



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 13, 2023

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

Re: Docket No. W-354, Sub 399 – Application by Carolina Water Service, Inc. of North Carolina (CWSNC) for a Certificate of Public Convenience and Necessity to Provide Water Utility Service to the Carteret County Water System, and for Approval of Rates

Dear Ms. Dunston:

On May 12, 2023, the Commission issued its Order approving schedules of rates in CWSNC's rate case in Docket No. W-354, Sub 400. On June 9, 2023, CWSNC filed the updated Rebuttal Exhibits of witness Matthew Schellinger, updates previously provided to the Public Staff in discovery responses. In light of the foregoing, please find attached for filing in the above-reference docket updates to the Public Staff testimony of Lynn Feasel and Charles Junis. For ease of reference and completeness, the attachments are comprised of redline and clean versions of the testimony, existing Junis Exhibits 1 and 2, and updated Feasel Exhibit 1.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely,

Electronically submitted
/s/ William E. H. Creech
Staff Attorney
zeke.creech@psncuc.nc.gov

Attachments

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
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Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

**TESTIMONY OF
CHARLES JUNIS
ON BEHALF OF
THE PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

MARCH 10, 2023, UPDATED JUNE 13, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Charles 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.

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. What is the nature of the application in this proceeding?**

10 A. On August 2, 2022, Carolina Water Service, Inc. of North Carolina
11 (CWSNC) filed an application with the Commission requesting a
12 Certificate of Public Convenience and Necessity to provide water
13 utility service to the Carteret County (County) Water System (CPCN
14 Application). On August 26, 2022, CWSNC filed revisions to the
15 CPCN Application and a response to the Public Staff's deficiency
16 letter, which was filed on August 25, 2022. On September 2, 2022,
17 CWSNC filed supplemental documents, including plan and
18 specification approval letters from the Department of Environmental
19 Quality and its predecessor agencies.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to present to the Commission the
22 results of my investigation and the Public Staff's recommendations

1 regarding the CPCN Application. Specifically, I discuss the
2 implications of the Commission's decision in Docket No. W-354, Sub
3 398 (Sub 398), testimony and statements of customers, analysis of
4 the billing data, and potential benefits and harms to customers of
5 granting a CPCN to CWSNC and transferring ownership from the
6 County.

7 **Q. What is the scope of your investigation?**

8 A. I have reviewed the application and exhibits filed in the docket and
9 the filings in Sub 398. I have conducted discovery of CWSNC and
10 the County. I have worked with Public Staff witness Lynn Feasel,
11 Financial Manager of the Water, Sewer, and Telecommunications
12 Sections with the Accounting Division of the Public Staff, to evaluate
13 the fair value, fees, and rate impacts.

14 **Q. How has N.C. Gen. Stat. § 62-133.1A impacted this CPCN**
15 **proceeding?**

16 A. Session Law 2018-51 (House Bill 351), incorporated as N.C.G.S. §
17 62-133.1A (Fair Value Statute), became effective June 25, 2018. The
18 Fair Value Statute allows a water or wastewater public utility to elect
19 to establish rate base using the fair value of the utility property
20 instead of original cost when acquiring an existing water or
21 wastewater system owned by a municipality or county or an authority
22 or district established under Chapter 162A of the General Statutes.

1 If the utility elects to proceed under the Fair Value Statute, the buyer,
2 seller, and Public Staff each obtain an appraisal, which are averaged.
3 N.C.G.S. § 62-113.1A(b)(1)(c). If the Commission finds that the
4 average of the three appraisals will not result in a reasonable fair
5 value, the Commission may adjust the fair value as it deems
6 appropriate and in the public interest. N.C.G.S. § 62-113.1A(e). The
7 rate base value of the acquired system, which shall be reflected in
8 the acquiring public utility's next general rate case for rate-making
9 purposes, shall be the lesser of the purchase price negotiated
10 between the parties to the sale or the fair value plus the reasonable
11 fees and costs. N.C.G.S. § 62-113.1A(b)(4). On July 26, 2022, and
12 revised on August 11, 2022, CWSNC filed an application requesting
13 determination of fair value of utility assets pursuant to N.C. Gen. Stat.
14 § 62-133.1A and establishment of rate base for acquisition of the
15 County Water System in Sub 398.

16 **Q. What safeguards are included in the statutory provisions of**
17 **N.C.G.S. § 62-113.1A?**

18 A. The North Carolina Attorney General's Office (AGO) succinctly
19 highlighted key statutory provisions on page 4 of its reply comments
20 filed on June 1, 2020, in Docket No. W-100, Sub 60, as follows:

21 The Commission has been provided three significant
22 tools in the new statute in order to protect North
23 Carolina consumers from unreasonable rate increases.
24 First, the Commission is authorized to adjust the fair
25 value determined by the three appraisals if it finds that

1 the average will not result in a reasonable fair value
2 that is appropriate and in the public interest. N.C. Gen.
3 Stat. § 62-113.1A(e). *Second, it may classify the*
4 *acquired system as a separate entity for ratemaking*
5 *purposes. Id. Treating the acquired system as a*
6 *separate rate class for ratemaking purposes serves to*
7 *protect the public utility's existing customers from*
8 *upward pressure on their rates due to the acquisition,*
9 *but could result in very high rates for the customers in*
10 *the acquired system, depending on the particular*
11 *circumstances. Id. Third, the Commission may deny*
12 *the application. N.C. Gen. Stat. § 62- 133.1A(d).*

13 (Emphasis added).

14 **Q. Please summarize the key takeaways from the Commission's**
15 **decision in Sub 398.**

16 A. The following findings of fact are particularly important to highlight as
17 part of this proceeding:

18 19. In the public interest, it is appropriate for
19 the Commission to adjust the fair value to \$8,416,000.

20 20. Acquisition of the System will spread
21 certain of CWSNC's costs over a larger customer base,
22 although it is not possible on the present record to
23 quantify the extent to which this will benefit CWSNC's
24 existing customers or affect CWSNC's future rates.

25 21. The System assets will not be added to
26 rate base for rate setting purposes until CWSNC's next
27 rate case, which is anticipated to be in four years. As a
28 result, it is difficult to predict the impact of granting the
29 Application on future rates. However, if the rate base
30 were to be set at \$9.5 million plus reasonable
31 transaction fees and costs, the future rate impacts on
32 the System customers, if the Commission set System-
33 specific rates, or on CWSNC's existing customers, if
34 the Commission allowed CWSNC to put the System
35 into uniform rates, will be material.

