, 2020. In an adjusted schedule of consolidated
5 revenues and expenses, the Company requests a pro forma
6 maintenance and repair expense totaling \$615,758. Exhibit I,
7 Schedule 1-1 filed on November 24, 2021 in the subject docket,
8 indicates a per Company books maintenance and repair expense of
9 \$452,119 for the 12-month period ending August 31, 2021 reduced
10 by \$233,950 of Company adjustments to an annual level of
11 \$218,169. Based upon review of the general ledgers, invoices,
12 employee assignments, and contract operations on a going forward
13 basis, I recommend removal of expenses for Carriage Cove, as the
14 Company does not serve any customers there, and contract
15 operations of systems now being operated by salaried employees,
16 resulting in an annual maintenance and repair expense of \$162,135.
17 This amount includes updated test year amounts of maintenance
18 and repair, annualized contract operations by C & C Environmental
19 Services, LLC, and annualized compliance services by Rock Water
20 Group.

21 **ELECTRIC POWER FOR PUMPING**

22 The Application states the Company incurred electric power for
23 pumping expense totaling \$58,711 for the 12-month period ending

1 December 31, 2020. In an adjusted schedule of consolidated
2 revenues and expenses, the Company requests a pro forma electric
3 power for pumping expense totaling \$63,082. Exhibit I, Schedule 1-
4 1, filed on November 24, 2021 in the subject docket, indicates a per
5 Company books electric power for pumping expense of \$73,962 for
6 the 12-month period ending August 31, 2021 increased by \$3,503 of
7 Company adjustments to an annual level of \$77,465. Revised Exhibit
8 I, Schedule 1-1, provided in response to a data request, indicates a
9 corrected per Company books electric power for pumping expense
10 of \$66,700 for the 12-month period ending August 31, 2021
11 increased by \$3,503 of Company adjustments to an annual level of
12 \$70,203. Based upon review of the general ledgers, invoices, and
13 corrected schedules, I do not recommend any adjustments to the
14 Company's corrected purchased power for pumping expense in the
15 amount of \$70,203.

16 **CHEMICALS FOR TREATMENT**

17 The Application states the Company incurred chemicals for
18 treatment expense totaling \$11,660 for the 12-month period ending
19 December 31, 2020. In an adjusted schedule of consolidated
20 revenues and expenses, the Company requests a pro forma
21 chemicals for treatment expense totaling \$12,946. Exhibit I,
22 Schedule 1-1, filed on November 24, 2021 in the subject docket,
23 indicates a per Company books chemicals for treatment expense of

1 \$9,843 for the 12-month period ending August 31, 2021 increased by
 2 \$1,027 of Company adjustments to an annual level of \$10,870.
 3 Based upon review of the general ledgers and invoices, I recommend
 4 a disallowance of \$143 from the Carriage Cove system, as the
 5 Company does not serve any customers in Carriage Cove, and a
 6 growth factor adjustment in the amount of \$614 to result in an annual
 7 level of \$10,314.

TESTING FEES

9 The Application states the Company incurred testing fees expense
 10 totaling \$38,352 for the 12-month period ending December 31, 2020.
 11 Exhibit I, Schedule 1-1, filed on November 24, 2021 in the subject
 12 docket, indicates a per Company books testing fees expense of
 13 \$95,007 for the 12-month period ending August 31, 2021. Based on
 14 my review of the general ledgers, invoices, required testing
 15 frequencies, and fee schedules from testing laboratories, I do not
 16 recommend any adjustments to the testing fees expense.

PERMIT FEES

18 The Application states the Company incurred permit fees expense
 19 totaling \$1,010 for the 12-month period ending December 31, 2020.
 20 In an adjusted schedule of consolidated revenues and expenses, the
 21 Company requests a pro forma permit fees expense totaling \$1,113.
 22 Exhibit I, Schedule 1-1, filed on November 24, 2021 in the subject
 23 docket, indicates a per Company books permit fees expense of

1 \$8,452 for the 12-month period ending August 31, 2021 increased by
2 \$69 of Company adjustments to an annual level of \$8,521. Based on
3 review of the general ledgers and applicable permit fees, I do not
4 recommend any adjustments to the permit fees expense.

5 **PURCHASED WATER TREATMENT**

6 The Application states the Company incurred purchased water
7 treatment expense totaling \$27,843 for the 12-month period ending
8 December 31, 2020. In an adjusted schedule of consolidated
9 revenues and expenses, the Company requests a pro forma
10 purchased water treatment expense totaling \$34,476. Exhibit I,
11 Schedule 1-1, filed on November 24, 2021 in the subject docket,
12 indicates a per Company books purchased water treatment expense
13 of \$24,463 for the 12-month period ending August 31, 2021
14 increased by \$27,776 of Company adjustments to an annual level of
15 \$52,239. Revised Exhibit I, Schedule 1-1, provided in response to a
16 data request, indicates a per Company books purchased water
17 treatment expense of \$24,463 for the 12-month period ending August
18 31, 2021 increased by \$25,423 of Company adjustments to an
19 annual level of \$49,886. Non-revenue water (NRW) adjustments
20 were not applied to the purchased water quantities for the Blawell
21 and Rocklyn systems because the percentage of NRW did not
22 exceed the Public Staff's recommended maximum allowance of 15%
23 for most water systems. During the period of August 21, 2020

1 through August 20, 2021, ONSWC purchased 1,047,430 gallons of
2 water from the Town of Stedman. The annual purchased water
3 expense for the Blawell system is \$3,228 after applying a system
4 specific growth factor of 2.71% to annualize consumption and the
5 current usage charge of \$3.00 per 1,000 gallons. Regarding the
6 Rocklyn system, the annual purchased water expense is \$31,947 for
7 the updated test year consumption at the City of Winston-Salem's
8 current rates as shown in **Junis Exhibit 1**. Based upon review of the
9 general ledgers, invoices, proposed pro forma adjustments, and
10 responses to data requests, I recommend an annual purchased
11 water treatment expense of \$35,175.

12 UTILITY PLANT IN SERVICE

13 **Q. DESCRIBE YOUR REVIEW OF THE UTILITY PLANT IN SERVICE**
14 **AND YOUR RECOMMENDED ADJUSTMENTS.**

15 A. I have assisted Public Staff Financial Analysts Morgan and Brown
16 with the review of UPIS, CIAC, and income tax gross-up records.
17 Based on the Public Staff's review, discrete adjustments are
18 recommended and implemented in the testimony and exhibits of
19 Public Staff witness Morgan. Furthermore, the Public Staff has
20 identified concerns with how ONSWC has recorded UPIS and CIAC.
21 After a recent meeting between the Public Staff and ONSWC to
22 discuss the Company's internal accounting policies for recording

- 1 UPIS and CIAC, the Public Staff has come to the following
2 conclusions:
- 3 1. For new franchises and contiguous extensions, ONSWC's
4 policy has been to record UPIS and CIAC, and begin
5 depreciation and amortization, as of the date of a Commission
6 order granting the franchise or recognizing the contiguous
7 extension.
 - 8 2. In practice, an exception to the policy described above in item
9 1 has occurred when ONSWC, as part of its update, has
10 recorded UPIS and CIAC associated with the formerly
11 pending systems² in August 2021, the end of the update
12 period.
 - 13 3. ONSWC has been billing customers in the formerly pending
14 systems for at least 12 months, and in one case over 24
15 months, prior to the Commission granting the franchise or
16 recognizing the contiguous extension, with the Company's
17 practice of billing customers in areas with pending franchise
18 applications being the more egregious of the two.

² The formerly pending systems are Arlington Manor (Sub 61), Bella Terra (Sub 67), Brook Meadow (Sub 58), Fish Hawk Ranch (Sub 65), Prescott (Sub 57), Sterling Crest Phase 2 (Sub 66), and Thatcher Woods (Sub 59). Arlington Manor was most recently granted a franchise by order of the Commission on January 24, 2022.

- 1 4. In at least one instance, ONSWC recorded UPIS 27 months
2 after acquiring the underlying assets by Bill of Sale and
3 General Warranty Deed.
- 4 5. The actual in-service date, the start of depreciation, and the
5 start of amortization for some of the contributed plant do not
6 match, which is concerning for accounting purposes as the
7 three should coincide with the date when the underlying asset
8 is complete and used and useful. This lack of an accurate,
9 actual in-service date, along with other accounting
10 discrepancies, could impact rate base, the service revenue
11 requirement, and ultimately rates.
- 12 6. Instead of recording contributed plant by asset account per the
13 National Association of Regulatory Utility Commissioners
14 (NARUC) Uniform System of Accounts, ONSWC has calculated
15 a weighted average amortization rate for CIAC entries.
- 16 7. ONSWC has not consistently and completely adhered to the
17 income tax gross-up requirements set forth by the
18 Commission in its Order Addressing Federal Income Taxes
19 on Contributions in Aid of Construction issued August 26,
20 2019, in Docket No. W-100, Sub 57 (August 26 Order).
- 21 Regarding item 7 above, pursuant to the August 26 Order, a utility is
22 required to collect income tax on CIAC from a contributor when
23 contributions were contracted for on or after October 5, 2018.

1 Notwithstanding the August 26 Order, in accordance with N.C. Gen.
2 Stat. § 62-133.12B, beginning July 2, 2021, a “water or wastewater
3 public utility is solely responsible for funding the income taxes on
4 taxable contributions in aid of construction [CIAC] and customer
5 advances for construction and shall record the income taxes the
6 water or wastewater utility pays in accumulated deferred income
7 taxes for accounting and rate-making purposes.” Based on the
8 foregoing, ONSWC must collect income tax on taxable CIAC
9 received prior to July 2, 2021, from the contributor. Income taxes on
10 taxable CIAC received on or after July 2, 2021, must be handled in
11 accordance with N.C.G.S. § 62-133.12B.

12 For Arlington Manor (Sub 61, asset purchase agreement (APA)
13 dated May 22, 2019), Bella Terra (Sub 67, APA dated July 31, 2019),
14 and Brook Meadow (Sub 58, APA dated January 23, 2019), the
15 contributions were contracted for after October 5, 2018. CIAC
16 resulting from these asset purchase agreements would be subject to
17 the August 26 Order and N.C.G.S. § 62-133.12B. For example, the
18 contribution of the Arlington Manor water system assets and land
19 was memorialized before July 2, 2021 by Bill of Sale and General
20 Warranty Deed dated May 21, 2019. The contributed plant, net of the
21 purchase price, is \$132,640; therefore, the income tax gross-up
22 (29.65% multiplier) that should have been collected from the
23 contributor is \$39,328. The Public Staff recommends that any

1 uncollected income tax gross-up required by the Commission's
2 August 26, 2019, Order be imputed.

3 The Public Staff is actively working to ensure ONSWC corrects the
4 in-service dates, accumulated depreciation, accumulated
5 amortization, and rate base, and addresses the associated income
6 tax gross-up implications. The timing and nature of these corrections
7 will likely necessitate supplemental testimony from the Public Staff
8 to properly determine rate base, the service revenue requirement,
9 and recommended rates. Accordingly, the Company's proposed rate
10 base, the Public Staff's recommended rate base, and the Public
11 Staff's recommended revenue requirements and rate design, as set
12 forth in Public Staff testimony, may be subject to adjustment in such
13 supplemental testimony.

14 DEPRECIATION RATES

15 I do not recommend any adjustments to the estimated service lives
16 for utility plant in service as proposed by the Company and detailed
17 by witness Morgan in Morgan Exhibit I, Schedule 2-1.

18 BILLING ANALYSIS

19 **Q. PLEASE BRIEFLY DESCRIBE THE BILLING ANALYSIS THAT**
20 **YOU HAVE CONDUCTED.**

21 **A.** I have reviewed and analyzed the Company billing data for the test
22 year ended December 31, 2020 and the updated data through

1 August 31, 2021. I have performed a billing analysis to determine the
2 level of revenues produced at present and proposed rates utilizing
3 the updated data. I have normalized the billing determinants for end
4 of period customer counts and applied a growth factor of 6.33% to
5 consumption. I have developed a recommended rate design to
6 recover the revenue requirement set forth in the pre-filed testimony
7 of Public Staff witness Morgan. The rate design includes specific
8 usage rates for water systems that purchase and resell bulk water
9 from a third-party provider.

10 **Q. WHAT CHANGES ARE REFLECTED IN YOUR UPDATED TEST**
11 **YEAR BILLING ANALYSIS THAT ARE NOT REFLECTED IN THE**
12 **COMPANY'S APPLICATION?**

13 A. Updating the test year billing data to the 12-month period ending
14 August 31, 2021 and including the seven water systems that were
15 being served while pending approval or recognition by the
16 Commission, resulted in a higher level of bills than reflected in the
17 originally filed application for the 12-month test year period ending
18 December 31, 2020. In addition, I applied a system specific growth
19 factor to annualize the consumption for the updated period. A two- or
20 three-year average of consumption could not be fully evaluated and
21 considered for potential application in this case because eight of the
22 43 systems do not have at least two years of billing data available
23 and many systems have grown rapidly in the past 20 months.

1 Based on the updated 12-month period ending August 31, 2021, I
2 recommend a total of 1,863 customers and annual consumption of
3 121.530 million gallons be utilized to calculate revenues.
4 Consolidated and system specific billing determinant data, along with
5 my recommended adjustments for the months of January 2020
6 through August 2021 are shown in **Junis Exhibit 2** as follows: pages
7 1-6) the number of customer bills, end of period (EOP) annualization,
8 and growth factors and pages 7-12) metered consumption, average
9 monthly consumption, and EOP annualization.

10 **Q. WHAT ARE THE PRO FORMA REVENUES AT EXISTING**
11 **PRESENT RATES AND ONSWC’S PROPOSED RATES?**

12 A. The pro forma service revenues for the 12-month period ending
13 August 31, 2021, are \$966,960 at present rates, and \$1,611,098 at
14 proposed rates. The detailed data supporting these levels of
15 revenues are shown in **Junis Exhibit 2**, pages 13-18.

16 Paragraph 11 of the Application states that “[t]he proposed tariffs are
17 designed to produce additional revenues on a company-wide basis
18 for water systems of \$512,619.29, which is a 68% increase over the
19 total revenue level generated by the rates currently in effect for
20 ONSWC.” Page four of the Joint Motion to Extend Testimony Filing
21 Deadlines and Reschedule Expert Witness Hearing filed October 27,
22 2021 provides that “ONSWC further acknowledges that any rate

1 increase approved in this matter cannot result in more than \$512,619
 2 in additional annual revenues, as that is the amount of increase
 3 sought in the Application, regardless of whether pro forma
 4 adjustments would justify a greater increase.” Therefore, the
 5 maximum service revenue allowable in this proceeding is
 6 \$1,497,579, which is \$966,960 plus \$512,619.

7 **RATE DESIGN**

8 **Q. PLEASE BRIEFLY DESCRIBE THE WATER RATE DESIGN**
 9 **PROPOSED BY THE COMPANY.**

10 A. The present rates result in 37.25% of service revenues being
 11 collected by fixed base charges and 62.75% by variable usage
 12 charges. The rates proposed by the Company would result in 37.47%
 13 of service revenues being collected by fixed base charges and
 14 62.53% by variable usage charges.

15 **Q. WHAT IS THE PUBLIC STAFF’S POSITION ON PURCHASED**
 16 **WATER RATES?**

17 A. For the purpose of matching the cost to the revenue and facilitating
 18 potential future filings pursuant to N.C.G.S. § 62-133.11,³ it is the
 19 Public Staff’s position that purchased water expenses and pass

³ N.C.G.S. § 62-133.11.(a) states that “[t]he Commission shall permit a water or sewer public utility to adjust its rates approved pursuant to G.S. 62-133 to reflect changes in costs based solely upon changes in the rates imposed by third-party suppliers of purchased water or sewer service, including applicable taxes and fees.”

1 through rates charged by the utility should reflect the current rates for
2 all suppliers. Simply, the goal is for the incremental changes in
3 revenue and expense due to volume to offset each other. The base
4 charges and a reasonable amount of nonrevenue water, not to
5 exceed 15%, are typically included in the cost of service to determine
6 the uniform base charge. For providers with a uniform volumetric
7 rate, the purchased water rate is set to the provider's rate, plus the
8 Commission's regulatory fee of 0.13%. For providers with tiered
9 rates, the purchased water rate is typically calculated as an average
10 or set to the tiered rate that an overwhelming majority of the test year
11 usage fell into, plus the Commission's regulatory fee of 0.13%.
12 Setting the purchased water rate based on these principles
13 accomplishes the intended matching and allows for more transparent
14 pass-through tariff revisions when providers change rates. In
15 addition, the failure to update the purchased water rates in the rate
16 case could have a negative effect on customers or the Company. For
17 these reasons, the Public Staff recommends that the Commission
18 approve the purchased water rates as detailed in **Junis Exhibit 2**,
19 pages 14 and 17.

20 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON WATER RATE**
21 **DESIGN?**

22 A. The Public Staff agrees with the Commission that a balance should
23 be struck between achieving revenue sufficiency and stability to

1 ensure quality, reliability, and long-term viability for properly operated
2 and well-managed utilities on the one hand, and setting fair and
3 reasonable rates that effectively promote efficiency and conservation
4 on the other hand. The Public Staff recommends an overall service
5 revenue ratio of 30%:70% (base charge: usage charges) for
6 ONSWC water customers.

7 On March 20, 2019, the Commission issued an Order, in Docket No.
8 W-100, Sub 59, that required the Public Staff, Carolina Water Service
9 Inc. of North Carolina, and Aqua NC (collectively, the parties) to file
10 initial comments that include “a discussion of rate design proposals
11 that may better achieve revenue sufficiency and stability while also
12 sending appropriate efficiency and conservation signals to
13 consumers.” Investigation of Rate Design for Major Water Utilities,
14 Docket No. W-100, Sub 59, (N.C.U.C. March 20, 2019). The Order
15 specifically instructed the parties to address in their initial comments
16 (1) “specific objectives that could be achieved from various types of
17 rate structures (for example, but without limitation, irrigation rates,
18 seasonal rates, surcharges when supply is low or in a drought
19 situation, increasing block rates, multiple rate schedules, etc.)”; (2)
20 “the impact on customers’ monthly charges”; and (3) “the anticipated
21 impact on efficiency and conservation.” On May 22, 2019, the parties
22 filed their initial comments, and, on June 19, 2019, the parties filed
23 their reply comments. The Public Staff incorporates by reference its

1 initial and reply comments into this testimony and requests the
2 Commission take judicial notice of these filings, specifically the
3 comments of the Public Staff filed on May 22, 2019, and the reply
4 comments of the Public Staff filed on June 19, 2019.

5 Presently, ONSWC predominantly collects a base charge of \$15.00
6 and usage charge of \$5.00 per 1,000 gallons. However, for certain
7 systems, the base charge is as high as \$34.14, with the usage
8 charges ranging from \$3.29 to \$5.03 per 1,000 gallons. The present
9 rates result in service revenues collected at a fixed/variable ratio of
10 37.25%:62.75%. The proposed uniform rates, which entail a \$27.00
11 base charge and \$8.29 per 1,000 gallons usage charge, would result
12 in a fixed/variable ratio of 37.47%: 62.53%.

13 A lower base charge reduces the cost burden on customers for
14 access to utility service before they use any service. It allows
15 customers to have greater control over their total bills by changing
16 their usage through improved efficiency and conservation.

17 The base facilities charge is a frequently discussed and highly
18 controversial issue in electric, natural gas, water, and wastewater
19 rate cases. There are advantages and disadvantages to the different
20 base to usage ratios for the Company, rate groups, and individual
21 customers. In the past decade, electric and natural gas residential
22 base facilities charges have remained in the \$10 to \$15 range, while

1 water base facilities charges have continued to increase and
2 wastewater rates have historically been a flat rate or a very high
3 percentage of the average residential bill.

4 In the 2021 North Carolina Water & Wastewater Rates Report, EFC
5 and NCLM conducted a survey with representation from 478 of 512
6 rate-charging water and wastewater utilities in North Carolina.⁴ The
7 median monthly base charge amount was \$16.78 for water utilities
8 and \$18.50 for wastewater utilities.⁵ In addition, the median uniform
9 volumetric rate per 1,000 gallons was \$4.99 for water and \$6.44 for
10 wastewater services.⁶

11 The Public Staff recommended rate design fixed/variable ratio of
12 30%:70% has been implemented in calculating the Public Staff's
13 recommended rates.

14 **Q. WHAT ARE THE PUBLIC STAFF RECOMMENDED RATES?**

15 A. The service revenue requirement of \$1,310,601 is reflected in Public
16 Staff witness Morgan's testimony. The rates reflected in **Junis**

⁴ This report is just one resource in a series on North Carolina water and wastewater rates, funded by the North Carolina Department of Environmental Quality's Division of Water Infrastructure (DWI) and compiled by the North Carolina League of Municipalities (NCLM) and the Environmental Finance Center (EFC) at the University of North Carolina at Chapel Hill. NORTH CAROLINA DEPARTMENT OF ENVIRONMENTAL QUALITY'S DIVISION OF WATER INFRASTRUCTURE ET AL., 2021 NORTH CAROLINA WATER & WASTEWATER RATES REPORT, https://efc.sog.unc.edu/wp-content/uploads/sites/1172/2020/04/NC_WaterWastewaterRatesReport_2021.pdf.

⁵ *Id.* at 4.

