

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

August 3, 2023

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

Via Electronic Filing

Re: Application by Carolina Water Service, Inc. of North Carolina, along with Corix Infrastructure (US) Inc. and SW Merger Acquisition Corp., for Approval of a Business Combination Transaction, Pursuant to N.C. Gen. Stat. § 62-111
Joint Applicants' Response to Customer Concerns from Virtual Hearing

Dear Ms. Dunston:

Attached for filing please find the Joint Applicants' Response to Customer Concerns, which addresses customer concerns and comments from the virtual public hearing, conducted by the North Carolina Utilities Commission ("Commission") on Thursday, July 20, 2023. This report was required by the Commission scheduling order of April 25, 2023, at Ordering Paragraph 1, page 4.

As always, thank you and your staff for your assistance; please feel free to contact us if there are questions or suggestions.

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford

Sanford Law Office, PLLC

N.C. State Bar No. 6831

Attorney for Carolina Water Service,
Inc. of North Carolina

/s/Mary Lynne Grigg

McGuire Woods LLP

N.C. State Bar # 19048_

T: +1 919 755 6573
mgrigg@mcguirewoods.com
Attorney for SW Merger Acquisition
Corp.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 412

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	JOINT APPLICANTS'
Application by Carolina Water Service,)	VERIFIED REPORT IN
Inc. of North Carolina, along with Corix)	RESPONSE TO CUSTOMER
Infrastructure (US) Inc. and SW Merger)	COMMENTS FROM
Acquisition Corp., for Approval of a)	VIRTUAL PUBLIC HEARING
Business Combination Transaction)	HELD JULY 20, 2023

August 3, 2023

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Aug 03 2023

NOW COME Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”) along with Corix Infrastructure (US) Inc., and SW Merger Acquisition Corp (collectively, “Joint Applicants”), and file this report addressing customer comments expressed at the virtual public hearing, which was held on July 20, 2023, at 7:00 pm. The Commission’s scheduling order of April 25, 2023, at Ordering Paragraph 3, page 4, required that Joint Applicants file a verified report addressing customer comments made at the public hearing on or before August 3, 2023.

A. CUSTOMER PARTICIPATION— Specific Witnesses

The following three witnesses testified during the virtual hearing:

1. Vincent P. Roy, 237 Lakeview Drive, Sanford, N.C., *Carolina Trace, Tr., pp. 12-18*

Mr. Roy, a regular and thoughtful participant in these proceedings in his role as representative for Carolina Trace customers, asks how the merger will affect the current and future rate structure, specifically noting concern about the potential for too much influence by the new “financial sponsors”. He wants to know how the merged company will consider the current and future needs of the 4,000 Carolina Trace residents and their 700 homes. Additionally, Mr. Roy notes (as he has relayed in previous public hearings in other dockets) that the CWSNC employees are approachable and familiar with the residents and their issues. He describes the mutual support and rapport between residents and CWSNC employees, particularly in times of emergency. Mr. Roy asks whether the merger will change this level of interaction and cooperative spirit, and states CWSNC should continue

to be held to North Carolina General Statute Chapter 62 after its change in ownership. Mr. Roy also suggests the Public Staff and CWSNC should meet more regularly than the “once a year” period contemplated in this docket.

Customer-Specific Response: CWSNC also appreciates and values the rapport between its local staff and the customers it serves, including with the residents of Carolina Trace. SouthWest Water Company likewise recognizes the value of these interactions and relationships. As stated in the Joint Application, the Joint Applicants share common values that include environmental stewardship and excellence in how they serve their customers and communities and deliver on their commitments. The commitments of CWSNC to its customers and the communities it serves, including actively supporting local communities and maintaining a local presence, will remain unchanged after the completion of the merger. Additionally, CWSNC remains committed to maintaining a strong relationship with the Public Staff and the Commission itself through continued communication and collaboration in order to facilitate effective regulation in the State. The CWSNC local area manager contacted Mr. Roy on July 26, 2023, and confirmed there are no outstanding questions from the customer.

2. Alex Yandukin, 5413 Swordsman Court, Knightdale, N.C., Covington Cross, Tr., pp. 18-24

Mr. Yandukin discussed his concern about the escalation in rates over the two years he has lived in his current residence, during which time he has experienced two rate increases, resulting in a combined water/sewer bill of \$140/month, which he contrasted with his neighbor’s bill of \$60/month, where

service is provided by a different entity. He complains of his inability to water his lawn due to the cost and that he was unaware of any leak on his property. He noted that he recently received a notice inquiring if his residence had a lead service line (“LSL”) and a notice on radiological testing (the “Radiological Notice”). He also had a concern with his bank’s former name being reflected for his AutoPay. When asked if he had contacted CWSNC’s Customer Experience team with any concerns, Mr. Yandukin stated he had not.