36 22. At the fair value, as adjusted by the
37 Commission in its discretion, utilization of the Fair
38 Value Statute is in the public interest.

1 23. CWSNC's Revised Form Application
2 Exhibit 8, filed on August 11, 2022, provided a list of
3 the actual costs and fees incurred through August 9,
4 2022, and the estimated costs and fees through closing
5 totaling \$174,439.74. The Update to Revised Form
6 Application Exhibit 8 documents reasonable fees paid
7 to the utility valuation experts in addition to reasonable
8 transaction and estimated closing costs incurred by
9 CWSNC of \$312,039.

10 24. The water rates reflected in CWSNC's
11 Revised Form Application Exhibit 12 are the existing
12 Carteret County rates. CWSNC has agreed with
13 Carteret County that the customers of the System will
14 remain at Carteret County's current water rates for the
15 next four years. The agreed-upon rate freeze is
16 appropriate and beneficial to the System customers.

17 See Order Establishing Rate Base of Water System Acquired from
18 Carteret County, *Application by Carolina Water Service, Inc. of North*
19 *Carolina for Determination of Fair Value of Utility Assets Pursuant to*
20 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for*
21 *Acquisition of the Carteret County Water System*, Docket No. W-354,
22 Sub 398 (N.C.U.C. February 10, 2023) (Sub 398 Order).

23 Furthermore, the Public Staff gives significant weight to footnote 4
24 that states as follows:

25 The parties have not sought any deduction in the fair
26 value of the System for property that is not used and
27 useful. The Fair Value Statute allows a utility to
28 establish rate base using fair value instead of original
29 cost, N.C.G.S. § 62-133.1A(a), and it does not alter the
30 Commission's authority to set rates under Chapter 62.
31 N.C.G.S. § 62-133.1A(e). The determination about
32 whether utility property is used and useful is made at
33 the time of a rate case, in relation to the applicable test
34 period. N.C.G.S. § 62-133(b)(1). Therefore, the

1 Commission can exclude property for which a fair value
2 was determined in accordance with the Fair Value
3 Statute but at the time of the rate case is found not to
4 be used and useful.

5 *Id.* at 26. The Public Staff agrees with this conclusion and will provide
6 evidence regarding whether the utility property is used and useful in
7 the next general rate case if the CPCN is granted.

8 **Q. Please briefly summarize the CPCN Application.**

9 A. In its CPCN Application, CWSNC requests authority to serve the
10 territory currently served by the County Water System. The proposed
11 rates are the rates presently charged by the County to customers in
12 the North River/Mill Creek (PWSID NC0416197) and Merrimon
13 (PWSID NC0416198) water systems. On page 3 of the CPCN
14 Application, the service area is described, including that the systems
15 served a total of 1,254 customers at the end of the test year and the
16 mains and storage tank capacity can serve a total of 1,849
17 customers. On page 4 of the CPCN Application, the revenues and
18 expenses are presented for the 12 months ended June 30, 2021.

19 In its response on March 3, 2023, to Public Staff Data Request No.
20 6, CWSNC provided an updated addendum to its application for
21 transfer of public utility franchise and for approval of rates (Updated
22 Addendum). On May 25, 2023, CWSNC provided a modified version
23 of the Updated Addendum incorporating the Commission decisions
24 in the Sub 400 general rate case.

1 **Q. Do you have concerns about the Updated Addendum?**

2 A. Yes. The Updated Addendum utilizes expenses per equivalent
3 residential customer (ERC) from the Company's most recent rate
4 case in Docket No. W-354, Sub 384 (Sub 384); however, CWSNC
5 has requested recovery of materially higher expenses in the pending
6 rate case in Docket No. W-354, Sub 400 (Sub 400), especially as
7 part of the Water and Sewer Investment Plan (WSIP). The rate base
8 calculations do not include contributions in aid of construction
9 (CIAC), which would reduce the original cost plant and increase the
10 amount of the purchase acquisition adjustment. The depreciation
11 rates are modified to CWSNC's lower rates, which result in longer
12 estimated lives and reduce the benefit of the four-year rate freeze.

13 **Q. Has CWSNC or the County filed testimony in Sub 399?**

14 A. No.

15 **Q. Have any consumer statements of position been filed in the
16 subject docket?**

17 A. Yes. As of March 8, 2023, six customers had filed consumer
18 statements in this docket. All the consumer statements objected to
19 the increased cost of water and the projected future rate increases.

20 **Q. Please briefly summarize the consumer statements.**

21 A. All the consumer statements mention their disapproval of the
22 increase in rates associated with the sale. Ms. Lynda Phillips

1 emphasized that many of the customers on the system are low-
2 income and cannot afford additional price increases. Beverly
3 Tompkins expressed concerns over the high water bills impacting the
4 property values of the neighborhood.

5 Several consumers described their frustration with the County
6 Commissioners' management of the water system. Mr. Fred Harvey
7 stated that, due to the mismanagement of the County Water System,
8 customers should not be forced to pay for that incompetency. Mr.
9 Harvey also stated that this sets a poor standard for governmental
10 accountability in general. Ms. Phillips stated that the customers
11 asked the County Commissioners to explore other options, such as
12 a co-op with West Carteret Water. Mr. Lexan Blanchard also
13 mentioned his frustration at the lack of efforts made towards
14 investigating other alternatives. Ms. Lisa Camp stated that the
15 County Commissioners voted to deny a request to allow a committee
16 of customers to explore options, including grants, adding customers,
17 or increasing rates.

18 Ms. Camp stated that when she chose to connect to the County
19 Water System, her decision was based on the good quality of water
20 and reasonable price of buying water. She stated that when she
21 joined, she intentionally chose to buy a government-provided service
22 and has been a satisfied customer for years. Ms. Camp further stated

1 that since Carolina Water began operating the system in February
2 2022, the customers have noticed a decline in the quality of water,
3 including tinged water, sediment in standing water, and less water
4 pressure.

5 Ms. Beth Thompson also described recent water quality issues,
6 stating that she has seen a difference in clarity and taste. Ms. Phillips
7 also described her dishware feeling chalky due to the water quality.