⁶ *Id.* at 5.

1 **Exhibit 2**, pages 13-18, under PS Recommended Rates will achieve
2 these revenue levels.

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

4 **A. Yes, it does.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of		
Application by Old North State Water	)	SUPPLEMENTAL
Company, LLC, 3212 6th Avenue	)	TESTIMONY OF
South, Suite 200, Birmingham,	)	CHARLES M. JUNIS
Alabama 35222, for Authority to Adjust	)	PUBLIC STAFF – NORTH
and Increase Rates for Water Utility	)	CAROLINA UTILITIES
Service in All Its Service Areas in North	)	COMMISSION
Carolina)	

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-1300, SUB 60****SUPPLEMENTAL TESTIMONY OF CHARLES M. JUNIS****ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION****MARCH 1, 2022**

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

3 A. My name is Charles M. Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Director of the Water, Sewer, and Telephone Division of the Public
6 Staff – North Carolina Utilities Commission (Public Staff). This is my
7 second testimony filing in this docket; my direct testimony and
8 exhibits were filed on February 8, 2022.

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**
10 **TESTIMONY?**

11 A. The purpose of my supplemental testimony is to provide an overall
12 assessment of Old North State Water Company, LLC's efforts to
13 adhere to the Public Staff's recommendations regarding the seven
14 items of concern identified on pages 21 through 25 of my direct
15 testimony, which center on the Old North State Water Company,
16 LLC's recording and treatment of utility plant in service (UPIS),

1 contributions in aid of construction (CIAC), and CIAC tax gross up.
2 In addition, my supplemental testimony incorporates a billing data
3 correction Old North State Water Company (ONSWC or the
4 Company) provided on February 21, 2022 and an updated revenue
5 requirement Public Staff Financial Analyst Iris Morgan has provided.

6 **UTILITY PLANT IN SERVICE**

7 **Q. DESCRIBE YOUR REVIEW AND ASSESSMENT OF THE**
8 **COMPANY'S REBUTTAL TESTIMONY, ALONG WITH OTHER**
9 **DOCUMENTATION THE COMPANY HAS PROFFERED TO**
10 **ADDRESS CERTAIN UPIS, CIAC, AND RELATED INCOME TAX**
11 **GROSS UP ISSUES.**

12 A. As described in greater detail in my direct testimony, the Public Staff
13 identified the following seven items of concern regarding the
14 Company's recording and treatment of UPIS, CIAC, and CIAC
15 income tax gross up:

- 16 1. For new franchises and contiguous extensions,
17 ONSWC's policy has been to record UPIS and
18 CIAC, and begin depreciation and amortization,
19 as of the date of a Commission order granting
20 the franchise or recognizing the contiguous
21 extension.
22 2. In practice, an exception to the policy described
23 above in item 1 has occurred when ONSWC, as
24 part of its update, has recorded UPIS and CIAC

- 1 associated with the formerly pending systems¹
2 in August 2021, the end of the update period.
- 3 3. ONSWC has been billing customers in the
4 formerly pending systems for at least 12
5 months, and in one case over 24 months, prior
6 to the Commission granting the franchise or
7 recognizing the contiguous extension, with the
8 Company's practice of billing customers in
9 areas with pending franchise applications being
10 the more egregious of the two.
- 11 4. In at least one instance, ONSWC recorded
12 UPIS 27 months after acquiring the underlying
13 assets by Bill of Sale and General Warranty
14 Deed.
- 15 5. The actual in-service date, the start of
16 depreciation, and the start of amortization for
17 some of the contributed plant do not match,
18 which is concerning for accounting purposes,
19 as the three should coincide with the date when
20 the underlying asset is complete and used and
21 useful. This lack of an accurate, actual in-
22 service date, along with other accounting
23 discrepancies, could impact rate base, the
24 service revenue requirement, and ultimately
25 rates.
- 26 6. Instead of recording contributed plant by asset
27 account per the National Association of
28 Regulatory Utility Commissioners (NARUC)
29 Uniform System of Accounts, ONSWC has
30 calculated a weighted average amortization rate
31 for CIAC entries.
- 32 7. ONSWC has not consistently and completely
33 adhered to the income tax gross-up
34 requirements set forth by the Commission in its
35 Order Addressing Federal Income Taxes on
36 Contributions in Aid of Construction issued
37 August 26, 2019, in Docket No. W-100, Sub 57
38 (August 26 Order).

¹ The formerly pending systems are Arlington Manor (Sub 61), Bella Terra (Sub 67), Brook Meadow (Sub 58), Fish Hawk Ranch (Sub 65), Prescott (Sub 57), Sterling Crest Phase 2 (Sub 66), and Thatcher Woods (Sub 59). Arlington Manor was most recently granted a franchise by order of the Commission on January 24, 2022.

1 The Public Staff and the Company met to discuss the concerns listed
2 above on February 15, 2021. On February 17, 2022, the Company
3 emailed the Public Staff revised UPIS, CIAC, and CIAC income tax
4 gross-up records, along with other corrections. Public Staff Financial
5 Manager Windley Henry, Public Staff Financial Analysts Darrell
6 Brown and Iris Morgan, and I worked together to review and analyze
7 the information provided.

8 The Public Staff has worked with ONSWC (1) to ensure the proffered
9 corrections to the in-service dates, accumulated depreciation,
10 accumulated amortization, rate base, and the associated income tax
11 gross-up properly address the seven items of concerns the Public
12 Staff identified in direct testimony and (2) properly implement the
13 recommendations the Public Staff shared with the Company in email
14 communications, conference calls, and virtual meetings held to
15 address these items of concerns.

16 As described in further detail below, based on the Public Staff's
17 review of the information the Company has provided since February
18 3, 2022 and the rebuttal testimony and exhibits of Company
19 witnesses John McDonald and Laurie Oakman, ONSWC has
20 addressed items of concern one, two, four, five, and six in a manner
21 acceptable for the purposes of this rate case proceeding.

22 With regards to item of concern three, the Public Staff, without
23 waiving any objections it could raise regarding customer billing prior

1 to the approval of franchise or contiguous extension applications,
2 acknowledges the extenuating circumstances raised in Company
3 witness McDonald's rebuttal testimony, but, nevertheless, maintains
4 that that Company should consistently comply with the directives and
5 requirements of Chapter 62 of the North Carolina General Statutes,
6 Commission rules, and Commission orders. Based on the foregoing
7 authority, the Public Staff believes the Company should have waited
8 until it received Commission approval of its franchise applications to
9 bill customers in the formerly pending systems. Nevertheless, unless
10 the Commission determines otherwise, this item of concern does not
11 warrant further discussion or action.

12 With regards to item of concern seven, the Public Staff, without
13 waiving any objections it could raise regarding the Company's
14 compliance with the Commission's August 29 Order, acknowledges
15 that ONSWC has not asked for rate recovery of CIAC income tax
16 gross-up, but, nevertheless, maintains that the Company should
17 have collected CIAC income tax from developers for the following
18 systems: Arlington Manor (Sub 61), Bella Terra (Sub 67), and Brook
19 Meadow (Sub 58). Furthermore, as set forth in greater detail in Public
20 Staff witness Morgan's supplemental testimony, the Public Staff
21 believes that the Company should be required to demonstrate how it
22 will hold ratepayers harmless from any negative rate impacts
23 stemming from the Company's failure to collect CIAC income tax

1 gross-up from the contributor for the aforementioned systems. Public
2 Staff witness Morgan's supplemental exhibits provide the Public
3 Staff's estimate of the total amount of uncollected CIAC income tax
4 gross-up.

5 Regarding items of concern five and six, the Company has provided
6 the Public Staff with two Excel files that, among other things,
7 accomplish the following in accordance with Public Staff
8 recommendations:

- 9 1. Modify the "placed in service dates" for Vernon
10 Place, Kanata Mills, Ashcroft Park, and Meadow Lake.
- 11 2. Correct certain tabulation errors for years in service
12 on CIAC amortization;
- 13 3. Incorporate the "placed in service dates" and CIAC
14 tabulation corrections;
- 15 4. Recalculate all original contributed plant CIAC using
16 revised composite rates;
- 17 5. Recalculate the amortization of CIAC-Tap Fees
18 using revised composite rates;
- 19 6. Remove Carriage Cove UPIS, depreciation, CIAC,
20 and CIAC amortization, and related purchase price
21 from rate base; and

1 7. Remove incorrectly booked CIAC from the Piedmont
2 System and update depreciation to show all underlying
3 purchased assets have been fully depreciated.

4 As a result, the Company's in service dates now reflect the best
5 information available at this time, with depreciation beginning to
6 accrue from the date of the DEQ approval notice, date an engineer
7 certified the plant's construction or installation in accordance with
8 approved plans and specifications, or the date on which a builder first
9 requested service in the service area. In addition, the CIAC
10 amortization schedule no longer utilizes a weighted average for
11 physical plant the developer has contributed, and now matches the
12 UPIS proportions by plant account(s). Moreover, the Excel files and
13 corrections provided to address item of concern five also resolve
14 items of concern one, two, and four.

15 The data in those Excel files is already reflected in Company witness
16 Oakman's rebuttal testimony and exhibits and is incorporated in
17 Public Staff witness Morgan's supplemental testimony and exhibits.
18 Accordingly, the Public Staff's recommended rate base,
19 recommended revenue requirement, and rate design have been
20 revised to reflect these changes and other changes identified in my
21 supplemental testimony.

1 **BILLING ANALYSIS**

2 **Q. PLEASE BRIEFLY DESCRIBE THE ADJUSTMENTS YOU ARE**
3 **MAKING TO YOUR BILLING ANALYSIS.**

4 A. The updated Company billing data through August 31, 2021 has
5 been corrected due to a billing error of 8,997,200 gallons in the Bella
6 Vista service area. Based on the corrected 12-month period ending
7 on August 31, 2021, I recommend a total of 1,863 customers and an
8 annual consumption of 111.281 million gallons be utilized to
9 calculate revenues. Consolidated and system specific billing
10 determinant data, along with my recommended adjustments for the
11 months of January 2020 through August 2021, are shown in **Junis**
12 **Exhibit 2 (Revised)** as follows: pages 1-6) the number of customer
13 bills, end of period (EOP) annualization, and growth factors and
14 pages 7-12) metered consumption, average monthly consumption,
15 and EOP annualization.

16 **Q. WHAT ARE THE CORRECTED PRO FORMA REVENUES AT**
17 **EXISTING PRESENT RATES AND ONSWC'S PROPOSED**
18 **RATES?**

19 A. The pro forma service revenues for the 12-month period ending on
20 August 31, 2021, are \$915,716 at present rates, and \$1,526,135 at
21 proposed rates. The detailed data supporting these levels of
22 revenues are shown in **Junis Exhibit 2 (Revised)**, pages 13-18.

1 Paragraph 11 of the Application states that “[t]he proposed tariffs are
2 designed to produce additional revenues on a company-wide basis
3 for water systems of \$512,619.29, which is a 68% increase over the
4 total revenue level generated by the rates currently in effect for
5 ONSWC.” Page four of the Joint Motion to Extend Testimony Filing
6 Deadlines and Reschedule Expert Witness Hearing, filed on October
7 27, 2021, provides that “ONSWC further acknowledges that any rate
8 increase approved in this matter cannot result in more than \$512,619
9 in additional annual revenues, as that is the amount of increase
10 sought in the Application, regardless of whether pro forma
11 adjustments would justify a greater increase.” Therefore, the
12 maximum service revenue allowable in this proceeding is
13 \$1,428,335, which is \$915,716 plus \$512,619.

14

RATE DESIGN

15 **Q. PLEASE BRIEFLY DESCRIBE THE CORRECTED WATER RATE**
16 **DESIGN THE COMPANY PROPOSED.**

17 A. The present rates result in 39.34% of service revenues being
18 collected by fixed base charges and 60.66% by variable usage
19 charges. The rates proposed by the Company would result in 39.55%
20 of service revenues being collected by fixed base charges and
21 60.45% by variable usage charges.

1 **Q. WHAT IS THE PUBLIC STAFF'S POSITION ON WATER RATE**
2 **DESIGN?**

3 A. The Public Staff's recommended rate design fixed/variable ratio of
4 30%:70% has been implemented in calculating the Public Staff's
5 recommended rates.

6 **Q. WHAT ARE THE PUBLIC STAFF'S RECOMMENDED RATES?**

7 A. The service revenue requirement of \$1,339,234 is reflected in Public
8 Staff witness Morgan's testimony. The rates reflected in **Junis**
9 **Exhibit 2 (Revised)**, pages 13-18, under PS Recommended Rates
10 will achieve these revenue levels.

11 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

12 A. Yes, it does.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of	
Application by Old North State Water	) SETTLEMENT
Company, LLC, 3212 6th Avenue	) TESTIMONY OF
South, Suite 200, Birmingham,	) CHARLES M. JUNIS
Alabama 35222, for Authority to Adjust	) PUBLIC STAFF – NORTH
and Increase Rates for Water Utility	) CAROLINA UTILITIES
Service in All Its Service Areas in North	) COMMISSION
Carolina)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-1300, SUB 60****SETTLEMENT TESTIMONY OF CHARLES M. JUNIS****ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION****MARCH 8, 2022**

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

3 A. My name is Charles M. Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Director of the Water, Sewer, and Telephone Division of the Public
6 Staff – North Carolina Utilities Commission (Public Staff). This is my
7 third testimony filing in this docket; my direct testimony and exhibits
8 were filed on February 8, 2022; and my supplemental testimony and
9 revised exhibit were filed on March 1, 2022.

10 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

11 A. The purpose of my settlement testimony is to provide additional
12 information in support of the settlement agreement and stipulation
13 (Stipulation) for consideration by the Commission in this proceeding
14 between Old North State Water Company, LLC (ONSWC) and the
15 Public Staff (collectively, the Stipulating Parties) entered into and

1 filed with the Commission on March 8, 2022. My settlement
2 testimony addresses rate design.

3 **BILLING ANALYSIS**

4 **Q. HAVE THERE BEEN ANY CHANGES TO YOUR BILLING**
5 **ANALYSIS AS DESCRIBED IN SUPPLEMENTAL TESTIMONY?**

6 A. No. Based on the corrected 12-month period ending on August 31,
7 2021, I continue to recommend a total of 1,863 customers and an
8 annual consumption of 111.281 million gallons be utilized to
9 calculate revenues, both of which ONSWC has agreed to in its
10 rebuttal testimony and as part of the Stipulation. Consolidated and
11 system specific billing determinant data, along with my
12 recommended adjustments for the months of January 2020 through
13 August 2021, are shown in **Junis Settlement Exhibit 1** as follows:
14 pages 1-6) the number of customer bills, end of period (EOP)
15 annualization, and growth factors and pages 7-12) metered
16 consumption, average monthly consumption, and EOP
17 annualization.

18 The pro forma service revenues for the 12-month period ending on
19 August 31, 2021, are \$915,716 at present rates, and \$1,526,135 at
20 proposed rates. The detailed data supporting these levels of
21 revenues are shown in **Junis Settlement Exhibit 1**, pages 13-18.

1 The maximum service revenue allowable in this proceeding is
2 \$1,428,335, which is \$915,716 plus \$512,619.

3 **RATE DESIGN**

4 **Q. PLEASE BRIEFLY DESCRIBE THE WATER RATE DESIGN THE**
5 **STIPULATING PARTIES HAVE AGREED TO FOR THE PURPOSE**
6 **OF SETTLEMENT.**

7 A. The present rates result in 39.34% of service revenues being
8 collected by fixed base charges and 60.66% by variable usage
9 charges. The rates proposed by the Company would result in 39.55%
10 of service revenues being collected by fixed base charges and
11 60.45% by variable usage charges.

12 The Public Staff recommended a fixed/variable ratio of 30%:70% for
13 rate design.

14 As a result of give-and-take negotiations to settle the contested
15 issues, the Stipulating Parties have agreed that rate design in this
16 case should be based on a 40%:60% ratio of fixed/variable service
17 revenues. In consideration that this is ONSWC's first general rate
18 case, its record of operating losses, and settlement purposes, it is
19 reasonable and appropriate in this case that the rate design for water
20 utility service should be based on a fixed/variable ratio of 40%:60%.

1 Q. WHAT ARE THE STIPULATING PARTIES' RECOMMENDED
2 RATES?

3 A. The service revenue requirement of \$1,339,234 is reflected in Public
4 Staff witness Morgan's settlement testimony and exhibit. The rates
5 reflected in **Junis Settlement Exhibit 1**, pages 13-18, under
6 Settlement Rates will achieve this level of service revenue.

7 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

8 A. Yes, it does.

Summary of Testimony of Charles M. Junis
Docket No. W-1300, Sub 60

The purpose of my testimony filed on February 8, 2022 is to present to this Commission the Public Staff's investigation and recommendations regarding the following: 1) plant conditions and operations, 2) expenses, 3) utility plant in service, 4) billing analysis, and 5) rate design.

1. Plant Conditions and Operations

The Public Staff recommends that for a period of no less than one year, the Company should be required to file quarterly reports (including, if applicable, a customer complaint log, water quality testing analysis results, and a description of actions the Company has taken and/or planned) that provide water quality updates on the issues Fish Hawk Ranch, Olde Mill Trace, and Blaney Farms system customers have described. Based on the information the Public Staff has reviewed, I conclude that, overall, the Company is providing adequate service to customers.

2. Expenses

I have analyzed the operating expenses by reviewing the Company's invoices and records and conducting discovery. I recommend adjustments to the levels of maintenance and repair, chemicals for treatment, and purchased water expenses.

3. Utility Plant in Service

I have assisted Public Staff Financial Analysts Iris Morgan and Darrell Brown with their review of UPIS, CIAC, and income tax gross-up records. Based on the Public Staff's review, discrete adjustments are recommended and implemented in the testimony and exhibits of Public Staff witness Morgan. Furthermore, the Public Staff has identified concerns with how the Company has recorded UPIS and CIAC.

4. Billing Analysis

I have reviewed and analyzed Company billing data for the test year ended December 31, 2020 and the updated data through August 31, 2021. I have performed a billing analysis to determine the level of revenues produced at present and proposed rates utilizing the updated data. I have normalized the billing determinants for end of period customer counts and applied a growth factor of 6.33% to consumption.

5. Rate Design

I have developed a recommended rate design to recover the service revenue requirement, as set forth in Public Staff witness Morgan's pre-filed testimony, by a ratio of 30% base charges and 70% usage charges. The rate design includes specific usage rates for water systems that purchase and resell bulk water from a third-party provider.

This completes my summary.

Summary of Supplemental Testimony of Charles M. Junis
Docket No. W-1300, Sub 60

The purpose of my supplemental testimony filed on March 1, 2022 is to present to this Commission the Public Staff's overall assessment of Old North State Water Company, LLC's efforts to adhere to the Public Staff's recommendations and address the Public Staff's seven items of concern with Old North State Water Company, LLC's recording and treatment of utility plant in service, contribution in aid of construction, and income tax gross up. In addition, my supplemental testimony incorporates a billing data correction the Company provided and an updated revenue requirement Public Staff Financial Analyst Iris Morgan has provided.

The Public Staff and the Company met to discuss these seven items of concerns and the Company has since emailed the Public Staff revised utility plant in service, contribution in aid of construction, and income tax gross-up records, along with other corrections. Public Staff Financial Manager Windley Henry, Public Staff Financial Analysts Darrell Brown and Iris Morgan, and I worked together to review and analyze the information provided.

The Public Staff has worked with ONSWC (1) to ensure the proffered corrections to the in-service dates, accumulated depreciation, accumulated amortization, rate base, and the associated income tax gross-up properly address the seven items of concerns the Public Staff identified in its direct testimony and (2) properly implement the recommendations the Public Staff shared with the Company in email communications, conference calls, and virtual meetings held to address these items of concerns.

Based on the Public Staff's review of the information the Company has provided since February 3, 2022 and the rebuttal testimony and exhibits of Company witnesses

John McDonald and Laurie Oakman, the Company has addressed items of concern one, two, four, five, and six in a manner acceptable for the purposes of this rate case proceeding.

The updated Company billing data through August 31, 2021 has been corrected due to a billing error of 8,997,200 gallons in the Bella Vista service area. Based on the corrected 12-month period ending on August 31, 2021, I recommend a total of 1,863 customers and an annual consumption of 111.281 million gallons be utilized to calculate revenues.

This completes my summary.

Summary of Settlement Testimony of Charles M. Junis
Docket No. W-1300, Sub 60

The purpose of my settlement testimony filed today, March 8, 2022, is to present additional information addressing rate design in support of the joint settlement agreement and stipulation that was filed on March 8, 2022 for the Commission's consideration in this proceeding between Old North State Water Company, LLC and the Public Staff.

As a result of give-and-take negotiations to settle the contested issues, the Stipulating Parties have agreed that the rate design in this case should be based on a 40%:60% ratio of fixed/variable service revenues. In consideration of the fact that this is the Company's first general rate case, its record of operating losses, and the give and take of settlement negotiations, it is reasonable and appropriate in this case that the rate design for water utility service should be based on a fixed/variable ratio of 40%:60%.

This completes my summary.

1 MR. MAGARIRA: Thank you.

2 Q. And, Mr. Junis, do you have summaries of your
3 testimony?

4 A. Yes.

5 Q. Could you read them at this time, please.

6 COMMISSIONER BROWN-BLAND: Mr. Magarira,
7 we are dispensing with the reading. I just
8 indicated I would receive them, but we are
9 dispensing with the reading.