Customer-Specific Response: Mr. Yandukin’s concerns about rates are addressed below, in Part B.1. The Company confirms that Mr. Yandukin’s last contact with CWSNC’s Customer Experience team before the virtual public hearing was in December 2021. A service representative reached out to Mr. Yandukin on July 24, 2023, and asked if he could provide clarity on the LSL Inventory request or the Radiological Notice. CWSNC explained to Mr. Yandukin that every utility is now required to document the service line material on either side of the meter and this was not unique to just CWSNC. The Company explained the goal is to ensure that if there was an LSL present, the customer would know the health implications and a replacement of the LSL could be facilitated. In regard to the Radiological Notice that Mr. Yandukin received, the Company has confirmed that this notice was sent to his address in error, as his portion of the subdivision has not exceeded the MCL per the notice. The customers who received this notice in error will receive a correcting notice to clarify this error. With regard to AutoPay, no issues were noted with the processing of payments on Mr. Yandukin’s account. The Company’s Customer Experience team has contacted its third-party payment

processing vendor to relay Mr. Yandukin's concern.

3. Patrick Dougherty, 92 Warbler Way, Hampstead, N.C., *Belvedere Plantation, Tr. pp. 24-29*

A water and sewer customer for 30 months, Mr. Dougherty complained of the rate increases occurring in January and May of 2023, stating that his combined bill is now higher than his electric bill. He has eliminated his irrigation service because it was too expensive, and he described having been cross-billed for his neighbor's irrigation service. Additionally, he stated that he had to add a water filter and softener at his own expense and that there is brown residue in his filter when he inspects it. When asked if the Company had come to inspect his meter or check for leaks, Mr. Dougherty stated the Company and his plumber have separately verified there are no leaks in his water lines.

Customer-Specific Response: Mr. Dougherty's concerns about rates are addressed below, in Part B.1. A review of his billing issue determined that, after he reported a higher bill in mid-June 2023, a Company representative discussed the impact of the rate increase with him. Upon receipt of a larger bill in early July 2023, the customer called back to request that his irrigation meter be removed. When the CWSNC operations team removed the irrigation meter on July 6, 2023, it was determined that the billing of his irrigation meter had been swapped with his neighbors' irrigation meter, so that each customer was being billed for the others' consumption. Once the irrigation meter was removed, the operations team provided the correct meter numbers for each premise, which resolved the issue going forward for each customer. Corrected meter numbers were confirmed with the Customer Experience team on July 18, 2023, and an adjustment of \$371.24

was applied to Mr. Dougherty's account to correct for prior incorrect charges. The CWSNC Customer Experience team also confirmed that the base charge for the irrigation meter was removed on the July bill and will not be billed in the future. Mr. Dougherty was made aware of this correction and adjustment by Customer Experience on July 20, 2023, and the Company apologized for the error.

Regarding Mr. Dougherty's home water filtration and softening system, this is a very common customer practice across many areas of the state, due to the characteristics of the groundwater – particularly in the coastal region – such as the presence of iron (causing discoloration) and calcium and manganese (causing water “hardness”) that occurs naturally. The Company regularly tests for iron to ensure levels are below the 0.3 parts per million MCL. However, hardness is not regulated by the North Carolina Department of Environmental Quality. The Company's experience is that many drinking water customers possess their own water softeners. Historically, the Company has heard from customers in various systems with in-home water softeners that they do not wish to pay for—i.e., subsidize—an expensive system-wide water softener to support other customers within the community who do not have an in-home water softening system. The Company reviewed the possibility of a community water softening system with Belvedere Plantation in 2019 and shared its results with the community; the community opted against a community softening system. In summary, traditionally, the Company leaves drinking water hardness solutions to the individual preferences of its customers, unless a clear and substantial demand for such a capital investment is made by a community.

An operator went to visit Mr. Dougherty to investigate his water quality concerns on Monday, July 24, 2023. Mr. Dougherty went inside the home and took a water sample from his kitchen sink and brought it outside to the operator. The water sample brought out by Mr. Dougherty had a slight yellow tint to it. The operator took a sample of Mr. Dougherty's outside spigot and the sample was clearer than the sample taken from inside the home by Mr. Dougherty. CWSNC performed a scheduled flushing of the water main lines in this area on July 27, 2023.

B. GENERAL RESPONSE TO TESTIMONY

1. Rates and Rate Structure:

Concerns about rate increases are understandable. The costs of providing safe and compliant water and sewer service, which adheres to both environmental and health standards, have increased and continue to do so. The support for the persistent and increasing costs of providing service, and the rates derived to recover those costs, are rigorously examined by the North Carolina Utilities Commission and the Public Staff whenever a regulated utility approaches requests a rate increase.

In a general rate case of the sort that CWSNC just completed (Order issued in Docket No. W-354 Sub 400, in April 2023), the period from filing to receipt of final order consisted of approximately 10 months of meticulous examination of the request by both the North Carolina Utilities Commission and by the Public Staff. Thousands of pages of documents and calculations were produced and examined

over this time as the Company complied with N.C. General Statutes Chapter 62, which requires that a regulated utility bear the burden of proving in a rigorously contested, litigated proceeding that it is entitled to the rates requested. Through a process of proof, concession, and negotiation – and, ultimately, Commission decision – rates are set that are determined to be just and reasonable. This means, in plain speech, that the rates adopted are required to support the utility’s investment in the work that it must do, at a reasonable and prudent cost, to provide the necessary service to customers.