8 **Q. Has a public hearing been held?**

9 A. Yes. On October 18, 2022, a public hearing for the purpose of
10 receiving testimony of customers regarding this matter was held at
11 the Carteret County Courthouse in Beaufort, North Carolina (Public
12 Hearing). Of the seven customers who testified at the Public Hearing,
13 six were in opposition to CWSNC acquiring the County Water
14 System.

15 **Q. Please briefly summarize the Company's response to the**
16 **testimony of customers at the Public Hearing.**

17 A. The Company filed its "Response to Customer Concerns – Beaufort
18 NC Public Hearing October 18, 2022" (Customer Report) on
19 November 22, 2022. The Customer Report described the service
20 water quality complaints described in the testimony of four
21 witnesses.

1 In addition to witness Patrick Kelly's complaint regarding a decrease
2 in water pressure, he later described to CWSNC staff that he had
3 pink rings in the toilet and sink and sediment in the water. CWSNC
4 staff performed a field test on the system's water and did not see any
5 staining or sediment. The results of the field test showed results in
6 the acceptable range except for the Secondary MCL standard for
7 manganese.

8 In response to witness Lisa Camp, who described the water
9 becoming yellow, CWSNC staff performed a visual inspection of the
10 water and analyzed the water pH, chlorine, phosphate, iron, free
11 ammonia, and monochloramines, and the results were found to be
12 in the normal ranges. CWSNC stated that no yellow water was
13 visible.

14 Witness Jennifer Day testified of low pressure, yellow water, and a
15 strong smell on an intermittent basis. CWSNC tested a water sample
16 on an outside spigot at her home. CWSNC reported that water
17 pressure and flow rate were both in a normal range and that no
18 yellow water was visible. CWSNC stated that to address the issue of
19 the intermittent smell of chlorine that she was experiencing, since her
20 home is on a dead-end line, CWSNC will increase flushing
21 frequency.

1 Witness Liz Ponder also testified of low pressure, yellow water, and
2 additionally, a chalky finish on her dishes. The Company did not
3 receive a response from her after its contact attempts and did not
4 find any outside spigots to collect a water sample for testing.

5 The Company investigated the complaints about intermittent drops
6 in pressure in the evening hours but did not provide an explanation
7 for this issue described by customers. CWSNC stated that the
8 County had received no complaints about this issue and therefore
9 did not have any insight into the problem. CWSNC checked the water
10 tower levels for anomalies and found little fluctuation, which would
11 indicate maintained consistent pressure. CWSNC plans to install a
12 pressure recorder at one customer's house and arrange a
13 communication system with the customer regarding his observation
14 of a low-pressure event. In addition to the County not receiving
15 pressure issue complaints, CWSNC reported that the County stated
16 that it had not received any yellow water complaints.

17 **Q. Please briefly summarize the Public Staff's response to**
18 **CWSNC's Customer Report.**

19 A. On December 16, 2022, the Public Staff filed its verified response
20 (PS Response) to CWSNC's Customer Report. The PS Response
21 included the Public Staff's review of the Customer Report, including
22 the Company's response to Public Staff's data requests. The Public

1 Staff noted that the Company's attempts to follow up with customers
2 occurred without notice in the late morning on a weekday, which is a
3 timeframe that would be unlikely to produce operating conditions
4 similar to the evening and nighttime when customers had reported
5 having pressure issues.

6 In reference to the pressure issues, the Public Staff described the
7 review of the Company's operations of the three elevated storage
8 tanks and booster pump stations. Although the Company had stated
9 in the Customer Report that the water tower levels had little
10 fluctuation, which indicates consistent pressure maintained, the
11 Public Staff reviewed the tank level data and observed that the
12 minimum and maximum tank level measurements were noticeably
13 higher after the customer hearing on October 18, 2022, than they
14 had been leading up to the Public Hearing and prior fall seasons. The
15 PS Response described that starting on October 25, 2022, the
16 minimum and maximum tank level measurements much more
17 closely matched the set points provided by the Company in the data
18 request response.

19 The PS Response stated that CWSNC started operating the system
20 in February of 2022 and implemented operational changes to the
21 greensand filtration system and the softener system. The Company
22 provided response to the Public Staff's data request stating that the

1 Company, in October of 2022, decreased the number of days
2 between backwash cycles of the greensand filtration system by 30%
3 and, in November of 2022, decreased the quantity of water treated
4 by the softener system between regeneration cycles by over 17%.
5 The Public Staff noted that these changes should improve the
6 effectiveness of the systems and therefore the water quality.

7 The PS Response concluded by stating that the Company has
8 inadequately addressed the content of the Public Hearing, the
9 Company's report does not fully address customers' concerns, and
10 CWSNC has not been forthright with operational changes it has
11 made. The Public Staff recommended that the Commission require
12 CWSNC to address its concerns in a follow-up report.

13 **Q. Please briefly summarize the Company's supplemental**
14 **response to the Public Hearing.**

15 A. The Company filed a "Supplemental Response to Customer
16 Concerns from Beaufort, NC Public Hearing" (Supplemental
17 Response) on January 17, 2023, to further address and follow-up on
18 customer concerns from the Public Hearing, specific questions
19 posed by the Commission in its Order filed on December 22, 2022,
20 and concerns expressed by the Public Staff in the PS Response, filed
21 December 16, 2022.

1 To respond to the Commission's question concerning water levels in
2 elevated storage tanks changing on October 18, 2022, and again on
3 October 25, 2022, the Company stated that it did not increase water
4 tank levels in an attempt to address the evening pressure drops.
5 After the public hearing, the Company began collecting data to
6 determine the cause of evening pressure drops, including analyzing
7 and adjusting automatic flushers, and then the Company adjusted
8 elevated tank setpoints on December 21, 2022.

9 In response to the Commission's question of whether water pressure
10 issues could have a cause other than tank levels, the Company
11 confirmed that the pressure concerns were corrected after the
12 adjustment of automatic flusher times and elevated tank setpoints.
13 The Company clarified that the collection and analysis of the data
14 extended beyond the date of the filing of the Customer Report.