10 MR. MAGARIRA: Apologies. Thank you,
11 Chair.

12 COMMISSIONER BROWN-BLAND: That's fine.

13 MR. MAGARIRA: No further questions from
14 the Public Staff.

15 COMMISSIONER BROWN-BLAND: All right.
16 Ms. Coxton, are you going to --

17 MS. COXTON: Yes.

18 DIRECT EXAMINATION BY MS. COXTON:

19 Q. Ms. Morgan, please state your name, business
20 address, and position for the record.

21 A. (Iris Morgan) My name is Iris Morgan, and my
22 business address is 430 North Salisbury Street,
23 Raleigh, North Carolina. I am a financial analyst in
24 the water section of the Public Staff accounting

1 division, and representing the using and consuming
2 public in this proceeding.

3 Q. On February 8, 2022, did you cause to be
4 prefiled in the Old North State Water Company, LLC rate
5 case, direct testimony in question and answer form
6 consisting of 25 pages, one appendix, and two exhibits,
7 Morgan Exhibit I, and Morgan Exhibit II?

8 A. Yes.

9 Q. Do you have any changes or corrections to
10 your testimony that you would like to make today?

11 A. No.

12 Q. Do you have any changes or corrections to the
13 exhibits to your direct testimony that you would like
14 to make today?

15 A. No.

16 Q. If I were to ask you those same questions
17 today on the stand, would your answers be the same?

18 A. Yes.

19 Q. On March 1, 2022, did you cause to be
20 prefiled, supplemental testimony in the Old North State
21 Water Company, LLC rate case consisting of 19 pages and
22 two exhibits, Morgan Exhibit I, and Morgan Exhibit II?

23 A. Yes.

24 Q. Do you have any changes or corrections to

1 your prefiled supplemental testimony that you would
2 like to make today?

3 A. No.

4 Q. Do you have any changes to the exhibits to
5 your prefiled supplemental testimony?

6 A. No.

7 Q. And if I asked you those same questions
8 today, would your answers be the same?

9 A. Yes.

10 Q. On March 8, 2022, did you prefile testimony
11 in support of the joint settlement agreement and
12 stipulation in the Old North State Water Company, LLC
13 rate case consisting of 15 pages and two exhibits,
14 Morgan Settlement Exhibit I and II?

15 A. Yes.

16 Q. Do you have any changes or corrections to
17 your settlement testimony?

18 A. No.

19 Q. Do you have any changes or corrections to the
20 exhibits to your supplemental testimony?

21 A. No.

22 Q. If I were to ask you the same questions
23 today, would your answers be the same?

24 A. Yes.

1 MS. COXTON: Madam Chair, I move that
2 Ms. Morgan's prefiled direct testimony,
3 supplemental testimony, and settlement testimony be
4 entered into the record in this proceeding and
5 copied into the record in their entirety as if
6 given orally from the stand in this docket at the
7 appropriate time; and that Ms. Morgan's appendix be
8 identified as premarked, the exhibits attached to
9 her prefiled direct testimony be identified as
10 Morgan Direct Exhibits I and II; and that
11 Ms. Morgan's supplemental exhibits attached to her
12 supplemental testimony be identified as Morgan ONS
13 Supplemental Exhibits I and II; and Ms. Morgan's
14 settlement exhibit attached to her settlement
15 testimony be identified as Morgan ONS Settlement
16 Exhibits I and II.

17 COMMISSIONER BROWN-BLAND: Ms. Coxton, I
18 have a notation on my supplemental exhibit that
19 they were as revised; is that correct?

20 MS. COXTON: Yes, ma'am, I apologize.

21 COMMISSIONER BROWN-BLAND: No problem.
22 I would just identify as the supplemental exhibits
23 as Exhibits I and II revised.

24 MS. COXTON: Yes, ma'am.

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COMMISSIONER BROWN-BLAND: All right.

So Ms. Cox's motion will be allowed, and the prefiled testimony of witness Morgan -- -the direct, the supplemental, and the settlement testimony -- will be received into evidence at this time as if given orally from the witness stand, and exhibits will be identified as Ms. Cox indicated.

(Morgan Direct Exhibits I and II, Morgan ONS Supplemental Exhibits I and II, and Morgan ONS Settlement Exhibits I and II, were identified as they were marked when prefiled.)

(Whereupon, the prefiled direct and Appendix A, supplemental, settlement, and summaries testimony of Iris Morgan was copied into the record as if given orally from the stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of)
 Application by Old North State Water)
 Company, LLC., Post Office Box,)
 10127, Birmingham, Alabama, 35202)
 for Authority to Adjust and Increase)
 Rates for Water Utility Service in All of)
 its Service Areas in North Carolina)

TESTIMONY OF
 IRIS MORGAN
 PUBLIC STAFF- NORTH
 CAROLINA UTILITIES
 COMMISSION

**OLD NORTH STATE WATER COMPANY, LLC
DOCKET NO. W-1300, SUB 60**

**TESTIMONY OF IRIS MORGAN
ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION**

FEBRUARY 8, 2022

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

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst in
5 the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding

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

9 A. I have been employed by the Public Staff since September 2, 2002.
10 I joined the Public Staff Accounting Division on December 1, 2008.

11 **Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.**

12 A. My qualifications and duties are included in Appendix A.

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

14 A. I am responsible for analyzing testimony, exhibits, and other data
15 presented by parties before the North Carolina Utilities Commission
16 (Commission). I am also responsible for performing examinations of
17 the books and records of utilities involved in proceedings before the

1 Commission and summarizing the results in testimony and exhibits
2 for the Commission.

3 **Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS**
4 **PROCEEDING?**

5 A. On June 29, 2021, Old North State Water Company, LLC (ONSWC
6 or the Company) filed an application with the Commission seeking
7 authority to increase its rates for providing water utility service in all
8 of its service areas located in the following counties in North
9 Carolina: Cumberland, Davidson, Franklin, Guilford, Orange,
10 Randolph, Rockingham and Wake (the Application). On November
11 24, 2021, ONSWC filed updates to its actual revenues, expenses,
12 rate base, and cost of capital through August 31, 2021 (Update
13 Filing). My investigation included a review of the Application and
14 Update Filing, an examination of the Company's books and records
15 for the test year, and a review of additional documentation provided
16 by the Company in response to written data requests.

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

19 A. The purpose of my testimony in this proceeding is to present the
20 results of my investigation of the levels of revenues, expenses, and
21 investment the Company filed or otherwise asserts in support of its
22 requested increase in operating revenues for water operations.

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

3 A. My testimony addresses each issue identified in my investigation,
4 and my exhibits include schedules showing the calculation of my
5 adjustments to revenues, expenses, and rate base. My schedules
6 also reflect adjustments other Public Staff witnesses have
7 recommended. Schedule 1 of Morgan Exhibit I presents the return
8 on original cost rate base under present rates, the Company's
9 proposed rates, and the Public Staff's recommended rates. Schedule
10 2, along with its supporting schedules, presents the original cost rate
11 base. Schedule 3, along with its supporting schedules, presents the
12 calculation of net operating income for a return under present rates,
13 the Company's proposed rates, and the Public Staff's recommended
14 rates.

15 Schedule 1 of Exhibit II presents the calculation of the gross revenue
16 impact of the Public Staff's adjustments.

17 **Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING THE**
18 **APPLICATION?**

19 A. Based on my investigation, the Company's original cost rate base on
20 December 31, 2020, updated to August 31, 2021, is \$1,596,219 for
21 water operations. The level of operating revenue deductions
22 requiring a return (total operating expenses excluding the

1 Commission regulatory fee and income taxes) is \$1,188,821. As
2 allowed under N.C. Gen. Stat. § 62-133, I used the rate base method
3 to evaluate the Company's proposed revenue requirement.

4 I calculated an increase in the gross revenue requirement using the
5 overall return of 7.00%, the reasonable rate recommended by Public
6 Staff Witness John R. Hinton, the Director of the Economic Research
7 Division of the Public Staff. Use of this rate base return increases the
8 gross water revenue requirement by \$343,641. The resulting total
9 revenue requirement is \$1,324,656, of which \$1,310,601 is attributed
10 to service revenues. Therefore, the Public Staff recommends that
11 water service rates be set to reflect a \$343,641 increase, resulting in
12 an annual level of service revenues of \$1,310,601.

13 **Q. DOES MORGAN EXHIBIT I REFLECT ADJUSTMENTS OTHER**
14 **PUBLIC STAFF WITNESSES HAVE SUPPORTED?**

15 A. Yes, Morgan Exhibit I reflects the following adjustments other Public
16 Staff witnesses have supported:

- 17 1. The recommendation of Public Staff Witness Hinton regarding
18 the capital structure, embedded cost of long-term debt and
19 return on common equity; and
- 20 2. The recommendations of Public Staff Witness Junis,
21 regarding the items listed below:

- 1 (a) Service revenues at present rates;
2 (b) Service revenues at Company's proposed rates;
3 (c) Maintenance and repair expense;
4 (d) Chemicals for treatment; and
5 (e) Purchased water.

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

7 A. The accounting and ratemaking adjustments that I will discuss relate
8 to the following items:

- 9 (a) Plant in service;
10 (b) Accumulated depreciation and depreciation expense;
11 (c) Cash working capital;
12 (d) Uncollectibles;
13 (e) Other expenses - insurance expense;
14 (f) Other expenses - miscellaneous expense;
15 (g) Rate case expense;
16 (h) Regulatory fees; and
17 (i) State and Federal income taxes.

18 **PLANT IN SERVICE**

19 **Q. IN WHAT AREAS HAVE YOU MADE ADJUSTMENTS TO PLANT**
20 **IN SERVICE?**

21 A. ONSWC presented the amount of \$11,729,405 for plant in service
22 for water operations in the Update Filing. The Company purchased
23 several new vehicles for its water and sewer operations. Therefore,
24 I made a downward adjustment, totaling \$119,978, to remove vehicle
25 costs associated with its sewer operations. This adjustment resulted

1 in a revised total amount of \$11,609,427 for plant in service, as
2 shown on Schedule 2-1 of Morgan Exhibit I.

3 Furthermore, as addressed in more depth in Public Staff witness
4 Junis' testimony, the Public Staff has concerns with how the
5 Company has recorded utility plant in service (sometimes referred to
6 as UPIS) and contributions in aid of construction (CIAC) and
7 addressed the CIAC income tax gross up requirements set forth by
8 the Commission in its Order Addressing Federal Income Taxes on
9 Contributions in Aid of Construction issued August 26, 2019, in
10 Docket No. W-100, Sub 57. The Public Staff is working with the
11 Company to ensure the correct associated in-service dates,
12 accumulated depreciation, accumulated amortization, and rate base
13 have been used, adopted, or recorded, where applicable. To the
14 extent incorrect information has been used, adopted, or recorded,
15 the Public Staff reserves the right to file supplemental testimony to
16 properly determine rate base, the service revenue requirement, and
17 ultimately rates and propose additional, conforming adjustments.

18 **ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

19 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO ACCUMULATED**
20 **DEPRECIATION AND DEPRECIATION EXPENSE?**

21 **A.** Based on the information filed by the Company, I made an
22 adjustment to decrease the Company's proposed UPIS balance by

1 \$119,978 to remove capitalized costs for three newly purchased
 2 vehicles that are assigned either partially or completely to ONSWC's
 3 sewer operations. Decreasing the UPIS balance requires
 4 corresponding adjustments to accumulated depreciation and
 5 depreciation expense. Accumulated depreciation and depreciation
 6 expense were both increased by \$3,567, which resulted in a total
 7 amount of \$1,250,206, for accumulated depreciation and \$356,290
 8 for depreciation expense, as shown on Schedule 2-1 of Morgan
 9 Exhibit I. Given the Public Staff's concerns with some of the
 10 Company's accounting practices regarding UPIS, additional
 11 adjustments may be forthcoming in supplemental testimony.

12 **CASH WORKING CAPITAL**

13 **Q. PLEASE DESCRIBE YOUR CALCULATION OF CASH WORKING**
 14 **CAPITAL.**

15 A. Cash working capital provides the Company with the funds
 16 necessary to carry on its day-to-day operations. In my calculation, I
 17 included 1/8 of total operating and maintenance expenses as a
 18 measure of cash working capital.

19 **Q. WHAT ADJUSTMENT DID YOU MADE TO UNCOLLECTIBLES?**

20 A. I made an adjustment to reclassify bad debt expense of \$852 as
 21 uncollectibles, as shown on Schedule 3 of Morgan Exhibit I.

1 Q. WHAT ADJUSTMENTS DID YOU MAKE TO OTHER EXPENSES:
2 INSURANCE EXPENSE?

3 A. The Company presented the amount of \$14,211 for other expenses:
4 insurance expense on the Update Filing. I made downward
5 adjustments in the amount of \$2,488, which resulted in a total
6 amount of \$11,723, for other expenses: insurance expense, as
7 shown on Schedule 3-1 of Morgan Exhibit I. The decrease is due to
8 two adjustments I made: (1) reduction of the property, general liability
9 & excess liability expenses by \$1,538 to reflect actual cost and (2)
10 reduction of the annual premium compensation expenses for new
11 employees by \$950 to reflect actual cost.

12 Q. WHAT ADJUSTMENTS DID YOU MAKE TO OTHER EXPENSES:
13 MISCELLANEOUS EXPENSE?

14 A. The Company presented the amount of \$9,908 for other expenses:
15 miscellaneous expenses in the Update Filing. I made an upward
16 adjustment of \$92 to reflect actual costs for a 12-month bond
17 expense for water operations. This adjustment resulted in a total
18 amount of \$10,000 for other expenses: miscellaneous expense, as
19 shown on Schedule 3-2 of Morgan Exhibit I.

20 **RATE CASE EXPENSE**

21 Q. HOW DID YOU CALCULATE RATE CASE EXPENSE?

1 A. On the Update Filing, the Company included \$73,974 for rate case
2 expense. I made an adjustment to rate case expense to include the
3 filing fee of \$250; legal fees of \$82,404; accounting fees of \$14,850;
4 rate case labor allocations from Integra Water totaling \$28,334; and
5 administrative fees and office supplies of \$3,435, for a total amount
6 of \$129,272 in rate case expense. Next, I amortized the total rate
7 case expense over the standard three year period, approved by the
8 Commission in Docket No. W-1226, Sub 3, Docket No. W-1075,
9 Sub12 and several other dockets. These adjustments resulted in a
10 total amount of \$43,091 for rate case expense, as shown on
11 Schedule 3-3 of the Morgan Exhibit I.

12 **REGULATORY FEE**

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

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

17 **STATE AND FEDERAL INCOME TAXES**

18 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO STATE AND**
19 **FEDERAL INCOME TAXES?**

20 A. The levels of state and federal income tax are based on the statutory
21 corporate rates for the level of income presented after all Public Staff

1 adjustments. The calculation of state and federal income taxes is
2 shown on Schedule 3-4 of Morgan Exhibit I.

3 **MISCELLANEOUS**

4 **Q. WHAT ACCOUNTING RECOMMENDATIONS DO YOU SUGGEST**
5 **FOR THE COMPANY?**

6 A. I recommend the Company integrate the Uniform System of
7 Accounts into its utility operations for financial reporting purposes.

8 **Q. WILL THERE BE SUPPLEMENTAL TESTIMONY FOR THIS**
9 **GENERAL RATE CASE PROCEEDING?**

10 A. Yes. As discussed earlier in my testimony, and addressed in more
11 depth in Public Staff witness Junis' testimony, ONSWC will likely
12 need to make corrections to the in-service dates, accumulated
13 depreciation, accumulated amortization, rate base, and associated
14 income tax gross-up implications. Given the timing and nature of
15 such corrections, if corrections are in fact needed, it will be necessary
16 for the Public Staff to file supplemental testimony to properly
17 establish rate base, the service revenue requirement, and
18 recommended rates upon completion of its review of the Company's
19 updated, supplemental documentation. The Public Staff therefore
20 reserves the right to file such supplemental testimony and make the
21 necessary, conforming adjustments.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

IRIS MORGAN

1 I graduated from North Carolina Wesleyan College with a Bachelor of
2 Science Degree in Accounting and Business Administration in 2007. Also, I
3 graduated from Keller Graduate School of Management with a Master of
4 Accounting and Financial Management (2011), a Master of Business
5 Administration (2013), and a Master of Public Administration (2014).

6 Prior to joining the Public Staff, I was employed by WorldCom, Inc., as a
7 CORE Analyst. My duties included providing customer service support and
8 addressing customer billing and reporting requirements.

9 I joined the Public Staff in September 2002 as an Administrative Assistant.
10 In 2006, I was promoted to a Consumer Services Complaint Analyst where
11 I resolved numerous consumer complaints and performed utility reporting
12 analysis. After completion of my Accounting degree, I was promoted to a
13 Public Staff Accountant in December of 2008.

14 I have performed audits and filed testimony and exhibits in several water
15 rate cases, and assisted in investigations addressing a wide range of topics
16 and issues related to the water, electric and gas industries.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

<p>In the Matter of)</p> <p>Application by Old North State Water)</p> <p>Company, LLC., Post Office Box,)</p> <p>10127, Birmingham, Alabama, 35202)</p> <p>for Authority to Adjust and Increase)</p> <p>Rates for Water Utility Service in All of)</p> <p>its Service Areas in North Carolina)</p>	<p>SUPPLEMENTAL)</p> <p>TESTIMONY OF)</p> <p>IRIS MORGAN)</p> <p>PUBLIC STAFF-NORTH)</p> <p>CAROLINA UTILITIES)</p> <p>COMMISSION)</p>
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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**DOCKET NO. W-1300, SUB 60****TESTIMONY OF IRIS MORGAN****ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION****MARCH 1, 2022**

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

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst
5 in the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding

7 **Q. ARE YOU THE SAME IRIS MORGAN WHOSE DIRECT**
8 **TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON**
9 **FEBRUARY 8, 2022?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL**
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my supplemental testimony is to present the
14 accounting and ratemaking adjustments I have revised from my
15 direct testimony and exhibits or recommended because of

1 information the Company has provided the Public Staff subsequent
2 to the filing of the Public Staff's direct testimony and exhibits. In
3 addition, my supplemental testimony presents those updates and
4 corrections other Public Staff witnesses have recommended as a
5 result of the Public Staff's investigation of Old North State Water
6 Company, LLC's second updated filings in this proceeding. Lastly,
7 where applicable, my supplemental testimony seeks to address
8 rebuttal testimony and exhibits that Old North State Water Company,
9 LLC (ONSWC or the Company) filed on February 22, 2022 in support
10 of its revenue requirement.

11 **Q. WHAT UPDATED OR CORRECTED ADJUSTMENTS TO THE**
12 **COMPANY'S COST OF SERVICE DO YOU RECOMMEND?**

13 A. I recommend updated, corrected, or new adjustments in the following
14 areas:

- 15 1) Plant in service.
- 16 2) Accumulated depreciation.
- 17 3) Contributions in aid of construction (CIAC).
- 18 4) Accumulated amortization of CIAC.
- 19 5) Customer advances.
- 20 6) Miscellaneous expense: bond expense.
- 21 7) Depreciation expense.
- 22 8) Amortization expense – CIAC.

23 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.**

24 A. My adjustments are described below and shown in Morgan Exhibit I

1 (Revised) and Morgan Exhibit II (Revised).

2 **PLANT IN SERVICE**

3 **Q. IN WHAT AREAS HAVE YOU MADE REVISIONS TO PLANT IN**
4 **SERVICE?**

5 A. Plant in service has been adjusted to include the amount the
6 Company calculated on Oakman Rebuttal Exhibit I, Schedule 2. This
7 amount includes an adjustment the Public Staff recommended in
8 prefiled testimony to remove vehicle costs allocated to sewer
9 operations, along with the Company's adjustment to remove plant
10 costs associated with the Carriage Cove subdivision.

11 **ACCUMULATED DEPRECIATION**

12 **Q. PLEASE EXPLAIN THE REVISIONS MADE TO ACCUMULATED**
13 **DEPRECIATION?**

14 A. Accumulated depreciation and depreciation expense have been
15 adjusted to include the amount reflected in the Company's rebuttal
16 testimony. As calculated by the Company and as discussed above,
17 accumulated depreciation includes adjustments the Company made
18 to plant in service, the removal of Carriage Cove accumulated
19 depreciation, reclassification of CIAC to accumulated depreciation
20 for the Piedmont system, and the correction of in-service dates for

1 some plant costs. The Public Staff agrees with the Company's
2 calculated and revised accumulated depreciation amount.

3 **CONTRIBUTIONS IN AID OF CONSTRUCTION**

4 **Q. IN WHAT AREAS HAVE YOU MADE REVISIONS TO CIAC?**

5 A. CIAC has been adjusted to reflect the amount from Oakman Rebuttal
6 Exhibit I, Schedule 2. The Company's calculated CIAC was adjusted
7 to reclassify an amount to accumulated depreciation for the
8 Piedmont system, remove CIAC gross-up taxes included in CIAC in
9 error, remove Carriage Cove CIAC, true-up Rocklyn water system
10 asset CIAC, and recalculate CIAC.