The business combination proposed in this proceeding also is expected to produce longer term financial benefits as the integration of the companies’ water and wastewater businesses occurs methodically and systematically over time. As financial benefits from the combination are achieved, the Joint Applicants believe that the combination may lead to lower costs and thereby help CWSNC keep their water and wastewater utility rates lower than they otherwise would have been without the combination. In short, customers will realize the benefits of the business combination over time when the combined company’s cost structure is reflected in CWSNC’s rates.

By law, the rates, charges, and standards for service ultimately approved by the Commission are only those that have been justified by proof in a thoroughly contested proceeding. Critically, regarding this merger approval proceeding, nothing about the scope of that regulatory oversight would change should approval be granted. In fact, the Commission’s authority is not only retained, but it would be enhanced by the adoption of additional regulatory conditions - the Joint

Applicants included several post-merger commitments in the Joint Application, the Public Staff proposed additions and alternatives to the Joint Applicants' commitments, and the Joint Applicants and the Public Staff have stipulated to Regulatory Conditions that support approval of the business combination.

2. Investment

Making investments in utility infrastructure to maintain and enhance service to customers has a direct correlation to rates. Even though investment in any one system is often not even a visible event to the customers of that system, CWSNC has made ongoing and significant investments across its service territories, averaging almost \$20 million per year of investment in its North Carolina infrastructure over the last five years. The combined company would continue to fund and implement its statutorily required reasonable and prudent investment in CWSNC's North Carolina water and sewer systems.

3. Rate Comparisons

Comparisons of rates among customers are generally unreliable measures of equity or of cost, as customer-specific behavior varies greatly with respect to factors such as usage or the integrity and modernization of in-home plumbing. Similarly, comparisons of governmental systems like municipalities and regulated providers such as CWSNC are generally an "apples and oranges" exercise. Municipal providers do not use the same accounting processes, generally have greater density of customers, are able to utilize taxation to recover utility costs, and often source water from large impoundments or rivers. Importantly, regulated utilities like CWSNC are uniquely subject to strictly examined "cost of service"

ratemaking requirements, reviewed by the Public Staff and subject to the oversight of the North Carolina Utilities Commission.

C. CONCLUSION

The Joint Applicants all appreciate the opportunity to hear from customers regarding this request for approval of a business combination and for the opportunity to respond to their comments. The Joint Applicants are pleased to answer any additional questions the Commission might have about their commitment to continuing the strong customer service efforts and relationships that have characterized CWSNC's service in North Carolina.

Respectfully submitted, this the third day of August, 2023

Electronically Submitted

s/Jo Anne Sanford
Sanford Law Office, PLLC
Post Office Box 28085
Raleigh, North Carolina 27611-8085
Telephone: (919) 210-4900

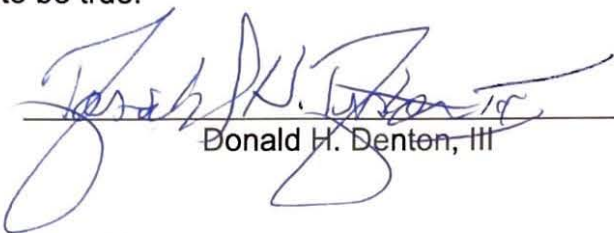
*Attorney for Carolina Water Service, Inc.
of North Carolina and Corix
Infrastructure (US) Inc.*

s/Mary Lynne Grigg
McGuireWoods LLP
501 Fayetteville Street, Suite 500
Raleigh, North Carolina 27601
Telephone: (919) 755-6573

*Attorney for SW Merger Acquisition
Corp.*

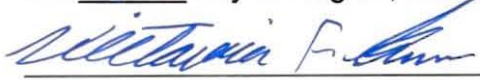
VERIFICATION

Donald H. Denton, III, being duly sworn, deposes and says: that he is the State President, Carolina Water Service, Inc. of North Carolina; that he is familiar with the facts set out in the attached Response to Customer Concerns, filed by the Joint Applicants in Docket No. W-354 Sub 412; that he has read the foregoing Response and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.



Donald H. Denton, III

Sworn to and subscribed before me this
the 3rd day of August, 2023.



Notary Public

My Commission Expires: 09/18/2027

Victoria F Kreeb
Notary Public
Mecklenburg County, NC

CERTIFICATE OF SERVICE

I hereby certify that I have today served a copy of the foregoing Response to Customer Concerns on the Public Staff of the North Carolina Utilities Commission, in accordance with North Carolina Utilities Commission Rule R1-39, by means of electronic delivery upon agreement of the receiving party.

This the 3d day of August, 2023.

Electronically Submitted

/s/Jo Anne Sanford

N.C. State Bar No. 6831

SANFORD LAW OFFICE, PLLC

sanford@sanfordlawoffice.com

Tel: 919.210.4900

**Attorney for Carolina Water Service,
Inc. of North Carolina**