15 The Commission asked if the Company increased the frequency of
16 the filter backwash cycle for the greensand filter to address
17 complaints of yellow water and if the desired results had been
18 produced. The Company stated that it changed the backwash
19 frequency from every 10 days to every 7 days in October 2022 but
20 did not state the reason for this change or if the desired outcome
21 resulting from the change was achieved. The Company stated that

1 the iron level, which has a secondary drinking water standard of 0.3
2 mg/L, is 0.04 mg/L after the change from 10 to 7 days.

3 In response to the Commission's question asking if the Company
4 increased the frequency of regenerating the water softening media
5 system to address complaints of chalky water and if the change
6 produced the desired result, the Company answered that it changed
7 the softener system brine draw setpoint from 35 minutes to 50
8 minutes. In November 2022, CWSNC changed the setpoint to
9 regenerate the facility softener system to every 190,000 gallons due
10 to the high hardness results. In December 2022, CWSNC changed
11 the setpoint to 185,000 gallons. CWSNC states that it has not
12 received chalky water complaints since the softener setpoints have
13 been adjusted.

14 The Company addresses points made by the Public Staff in the PS
15 Response in its Supplemental Response. The Company states that
16 it did not deliberately schedule and conduct site visits to avoid
17 customer contact or engagement. The Company also states that it
18 was in the process of continuing its investigation addressing the
19 issues beyond the November 7, 2022, deadline of its initial response.
20 The Company states that its ongoing findings or responses were not
21 omitted from the Customer Report in an attempt to withhold
22 information. The Company reiterates that it stated in the Customer

1 Report that the efforts to identify and resolve the issues were
2 ongoing. The Company concludes that, in addition to the measures
3 described in the Supplemental Response, the Company continues
4 to understand the system better and continues to improve the quality
5 of service.

6 **Q. Please briefly summarize the engineering assessment.**

7 A. The Fair Value Statute requires that, “[t]he acquiring public utility and
8 selling utility shall jointly retain a licensed engineer to conduct an
9 assessment of the tangible assets of the system to be acquired, and
10 the assessment shall be used by the three appraisers in determining
11 fair value.”¹ In Sub 398, the starting point for the engineering
12 assessment was a document prepared by Draper Aden Associates
13 (Draper Aden) entitled “Feasibility Study for Water System Merger”
14 dated December 2019.² For the use of the appraisers, CWSNC and
15 Carteret County retained Draper Aden “to conduct an assessment of
16 the tangible assets of the system to be acquired” and Draper Aden
17 produced “Update to Present Value of Water System” dated
18 December 2021.³

¹ N.C.G.S. § 62-133.1A(b)(2).

² Form Application Exhibit 5B filed in Sub 398.

³ Form Application Exhibit 5C filed in Sub 398.

1 **Q. Is there anything else in the Feasibility Study for Water System**
2 **Merger that is relevant to this proceeding?**

3 A. Yes. Regarding the County's capital improvement plan, Draper Aden
4 states⁴:

5 In 2013, the County completed a \$3.51 million water
6 system improvement project. Since 2013, there has
7 been little need for significant capital projects; there
8 were no capital projects scheduled in FY2019 and the
9 FY2020 budget does not include any. The County
10 continues to fund "pay as you go" capital projects, as
11 needed.

12

13 Overall, the water system is in good condition and the
14 County is not expecting any major capital investment
15 in the near future.

16 **Q. Were any deficiencies identified in the engineering**
17 **assessment?**

18 A. Form Application Exhibit 2 filed in Sub 398 summarizes, "[n]o
19 deficiencies noted."

20 **Q. Did CWSNC include in its application a five-year plan for**
21 **prudent and necessary infrastructure improvements as**
22 **required by Commission Form FV1?**

23 A. No. Form Application Exhibit 2 states in pertinent part, "CWSNC
24 plans no significant improvement above routine O&M, such as tank

⁴ Form Application Exhibit 5B, at 6, filed in Sub 398.

1 coatings which are covered in the current maintenance contract and
2 chlorine conversion from gas to liquid due to safety concerns.”

3 **Q. Does CWSNC anticipate making any improvements/additions in**
4 **the first year?**

5 A. Yes. On page 7 of its CPCN Application, CWSNC briefly describes
6 “Tank investments \$125,000.”

7 **Q. Does CWSNC anticipate the need for any major**
8 **improvements/additions in the next five to ten years?**

9 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
10 improvements / additions planned.”

11 **Q. Does CWSNC anticipate the need for any major replacements in**
12 **the next five to ten years?**

13 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
14 replacements planned.”

15 **Q. Have you visited the Carteret County Water System?**

16 A. Yes. On April 29, 2022, I, along with Public Staff Public Utilities
17 Engineer Mike Franklin and Attorney Zeke Creech and NewGen
18 Strategies and Solutions Consultant Mike Lane, traveled to Beaufort
19 to meet with Carteret County staff, including Eugene Foxworth, Tony
20 Cahoon, and Arrington Moore, and visually inspected the North
21 River/Mill Creek (PWSID NC0416197) and Merrimon (PWSID
22 NC0416198) water systems.

1 **Q. Please briefly summarize your observations from the site visit.**

2 A. The wellhouses were well maintained and clean. The elevated
3 storage tanks were in various states of acceptable to good condition
4 based on staggered recoating schedules and are regularly
5 inspected, maintained, and recoated pursuant to a water tank
6 management agreement with Southern Corrosion Incorporated. The
7 water treatment plant, including greensand filters, water softeners,
8 ortho-polyphosphate feed system, chloramines disinfection, and
9 onsite backup generator, was in good condition. The North River/Mill
10 Creek distribution system is sprawling, including over 55 miles of
11 water lines, nearly 600 valves, 175 hydrants, and interconnections
12 with the Town of Beaufort and Craven County. The Merrimon system
13 is approximately 18 miles away and serves about 20 customers.

14 **Q. What is your expert opinion of the condition of the utility**
15 **assets?**

16 A. Overall, it is my professional opinion that the utility assets are in good
17 condition and have been well maintained.

18 **Q. How would you describe the technical operations of Carteret**
19 **County?**

20 A. According to Public Water Supply Section records available on
21 Drinking Water Watch system, neither of the water systems has had
22 any violations issued or enforcement actions taken for over the last

1 six years. To my knowledge, the County provides safe, reliable, and
2 compliant service to the North River/Mill Creek and Merrimon water
3 systems.