11 **ACCUMULATED AMORTIZATION - CIAC**

12 **Q. IN WHAT AREAS HAVE YOU MADE REVISIONS TO**
13 **ACCUMULATED AMORTIZATION - CIAC?**

14 A. Accumulated amortization has been adjusted to include the amounts
15 reflected in the Company's rebuttal testimony. This amount reflects
16 adjustments the Company made to CIAC and are discussed above,
17 the removal of Carriage Cove accumulated amortization, the
18 reclassification of CIAC to accumulated amortization for the
19 Piedmont system, and the correction of amortization rates for CIAC.

20 **CUSTOMER ADVANCES**

1 Q. WHAT REVISION HAVE YOU MADE TO CUSTOMER
2 ADVANCES?

3 A. The Public Staff agrees with the Company's adjustment to remove
4 \$54,000 of customer advances for the Carriage Cove system,
5 which is shown on Oakman Rebuttal Exhibit I, Schedule 2.

6 **MISCELLANEOUS EXPENSE – BOND EXPENSE**

7 Q. PLEASE EXPLAIN YOUR REVISION TO MISCELLANEOUS
8 EXPENSE: BOND EXPENSE.

9 A. Miscellaneous expense: bond expense has been adjusted to reflect
10 the amount the Company provided in its rebuttal testimony.

11 **DEPRECIATION EXPENSE**

12 Q. WHAT REVISION HAVE YOU MADE TO DEPRECIATION
13 EXPENSE?

14 A. Depreciation expense has been adjusted to correspond with the
15 adjustments to plant in service the Company calculated and provided
16 in its rebuttal testimony.

17 **AMORTIZATION EXPENSE - CIAC**

18 Q. PLEASE EXPLAIN YOUR REVISION TO AMORTIZATION
19 EXPENSE - CIAC.

1 A. Amortization expense has been adjusted to correspond with the
2 adjustments made to CIAC as discussed above.

3 **Q. WHAT ACCOUNTING RECOMMENDATION DO YOU SUGGEST**
4 **FOR THE COMPANY?**

5 A. As a result of the Public Staff's investigation of ONSWC's collection
6 of CIAC, it was discovered that the Company failed to collect gross
7 up taxes on CIAC received for the following water systems: Arlington
8 Manor (Sub 61), Bella Terra (Sub 67), and Brook Meadow (Sub 58).
9 The CIAC collected for the three systems were based on new
10 contributions contracted for on or after October 5, 2018, the date on
11 which the Commission, in Docket No. W-100, Sub 57, ordered all
12 certificated water and wastewater companies to collect income tax
13 on CIAC from contributors using the full gross up method.

14 In her rebuttal testimony, Company witness Laurie Oakman
15 addressed the Company's failure to collect gross-up on CIAC for
16 these three systems. On page 9 of Company witness Oakman's
17 rebuttal testimony, she states that:

18 ONSWC has not asked for rate recovery of the gross-
19 up amount that it did not collect from the developer, and
20 ONSWC plans to absorb the taxes due. The Public Staff
21 said it would provide further information to ONSWC
22 regarding any associated impacts on ratepayers,
23 including examples, and we are waiting on that.

1 The Public Staff is of the opinion that ratepayers should be held
2 harmless from the failure of ONSWC to collect gross-up taxes on
3 CIAC received from developers. No amount of the taxes paid by
4 ONSWC should be included in the Company's rate base or otherwise
5 reflected in the Company's revenue requirement. To accomplish this,
6 for example, ONSWC could continue to depreciate and amortize the
7 contributed plant assets and CIAC as it normally would and record
8 the payment of income taxes on the CIAC and income tax reduction
9 from depreciation of the contributed property below the line in a non-
10 operating account. The non-operating account would flow to
11 retained earnings and thus would not affect ratepayers. The Public
12 Staff would consider this accounting reasonable for ratemaking and
13 regulatory purposes before the Commission. Should ONSWC need
14 further guidance, the Public Staff recommends the Company consult
15 with an independent accounting expert.

16 The Public Staff further recommends that the Company file a report
17 with the Commission outlining the methodology it will utilize on its
18 books and records to account for the income taxes paid on CIAC that
19 the Company failed to collect. The report should include a detailed
20 explanation outlining how the income taxes were booked for
21 ratemaking purposes and detailed journal entries supporting the
22 taxes paid to ensure that the taxes paid will not be recovered from
23 ratepayers.

1 The Public Staff will review the report and provide feedback and
2 recommendations to the Company and Commission as needed.

3 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

4 **A. Yes, it does.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

In the Matter of	)	SETTLEMENT
Application by Old North State Water	)	TESTIMONY OF
Company, LLC., Post Office Box,	)	IRIS MORGAN
10127, Birmingham, Alabama, 35202	)	PUBLIC STAFF- NORTH
for Authority to Adjust and Increase	)	CAROLINA UTILITIES
Rates for Water Utility Service in All of	)	COMMISSION
its Service Areas in North Carolina)	

**OLD NORTH STATE WATER COMPANY, LLC
DOCKET NO. W-1300, SUB 60**

**SETTLEMENT TESTIMONY OF IRIS MORGAN
ON BEHALF OF THE PUBLIC STAFF -
NORTH CAROLINA UTILITIES COMMISSION**

MARCH 8, 2022

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

3 A. My name is Iris Morgan and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst in
5 the Water Section of the Public Staff – Accounting Division and
6 represent the using and consuming public in this proceeding.

7 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

8 A. The purpose of my settlement testimony is to support the Joint
9 Settlement Agreement and Stipulation (the Stipulation) filed on
10 March 8, 2022, between Old North State Water Company, LLC
11 (ONSWC or the Company) and the Public Staff – North Carolina
12 Utilities Commission (Public Staff) (collectively, the Stipulating
13 Parties).

14 **Q. WHAT REVISIONS HAVE YOU MADE TO SERVICE REVENUES**
15 **REGARDING PRESENT RATES AND COMPANY PROPOSED**
16 **RATES AS A RESULT OF THE STIPULATION?**

1 A. The Stipulation sets forth agreement between the Stipulating Parties
2 regarding revenue requirement and rate issues. I updated service
3 revenues to reflect revised amounts for present rates and Company
4 proposed rates provided by Public Staff witness Charles M. Junis.
5 These revisions result in a total revenue requirement of \$1,353,289,
6 of which \$1,339,234 is attributed to service revenues. Therefore, the
7 Public Staff recommends that water service rates be set to reflect a
8 \$423,518 increase, resulting in an annual level of service revenues
9 of \$1,339,234. A reconciliation of the settlement adjustments to
10 ONSWC's filed rate increase is shown on Morgan Settlement Exhibit
11 II.

12 **Q. HOW DO RATEPAYERS BENEFIT FROM THE STIPULATION?**

13 A. From the Public Staff's perspective, the most important benefits the
14 Stipulation provides are as follows:

- 15 (a) A reduction in the Company's proposed revenue increase in
16 this proceeding.
- 17 (b) Based on the advice of legal counsel, the avoidance of
18 protracted litigation between the Stipulating Parties before the
19 Commission and possibly state appellate courts.

20 Based on these ratepayer benefits and others, as well as the other
21 provisions of the Stipulation, the Public Staff believes the Stipulation
22 is in the public interest and should be approved.

1 **Q. WILL THE PUBLIC STAFF BE PRESENTING ITS CALCULATION**
2 **OF THE FINAL REVENUE REQUIREMENT?**

3 A. Yes. The Public Staff will file schedules supporting the Stipulation's
4 recommended revenue requirement shown on Stipulation Exhibit I
5 and Exhibit II.

6 **DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

7 A. Yes, it does.

**OLD NORTH STATE WATER COMPANY
Docket No. W-1300, Sub 60
March 8, 2022**

Old North State Water Company (Old North State) filed a rate increase application on June 29, 2021. I, along with other Public Staff members, performed an investigation of the application, along with Old North State's books and records, and I prefiled direct testimony and an exhibit on February 8, 2022. I made several adjustments to the levels of rate base and operating expenses filed by Old North State in support of its application. In addition, I incorporated in my exhibit several adjustments recommended by Public Staff Water, Sewer and Telephone Division Director Charles M. Junis.

The purpose of my direct testimony was to present the accounting and ratemaking adjustments that I recommend as a result of my investigation of the revenue, expenses, and rate base filed by Old North State in support of its requested increase in operating revenues. Based on the results of the Public Staff's investigation, Old North State's combined original cost rate base for all its service areas for North Carolina water operations as of December 31, 2020, updated to August 31, 2021, is \$1,596,219, producing a total revenue requirement of \$1,353,289 of which \$1,339,234 is water service revenues.

I made several adjustments in this rate case proceeding: (1) a downward adjustment totaling \$119,978, to remove vehicle costs associated with sewer operations; (2) an upwards adjustment of \$92 to reflect actual costs for a 12-month bond expense for water operations; and (3) an adjustment to include \$73,974 of rate case expense.

This concludes the summary of my testimony.

OLD NORTH STATE WATER COMPANY
Docket No. W-1300 Sub 60
March 8, 2022

Old North State Water Company (Old North State) filed rebuttal testimony and exhibits on February 22, 2022. In my supplemental testimony, I made revisions to my pre-filed direct testimony and exhibits to reflect updated information the Company provided to the Public Staff subsequent to the filing of the Public Staff's direct testimony and exhibits. In addition, my supplemental testimony presents those updates and corrections other Public Staff witnesses have recommended as a result of the Public Staff's review of Old North State Water Company's rebuttal testimony. Based on the results of the Public Staff's investigation, Old North State's combined original cost rate base for all its service areas for North Carolina water operations in its updated filing on February 22, 2022, is \$1,666,352, producing a total revenue requirement of \$1,353,289 of which \$1,339,234 is water service revenues.

I made several adjustments in prefiled supplemental testimony to (1) remove vehicle costs allocated to sewer operations, along with the Company's adjustment to remove plant costs associated with the Carriage Cove subdivision; (2) adjust accumulated depreciation and depreciation expense to include adjustments the Company made to plant in service, the removal of Carriage Cove accumulated depreciation, reclassification of CIAC to accumulated depreciation for the Piedmont system, and the correction of in-service dates for some plant costs; and (3) adjust customer advances by \$54,000 for the Carriage Cove system, which is shown on Oakman Rebuttal Exhibit I, Schedule 2.

This concludes the summary of my supplemental testimony.

OLD NORTH STATE WATER COMPANY
Docket No. W-1300 Sub 60
March 8, 2022

The Stipulation filed on March 8, 2022 sets forth the Public Staff and Old North State's agreed upon resolution of all outstanding issues regarding revenue requirement and rates. I updated service revenues to reflect revised amounts for present rates and Company proposed rates provided by Public Staff witness Charles M. Junis. These revisions result in a total revenue requirement of \$1,353,289, of which \$1,339,234 is attributed to service revenues. Therefore, the Public Staff recommends that water service rates be set to reflect a \$423,518 increase, resulting in an annual level of service revenues of \$1,339,234.

The purpose of my settlement testimony therefore is to present the accounting and ratemaking adjustments that I recommend and Old North State has agreed to in the Stipulation as a result of my investigation of the revenue, expenses, and rate base filed by Old North State in support of its requested increase in operating revenues. Based on the results of the Public Staff's investigation, Old North State's combined original cost rate base for all its service areas for North Carolina water operations as of December 31, 2020, updated to August 31, 2021, is \$1,596,219, producing a total revenue requirement of \$1,353,289 of which \$1,339,234 is water service revenues.

Morgan Settlement Exhibits I and II reflect the amounts agreed to by the Stipulating Parties for rate base, total operating revenues and total operating expenses. Morgan Settlement Exhibit II specifically provides reconciliation of the settlement adjustments to ONSWC's filed rate increase. Lastly, I will file

schedules supporting the Stipulation's recommended revenue requirement shown on Stipulation Exhibit I and Exhibit II

This concludes the summary of my settlement testimony.

1 MS. COXTON: Thank you. Ms. Junis and
2 Ms. Morgan are available for questioning from the
3 Commission.

4 COMMISSIONER BROWN-BLAND: All right.
5 Is there any question? Is there any question from
6 the applicant?

7 MR. DROOZ: No, we've waived cross.

8 COMMISSIONER BROWN-BLAND: I understand,
9 but I have to ask for the record.

10 MR. DROOZ: Thank you.

11 COMMISSIONER BROWN-BLAND: All right.
12 Mr. Junis and Ms. Morgan, we have a few questions
13 for you.

14 EXAMINATION BY COMMISSIONER BROWN-BLAND:

15 Q. Mr. Junis, on the matter of customer refunds,
16 the stipulating parties agreed that they'll work
17 together on a methodology for calculating the customer
18 refunds that might be due once the final rates are in
19 and approved by the Commission. Witness McDonald's
20 rebuttal stated that, for the purposes of calculating
21 the refunds, the Public Staff may recommend a
22 comparison of bills under temporary rates to what the
23 bills would have been under final rates for every
24 individual customer for each month that the rates were

1 in effect. He states that the Company's preferred
2 method is to calculate by rate division rather than by
3 individual customer.

4 What was the Public Staff's intention on this
5 matter -- on the matter of calculation of the refunds?

6 A. (Charles M. Junis) So I would just say that
7 those positions are somewhat obsolete at this point due
8 to the settlement. However, it was our intention that,
9 due to some of the peculiar rate designs or rates for
10 certain systems, that you might get into a situation
11 that those should be looked at on a more granular
12 basis; that you can't just use sort of a thousand-foot
13 approach to reviewing whether or not refunds are
14 appropriate because you're, sort of, averaging out the
15 impact.

16 So, specifically -- and I think this is
17 captured in the settlement -- you get into systems like
18 Blawell and Rocklyn that had very different base
19 charges and usage charges from the rest of what were
20 sort of, air quotes, uniform that were traditionally
21 like a \$15 base charge or a \$5 usage charge. So that's
22 really what the position was that was expressed.

23 Q. And so at the time of filing, that was the
24 actual dispute between the two as to whether by

1 division or whether by individual bills for every
2 month; is that correct?

3 A. So, again, functionally, we recognized that
4 you wouldn't have to get to an individual bill level
5 for every single customer, recognizing the likelihood
6 that rates, not only the base charge but also the usage
7 charge, were going to be higher for most of the
8 systems. And it was the Public Staff's position that
9 that was an issue that would be resolved after the
10 Commission's order came out to where you were actually
11 doing that analysis.

12 Q. All right. I appreciate that. Just trying
13 to get an understanding.

14 A. Absolutely. And if you have more questions
15 on that, I'm happy to answer.

16 Q. On the uniform rates, why has the Public
17 Staff recommended pass-through rates for purchase water
18 systems as opposed to uniform rates on all the
19 Company's systems?

20 A. Yes. So I would say, based on my experience
21 with the Public Staff, I have traditionally seen it
22 done in this manner, that you would have your purchase
23 water systems with a separate -- at the very least, a
24 separate usage charge, to then be able to properly

1 account for that and the potential pass-through.

2 And getting to the point of a pass-through,
3 it's a lot easier to quantify a direct link of, okay,
4 if the rate is \$3 and it's changing to \$4, it's real
5 easy to then make that rate change as a pass-through
6 specific to that system, as opposed to trying to
7 allocate that usage rate increase across a set of
8 customers, say, 43 systems, because it's gonna be a
9 much smaller increment and it's gonna be somewhat
10 dependent on the amount of water purchased. While if
11 you just do a straight pass-through of potential usage
12 charge, if usage varies, you will still appropriately
13 recover that cost or not overcharge customers in the
14 alternative.

15 Q. So if the Commission were to order the
16 uniform rates on all the systems, including the
17 purchase water systems, would it be your understanding
18 that the Company would still be able to come to the
19 Commission for an adjustment to rates under the
20 statute?

21 A. I would say that would be different from how
22 I've seen it done, but I think that it potentially
23 could still be done that way; but it does, like I said,
24 become a little more dependent on the usage. And so

1 let's say this pass-through happens a year from now.
2 Are we going to maintain the billing determinants that
3 were used in this rate case to pass that increase of
4 cost to all the customers, or are we gonna do some sort
5 of updated billing analysis, which then becomes pretty
6 administratively burdensome on the parties for what is
7 typically a relatively easy and expedited process.

8 Q. What factors cause the Public Staff to
9 recommend the uniform rates with the non-purchase water
10 systems rather than the system specific rates for the
11 Company?

12 A. It is our understanding that it has been the
13 policy of the Commission to support uniform rates, and
14 that has also been the position of the Public Staff, at
15 least in recent memory. And we certainly recognize the
16 value of uniform rates, of sharing those costs,
17 because, you know, today one system may be more costly,
18 and then perhaps tomorrow that will be one of the more
19 efficient systems. And vice versa, an efficient system
20 today may need improvements in the future.

21 For example, Old North State has some older
22 systems that right now may be some of its most
23 cost-efficient. When it comes time for potentially
24 replacement of that distribution system, or if the need

1 for filtration would arise, that system now is facing a
2 large cost. And to the point of scale, these are
3 predominantly small well-sourced water systems that,
4 you know -- for example, the Twin Lake Farms that was
5 brought up earlier, that's only 82 customers. So you
6 spread a couple-hundred-thousand-dollar filter only on
7 those customers, it becomes pretty costly pretty
8 quickly.

9 Q. All right. So over time, it would be your
10 position that someone incurring more cost or more
11 expense today, later in the future -- that it would
12 even out over time across the customer base?

13 A. Yes. At least in theory, that's how it
14 should work.

15 Q. All right. And to your knowledge, are there
16 systems within the Old North State set of systems that
17 have unusual costs or unusual cost savings as compared
18 with others?

19 A. I would say, for the most part, at least in
20 general, all of these systems, with the exception of
21 the two purchase water, are supplied by wells, they are
22 relatively small in terms of the number of customers,
23 so they're kind of in the scale are relatively similar.
24 You do have some difference in the necessity of

1 treatment, but that's something that could change in a
2 relatively short amount of time, either by degradation
3 of water quality or the development of new standards in
4 the future. So we think that the uniform rates are a
5 fair approach.

6 Q. You would characterize today that there are
7 no extreme outliers that you see?

8 A. I don't think that there are any extreme
9 outliers that would justify system-specific rates, with
10 the exception of the two purchase water systems as
11 we've designed with the different usage charge, but the
12 uniform base.

13 Q. All right. And do the separate system rates
14 create administrative difficulties for the Company and
15 the Public Staff?

16 A. If there were to be system-specific rates, or
17 at least a continuation of the current rate structure,
18 yes, it is administratively more challenging. Just --
19 just from a perspective of an order, you have to list
20 now 43 systems' different rates as opposed to one
21 uniform rate and a couple of purchase water rates. And
22 then, you know, to try to bill, you could run into
23 issues of, oops, I mixed up Bella Vista and Bella
24 Terra. And so it just -- it is right for potential

1 issues.

2 Q. Are there efficiencies achieved when there's
3 uniformed versus separate?

4 A. Yes. I think there are efficiencies when you
5 have a uniform rate. I think it would streamline your
6 billing processes. I think it would make customer
7 service easier so then you're not causing confusion if
8 somebody would have a question about their bill.

9 Q. Have you experienced -- we have systems that
10 are uniform. Have you experienced that -- those
11 efficiencies in your time at the Public Staff?

12 A. Yes. I think, for example, Aqua with, you
13 know, hundreds of systems with, you know, basically a
14 uniform charge, with a few peculiarities, that there
15 are efficiencies to that.

16 Q. Mr. Junis, there were several customer
17 complaints that weren't addressed in your testimony --
18 were not addressed in your testimony, and they involved
19 a low pressure and sediment and shallow, staining and
20 low pressure in Leone Landing; calcium and odor in
21 Rocklyn; staining in Ethan's Meadow; low pressure and
22 staining in Ashcroft; staining and sediment at Brook
23 Meadow; loss of water, low pressure at Bingham Woods;
24 and scum in toilet bowls in Mornington Estates.

1 In general, did the Public Staff
2 investigate -- or how did the Public Staff investigate
3 the service quality issues in this case?

4 A. So, in general, we certainly reviewed the
5 customer -- consumer statements. We listened in on the
6 customers' testimony. We reviewed the Company's
7 report, and then we did an analysis on our own. For
8 example, I had researched on drinking water watch as --
9 for Ashcroft Park. Their most recent inorganic sample
10 taken August 24, 2021, was actually below the reporting
11 limits for both iron and manganese, which would
12 typically, especially iron, be representative if
13 someone was experiencing red or brown water.

14 I'm not saying that they didn't experience
15 that. I certainly trust the customers' representation,
16 but I think it more is likely to have been sort of a
17 one-off instance. You could have a slight crack in a
18 main to where you are getting some soil infiltrating
19 the line, but, generally, that is -- does not appear to
20 be an iron or manganese issue.

21 In addition, our review involved coordinating
22 with DEQ regarding the Company's compliance. Based on
23 the last three years, it's our understanding that they
24 had only reporting and testing issues. And to add some

1 more context, that's literally just they didn't take
2 the test when it was prescribed or required to be
3 taken. Those issues have been resolved, to my
4 understanding. And then reporting, that literally
5 means that they forgot to send the results to DEQ.
6 While still important, we were not seeing wide
7 violations of water quality standards.

8 Q. So are you satisfied that the customers in
9 the subdivisions that had those issues that I just
10 outlined there, that those customers have adequate
11 water quality today?

12 A. I would say that we are overall satisfied.
13 If those customers continue to experience issues, we
14 would ask that they contact the Company. If they
15 continue to be unsatisfied with that response, that
16 they would either file a consumer statement or reach
17 out to our consumer services division, and we would
18 look into it further.