4 **Q. Has the Commission addressed the evidence regarding the**
5 **condition of and service provided by the County Water System?**

6 A. Yes, the Commission found that, “[t]he System is well-maintained
7 and provides safe, reliable, and compliant service to customers.” Sub
8 398 Order at 6.

9 **Q. How would you describe the management of the utility?**

10 A. The County management is capable and has shown the ability to
11 improve its Water Fund financial outlook while also managing a
12 County-wide budget of over \$163 million. The County has effectively
13 sought and been awarded “cost free” capital grants and below
14 market interest rate loans to fund a significant portion of capital
15 needs. Carteret County provided an Excel spreadsheet detailing
16 infrastructure by funding sources, which shows a breakdown as
17 follows: Grants (\$6,491,452 / 54.27%); Loan (\$4,435,608 / 37.08%);
18 Developer Paid (\$305,944 / 2.56%); Other (\$727,732 / 6.08%); and
19 Total (\$11,960,736 / 100.00%).⁵ According to the FY23 Budget, the
20 County’s water fund (Water Fund) is 0.7% of the revenue in FY23.

⁵ Junis Exhibit 4 filed in Sub 398, is the Excel spreadsheet provided by the County.

1 **Q. Are Carteret County's present rates sufficient to cover its**
2 **costs?**

3 A. Based on a greater understanding of the County's financial records
4 and audited financial records since the 398 proceeding, the rates
5 were sufficient to cover the County's costs during the 12 months
6 ended June 30, 2022.

7 On page 24, the audited financial report states as follows:⁶

8 The County's proprietary fund provides the same type
9 of information found in the government-wide
10 statements but in more detail. Total net position was
11 \$5,812,673, a \$419,775 increase from the previous
12 year. Unrestricted net position of the Water Fund at the
13 end of the fiscal year was \$1,907,678, a \$586,930
14 increase. Expenses were less than projected, and
15 combined with the transfer in from the Water Taxing
16 District Special Revenue Fund, net position increased.
17 As in previous years, the Water Fund is not self-
18 supporting and relies on the water taxing district
19 revenues to transfer into the fund. In fiscal year 2022,
20 \$372,670 was transferred from the water taxing district,
21 \$32,330 less than the previous year.

22 The unrestricted net position of the Water Fund increased by
23 \$586,930, or \$214,260 more than the \$372,670 transferred from the
24 water taxing district. The statement that, "[a]s in previous years, the
25 Water Fund is not self-supporting and relies on the water taxing
26 district revenues to transfer into the fund" appears to be in conflict

⁶ Annual Comprehensive Financial Report For the Fiscal Year Ended June 30, 2022. Available at <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1410> (last visited on March 8, 2023).

1 with this data. The income before contributions and transfers was
2 \$47,105. *Id.* at 43.

3 **Q. Does Carteret County have sufficient access to capital?**

4 A. Yes. Carteret County significantly expanded the water system in the
5 2000s. The County budgets for depreciation and interest expenses.
6 Please also see the discussion below of funding programs to which
7 the County has access.

8 **Q. Is the Carteret County Water System designated as distressed?**

9 A. Yes. As of September 27, 2022, Carteret County has been
10 designated as distressed by the State Water Infrastructure Authority
11 and the Local Government Commission. However, the “distressed”
12 designation is administrative in nature and does not reflect the
13 operational and financial challenges as would a system designated
14 by the Commission as “troubled.” The Carteret County system is not
15 a troubled system as that designation is used by the Public Staff and
16 Commission.⁷

17 **Q. Does being designated a distressed unit have benefits?**

18 A. Yes. As a distressed unit, in addition to access to the Drinking Water
19 State Revolving Fund and Drinking Water Reserve Program,
20 Carteret County is eligible to apply for funds from the Viable Utility

⁷ See Q. and A. starting on page 27 regarding Docket No. W-1000, Sub 5 for Commission’s discussion of “troubled” system.

1 Reserve and additional construction grants⁸ funded by allocation
2 from the American Rescue Plan Act (ARPA).

3 **Q. After closing, would CWSNC have access to the benefits**
4 **available to a distressed unit?**

5 A. No. The distressed unit designation is limited to public water or
6 wastewater systems operated by a local government unit, as defined
7 in N.C.G.S. § 159G-20(4a) and (13). CWSNC will not have access
8 to millions of dollars of grants and below market interest rate loans
9 available to distressed systems.

10 **Q. Has CWSNC addressed its future plans for integrating the**
11 **acquired system into an existing rate division?**

12 A. Yes, CWSNC proposes to transfer the customers at existing rates as
13 charged by Carteret County and then integrate them into its uniform
14 water rate division as part of its next general rate case. CWSNC
15 projects the present rates would be charged for the next four years
16 and then increased by 28.19% in the average residential bill in 2027.⁹

17 The Utility Asset Purchase Agreement¹⁰ states as follows:

18 CWSNC would retain your current rates at the time of
19 APA execution until our next approved rate case, at
20 which time Carteret customers would move into our

⁸ Division of Water Infrastructure American Rescue Plan Act (ARPA) Administration Plan-Feb.2022. Available at <https://deq.nc.gov/water-infrastructure/dwi-arpa-administration-plan-feb-2022/download?attachment> (last visited on October 8, 2022).

⁹ Form Application Exhibit 3 in Sub 398.

¹⁰ Exhibit O to Form Application Exhibit 6B filed in Sub 398.

1 then current rate structure. We anticipate the next rate
 2 case filing would occur in July 2022 with new uniform
 3 rates becoming effective 12-18 months after filing.

4 In response to Public Staff Data Request 2, Question 1,¹¹ CWSNC
 5 provided the following response:

6 The original Form Application Exhibit 3 rates were
 7 based on estimates of the expected rate case filing in
 8 the Sub 400 Docket. It was unknown at the time the
 9 specific rate increases that would be requested by rate
 10 group. Subsequent to the Sub 400 rate filing, CWSNC
 11 has more information available as to its rates in 2027
 12 with the subsequent rate case filing that would be
 13 applicable to Carteret customers. The 2027 rates are
 14 still an estimate at an approximate 5% increase in the
 15 filing after the current WSIP period ending. Please see
 16 attached DR#2 – Exhibit 3 Update.xlsx, table included
 17 below.