19 Q. And the Public Staff recommended that the
20 Company file quarterly reports on certain subdivisions.
21 Today, as you sit here, are there -- should they be
22 required to make quarterly reports on any of those that
23 I just listed, any of the other ones?

24 A. At this time, I continue to support the

1 systems that we made our recommendation. I think it's
2 perfectly within the purview of the Commission, and we
3 would be supportive if additional quarterly reporting
4 was done on a few other systems. And it could
5 always -- the Company could always seek relief from
6 that reporting if it's proven that there is not an
7 ongoing issue.

8 Q. So as of today, the agreement, as we see, it
9 was with Fish Hawk Ranch, Olde Mill Trace and Blandy
10 Farms, those three?

11 A. That's correct.

12 Q. All right. And in Mr. Hinton's testimony, he
13 stated that the Company's existing capital structure of
14 83 percent debt to 17 percent equity poses an
15 unreasonable risk to ratepayers.

16 Is that something that the Public Staff
17 evaluates when it looks at the Company's application
18 for a CPCN as opposed to a general rate case?

19 A. So I would say that question is probably
20 better suited for Mr. Hinton. I would add that we
21 certainly evaluate the financial viability of a utility
22 when seeking a CPCN.

23 Q. All right. And finally, when we look at
24 Mr. McDonald's rebuttal Exhibit 2, we see a long gap

1 there of two years in some cases between the filing of
2 the application for the CPCN or the notice for
3 continuous extension and the date before the Commission
4 approved it.

5 Did the Public Staff have anything to add
6 about why that occurred or did they -- do you think the
7 Public Staff acted in a timely manner when they were
8 reviewing those notices and applications and getting
9 them in front of us, the Commission?

10 A. So regarding that exhibit, we did send
11 discovery for sort of two pieces of information, and
12 that dealt with whether they filed any amendment to
13 that application and whether they had any discovery
14 pending to the Public Staff. So many times those
15 initial applications were either incomplete or required
16 additional information through discovery. We -- I
17 would say previous staff at Old North State did not
18 respond in a timely fashion, or did not follow up on
19 those issues.

20 So, in general, I think we did address them
21 timely. There were some complicating factors with some
22 of the more recent ones with the CIAC tax gross-up
23 implications and trying to develop language that would
24 be appropriate to include in a proposed order. I

1 think, in general, if a utility has an issue with the
2 timing of us taking items to staff conference, they
3 could always file a motion or they could reach out to
4 us to prompt that.

5 I would say, typically, if a utility requests
6 that an issue be expedited because of, for instance,
7 hey, we know we're gonna be adding on customers, then
8 we usually try to prioritize that filing.

9 Q. All right. And, in general, based on what we
10 see here about the timing, do you think that -- being
11 aware of what our job is to do, do you think that the
12 Commission has reason to be concerned about it or
13 should do any more to alter that situation in the
14 future? I'm just asking for your opinion.

15 A. I'm just trying to choose my words
16 appropriately. Oh, I do want to add to my previous
17 response that another issue was the posting of bond.
18 That that can also hold up an item being taken to staff
19 conference, because typically we want that bond posted
20 in advance of bringing a proposed order to the
21 Commission's attention.

22 Q. Do you know if the bond was issued with some
23 of these cases, just in general?

24 A. I believe so, with at least a couple of them.

1 And then regarding just process, I think it's mostly a
2 recognition of the Company's need to file the required
3 exhibits in a timely manner. And if they are not
4 acting in a timely manner, then, you know, we have to
5 prioritize our work. So we move as needed on those
6 items.

7 Q. All right. Thank you.

8 Ms. Morgan, I think that the stipulation
9 filing answered the questions that I had for you. So
10 you might be getting off, but let me see what my
11 colleagues have to say.

12 COMMISSIONER BROWN-BLAND: Any questions
13 for this panel? Commission Hughes.

14 EXAMINATION BY COMMISSIONER HUGHES:

15 Q. Thank you. Either one can answer. It's
16 probably mostly for you, Mr. Junis. You mentioned
17 checking the financial viability during a CPCN.

18 Could you comment other times that you might
19 check the financial viability of a utility like Old
20 North State?

21 A. (Charles M. Junis) So certainly during any
22 transfer, if they were acquiring a system, we would
23 consider financial viability. I would say also during
24 a rate case, obviously, we're checking their financials

1 pretty closely and financial viability. We also have
2 the opportunity to review annual reports, and we
3 usually are reviewing those and flagging if we
4 anticipate an issue based on those annual reports.

5 Q. Had you -- just based on that response, had
6 you flagged Old North State for financial viability
7 concerns the last two, three, four, five, six years?

8 A. Again, I think Mr. Hinton would be
9 appropriate to answer that. I will add, though, that,
10 you know, anytime we're seeing repeated operating
11 losses for a utility on their annual reports, it starts
12 to raise a concern of what is going on there and their
13 long-term viability.

14 Q. And what would -- what would just the
15 typical -- if you did notice that, what would be the
16 next course of action?

17 A. I think it depends on the circumstances. If
18 we're not seeing a lot of active growth in terms of
19 acquisitions, then, you know -- I'd say if there's not
20 a lot of filings, if they're not making acquisitions,
21 if they're not growing, then we would have to consider
22 what might be an appropriate course of action. If
23 there are a lot of those filings, then we have those
24 opportunities to do checkups.

1 Another option is to consider an alteration
2 to their bond if we felt that there was an issue. But
3 again, I would let Mr. Hinton add to this if he is
4 asked this question.

5 Q. Okay. Well, I want to find the part that you
6 want to answer, but then I'll take your advice.

7 Do you know if any communication had occurred
8 to Old North State about just general financial
9 viability during the past, you know?

10 A. Not to my knowledge.

11 Q. Okay. One of the concerns we have is making
12 sure rates are just and reasonable, but the rate shock
13 issue comes up quite a bit.

14 Could you just say, just in general, for this
15 utility as well, what's your feelings about how far we,
16 as a Commissioner, or you should go to prevent rate
17 shock in more of a proactive manner?

18 A. It definitely has to be evaluated, I think,
19 on sort of a case-by-case basis. One assist to rate
20 shock is the possibility of temporary rates, so then
21 you sort of stagger in an increase. I think, if there
22 is a need for rate cases, then they'd be filed, because
23 if you have a long holdout, this is what you get, is
24 pretty sizable increase, over 50 percent increase for

1 these customers.

2 You could make the argument that they've been
3 undercharged to some degree prior to this, and so that
4 factors into, sort of, this big increase. But, yeah, I
5 think it's a matter of timely rate increases. I don't
6 think anybody wants a rate case every year, but
7 recognizing when that need arises, to come in and file
8 a rate case. Alternatively, the Commission could
9 consider, I guess -- this would be unusual and new and,
10 you know, kind of brainstorming here, but an
11 incremental increase of, say, sort of like a temporary
12 rate increase that would, sort of, step into the full
13 rate increase.

14 That sort of concept in recognition of, okay,
15 you've been out a long time, and this is a big
16 increase, and just sort of slowly step into it for
17 customers.

18 Q. I appreciate that. I know we don't often
19 talk about protecting customers from rates that are too
20 low, but I think this case has shown us that that can
21 be an issue.

22 To switch gears just a little bit, you know,
23 you did a great job explaining the value of uniform
24 rates and given these systems that, you know, it makes

1 sense. There was a lot of discussion about individual
2 systems that have particularly high costs, and uniform
3 rates are an excellent way of spreading those high
4 costs among a larger group.

5 I'm just curious, I'm kind of wrapping my
6 head around the inverse. Under our current system, how
7 are -- how are a system that have unusually low rates,
8 just because they're in an area that has surface water
9 or access to a municipality, are those benefits shared
10 in a fair manner among all of the, sort of, sister
11 systems across the uniform rates? Does that question
12 make sense?

13 Because in this particular case, it seems
14 like the final recommendation is two small systems are
15 going to benefit quite a bit from their proximity to
16 lower-cost public system water. And I'm just sort of
17 wrapping my head around the fairness issue for that.

18 A. Yeah. I think there is some sharing.
19 Obviously, that system, not only do you have less
20 infrastructure -- so they don't have wells, they don't
21 have well houses, they don't have pumps, they don't
22 have treatment, they do not have as much time to
23 operate. So -- and partially, a lot of those costs are
24 captured in that usage charge and that base charge that

1 they are -- is the purchase water.

2 But those are a lot of cost savings that I
3 think is shared to some degree with the uniform base
4 charge in this case. You know, it -- I could see what
5 you're -- what you're contemplating here of, should it
6 be all uniform or should you have these two purchase
7 water systems. It's my opinion that it's appropriate
8 to have these two purchase water systems because of
9 just how different that those usage charges are for
10 these systems.

11 And again, capturing potential pass-throughs,
12 is it appropriate for them to field that cost entirely
13 in a pass-through, or should you spread a potential
14 increase of one aspect of operations to all the
15 customers because those systems are close to -- in
16 proximity? And it can cut both ways. There are
17 systems with \$15 usage charges for other utilities. It
18 just happens to be, in this case, that it's the lower.

19 Q. All right. I appreciate that. No additional
20 questions. Thanks.

21 COMMISSIONER BROWN-BLAND: All right.

22 Are there questions on the Commission's questions?

23 MR. MAGARIRA: No questions from the
24 Public Staff.

1 MR. DROOZ: Just a couple, please.

2 COMMISSIONER BROWN-BLAND: All right.

3 Mr. Drooz.

4 CROSS EXAMINATION BY MR. DROOZ:

5 Q. Mr. Junis, is it your understanding there's
6 43 systems with Old North State now that have active
7 water customers?

8 A. Yes.

9 Q. Subject to check?

10 A. Yeah.

11 Q. Okay. And Rocklyn and Blawell are the only
12 two with purchased water, as far as you know?

13 A. That's correct.

14 Q. Okay. And in terms of the refund methodology
15 questions, is it -- I'll ask you for a nonbinding
16 estimate here.

17 Is it your estimate that Rocklyn and Blawell
18 are likely to be the only two that could expect refunds
19 off of the temporary rates?

20 A. Based on our proposed rate design stemming
21 from the settlement, that that is likely the case.

22 Q. Okay. You had mentioned one of the issues
23 with the systems where there were pending applications
24 for a while was delays with the posting of bonds.

1 Do you know that those systems were
2 wastewater systems, not water systems?

3 A. I don't know for a fact --

4 Q. Okay.

5 A. -- at this time.

6 Q. You're not sure if it was water or
7 wastewater?

8 A. I think there were situations of both, but I
9 could be wrong.

10 Q. And there were some questions on checking
11 financial liability over time, and if there is anyone
12 here who is appreciative of limited bandwidth for
13 public resources, it's me. But I did, on the flip
14 side, wanted to ask, you know, for a very small water
15 utility without much in the way of professional
16 resources or managements, not your Aqua or Carolina
17 Water, is it a really big lift to put together a
18 general rate case?

19 A. I would say general rate cases are
20 challenging, I think, depending on your size.
21 Administratively, Old North State and Integra are
22 relatively thin, to the benefit of customers, and so
23 then to put together a rate case of this scale with 43
24 systems could be challenging.

1 Q. And without reference simply to Old North
2 State, but in general smaller systems, could that be a
3 reason why maybe some of them incur losses rather than
4 come in for a rate case every year?

5 A. I think smaller ones there is some level of
6 intimidation of the unknown. We do have some like
7 Saxapahaw, CNP, that do file regularly, sort of
8 acclimated to the process. But that first one can be
9 the hardest for sure.

10 Q. Thanks, that's all my questions.

11 COMMISSIONER BROWN-BLAND: All right.
12 Mr. Magarira and Ms. Coxton?

13 MR. MAGARIRA: No redirect from the
14 Public Staff.

15 COMMISSIONER BROWN-BLAND: I'll
16 entertain your motion on the evidence.

17 MR. MAGARIRA: Commission, we'd move
18 that the prefiled testimony, supplemental testimony
19 where applicable -- actually, I think supplemental
20 testimony and settlement testimony for both
21 Mr. Junis and Ms. Morgan be entered into the record
22 as if given orally from the stand in this docket at
23 this time.

24 COMMISSIONER BROWN-BLAND: All right. I

1 believe the testimony has already been received,
2 and I'm referring to the exhibits. I have not yet
3 received them into evidence.

4 MR. MAGARIRA: Okay.

5 COMMISSIONER BROWN-BLAND: But I'll
6 receive the exhibits that were identified and
7 prefiled with Mr. Junis' testimony. I'll receive
8 them into evidence at this time.

9 (Junis ONS Direct Exhibits 1 and 2,
10 Junis ONS Direct Exhibit 2 Revised, and
11 Junis ONS Settlement Exhibit 1 were
12 admitted into evidence.)

13 MR. MAGARIRA: So the Commission is
14 waiting on Ms. Morgan's exhibits, if I have that
15 right?

16 COMMISSIONER BROWN-BLAND: Correct.

17 MR. MAGARIRA: I will move that
18 Ms. Morgan's -- that the exhibits attached to her
19 prefiled direct testimony be identified as Morgan
20 direct Exhibits I and II; and that Ms. Morgan's
21 supplemental exhibits attached to her supplemental
22 testimony be identified as Morgan ONS Supplemental
23 Exhibits I and II; and that Ms. Morgan's settlement
24 exhibit attached to her settlement testimony be

1 identified as Morgan ONS Settlement Exhibits I and
2 II, and that those exhibits be entered into the
3 record.

4 COMMISSIONER BROWN-BLAND: All right.
5 That motion will be allowed and those exhibits, are
6 received and they are identified as Mr. Magarira
7 indicated.

8 MR. MAGARIRA: Thank you.

9 (Morgan Direct Exhibits I and II, Morgan
10 ONS Supplemental Exhibits I and II, and
11 Morgan ONS Settlement Exhibits I and II,
12 were admitted into evidence.)

13 COMMISSIONER BROWN-BLAND: And I believe
14 that we have all of those, so you may step down.

15 THE WITNESS: (Charles M. Junis)
16 Appreciate it. And if you want to call us back up,
17 we're happy to do that.

18 COMMISSIONER BROWN-BLAND: We will. We
19 might have to even it out. We had Mr. McDonald
20 back up already. Thank you, Ms. Morgan. As our
21 Chair would say, you got off the hook.

22 THE WITNESS: (Iris Morgan) Thank you.

23 MR. MAGARIRA: At this time, the Public
24 Staff calls John R. Hinton to testify, and I'll be

1 conducting direct and redirect of Mr. Hinton.

2 COMMISSIONER BROWN-BLAND: All right.

3 It's been a while, Mr. Hinton, since you actually
4 had to put your hand on the Bible for us, but would
5 you do that?

6 Whereupon,

7 JOHN R. HINTON,

8 having first been duly sworn, was examined

9 and testified as follows:

10 COMMISSIONER BROWN-BLAND: All right.

11 DIRECT EXAMINATION BY MR. MAGARIRA:

12 Q. Please state your name, business address, and
13 position for the record.

14 A. My name is John Robert Hinton. I work at 430
15 North Salisbury Street, Raleigh, North Carolina, and
16 I'm the director of the economic research division for
17 the Public Staff.

18 Q. Thank you. And on February 8, 2022, did you
19 cause to be prefiled in the Old North State rate case
20 direct testimony in question-and-answer form consisting
21 of 44 pages, one appendix, and three exhibits marked
22 Hinton Exhibit I and Hinton Exhibits II and III?

23 A. Yes. And I believe there was Exhibit IV.

24 Q. Is there an Exhibit IV? My apologies. Did

1 you also cause to be prefiled Exhibit IV?

2 A. Yes.

3 Q. Apologies about that. Do you have any
4 changes or corrections to your prefiled direct
5 testimony that you'd like to make today?

6 A. Yes.

7 Q. And please proceed.

8 A. The change is on pages 4 and 5. On lines 10
9 and 11 on page 4, I'd like to remove the words "which
10 is the ultimate parent of CWSNC."

11 Q. And that's removing those words?

12 A. Correct.

13 Q. Okay.

14 A. Similar on page 5, line 7, remove the word
15 "affiliate related."

16 Q. Are those the entirety of the changes you'd
17 make?

18 A. Yes.

19 Q. Okay. Do you have any changes or corrections
20 to the four exhibits to your direct testimony that
21 you'd like to make today?

22 A. No.

23 Q. And including those changes that you made to
24 pages 4 and 5, and the additional changes with regards

1 to removing certain language, if I were to ask you all
2 those questions today, would your answers be the same?

3 A. Yes, they would.

4 Q. Thank you. And on March 8, 2022, did you
5 prefile testimony in support of the joint settlement
6 agreement and stipulation in the Old North State rate
7 case consisting of seven pages and one exhibit marked
8 Hinton Settlement Exhibit 1?

9 A. Yes.

10 Q. Do you have any changes or corrections you'd
11 like to make to your prefiled settlement testimony?

12 A. No.

13 Q. Do you have any changes or corrections you'd
14 like to make to your exhibit to the settlement
15 testimony?

16 A. No.

17 Q. So if I were to ask those same questions
18 today, would your answers be the same?

19 A. Yes.

20 Q. At this time, I would move that Mr. Hinton's
21 prefiled direct testimony and settlement testimony be
22 entered into the record in this proceeding, and copied
23 into the record in their entirety as if given orally
24 from the stand in this docket, including the changes

1 and corrections that were made orally today on the
2 stand; and that Mr. Hinton's appendix be identified as
3 premarked, Mr. Hinton's exhibits attached to his
4 prefiled direct testimony be identified as Hinton ONS
5 Direct Exhibits I, Hinton ONS Direct Exhibit II, Hinton
6 ONS Direct Exhibit III, excuse me, and Hinton ONS
7 Direct Exhibit IV; and that Mr. Hinton's settlement
8 exhibit attached to the settlement testimony be
9 identified as Hinton ONS Settlement Exhibit 1.

10 COMMISSIONER BROWN-BLAND: All right.

11 Mr. Magarira, that motion would be allowed, and
12 Mr. Hinton's prefiled testimony, both direct and
13 the settlement, will be received in evidence at
14 this time and treated as if given orally from the
15 witness stand, and the exhibits will be identified
16 as you so indicated.

17 (Hinton ONS Direct Exhibits 1 through 4
18 and Hinton ONS Settlement Exhibit I were
19 identified as they were marked when
20 prefiled.)

21 (Whereupon, the prefiled direct and
22 Appendix A, settlement, and summaries of
23 John R. Hinton were copied into the
24 record as if given orally from the

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stand.)

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

February 8, 2022

In the Matter of:

Application by Old North State Water)
Company, LLC, 3212 6th Avenue)
South, Suite 200, Birmingham, Alabama)
35222, for Authority to Adjust and)
Increase Rates for Water Utility Service)
in All Its Service Areas in North Carolina)

TESTIMONY OF
JOHN R. HINTON
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. W-1300, SUB 60**

**Testimony of John R. Hinton
On Behalf of the Public Staff -
North Carolina Utilities Commission**

February 8, 2022

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

3 A. My name is John R. Hinton and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Director of the
5 Economic Research Division of the Public Staff. My qualifications
6 and experience are provided in Appendix A.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. The purpose of my testimony is to present the results of my analysis
10 and recommendations to the North Carolina Utilities Commission
11 (Commission) regarding the fair rate of return to be used in
12 establishing rates for water utility service provided by Old North State
13 Water Company, LLC (ONSWC or Company).

14

1 **Q. WHAT IS THE COST OF CAPITAL REQUESTED BY ONSWC IN**
2 **THIS PROCEEDING?**

3 A. Company witness John McDonald's testimony filed on June 29, 2021
4 proposes an overall weighted cost of capital of 7.75%. This
5 requested rate of return is based on the Company's capital structure
6 as of December 31, 2020, which is comprised of 83.00% long-term
7 debt and 17.00% common equity. The Company has requested a
8 cost rate of long-term debt of 7.34% and a cost rate for common
9 equity of 9.75%, as shown in Hinton Exhibit I. Through Data Request,
10 the Company's updated balances of long-term debt and common
11 equity indicate that as of August 31, 2021, the degree of its debt
12 leverage has increased to 89.63%.

13 **Q. HOW DOES COMPANY WITNESS McDONALD DEVELOP HIS**
14 **COST OF DEBT?**

15 A. The Company developed its hypothetical cost rate for debt using a
16 methodology derived from a September 10, 2002, Public Staff
17 presentation on utility rate increase applications that included a
18 document entitled "Rate Case Handbook for Small Water and Sewer
19 Utilities." However, the Company's actual debt is associated with two
20 notes payable with Integra Water, LLC, (Integra) and lines of credit
21 with Integra and three of its affiliates, Integra Water Madison County,
22 Integra Water Creola, and Integra Water Vinemont.

1 **Q. HOW DOES COMPANY WITNESS McDONALD DEVELOP HIS**
2 **COST OF COMMON EQUITY?**

3 A. Witness McDonald testified that the 9.75% rate of return on common
4 equity (ROE) is based upon his calculation of the average
5 Commission-approved ROE for two other water utilities: Carolina
6 Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-
7 354, Sub 360, and Aqua North Carolina, Inc. (Aqua NC) in Docket
8 No. W-218, Sub 497.

9 **Q: WHERE DOES ONSWC RECEIVE ITS EQUITY?**

10 A: ONSWC receives all of its equity capital from Integra, which is the
11 ultimate parent company of ONSWC. ONSWC does not have
12 publicly traded stock or additional shareholders.