18

Docket	CWSNC Uniform Water					Carteret Avg. Residential Bill	
	Avg. Us	BFC	Usage/1,	Avg Bil..	Increase	Water	Increase
Sub 384	4000	24.53	11.71	\$ 71.37		\$ 70.55	
Sub 400 WSIP Yr 1	4000	28.78	13.57	\$ 83.06	16.38%	\$ 70.55	0.00%
Sub 400 WSIP Yr 2	4000	29.76	14.03	\$ 85.88	3.40%	\$ 70.55	0.00%
Sub 400 WSIP Yr 3	4000	30.72	14.48	\$ 88.64	3.21%	\$ 70.55	0.00%
New Filing	4000	32.26	15.20	\$ 93.07	5.00%	\$ 93.07	31.92%

19 On page 21, the Commission's Sub 398 Order states as follows:

20 On further questioning from the Commission, witness
 21 Denton stated that CWSNC would not include the
 22 System in its rate base until its next rate case, in
 23 approximately four years, and that in the meantime the
 24 value of the asset would be depreciated at
 25 approximately 2% per year, such that the remaining
 26 rate base at that time would be \$8.7 million. Tr. vol. 2,
 27 110-12. He stated that the shareholders would absorb
 28 the loss and that the Company does not plan to seek

¹¹ Junis Exhibit 7 filed in Sub 398, is CWSNC's response to Public Staff Data Request 2, Question 1.

1 any type of special deferral accounting treatment. Id. at
2 112.

3 **Q. What is the original cost less depreciation of the Carteret**
4 **County Water System?**

5 A. As of June 30, 2022, the County's audited financial records indicate
6 total capital assets less depreciation in the amount of \$5,402,027.

7 **Q. Is the original cost less depreciation net of CIAC or "cost free"**
8 **capital?**

9 A. No. However, 56.83% of the capital funding is CIAC (either in the
10 form of grants or developer contributions). Therefore, the original
11 cost less depreciation and amortization of CIAC would be
12 approximately \$2,332,055.

13 **Q. What is the significance of CIAC or "cost free" capital on**
14 **ratemaking?**

15 A. The significance is that CIAC offsets associated plant in service,
16 thereby reducing the return on rate base and depreciation expense
17 for ratemaking purposes. Customers are not charged for utility plant
18 that has already been paid for by customers, builders, developers, or
19 someone else. CIAC includes grants, connection or tap fees,
20 capacity fees, meter installation fees, cash contributions from
21 developers, utility plant installed or paid for by the contributor and

1 conveyed to the utility, and land conveyed by the contributor to the
2 utility.

3 **Q. Are the acquisition adjustment criteria applicable for evaluation**
4 **of the CPCN application?**

5 A. Yes. As a general proposition, when a public utility buys assets that
6 have previously been dedicated to public service as utility property,
7 the acquiring utility is entitled to include in rate base the lesser of the
8 purchase price or the net original cost of the acquired facilities owned
9 by the seller at the time of the transfer. See Order Approving Transfer
10 and Denying Acquisition Adjustment, *Petition of Utilities, Inc. for*
11 *Transfer of the Certificate of Public Convenience and Necessity for*
12 *Providing Sewer Utility Service on North Topsail Island and Adjacent*
13 *Mainland Areas in Onslow County from North Topsail Water and*
14 *Sewer, Inc. and for Temporary Operating Authority*, Docket No. W-
15 1000, Sub 5 (N.C.U.C. January 6, 2000) (W-1000, Sub 5 Order). The
16 Commission has indicated "a strong general policy against the
17 inclusion of acquisition adjustments in rate base subject to
18 exceptions in appropriate instances." *Id.* at 24.

19 In the W-1000, Sub 5 Order, the Commission discussed the
20 circumstances when the rate base treatment of acquisition
21 adjustments is proper. The Commission stated the following:

22 As should be apparent from an analysis of the
23 Commission's previous Orders concerning this subject,

1 a wide range of factors have been considered relevant
2 in attempting to resolve this question, including the
3 prudence of the purchase price paid by the acquiring
4 utility; the extent to which the size of the acquisition
5 adjustment resulted from an arm's length transaction;
6 the extent to which the selling utility is financially or
7 operationally "troubled;" the extent to which the
8 purchase will facilitate system improvements; the size
9 of the acquisition adjustment; the impact of including
10 the acquisition adjustment in rate base on the rates
11 paid by customers of the acquired and acquiring
12 utilities; the desirability of transferring small systems to
13 professional operators; and a wide range of other
14 factors, none of which have been deemed universally
15 dispositive. Although the number of relevant
16 considerations seems virtually unlimited, all of them
17 apparently relate to the question of whether the
18 acquiring utility paid too much for the acquired utility
19 and whether the customers of both the acquired and
20 acquiring utilities are better off after the transfer than
21 they were before that time. This method of analysis is
22 consistent with sound regulatory policy since it focuses
23 on the two truly relevant questions which ought to be
24 considered in any analysis of acquisition adjustment
25 issues. It is also consistent with the construction of G.S.
26 62-111 (a) adopted in State ex rel. Utilities Commission
27 v. Village of Pinehurst. 99 N.C App. 224,393 S.E.2d
28 111 (1990), affd 331 N.C. 278,415 S.E.2d 199 (1992),
29 which seems to indicate that all relevant factors must
30 be considered in analyzing the appropriateness of
31 utility transfer applications. As a result, . . . the
32 Commission should refrain from allowing rate base
33 treatment of an acquisition adjustment unless the
34 purchasing utility establishes, by the greater weight of
35 the evidence, that the price the purchaser agreed to
36 pay for the acquired utility was prudent and that both
37 the existing customers of the acquiring utility and the
38 customers of the acquired utility would be better off [or
39 at least no worse off] with the proposed transfer,
40 including rate base treatment of any acquisition
41 adjustment, than would otherwise be the case. *Id.* at
42 27.