13 **Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSED**
14 **CAPITAL STRUCTURE AND COST RATE OF DEBT AND COST**
15 **RATE FOR COMMON EQUITY?**

16 A. A general concern with small water and sewer companies having
17 extreme capitalization ratios is that there is no public trading of their
18 securities, and, therefore, no market evaluation of their riskiness and
19 expected returns. Given this lack of market data, the determination
20 of a reasonable cost rate of debt capital and equity capital that

1 adheres to the Bluefield¹ and Hope decisions² is a difficult and highly
2 subjective process.

3 In this case, ONSWC's books present a highly leveraged capital
4 structure that is vastly different from the capital structures of market-
5 traded water utility companies and Commission-approved capital
6 structures. As noted above, ONSWC obtains 100% of its debt capital
7 from Integra, meaning the debt is affiliate-related and presumably
8 not the result of an arm's length transaction. Accordingly, I have
9 concerns surrounding its cost rate and characterization. Specifically,
10 I am concerned about whether this debt capital should be considered
11 common equity for ratemaking purposes. The Company's responses
12 to the Public Staff's data requests about the cost rate intensify these
13 concerns because the proposed debt cost rate of 7.34% exceeds the
14 6.00% debt cost rate that Integra reported. For regulatory purposes,
15 this kind of debt is generally viewed as equity capital, which suggests
16 that the Company's assets are financed with 100% common equity.

¹ Bluefield WaterWorks & Improvement Co. v. Public Service Comm'n, 262 U.S. 679, 692-93 (1923).

² Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).

1 **Q: DO YOU BELIEVE ONSWC IS APPROPRIATELY CAPITALIZED?**

2 A: No, I do not believe the Company is appropriately capitalized. In my
3 opinion, a capital structure of 83.00% long-term debt and 17.00%
4 common equity is extreme in the sense that it is highly leveraged and
5 portends a pre-tax interest coverage ratio of only 1.4 times as shown
6 in Hinton Exhibit 1. In the event ONSWC needs external debt capital,
7 it is highly likely ONSWC will be viewed by banks and lending
8 institutions to have a relatively high risk of default, which in turn will
9 likely result in a relatively high cost rate for long-term debt. Likewise,
10 if the debt capital from Integra is considered common equity, then
11 the use of a contemporary ROE would result in a higher overall cost
12 of capital than necessary or appropriate for ratemaking. Both of these
13 extreme capitalization ratios pose an unreasonable risk to
14 ratepayers. These concerns are addressed in a regulatory paper
15 entitled, "Optimal Capital Structures – An Approach," which I found
16 instructive in reaching my conclusions.³ Even though the paper is
17 dated, the market principles discussed therein remain sound and
18 applicable to this proceeding. The regulatory paper is attached as
19 Hinton Exhibit 2 and the pretax interest coverage ratio benchmarks
20 for gas utilities shown on page 10 of the Exhibit are applicable and

³ Samuel L. Kemp and Ronald L. Shackelford. "Optimal Capital Structures – An Approach." Proceedings of the Fifth NAURAC Biennial Regulator Information Conference, September 3-5, 1986, Volume 3, pp. 2293-2308.

1 supportive of my concerns with the Company's proposed capital
2 structure and the resulting 1.4 pre-tax interest coverage ratio.

3 **Q. WHAT IS YOUR RECOMMENDED CAPITAL STRUCTURE FOR**
4 **USE IN THIS CASE?**

5 A. As with my prior testimony for small water and sewer companies, I
6 recommend the use of a hypothetical capital structure comprised of
7 50.00% common equity and 50.00% long-term debt as reasonable
8 for ratemaking. This capital structure is reflective of capital structures
9 available to investors who seek the business and financial risk
10 profiles associated with water and sewer utilities. It also is the same
11 capital structure approved in several water and wastewater general
12 rate cases, including the recent Aqua NC Order in Docket No. W-
13 218, Sub 526.

14 Given that ONSWC's proposed capital structure contains 83% long-
15 term debt, I recommend that Integra infuse the additional equity
16 capital required to establish a capitalization ratio of 50.00% common
17 equity and 50.00% long-term debt. This capitalization is reasonable
18 and will provide adequate assurance that the utility is appropriately
19 capitalized.

1 **Q: WHAT TIMELINE DO YOU RECOMMEND FOR BRINGING**
2 **ONSWC'S CAPITAL RATIO TO A REASONABLE LEVEL?**

3 A: ONSWC should bring its capital ratio up to approximately 50.00%
4 equity and 50.00% long-term debt by the evidentiary hearing
5 scheduled in this proceeding.

6 **Q: HOW LONG SHOULD ONSWC MAINTAIN THIS CAPITAL RATIO**
7 **AND SHOULD THE COMMISSION REQUIRE ONSWC TO FILE**
8 **PERIODIC REPORTS WITH THE COMMISSION WITH RESPECT**
9 **TO ITS CAPITAL RATIO?**

10 A: ONSWC should continuously maintain a reasonable level of
11 common equity to ensure access to capital at reasonable terms
12 going forward. While I recommend the capital ratio be brought up to
13 approximately 50.00% equity and 50.00% long-term debt, I believe
14 that a capital structure with a minimum of 45.00% common equity
15 would allow the Company to obtain any additional capital at
16 reasonable terms. ONSWC should also be required to file audited
17 financial statements with its Annual Report for the next three years
18 as a means of showing its compliance with the recommended capital
19 ratios.

1 **Q. IS YOUR RECOMMENDATION CONSISTENT WITH THE PUBLIC**
2 **STAFF’S HISTORICAL PRACTICE FOR ADDRESSING**
3 **EXTREME CAPITALIZATION RATIOS AND COST OF CAPITAL**
4 **FOR SMALL WATER AND SEWER COMPANIES?**

5 A. The Public Staff’s Economic Research Division has a long history of
6 recommending hypothetical capital structures in cases where the
7 actual utility capital structure is (1) comprised of an unreasonable
8 level of common equity and long-term debt, and (2) not reflective of
9 other comparable water utilities available to investors in the
10 marketplace. For over 40 years, the Public Staff has applied various
11 versions of the “Montclair Method” that have always included the use
12 of a hypothetical capital structure comprised of 50.00% common
13 equity and 50.00% long-term debt. This approach was derived from
14 the testimony of Public Staff witness Dr. Dick Stevie filed in Docket
15 No. W-173, Sub 14 in 1981, which offers two methods to determine
16 the overall cost of capital for small water and sewer utilities. The
17 Commission approved these methods, which (1) allow small water
18 and sewer utilities with relatively little rate base to recover their net
19 operating income with the use of a margin on their operating
20 expenses, or (2) allow small utilities with a relatively greater level of
21 rate base to recover their net operating income through a rate of
22 return. The determination of the margin on operating expense or the

1 rate of return on rate base involved the use of a risk-free rate that
2 added a 3.00% point risk factor, where the risk-free rate of return was
3 based on the yields of five-year Treasury Securities.

4 While most rate cases have employed a margin applied to the utility's
5 operating expense as seen in recently filed Public Staff affidavits,⁴
6 this method has also been approved by the Commission to
7 determine the overall rate of return on the utility's rate base as is
8 done in this case.⁵

9 **Q. WHAT BENEFITS JUSTIFY THE USE OF THE MONTCLAIR**
10 **METHOD?**

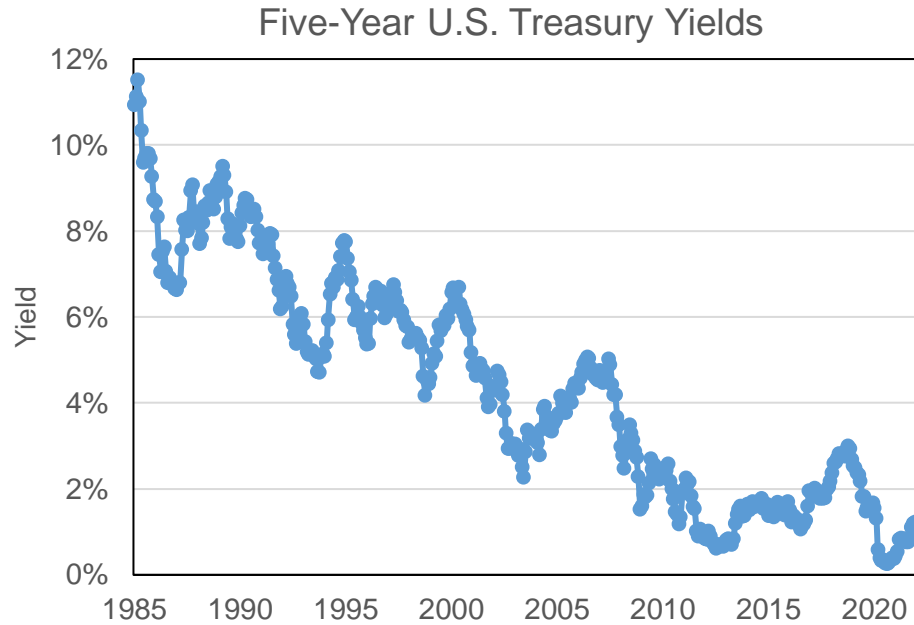
11 A. An advantage of this approach is that it tends to eliminate the need
12 for small water and sewer utilities to hire outside cost of capital
13 witnesses. Hiring these witnesses is not in the best interest of small
14 water and sewer utility owners or customers as it is cost-prohibitive
15 and can lead to significant increases in rate case expense and, in
16 turn, significantly higher utility rates. Another benefit of this method
17 is its transparency and administrative efficiency as compared to
18 methodologies that require proxy groups and various analyses.

⁴ C&P Enterprises, Inc., Docket No. W-1063, Sub 5, January 19, 2022.

⁵ GGCC Utility, Inc., Docket No. W-755, Sub 10, January 4, 2019; Dutchman Creek, Inc., Docket No. W-1082, Sub 3, February 23, 2010; GGCC Utility, Inc., Docket No. W-755, Sub 5, June 28, 2007.

- 1 **Q. DOES THE PUBLIC STAFF STILL UTILIZE THE MONTCLAIR**
2 **METHOD?⁶**
- 3 A. The Public Staff employs some elements of the Montclair Method,
4 such as the 50/50 hypothetical capital structure recommended in this
5 case. However, the Public Staff no longer applies a risk-free rate plus
6 a risk factor to determine the overall margin on operating expense or
7 overall return on rate base when using the Montclair Method. Federal
8 Reserve policies have led to sustained decreases in the yields of
9 five-year U.S. Treasury bonds. These decreasing yields diminished
10 the Montclair Method's ability to produce reasonable rates of return
11 on capital or a reasonable margin on expense. The graph below
12 illustrates the historical decrease in five-year U.S. Treasury bonds
13 yields that made continued use of a risk-free rate plus a risk factor to
14 determine the overall margin on operating expense or overall return
15 on rate base unreasonable for ratemaking purposes.

⁶ Docket No. W-173, Sub 14, Montclair Water Company, May 29, 1981.



1

2

Source: 5-Year Treasury Constant Maturity Rate, [St. Louis Federal Reserve Bank](#)

3

Q. WITH SUCH LOW TREASURY YIELDS, HOW DID THE PUBLIC STAFF ADAPT THE MONTCLAIR METHOD TO DERIVE ITS RECOMMENDED OVERALL RATE OF RETURN OR MARGIN ON EXPENSE?

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A. The Public Staff adapted a revised method by basing its recommendations on the average approved overall return for water and sewer utilities. The Public Staff began by tracking the average overall rates of return for water and sewer utilities approved by this Commission and other regulatory commissions. An 8.50% recommended rate of return and margin on expense was the initial rate using the new method. Then, the Public Staff began to adjust its

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13

1 recommendations to reflect the continuous decline in the average
2 return for water and sewer utilities such that, during 2009 and 2010,
3 the Public Staff lowered its recommended overall rate of return and
4 margin on operating expense for small water and sewer companies
5 to 8.25%. The 8.25% overall rate of return or margin on operating
6 expense was recommended and approved in Docket No. W-1049,
7 Subs 12 and 13; Docket No. W-1082, Sub 3; and several other rate
8 case proceedings.

9 The decline in interest rates and approved overall rates of return
10 continued through 2011, which prompted the Public Staff to rely
11 exclusively on the average approved overall cost of capital for
12 CWSNC and Aqua NC as the basis for its recommended overall
13 return on rate base and margin on operating expense. This resulted
14 in lowering the overall rate of return and margin on operating
15 expense for small water and sewer companies to 8.00%. An 8.00%
16 overall rate of return or margin on operating expense was awarded
17 in the following rate case proceedings: Docket No. W-1250, Sub 3;
18 Docket No. W-1079, Sub 11, and several other rate case
19 proceedings.

20 From 2013 through 2019, the Public Staff recommended a 7.50%
21 overall rate of return or margin on operating expense for small water

1 and sewer companies in rate case proceedings. The table below
 2 provides Aqua NC's and CWSNC's overall rates of return allowed by
 3 the Commission between 2014 and 2019. The Commission
 4 approved the use of a 7.50% overall rate of return on its rate base
 5 for GGCC Utility, Inc. on January 4, 2019 in Docket No. W-755, Sub
 6 10 and a 7.50% margin on operating expense for Springdale Water
 7 and Sewer, LLC. on October 14, 2020 in Docket No. W-406, Sub 6.

8 Table I: Approved Overall Rates of Return in NC (2014-2019)

Company	Order Date	Approved Overall Return	%Equity	ROE%	Cost Rate of Debt
Aqua NC	5-2-14	7.52%	50.00%	9.75%	5.29%
Aqua NC	12-18-18	7.17%	50.00%	9.70%	4.63%
CWSNC	12-7-15	8.20%	51.00%	9.75%	6.60%
CWSNC	8-11-17	7.84%	52.00%	9.60%	5.93%
CWSNC	2-21-19	7.75%	50.91%	9.75%	5.68%
Average		7.70%			

9 Source: Docket No. W-218, Subs 363 & 497, Docket No. W-354, Subs 344, 356, & 360.

10 **Q. WHAT OVERALL RATE OF RETURN AND MARGIN ON**
 11 **OPERATING EXPENSE DOES THE PUBLIC STAFF CURRENTLY**
 12 **RECOMMEND FOR SMALL WATER AND SEWER COMPANIES?**

13 A. Since 2021, the Public Staff has recommended a 7.00% overall rate
 14 of return on rate base or margin on operating expense for small water
 15 and sewer utilities. These recommendations are based on the

1 allowed overall rates of return approved by the Commission in the
 2 two most recent rate cases involving CWSNC and Aqua NC. Table
 3 2 below lists the two most recently allowed overall rates of return.

4 Table 2: Approved Overall Rates of Return in NC (2020-2021)

Company	Order Date	Allowed Overall Rate of Return	% Equity	ROE%	Cost Rate of Debt
CWSNC.	3-31-20	7.39%	49.10%	9.50%	5.36%
Aqua NC	10-26-20	6.81%	50.00%	9.40%	4.21%
Average		7.10%			

5 Source: Docket No. W-354, Sub 364 and Docket No. W-218, Sub 526

6 **Q. FOR THIS PROCEEDING, WHAT IS YOUR RECOMMENDED ROE**
 7 **AND YOUR RECOMMENDED COST RATE FOR LONG-TERM**
 8 **DEBT?**

9 A. I recommend a 7.00% overall return on rate base that contains a
 10 9.40% ROE and a 4.60% cost rate for debt for ONSWC. The 9.40%
 11 ROE is identical to the Commission-approved ROE in the Aqua NC
 12 rate case Docket No. W-218, Sub 526 Order dated October 26, 2020.
 13 In addition, its reasonableness is supported by the joint stipulation
 14 the Public Staff and CWSNC filed in Docket No. W-354, Sub 384 on
 15 November 30, 2021, containing a 9.40% ROE. The 4.60% cost of
 16 debt is an approximation for the approved cost of debt in the above
 17 two rate cases, which reasonably reflects current market based long-
 18 term debt costs for water and wastewater utilities.

1 Q. WHAT OTHER EVIDENCE DID YOU CONSIDER IN YOUR
2 ASSESSMENT OF THE REASONABLENESS OF YOUR
3 RECOMMENDED RETURN?

4 A. In regards to the reasonableness assessment of financial risk, I
5 considered the pre-tax interest coverage ratio produced by my cost
6 of capital recommendation. Based on the recommended capital
7 structure, the recommended cost of debt, and the ROE of 9.4%, the
8 pre-tax interest coverage ratio is approximately 3.7 times. This level
9 of pre-tax interest coverage is reasonable and could allow ONSWC
10 to qualify for a single "A" bond rating.

11 Q. WOULD YOU PLEASE SUMMARIZE YOUR
12 RECOMMENDATIONS CONCERNING THE COST OF CAPITAL?

13 A. I recommend a capital structure for ratemaking purposes in this
14 proceeding of 50.00% long-term debt and 50.00% common equity,
15 with an overall weighted cost of capital of 7.00%. My
16 recommendation assumes an embedded cost of long-term debt
17 associated with this capital structure of 4.60% and a recommended
18 cost of common equity of 9.40% as shown in Hinton Exhibit 3.
19 Additionally, I believe that this overall rate of return is based on
20 current competitive overall rates of return within the capital markets
21 and is applicable to both large and small water and sewer utilities.
22 As such, I maintain that the recommended overall rate of return is

1 fair to ONSWC's investors and its ratepayers.

2 **Q. WHY DO YOU NOT RECOMMEND USING THE OPERATING**
3 **RATIO METHOD IN THIS CASE?**

4 **A.** After investigation, I determined ONSWC's rate base is greater than
5 the reasonable level of operating expenses for water service; as
6 such, utilizing the operating ratio method would cause the return to
7 be less than the cost of capital, which is not appropriate.

8 **Q: IF ONSWC DOES NOT BRING ITS CAPITAL RATIO TO YOUR**
9 **RECOMMENDED LEVEL BY THE EVIDENTIARY HEARING**
10 **DATE, WHAT IS YOUR RECOMMENDATION WITH RESPECT TO**
11 **THE COST OF CAPITAL IN THIS DOCKET?**

12 **A:** If ONSWC does not bring its capital ratio to the recommended level
13 by the evidentiary hearing, I recommend that the Company's capital
14 structure be comprised of 89.63% long-term debt and 10.37%
15 common equity. I further recommend the use of a 6.00% cost rate
16 for debt and a 9.40% cost rate for common equity. Hinton Exhibit 4
17 shows the alternative recommendation with a weighted overall cost
18 of capital of 6.35% which is less than my preferred overall cost of
19 capital of 7.00% shown in Hinton Exhibit 3. Lastly, I recommend that
20 the Commission issue an order requiring ONSWC to bring its capital
21 structure to a minimum level of 50.00% common equity.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes.

QUALIFICATIONS AND EXPERIENCE

JOHN ROBERT HINTON

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980 and a Master of Economics degree from North Carolina State University in 1983.

I joined the Public Staff in May 1985 and have been involved in a variety of projects and testified in numerous dockets. Those projects include (1) developing the long-range forecasts of peak demand and energy sales for electricity in North Carolina in 1986, 1989, and 1992; (2) reviewing numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs; (3) serving as the lead analyst for the Public Staff in numerous avoided cost proceedings and arbitration proceedings; (4) recommending the appropriate rate of return on equity and debt capital for water, local natural gas distribution and pipeline companies, and electric utilities; (5) performing a financial analysis of two audit reports on Mid-South Water Systems, Inc., filed in Docket No. W-100, Sub 21; (6) serving as a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council of the U.S. Environmental Protection Agency regarding the 1996 Safe Drinking Water Act; and (7) publishing an article in the National Regulatory Research Institute's Quarterly Bulletin entitled "Evaluating Water Utility Financial Capacity".

I have testified or filed affidavits in the dockets listed below.

<u>ISSUE</u>	<u>DOCKETS</u>
Long-range electric peak demand and energy forecast	E-100, Sub 50
Weather normalization of electricity sales	E-7, Subs 620 and 989 E-2, Sub 833
Customer growth adjustments	E-2, Sub 1023
Level of funding for nuclear decommissioning costs	E-2, Subs 1023 and 1219 E-7, Subs 1026 and 1146
Integrated Resource Plans	E-100, Subs 114 and 125
Avoided Costs for Biennial Proceeding	E-100, Subs 106, 136, 140, 148, and 158
Avoided Costs for energy efficiency and demand side management programs	E-7, Subs 1032 and 1130 E-2, Subs 1145 and 1174
Issuance of Certificates of Public Convenience and Necessity (CPCN) for electric generation	E-2, Sub 669 E-7, Subs 790, 791, and 1134 SP-132, Sub 0
Merger of Dominion Energy, Inc., and SCANA Corp.	E-22, Sub 551 G-5, Sub 585

Fair rate of return	E-22, Subs 333, 412, and 532 G-5, Subs 327, 386, and 632 G-9, Subs 351, 382, and 722 G-21, Subs 293 and 442 P-12, Sub 89 P-26, Sub 93 P-31, Sub 125 P-100, Sub 133b P-100, Sub 133d (1997 and 2002) W-218, Subs 319, 497, and 526 W-354, Subs 360, 364, and 384 W-778, Sub 31
Credit metrics and the risk of a downgrade	E-7, Sub 1146
Hedging of natural gas prices	E-2, Subs 1001, 1018, and 1031
Expansion of natural gas	G-5, Subs 337 and 372
Water utility CPCN transfer application	W-1000, Sub 5
Rainfall normalization with respect to water sales	W-274, Sub 160

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1300, SUB 60

March 8, 2022

In the Matter of:

Application by Old North State Water	)	SETTLEMENT
Company, LLC, 3212 6th Avenue	)	TESTIMONY OF
South, Suite 200, Birmingham, Alabama	)	JOHN R. HINTON
35222, for Authority to Adjust and	)	PUBLIC STAFF – NORTH
Increase Rates for Water Utility Service	)	CAROLINA UTILITIES
in All Its Service Areas in North Carolina	)	COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. W-1300, SUB 60

SETTLEMENT TESTIMONY OF JOHN R. HINTON
ON BEHALF OF THE PUBLIC STAFF –
NORTH CAROLINA UTILITIES COMMISSION

March 8, 2022

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

3 A. My name is John R. Hinton. My business address is 430 N. Salisbury
4 Street, Dobbs Building, Raleigh, North Carolina. I am Director of the
5 Economic Research Division of the Public Staff – North Carolina
6 Utilities Commission (Public Staff).