1 Different from prior cases with acquisition adjustments, the
2 Commission has determined rate base by adjusting the fair value in
3 Sub 398. However, it remains to be determined whether the issuance
4 of a CPCN, including approval of rates, and associated sale of the
5 system are in the public interest. The County Water System is not
6 troubled in the sense that the utility assets are beyond their useful
7 life, there are serious or widespread environmental compliance
8 issues, there is a lack of capital funding, or the County lacks
9 technical, managerial, and/or financial expertise and capabilities.
10 The potential acquisition of the County Water System is not an
11 exceptional situation that warrants an exception to the general policy
12 against including acquisition adjustments in rate base, or in this case
13 setting into motion CWSNC's plans to ultimately include the fair value
14 in rates. CWSNC has not demonstrated that an "acquisition
15 adjustment" in the form of fair value will provide substantial benefits
16 to all customers, and those benefits outweigh the cost of including
17 the acquisition premium in rate base.

18 **Q. Why is it important to identify and balance the costs and**
19 **benefits of the proposed sale and application for CPCN?**

20 A N.C.G.S. § 62-110(a) provides that "no public utility shall hereafter
21 begin the construction or operation of any public utility plant or
22 system or acquire ownership or control thereof, either directly or
23 indirectly, without first obtaining from the Commission a certificate

1 that public convenience and necessity requires, or will require, such
2 construction, acquisition, or operation.” Furthermore, N.C.G.S. § 62-
3 111(a) provides that “no franchise now existing . . . shall be sold . . .
4 except after application to and written approval by the Commission,
5 which approval shall be given if justified by the public convenience
6 and necessity.” As explained in the Order Approving Merger Subject
7 to Regulatory Conditions and Code of Conduct issued September 29,
8 2016, in Docket Nos. E-2, Sub 1095; E-7, Sub 1100; and G-9, Sub
9 682 (Duke/Piedmont Merger Order):

10 In prior merger proceedings the Commission has
11 established a three-part test for determining whether a
12 proposed utility merger is justified by the public
13 convenience and necessity. That test is (1) whether the
14 merger would have an adverse impact on the rates and
15 services provided by the merging utilities; (2) whether
16 ratepayers would be protected as much as possible
17 from potential costs and risks of the merger; and (3)
18 whether the merger would result in sufficient benefits to
19 offset potential costs and risks. See Order Approving
20 Merger Subject to Regulatory Conditions and Code of
21 Conduct (Duke/Progress Merger Order), issued June
22 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub
23 986, aff’d, In re Duke Energy Corp., 232 N.C. App. 573,
24 755 S.E.2d 382 (2014). These questions are related to
25 one another and together establish a reasoned
26 framework upon which utility mergers may be
27 evaluated. In making these assessments, the
28 Commission has also examined factors such as
29 whether service quality will be maintained or improved,
30 the extent to which costs can be lowered and rates can
31 be maintained or reduced, and whether effective
32 regulation of the merging utilities will be maintained. See
33 Order Approving Merger and Issuance of Securities,
34 issued April 22, 1997, in Docket No. E-7, Sub 596.

1 Duke/Piedmont Merger Order, at 68. The Public Staff believes the
2 Commission's three-part test for determining whether a proposed
3 merger is justified by the public convenience and necessity is also
4 applicable in determining the appropriateness of the proposed sale
5 and application for CPCN to serve the territory of the Carteret County
6 Water System. The test for the present case is: (1) whether the
7 acquisition will have an adverse impact on the rates and services
8 provided by the acquiring utilities; (2) whether ratepayers will be
9 protected as much as possible from potential costs and risks of the
10 acquisition; and (3) whether the acquisition will result in sufficient
11 benefits to offset potential costs and risks.

12 **Q. Will the acquisition have an adverse impact on the rates?**

13 A. Yes. In its Sub 398 Order, the Commission found that the future rate
14 impacts will be material if rate base is set at the purchase price plus
15 fees. The Commission determined that it was not in the public
16 interest to approve the requested fair value for rate base of
17 \$9,500,000 plus fees and determined the fair value to be a lower
18 amount, \$8,416,000 plus fees. However, the future rate impacts to
19 customers remain material.

20 **Q. Please summarize the evaluation of rate base.**

21 A. One measure that should inform the Commission's decision is a
22 comparison of rate base per customer of the system to be acquired

1 and the acquiring utility. The rate base per customer amounts for
2 water rate divisions calculated by Public Staff witness Feasel from
3 the Commission's order in the Sub 384 rate case are as follows in
4 the table below.

5 Table 1

Rate Division	Rate Base	Customer Count	Rate Base Per Customer
CWSNC Uniform Water	\$68,514,633	29,317	\$2,337
BF/FH Water	\$3,321,564	3,533	\$940

6 The fair value and associated fees amount to approximately \$6,835
7 per customer.¹² The acquired rate base per customer is nearly three
8 times the rate base per customer of the CWSNC Uniform Water rate
9 division and, if established as rate base, would negatively impact
10 both the Carteret County customers to be acquired and CWSNC's
11 existing Uniform Water customers.

12 **Q. Briefly describe the billing analysis.**

13 A. Based on the County's response to Public Staff Data Request 3,
14 Question 2, I have analyzed the billing determinants and projected
15 the number of customers from fiscal year 2022 to fiscal year 2027.

¹² Based on fair value and estimated fees and closing costs, the rate base per customer is \$8,728,039 divided by 1,277 customers (as of June 2022 billing), which equals \$6,834.80.

1 Please see **Public Staff Junis Exhibit 1**. Consistent with CWSNC's
2 assumption in the Updated Addendum, I utilized a 1.50% compound
3 annual growth rate to project the end of period customer count and
4 then average, or midpoint, number of customers for the given year. I
5 projected a monthly average of 1,366 customers during fiscal year
6 2027 (July 1, 2026, through June 30, 2027). The average monthly
7 usage per customer was 3,343 gallons during fiscal year 2022 and
8 3,336 during the first seven months of fiscal year 2023. Based on the
9 consistency in these recent periods, I assumed average monthly
10 usage per customer to be 3,343 gallons in future years for the
11 purpose of estimation.

12 **Q. What would be the estimated rate impact to Carteret County**
13 **Water System customers of the fair value and estimated fees**
14 **and closing costs?**

15 A. Based on the lesser of the purchase price (\$9.5 million) negotiated
16 between the parties to the sale or the fair value (\$8.416 million) set
17 by the Commission plus the proposed reasonable fees and costs,
18 which is \$8,416,000 plus \$312,039, Public Staff witness Feasel
19 calculated the revenue requirement in 2027 to be \$986,996.
20 Assuming system specific rates for 1,366 projected customers in
21 2027 on the County Water System, the average monthly rate impact
22 of the fair value and fees and closing costs would be \$60.21 per
23 County Water System customer.