7 Q. ARE YOU THE SAME JOHN R. HINTON THAT FILED DIRECT
8 TESTIMONY AND EXHIBITS ON RATE OF RETURN AND
9 CAPITAL STRUCTURE ON FEBRUARY 8, 2022?

10 A. Yes, I am.

11 Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY

12 A. The purpose of my settlement testimony is to support the Joint
13 Settlement Agreement and Stipulation between Old North State
14 Water Company, LLC (ONSWC or the Company) and the Public Staff
15 (the Stipulation), as it relates to the cost of capital and capital
16 structure to be used in setting rates in this proceeding.

1 **Q. WHAT IS THE COST OF CAPITAL IN THE STIPULATION?**

2 A. The Public Staff and the Company have agreed to a 7.00% overall
3 weighted cost of capital in this proceeding. The cost rate is based on
4 an average approved weighted cost of capital for recently approved
5 general rate cases with water and wastewater utilities, as outlined in
6 my direct testimony filed on February 8, 2022. Furthermore, this cost
7 rate reflects the use of a hypothetical capital structure comprised of
8 50% long-term debt and 50% common equity, a 9.40% cost of
9 common equity, and a 4.60% cost of long-term debt, as shown in
10 Hinton Supplemental Exhibit I.

11 **Q. WHAT IS YOUR EXPERIENCE WITH AND UNDERSTANDING OF**
12 **SETTLEMENTS IN SIMILAR GENERAL RATE CASE**
13 **PROCEEDINGS?**

14 A. It has been my experience that settlements are generally the result
15 of good faith “give and take” and compromise-related negotiations
16 among the parties to utility rate proceedings. Settlements, as well as
17 the individual components of the settlements, are often achieved by
18 the respective parties’ agreements to accept otherwise unacceptable
19 individual aspects of individual issues. Settlements sometimes result
20 in a “global” resolution of all the issues that would otherwise be
21 litigated in a rate proceeding, and are sometimes restricted to

1 resolution of one or more individual issues. The Stipulation is global
2 with respect to the contested issues the Public has identified.

3 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING UP**
4 **TO THE STIPULATION?**

5 A. Yes, I participated in the negotiations leading up to the Stipulation.

6 **Q. DO YOU STILL HAVE CONCERNS ABOUT THE COMPANY'S**
7 **APPLICATION THAT PROPOSED A CAPITAL STRUCTURE**
8 **CONTAINING 83% LONG-TERM DEBT AND 17% COMMON**
9 **EQUITY?**

10 A. No, following settlement discussions, the Company provided
11 consolidated financial statements of Integra Water, LLC (Integra).
12 Those statements indicate a reasonable level of long-term debt and
13 common equity for Integra. Furthermore, my discovery that Integra
14 Water, LLC does not technically own ONSWC has not changed my
15 recommendation on the cost of capital. I understand that John
16 McDonald is the Member, Organizer, and Manager of ONSWC and
17 Michael Myers is a Member and Organizer of ONSWC. Therefore,
18 John McDonald is a co-owner of ONSWC while being the sole
19 member of Integra Water, LLC (Integra). However, Mr. McDonald's
20 role as the Manager of ONSWC, Integra's financial vitality, and his
21 commitment that Integra will finance ONSWC's future capital
22 requirements and fund ONSWC's ongoing, day-to-day capital and

1 operational needs supports my recommendation that ONSWC use a
2 7.00% overall cost of capital, with a hypothetical capital structure
3 composed of 50% long term debt and 50% equity.

4 John McDonald's authority to provide ONSWC with Integra's capital
5 resources further supports this assurance. This commitment is
6 memorialized on page 8 of the Joint Settlement Agreement and
7 Stipulation filed in this docket on March 8, 2022, and is the basis for
8 my revised recommendation that it is not necessary for the Company
9 to bring its actual capital structure to 50% common equity, maintain
10 a 45% equity ratio, or file audited financial statements with its Annual
11 Report to the Commission for the next three years as means of
12 showing its compliance with the recommended capital ratios.

13 **Q. IS THE 7.00% OVERALL COST OF CAPITAL A REASONABLE**
14 **RESULT?**

15 A. Yes. I believe that the 7.00% overall cost of capital is reasonable.
16 The 7.00% is based on recently approved, overall cost of capital for
17 water and wastewater utilities and is applicable to determine the rate
18 of return for both rate base-oriented utilities and for utilities where the
19 risk to the owner is oriented toward its operating expense. In my
20 opinion, the settled 7.0% overall cost of capital is appropriate for
21 ONSWC and is fair to both ratepayers and the utility.

- 1 Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?
- 2 A. Yes, it does.

OLD NORTH STATE WATER COMPANY, LLC.

DOCKET NO. W-1300, SUB 60

SUMMARY OF JOHN ROBERT HINTON

The purpose of my testimony in this proceeding is to present to the Commission my findings as to the reasonable cost of capital for Old North State Water Company, LLC. (ONSWC). I conclude that the overall cost of capital to ONSWC is 7.00%. I believe that this cost of capital is reasonable is applicable to determine the rate of return for both rate base-oriented utilities, like ONSWS, and for utilities where the risk to the owner is oriented toward its operating expense. In my opinion, the settled 7.0% overall cost of capital is appropriate for ONSWC and it is fair to both ratepayers and the utility.

In addition, the consolidated financial statements for Integra Water, LLC. and the commitment of John McDonald to make funds available for future capital requirements and to have adequate funds for normal day-to-day operational expenses to provide quality water service to ONSWC's customers has, largely, removed my concerns with the Application.

This concludes my summary.

OLD NORTH STATE WATER COMPANY, LLC.

DOCKET NO. W-1300, SUB 60

SUMMARY OF JOHN ROBERT HINTON'S PRE-FILED DIRECT TESTIMONY

The purpose of my testimony filed on February 8, 2022 in this proceeding is to present to the Commission my findings as to the reasonable cost of capital for Old North State Water Company, LLC. (ONSWC).

I concluded in my direct testimony that the overall cost of capital to ONSWC is 7.00%, with a 9.40% return on equity and 4.6% cost rate for debt. 4.60% cost of debt was an approximation of the approved cost of debt in two prior rate cases, while 9.40% return on equity was supported by two recently approved Commission ROEs in two water/wastewater utility proceedings. I believe that this cost of capital is reasonable and applicable to determine the rate of return for both rate base-oriented utilities, like ONSWS, and for utilities where the risk to the owner is oriented toward its operating expense.

I also recommended that ONSWC should continuously maintain a reasonable level of common equity, with a minimum of 45.00% common equity. ONSWC's capital structure of 89.63% long-term debt and 10.37% did not provide adequate assurances of appropriate capitalization.

This concludes my summary.

OLD NORTH STATE WATER COMPANY, LLC.

DOCKET NO. W-1300, SUB 60

SUMMARY OF JOHN ROBERT HINTON'S PRE-FILED SETTLEMENT TESTIMONY

The purpose of my testimony filed on March 8, 2022 in this proceeding is to present to the Commission my findings as to the reasonable cost of capital for Old North State Water Company, LLC. (ONSWC). I conclude that the overall cost of capital to ONSWC is 7.00%. I believe that the 7.00% overall cost of capital is reasonable and applicable to determine the rate of return for both rate base-oriented utilities, like ONSWS, and for utilities where the risk to the owner is oriented toward its operating expense. In my opinion, the settled 7.0% overall cost of capital is appropriate for ONSWC and is fair to both ratepayers and the utility.

In addition, the consolidated financial statements for Integra Water, LLC and the commitment of John McDonald on behalf of Integra to make Integra funds available for future capital requirements and to ensure ONSWC has adequate funds to support the normal, day-to-day capital and operational expenses incurred to provide quality water service to ONSWC's customers has, largely, removed my concerns with ONSWC's capital structure and its capitalization more broadly.

This concludes my summary.

1 MR. MAGARIRA: Thank you. No further
2 questions from the Public Staff. And at this time,
3 Mr. Hinton is available for questioning.

4 COMMISSIONER BROWN-BLAND: All right.
5 Are there any questions for this witness from the
6 applicant?

7 (No response.)

8 COMMISSIONER BROWN-BLAND: All right.
9 Mr. Hinton, just a few.

10 EXAMINATION BY COMMISSIONER BROWN-BLAND:

11 Q. In your vast experience -- and that's a
12 recognition that you've been around here for a while --
13 has the Commission ever approved rates based on a
14 hypothetical capital structure with an equity layer
15 much larger than the Company's actual capital
16 structure?

17 A. Okay. Now, you're asking has the -- I hate
18 to ask you, have we approved a capital structure with
19 83 percent debt in the cap; is that what you're
20 actually asking me, Mrs. --

21 Q. Well, that gets it mighty specific, but I'm
22 looking in that general range, if you see that far of a
23 misalignment or --

24 A. No. I can clearly say that the Public Staff

1 has never recommended and the Commission has never
2 approved anything close to 83 percent debt leverage
3 capital structure.

4 Q. Do you have any recollection of that
5 situation coming before the Commission and knowledge of
6 what -- how it was approached?

7 A. I cannot recall any time I have ever seen any
8 filing this much debt leveraging. It's -- it was
9 unusual, and it called for me to take a different
10 attack on this case.

11 Q. All right. You testified that, for
12 regulatory purposes, the type of debt carried by the
13 Company is generally viewed as equity capital. Why is
14 that?

15 A. Because it's not at a full arm's-length
16 distance or negotiations. It's like loaning money to
17 your child to buy a new car. And that's what I was led
18 to believe, there was a parent-subsidiary relationship.
19 And so when we see that, and we've seen it more than
20 once, that we consider that to be equity financing.
21 Because the -- even though there was a term with this
22 note -- notes, and there was a rate with these notes,
23 it still is not a binding contract if Old North State
24 didn't pay Integra Water for that money or the other

1 subsidiaries.

2 So we don't see that as arm's length. We
3 don't see -- the rate that was come up, was considered
4 by market forces representing the appropriate cost of
5 debt capital. And so the cost rate was in question,
6 the contract was in question. It's from the parent
7 company pushed down to the associated company; thus, I
8 consider that equity for ratemaking purposes.

9 Q. And have we ever given, you know, such a
10 hypothetical capital structure?

11 A. No, ma'am. I've never seen anything like
12 that before the Commission or -- like I said, anything
13 with that kind of debt leverage. It was rather odd.

14 Q. I recall there was the idea that -- did you
15 suggest it; is that correct?

16 A. Could you --

17 Q. The hypothetical to --

18 A. Yes.

19 Q. To give a hypothetical. What made you do
20 that?

21 A. Well, this was the long history of the Public
22 Staff. It's not that unusual when you have contributed
23 water systems where the plant is, you know, paid for by
24 the developer. The developer wants to wash his hands

1 of the system. He gives it to a water company with
2 costs without a rate base. Because the new water
3 company can't apply that as its own rate base, because
4 they didn't put the capital up to. Its a contributed
5 system.

6 So it's not that unusual we see things, rate
7 cases with small water companies that have 100 percent
8 equity. It's rare you ever see something 100 percent
9 debt or 83 percent debt. But it's not unusual to see a
10 low amount of actual rate base in a Company. So the
11 use of a hypothetical has been applied, and like I said
12 in my testimony, for over 40 years. But it's applied
13 with -- in cases where the actual capitalization rate
14 shows are suspect, and this is one of those cases.

15 Q. Did the capitalization ratios of Integra play
16 any role in your thinking about this?

17 A. Yes, it did. As I developed the system --
18 and I believe, you know, the -- as my understanding
19 from, again, discussions with Mr. McDonald and his
20 commitment that he made before in settlement
21 negotiations, that he would fund this company. So I
22 would have to look at the actual financial backing of
23 Integra Water, LLC, which I did.

24 And as you'll be provided in these

1 confidential financial statements, I think you will
2 find -- come to a conclusion similar to that I came to,
3 that Integra Water, LLC is financially viable and can
4 provide capital to Old North State Water Company.

5 Q. And so you weighed that in accepting the
6 commitment that was being made to fund Old North State?

7 A. Correct. As notified in my supplemental
8 testimony. That supplemental testimony, that's the
9 nexus that gave me the ability to go further with this
10 Company. Because unless they -- unless they can
11 provide that relationship and that solid foundation
12 that LLC had, the company that is associated with
13 John McDonald. And as you see, I'm neglecting to say
14 affiliate, because they're not a true affiliate through
15 our investigation, but.

16 Q. And can you explain? What do you mean by
17 that?

18 A. Well, it was discovered that the -- there's
19 not an affiliate contractual relationship between
20 Integra Water, LLC and Old North State directly. It's
21 not an affiliate/subsidiary relationship as you see
22 with Duke Energy Carolina and other large-scale
23 utilities. But what the common co-owner is, of course,
24 John McDonald.

1 And so we met with Mr. McDonald, and his
2 testimony he's given today, plus his commitment he's
3 expressed in the meeting, and plus the documents he's
4 provided have given me enough confidence that I believe
5 that Integra Water, LLC, through the management and
6 ownership of John McDonald, is adequate, for my
7 purposes, to think they're financially viable. I
8 believe they're financially viable.

9 So I could go beyond. I did in my prefiled
10 testimony, which was more like this is a company with
11 83 percent debt. And it's not -- what that does, in
12 reality, it makes my job much more difficult, because
13 there's no -- I want to find a market determined rate
14 of return for debt and equity. You cannot do that. I
15 cannot do that with a company that -- There's not a
16 market for securities with a company that's that risky.

17 It's like going to the bank and applying for
18 your first loan on your house, and I'd like to borrow,
19 you know, \$100,000 but, you know, I don't have any
20 equity. I've got all the debt on my other balance
21 sheet. On my balance sheet. The bank would say no,
22 thank you.

23 So likewise, the actual required rate of
24 return, the equity holder would require to invest money

1 into a company that only has 13 or 17 percent equity on
2 its balance sheet would be something greater than what
3 we'd commonly give water utilities, which is around the
4 90-percent mark. So it makes -- anything this kind of
5 leveraging makes my job extremely difficult and quite
6 subjective. And that's not the way I want to do my
7 business.

8 So over the years, going back to the old
9 Montclair method that's noted in my testimony, the use
10 of hypothetical capital structure makes sense applying
11 a reasonable cost rate for both debt and equity.

12 That's the basis how I looked at this case. But the
13 ultimate financial viability that ultra -- Integra has
14 to provide capital for future capital expansion
15 projects and ongoing day-to-day operations is
16 important.

17 Q. All right. Thank you, Mr. Hinton. One last
18 question is, given Integra's actual cost of debt is
19 6 percent, explain why it is not appropriate, or why
20 that isn't an appropriate cost of debt for the Company
21 instead of the 4.6 that's used in the stipulation?

22 A. Again, it goes back to, you know, that debt
23 rate was something that was not a market-determined
24 rate, I don't believe. I have no evidence of that.

1 You know, I did learn that it is -- discovered that it
2 is -- there's a term on it. I mean, it's not just an
3 open-ended demand payment. But as brought out, there's
4 questionable treatment of those interest costs. So I
5 assume it's a balloon payment as indicated by the
6 testimony by Mr. McDonald.

7 It's not a debt between two parties, a bank
8 and -- that lends capital to the utility and expects to
9 be paid back on appropriate times and agreed-upon
10 interest rate. That's not what we see here. We see a
11 parent subsidiary providing capital, which, again, from
12 my eyes is considered equity, because Old North State
13 is not under a contract -- a legally binding contract
14 to pay back the parent.

15 Q. I appreciate your explanation, Mr. Hinton.

16 COMMISSIONER BROWN-BLAND: Are there
17 further questions for this witness?

18 Commissioner Clodfelter?

19 EXAMINATION BY COMMISSIONER CLODFELTER:

20 Q. I want to stay with the topic that
21 Commissioner Brown-Bland's been exploring. You changed
22 your testimony on page 5 to delete the phrase
23 "affiliate related."

24 And is it your understanding, then, that two

1 entities which are under common control and common
2 ownership are not affiliates?

3 A. It's not affiliated in normal ratemaking
4 practices that we're using here. Now -- at least to my
5 mind. It's a common ownership is how I viewed it.

6 Q. Okay. Thank you for the clarification. That
7 helps.

8 You were using the word "affiliate" to mean
9 something narrower than maybe the general legal
10 definition?

11 A. Correct.

12 Q. Okay. I follow you. I understand you.
13 Thank you. Let me stay with the same topic, though,
14 and ask -- I'm -- being a lawyer, I know just barely
15 enough about uniform system of accounts and GAAP to be
16 quite dangerous.

17 Given the structure of this affiliation, not
18 in the sense you use for ratemaking purposes, but the
19 legal affiliation that exists here between these two
20 entities that are under common ownership and common
21 management, how is this debt classified under the FERC
22 uniform system of accounts, or under GAAP?

23 A. I don't feel I'm competent to answer that. I
24 would assume it would -- on the annual report, it's

1 debt. But I don't know if it follows GAAP, to be
2 honest. I can't answer that.

3 Q. Should I have asked Ms. Morgan that question?

4 A. I'm afraid so.

5 Q. I've done it again. Well, I'll let the
6 question hang out there, because we'll do some more
7 research on that and see what we can find out about it.
8 I asked Mr. McDonald some questions about the Old North
9 State balance sheet, and you were in the hearing room
10 and you heard that question.

11 Did you do any investigation to satisfy
12 yourself that the value at which the notes receivable
13 carry on the Company's balance sheet as an asset, that
14 those are properly valued for purposes of the balance
15 sheet?

16 A. No, I did not. I did not go to that level of
17 detail.

18 Q. Thank you.

19 COMMISSIONER BROWN-BLAND: Commissioner
20 Hughes?

21 COMMISSIONER HUGHES: Thank you.

22 EXAMINATION BY COMMISSIONER HUGHES:

23 Q. Thank you, Mr. Hinton.

24 Is it your opinion that, without any kind of

1 rate change, just as the finances as you understood it
2 coming into this rate case, that this utility wouldn't
3 be classified as a viable utility?

4 A. I mean, the rate change is part of the
5 equation without a doubt. You touched on some of your
6 other questions with Mr. Junis about financial
7 liability, and his answer was parallel to my answer.
8 And that is I think the single most reason companies
9 become financially nonviable is because they do not
10 file for timely rate cases. And also you look a little
11 under the hood, when they file for rate cases, if you
12 don't see any testimony by anyone from the economic
13 research division, that generally means they asked for
14 less than they were entitled to get.

15 And that suggests -- it puts a foil with the
16 Public Staff, in my personal opinion, because one side
17 says, "The lowest rates possible," but then I'm here
18 waving a hand, "What about financial liability?" And
19 I'm afraid I lose most of those arguments. But we
20 don't -- I mean, that narrow argument, let me just say
21 that. Because that does happen. There's a case I'm
22 looking at now that is a concern. And we're -- you
23 know, but it's not -- we don't normally go into it, I
24 don't believe accounting or engineering or economic

1 research will go into rate cases that you should
2 charge -- you make sure you file your testimony ahead
3 of time. Make sure you ask for a lot of money so we
4 have something to work with.

5 But there are cases -- there's not many cases
6 each year, but there is a case a year at least where
7 someone will make an application for a rate increase
8 and not ask for enough capital or enough revenue to
9 support a rate of return that's at least equal or
10 greater than what we would require. You know, if it's
11 greater, we ask for an adjustment, we bring it down to
12 what we think is appropriate. Like 7 percent today is
13 the number that we think is appropriate for small water
14 utilities and sewer utilities. But if they ask for 5,
15 then you won't see any testimony by anybody from my
16 division.

17 Q. Do you -- obviously, we're in a general rate
18 case and just caught your attention. Are you
19 involved -- I think I asked this question of Mr. Junis.

20 Are you involved in any other kind of review
21 of either leveraging or financial viability and losses
22 for all those smaller systems that are out there and
23 how these -- how Old North State was before they came
24 in?

1 A. Yes. Our division has been looking at
2 financial viability for quite some time. And we
3 generally apply -- I mean, when companies come in for
4 simple application for transfers, and they want to
5 transfer a utility from X to Y. So we want to make
6 sure the new utility owner is financially viable to
7 take on the system and it has the managerial -- and
8 Mr. Junis would then touch on technological -- I mean
9 technical viability.

10 But the financial viability is one thing our
11 division's worked on for years, and we're asked to
12 review that on a routine basis. It can get a little
13 messy to project the financial statements that the
14 Commission request, and transfer application is most
15 valuable. A lot of times you'll see companies that
16 will be losing money for a couple of years and then
17 they'll come out at the end of the five-year period
18 with a positive. And that does carry weight in our
19 thinking.

20 Also, the capital structure that underlies
21 the new owner, we'll look into that. We'll ask data
22 requests on their financial statements for that
23 company. We'll ask -- I mean, it may seem silly,
24 simply ask for liens or any judgments on the company.

1 And we make sure this is a clean company owner that's
2 coming into existence.

3 But, largely, it's a financial review, and we
4 look at their credit metrics that largely S&P developed
5 years ago, or was developed years ago, and they're
6 applicable. Years ago the NRI and I participated in
7 some of the financial viability issues with the EPA.
8 There were some short-term financial ratios, like the
9 quick ratio. Look at those things that could actually
10 help provide a basis for predicting a nonviable system,
11 or at least analyzing whether the system is nonviable.

12 It's hard to do that often. So what I go
13 back is the standard financial valuations that
14 typically take place when you go to buy your first
15 house or a car. I mean, not a car, but your first
16 house. And we'll look at S&P financial benchmarks.
17 I'll look at their leveraging. So on this case, if a
18 company came in to acquire North State and they had
19 83 percent leverage, I would not approve that. That
20 would not pass any test of reasonableness.

21 And so, in this case, when they filed
22 83 percent for a rate case, I was somewhat taken aback
23 by it. And that's why I had to, you know, look under
24 the hood and proceed as we did.

1 Q. Okay. I think you've gotten kind of to the
2 end of the conclusion I've gotten.

3 Is there something we can do so you wouldn't
4 be surprised in the future? For in this particular --
5 I don't think anybody likes surprises when they're
6 talking about --

7 A. Let me add one more thing. One of the key
8 things I look at -- I lean on Chuck as he leans on me.
9 Excuse me, to Junis. One of the first things I'll do
10 for financial viability is I'll go to the engineering
11 and I'll say how is there DENR violations; how is the
12 water quality service. Because if they're short of
13 money and they have all these violations, then that's a
14 clear sign that they are financially nonviable, or not
15 at a point they need to be. But -- and particularly in
16 this case here, I've had numerous conversations with
17 Mr. Junis, and came to the realization that the system
18 is in reasonable shape. So that, again, went far in
19 abating my concerns about 83 percent capital structure.

20 Q. Okay. Thanks. I think you've answered my
21 question. I appreciate it.

22 EXAMINATION BY COMMISSIONER BROWN-BLAND:

23 Q. All right. Mr. Hinton, one more question.

24 Could you explain how the Montclair method

1 translates on an operating margin to an appropriate
2 rate of return on rate base, and how it supports the
3 7 percent return rate of return?

4 A. Okay. Well, it's not the Montclair method.
5 We use parts of it. As I outline in my testimony, you
6 know, used to be an old method that was -- that was
7 started back in 1981, and I'll proceed in using that
8 method for hundreds and hundreds of cases during the
9 '80s and '90s. And then around 2000 it no longer was
10 appropriate, as I addressed in my testimony.

11 The method -- the adjustment to my method
12 that were made to the model to make it reasonable is
13 that we knew that Carolina Water and Aqua and companies
14 that had audited financial statements, that we had
15 confidence in their capitalization ratios. And going
16 to be -- give me a second here. But often these small
17 water companies, their capital structure is the least
18 concern of the company. And their books are quite
19 questionable.

20 So going back to the Montclair method, we
21 felt that -- or the modified Montclair method would be
22 a better way to describe it -- is that we felt that any
23 water utility in North Carolina should not be penalized
24 because this company is poorly managed financially. It

1 should not -- it should not pay an additional rate of
2 return because it's small. And that's been an issue
3 that we've addressed in countless ROE, return on
4 equity, issues over the years.

5 And so I came up with the appropriate overall
6 rate of return looking at the Carolina Water and the
7 Aqua cases in general, and I adjust over time what I
8 think is a reasonable representative cost -- overall
9 cost of capital, noting that Carolina Water often has a
10 high cost of debt similar to a smaller water company.
11 But then again, Aqua has a lower cost debt. So I think
12 the average is, again, representative what I think a
13 small water utility should strive to. And I don't
14 believe that our customers should pay anything more.

15 Now, your question was how does the rate of
16 return relate to the margin. Okay. There is no
17 empirical way that I know to come up with an
18 appropriate margin rate. And that has left me somewhat
19 without any guns or way to approach this issue. So
20 years ago when the margin rate was no longer deemed an
21 appropriate way, that was the risk-free rate plus
22 3 percent. I felt that we had to make a change,
23 because it just wasn't -- it was not reasonable.
24 Because we were getting margin rates around 4 percent.

1 Now, the reason that the return on margin,
2 the key link between the two is that I believe that the
3 main risk to the utility owner when he has a very low
4 rate base and a high level of operating expenses is
5 that, is the expenses. So when that is the case, and
6 accounting will -- they will apply in their revenue
7 requirement calculation, whenever the rate base is
8 smaller than the operating expenses, they will
9 routinely use operating expenses as the basis for what
10 we approach the margin to.

11 And the thinking behind that, again, is that
12 the risk parameter to the owner is more akin to the
13 variability and operating expenses. Maybe a pump may
14 go down, but it's not gonna have massive capital
15 outlays to keep the plant running. And there have been
16 several cases over the past -- large water cases --
17 that have kept offering ratios for years, because that
18 was its nexus of working it. You know, just didn't
19 lead to invest a lot of capital in its plan, or didn't
20 need to for whatever reason. Again, could have been a
21 contributed systems and that led to a low requirement
22 for capital -- or external capital. But instead, they
23 had to have a routine amount of capital spend on just
24 maintaining the system.

1 So the answer to your question, again -- I'm
2 sorry if I'm doing it with a lot of conversation, but I
3 could not come up with a margin rate, because the
4 data's not there to come up with what I thought was
5 appropriate. There's just not financial literature out
6 there. There's not SOC reports. It's just not
7 available. So given that situation, I said the best
8 way to do it is they should get no more than what's
9 appropriate for a water utility that's based on rate
10 base investment.

11 Q. So through your examination of it, has it
12 support the 7 percent rate of return?

13 A. I would --

14 Q. I'm just saying how did you get there to that
15 number?

16 A. On my testimony, I outline a couple of cases,
17 the more recent approved Aqua case and Carolina Water
18 case. And the average of those two overall costs of
19 capital was roughly 7.1 percent. And I rounded that to
20 7.0 percent. So that's the basis for why I come up
21 with the reasonable margin. There's been a recent
22 operating ratio water utility where another person or
23 division, Mr. Tron, recommended a 7 percent margin.

24 And, you know, not too long ago was at

1 7-and-a-quarter and 7-and-a-half. And we keep coming
2 down. I expect, going forward, that rates may go up as
3 new orders are processed that involve Carolina Water
4 and Aqua. And I may down the road add Pluris to that,
5 because Pluris has audited financial statements.

6 The point of the matter is that I wanted --
7 the margin rate should equal the rate of return on rate
8 base on overall costs of capital. On overall cost of
9 capital. So I want to base that observation on a
10 company that's going through a detailed cost of capital
11 investigation, one where the Company presents its
12 witnesses and the Public Staff presents our witnesses,
13 and the Commission makes the judicial decision. And I
14 feel that is the appropriate cost -- overall cost of
15 capital or margin rate.

16 COMMISSIONER BROWN-BLAND: All right.

17 Commissioner Clodfelter?

18 EXAMINATION BY COMMISSIONER CLODFELTER:

19 Q. Mr. Hinton, why did the -- in the settlement
20 stipulation, why did the Public Staff withdraw its
21 recommendation that the Company file audited financial
22 statement with the Commission?

23 A. We went to that level. Again, because the
24 application referred to extreme high-leverage capital

1 structure and it brought much in question. We withdrew
2 it because, to be honest with you, we never requested
3 that of any company before the Commission, to my
4 knowledge, that they file audited financial statements.
5 They file their annual report and they testify, or they
6 file that with the expectation that it's accurate. But
7 we don't generally require audited financials.

8 Q. You haven't had a company before with a book
9 debt-to-equity ratio of 83 to 17, nor with the debt
10 being held by, my broad word, and affiliate or some of
11 the significant assets owned by, my broad term, an
12 affiliate? You haven't had that situation either, have
13 you?

14 A. Not exactly, but we've had concerns. If you
15 go back in the eons books, there's Midsouth Water
16 Company. I performed a financial audit on the Company.
17 Kirk Tippler (phonetic spelling), who was an accountant
18 with the Public Staff, performed an accounting audit on
19 the Company, because this was a case back in the late
20 '90s, I believe. And we did just that, we did a
21 thorough audit on their debt and their equity and their
22 accounting books. So it has happened before. And we
23 filed many filings to the Commission.

24 And unfortunately I've been trying to find

1 all my data -- my filings, and it was pre-electronic
2 paper, so we -- you know. But there was such an audit.
3 And so it has happened that we were -- I remember a
4 case clearly, because Elyse Cox was then the head of
5 accounting division, questioned the reporting that was
6 being provided. And the service quality was somewhat
7 in question as well by the head of the water division.
8 So those two things combined together pulled me into
9 the equation and we -- and myself and the accountant
10 did a thorough investigation.

11 We eventually found they had -- they improved
12 their accounting records, and I was -- and I found out
13 they actually did have capital available to sustain
14 operations and support future capital expenditures.
15 But we've done that before. It's been a question
16 before, and we've done our homework, and we made sure
17 the public was protected. But the case did not have
18 83 percent leverage. I can testify to that.

19 But again, this case, as I've said, in my
20 mind, when it crosses my desk, I do not view that as
21 true debt, I view that as equity for ratemaking
22 purposes. But it doesn't mean it has to pass the other
23 financial test, and that's where the consolidated
24 financial statements of Integra Water, LLC gave me that

1 confidence. So I could back off the audited as well as
2 the insistence they come up with a 50/50 search that
3 I'm hearing.

4 I don't know if you remember, my testimony
5 also said they had to maintain a 45 percent degree of
6 leverage. And I -- we have removed those three
7 constraints, because we believe the Company will honor
8 its word and serve the customers in an appropriate
9 fashion.

10 Q. You base that on the consolidated statements,
11 not on the statements of Integra -- unconsolidated
12 statement of Integra's alone?

13 A. I didn't see those, to be honest with you. I
14 just saw the consolidated.

15 Q. You saw the consolidated statement?

16 A. Yes.

17 Q. Thanks for --

18 A. And --

19 Q. Thank you for the clarification. Thank you.

20 COMMISSIONER BROWN-BLAND: All right.

21 Any questions on the Commission's questions?

22 Mr. Magarira?

23 MR. MAGARIRA: No questions from the
24 Public Staff.

1 COMMISSIONER BROWN-BLAND: All right.

2 And the applicant?

3 CROSS EXAMINATION BY MR. DROOZ:

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

7 A. Well --

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

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

16 Q. I think I heard you say in response to a
17 question from the Chair that the 6 percent debt owed by
18 Old North State to Integra was not a legally binding
19 debt?

20 A. Well, I never saw support for that. I did
21 see a term, and I did see a rate, so it's possibly
22 is -- you know, again, I look to counsel, but my
23 thinking it was not legally binding.

24 Q. Did you ask for any contracts or debt

1 instrument documentation?

2 A. No, I didn't.

3 Q. Okay. There was a question about how this
4 debt's classified under the Uniform System of Accounts
5 or Generally Accepted Accounting Principles.

6 Do you know if this has been recorded on the
7 Company's books as notes payable-associated companies?

8 A. That's how I would -- that's how I would
9 think it was recorded because that's how it was
10 presented to me.

11 Q. Okay. Regarding audited financial
12 statements, is that something that's generally done for
13 publicly traded companies or companies with a major
14 third-party independent creditor?

15 A. Oh, yes, but not for small water companies.

16 Q. Yeah. Do you know roughly a ballpark figure
17 for what it would cost to do audited financial
18 statements?

19 A. No, I don't. But it is a substantial amount
20 of money, and I'm -- surely above \$10,000 or in that
21 ballpark. Several thousand dollars.

22 Q. Yeah. It could be 15- to 25,000 a year?

23 A. It would not surprise me.

24 Q. Okay. Regarding, again, this question of the

1 debt cost for Old North State and the imputed levels,
2 in your testimony, one of the comparisons you made was
3 Carolina Water Service Docket W-354, Sub 360. Do you
4 remember that?

5 A. I think it's in my direct testimony, correct.

6 Q. Okay. And in that docket, are you aware the
7 debt cost of that company was 5.36 percent?

8 A. Yes.

9 Q. Okay. And so you're actually recommending a
10 lower debt cost for Old North State, and that's part of
11 the settlement; is that correct?

12 A. That is correct.

13 Q. Okay.

14 MR. DROOZ: That's all my questions.

15 COMMISSIONER BROWN-BLAND: All right.

16 Mr. Magarira?

17 MR. MAGARIRA: Nothing further from the
18 Public Staff.

19 COMMISSIONER BROWN-BLAND: Mr. Magarira,
20 you aren't quick enough. Commissioner Clodfelter
21 has another question.

22 COMMISSIONER CLODFELTER: Mr. Drooz,
23 thank you for pointing out to me in your questions
24 that I was not complete in my questions, so thank

1 you for giving me an opportunity to complete the
2 question.

3 EXAMINATION BY COMMISSIONER CLODFELTER:

4 Q. The financial consolidated statements that
5 you saw, were there entities other than Integra or Old
6 North State Water Company that were consolidated?

7 A. Yes. They have several operations in Alabama
8 which lend them money. So I believe it's in my
9 testimony, but my answer is that yes, the debt is
10 carried by the parent company as well as a couple
11 subsidiaries have lent Old North State capital. So
12 it's not just the pure LLC, but it's --

13 Q. I recall that from your testimony, and I
14 remember reading that. I want to be sure that my
15 question is clear to you.

16 Is those entities that are also have debt
17 owed to them by Old North State, those were entities
18 were consolidated in the financial statements that you
19 saw?

20 A. Yes. That, I am --

21 Q. They were consolidated with Integra?

22 A. I am confident they were consolidated. They
23 were consolidated within Integra Water, LLC, because
24 they are part of the holding -- the companies that

1 John McDonald owns. What I wasn't 100 percent
2 confident on is the data of the financial statement. I
3 believe the logic would say it includes both -- all the
4 subsidiaries of Integra Water, LLC and Old North State
5 Water Company. I would -- I'm pretty confident.

6 But, however, I did not ask that particular
7 question in a data request as we normally do in this,
8 but it was provided to me with that understanding. So
9 I can feel confident that the financial statements that
10 you will be provided will include both all the assets
11 and liabilities of Integra Water, LLC, its
12 subsidiaries, and Old North State.

13 Q. Thank you, sir.

14 COMMISSIONER BROWN-BLAND: Okay. Did
15 that prompt any questions? Any questions on
16 Commission's questions?

17 (No response.)

18 COMMISSIONER BROWN-BLAND: All right.
19 Mr. Magarira, we will hear you on your exhibits and
20 your evidence.

21 MR. MAGARIRA: At this time, we would
22 move that Mr. Hinton's prefiled direct testimony
23 and settlement testimony be entered into the
24 record, and Mr. Hinton's exhibits attached to his

1 prefiled direct testimony be identified as Hinton
2 ONS Direct Exhibits I [sic], Hinton ONS Direct
3 Exhibit 2, and Hinton ONS Direct Exhibit 3 and 4;
4 and that Mr. Hinton's settlement -- sorry, excuse
5 me, attached to his settlement testimony be
6 identified as Hinton ONS Settlement Exhibit 1
7 [sic].

8 COMMISSIONER BROWN-BLAND: That they are
9 received into evidence? That's that your motion,
10 that we receive these exhibits into evidence at
11 this time?

12 MR. MAGARIRA: That is, sorry.

13 COMMISSIONER BROWN-BLAND: All right.
14 That motion is allowed, and Mr. Hinton's exhibits
15 to both direct and the settlement testimony will be
16 received into evidence at this time.

17 (Hinton ONS Direct Exhibits 1 through 4
18 and Hinton ONS Settlement Exhibit I were
19 admitted into evidence.)

20 COMMISSIONER BROWN-BLAND: Mr. Hinton,
21 you are free to step down for now.

22 THE WITNESS: Thank you.

23 COMMISSIONER BROWN-BLAND: All right.
24 Anything further from the Public Staff?

1 MR. MAGARIRA: Ms. Chair, I think
2 previously Commissioner Clodfelter requested some
3 additional information with regards to, if I'm
4 remembering correctly, sort of the how shared
5 accounts might be sort of recorded with regards to,
6 for lack ever a better word -- and I'm not using
7 precisely these terms -- but affiliated sort of
8 entities, how those accounts would be recorded and
9 treated.

10 We would request, at this time, that the
11 Public Staff be allowed to file a late-filed
12 exhibit that would sort of expound upon and respond
13 to Commissioner Clodfelter's question, if that
14 would be permissible.

15 COMMISSIONER BROWN-BLAND: That is
16 permissible and desirable, so thank you.

17 MR. MAGARIRA: Thank you.

18 COMMISSIONER CLODFELTER: I'll be
19 comparing your answers with our staff's answers.

20 COMMISSIONER BROWN-BLAND: So I may be
21 confused on this, so forgive me if so, but with
22 regard to the joint settlement agreement and
23 stipulation, do we have that in evidence at this
24 time or are we holding until everyone's had a

1 greater opportunity for review?

2 MR. DROOZ: Well, from the Company's
3 perspective, we're happy to move it into evidence
4 as a housekeeping matter.

5 COMMISSIONER BROWN-BLAND: All right.
6 If there are no objections?

7 MR. MAGARIRA: No objection from the
8 Public Staff with regard to that motion.

9 COMMISSIONER BROWN-BLAND: All right.
10 That motion will be allowed, and we will receive
11 the agreement, the stipulation and the concurrently
12 filed exhibits.

13 (Joint Settlement and Stipulation
14 Agreement and Stipulation Exhibits I and
15 II Exhibits were admitted into
16 evidence.)

17 COMMISSIONER BROWN-BLAND: And also,
18 sorry that I'm out of order a little bit, but the
19 report -- the Company's report on the customer
20 comments, Commission would like to have those in
21 evidence if that's not objectionable.

22 MR. DROOZ: Yes, we would move that into
23 evidence as well.

24 COMMISSIONER BROWN-BLAND: All right.

1 They will be received into evidence at this time.

2 (Report on Customer Comments from Public
3 Hearing Held on October 7, 2021, was
4 admitted into evidence.)

5 COMMISSIONER BROWN-BLAND: I think we
6 have made it through to what we can do today. And
7 as I said at the outset, we want to have the time
8 to go through and have our staff go through those
9 filings that were made today, especially -- or over
10 the last couple of days, I'll say.

11 And so what we will do is hold the
12 record open until we receive the late-filed
13 exhibits that Mr. Drooz has already indicated that
14 the Company would be agreeable to file. And we
15 will -- the Commission will issue an order at a
16 later date as to filing of the proposed order,
17 and/or if we need you to come back on a certain
18 date to provide further information.

19 Are we all on the same page? Have I
20 left something undone? It's been a while since
21 I've been in a real room to do this, not in a Zoom
22 world, so that might have me just a bit off my game
23 here, so that's why I'm double-checking and asking
24 everybody. Crossing my Is, dot -- dotting my Is,

1 crossing my Ts. Commissioner Clodfelter.

2 COMMISSIONER CLODFELTER: With your
3 permission, Madam Chair, I want to be sure
4 Mr. Drooz and I are on the same page as to what I
5 had asked for, at least, and there may be other
6 things that are pending. But I was asking for the
7 documentation evidencing the notes receivable
8 carried on the assets on the balance sheet and the
9 notes payable carried on the liability side of the
10 balance sheet.

11 And with respect to the consolidated
12 financial statements that were provided to
13 Mr. Hinton, I want to be sure that we get not only
14 the consolidated statements, themselves, but the
15 consolidating statements.

16 MR. DROOZ: And can you explain that
17 difference to me?

18 COMMISSIONER CLODFELTER: As I
19 understand it, at least as I say from the lawyer's
20 dangerous vantage point, the consolidating
21 statements show you what adjustments were made for
22 each entity in order to get to the consolidated
23 statement. Did I get that right? I'm told from
24 the back by my brains that I got it right.

1 MR. DROOZ: Okay. And I've made notes.
2 And, you know, I'm open to confer with Public Staff
3 and Commission staff on a list of these late-filed
4 exhibits to make sure we're all together on what
5 you need.

6 COMMISSIONER BROWN-BLAND: Appreciate
7 that from you, Mr. Drooz. And since one lawyer was
8 speaking to another lawyer, I'm glad you have
9 Ms. Oakman and Ms. Peedin to your right. All
10 right. If there's nothing else to come before the
11 Commission at this time, we will be adjourned.
12 Thank you everybody.

13 (The hearing was adjourned at 4:12 p.m.
14 on Thursday, March 8, 2022.)
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CERTIFICATE OF REPORTER

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STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appear in the foregoing hearing were duly sworn; that the testimony of said witnesses were taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 10th day of March, 2022.

Joann Bunze



JOANN BUNZE, RPR
Notary Public #200707300112

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