1 **Q. What would be the estimated rate impact to CWSNC Uniform**
2 **Water customers of the fair value and estimated fees and**
3 **closing costs?**

4 A. Similar to the calculation above, except adding the 1,366 projected
5 customers to the equivalent residential customer (ERC) count of
6 29,426 existing CWSNC Uniform Water customers,¹³ the average
7 monthly rate impact of the fair value and fees and closing costs would
8 be approximately \$2.67 per customer.

9 **Q. What would be the estimated average monthly bill per customer**
10 **on a system-specific basis?**

11 A. Based on the fair value, fees and closing costs, and tank investment
12 in rate base and an estimate of expenses similar to CWSNC's
13 Updated Addendum, except using data from Rate Year 3 of the Sub
14 400 rate case, Public Staff witness Feasel calculated the revenue
15 requirement in 2027 to be \$1,625,189. Assuming system-specific
16 rates, the estimated average monthly bill would be \$99.15 per
17 County Water System customer.

18 **Q. How do the County's present rates compare to CWSNC's**
19 **Uniform Water rates and system-specific rates?**

¹³ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The County's present rates, which were approved by the Board of
2 Commissioners on September 20, 2021, and became effective
3 September 21, 2021, are a basic charge of \$40.25 per month for
4 residential customers, including the first 1,000 gallons, and a volume
5 charge of \$10.10 per 1,000 gallons after the first 1,000 gallons.¹⁴
6 CWSNC's present rates were approved on April 8, 2022, in Docket
7 No. W-354, Sub 384. On May 12, 2023, the Commission issued its
8 Order Approving Schedules of Rates, Schedules of Connection
9 Fees, and Customer Notices, including a schedule of rates for the
10 Uniform Water rate division for Rate Year 3 in Docket No. W-354,
11 Sub 400. As noted above, in response to Public Staff Data Request
12 2, Question 1, CWSNC stated "[t]he 2027 rates are still an estimate
13 at an approximate 5% increase in the filing after the current WSIP
14 period ending." Using this assumption and the revenue requirement
15 calculated as a result of rate base accounting of the fair value and
16 associated fees, I calculated an estimate of CWSNC's future Uniform
17 Water rates. The comparison is shown in the table below using the
18 Carteret County average monthly usage of 3,343 gallons per
19 customer.

¹⁴ Water Service FY 23 Fee Schedule. Available at <https://www.carteretcountync.gov/DocumentCenter/View/10202/Water-Service-Fee-Schedule-FY2022-2023> (last visited on October 13, 2022).

1 Table 2

Rate Classification	Base	Usage Per 1,000 gallons	Ave Monthly Bill
Carteret County	\$40.25	\$10.10	\$63.91
Uniform W – Sub 384	\$24.53	\$11.71	\$63.68
Uniform W – Sub 400	\$28.61	\$13.78	\$74.68
Future Uniform Water	\$32.71	\$14.47	\$81.08
System-Specific	\$39.64	\$17.80	\$99.15

2 The acquisition will have an adverse impact on rates whether
3 consolidated into uniform rates or set as system-specific rates for the
4 acquired customers.

5 **Q. Will the acquisition have an adverse impact on services**
6 **provided by the acquiring utilities?**

7 A. No. Utility service to the existing County Water System customers
8 should be the same, or better, after acquisition as CWSNC's record
9 of service is satisfactory and CWSNC has the technical, managerial,
10 and financial capacity to provide water utility service in this franchise
11 location. It should be noted that CWSNC and the County entered into
12 an operation and maintenance oversight agreement dated January
13 24, 2022. Under the agreement, CWSNC provides a certified
14 operator to serve as Operator in Responsible Charge (ORC) and
15 consultation services to County staff for a maximum of one hour per
16 day pursuant to the terms and conditions.

1 **Q. Will ratepayers be protected as much as possible from potential**
2 **costs and risks of the acquisition?**

3 A. No. As a result of the Sub 398 proceeding, rate base was established
4 at a fair value of \$8,416,000 plus associated fees of \$312,039. This
5 includes costs incurred for appraisals that were not relied upon by
6 the Commission to calculate the fair value. Further, the rate base far
7 exceeds the original cost less depreciation and amortization of CIAC
8 of approximately \$2,332,055. There is also the crucial issue of
9 whether the entirety of plant is used and useful, subject to
10 determination by the Commission in the next rate case.

11 **Q. Will the acquisition result in sufficient benefits to offset**
12 **potential costs and risks?**

13 A. No. The record is void of tangible evidence of benefits that would
14 materially offset the potential costs and risks. In pertinent parts, the
15 Commission discussed benefits as follows:

16 The Company, in the present case, offered generalized
17 opinions regarding the benefits of consolidation and
18 growth. However, the Company did not quantify the
19 benefits to customers of spreading costs over a larger
20 customer base or demonstrate that the value of those
21 benefits would exceed the costs to customers. The
22 Company failed to adequately respond to the Public
23 Staff's questions about whether the operating costs of
24 the System will be higher than necessary because of
25 inefficient design of the System. The Company did not
26 articulate any business plan for growth of the System
27 or integration of the System into the Company's other
28 systems that would suggest that acquisition of the
29 System was part of a considered strategy for organic
30 growth or improved operational efficiencies.

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. . . .

The Commission observes that the evidence of a benefit to System customers is decidedly mixed. The County Commission has no present plans to use any of the sales proceeds to directly benefit System customers specifically, for instance by creating a hardship fund for System customers who have difficulty affording the rates under private ownership.

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Sub 398 Order at 24-25. The County (after paying off its Water Fund liabilities, interest payable, and debt balances) will net cash from the Water Fund of approximately \$1,071,582. See **Public Staff Junis Exhibit 2**. The net cash from the Water Fund described above added to the purchase price of \$9.5 million for the County Water System assets result in a grand total of approximately \$10.5 million, no part of which is currently planned to be used to offset this transaction's impact on County Water System customers.

17 **Q.**
18 **A.**
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Do you recommend that the Commission grant the franchise?
No. I recommend that the Commission deny CWSNC's CPCN Application to provide water utility service to the Carteret County Water System. As described in greater detail above, and in testimony in the Sub 398 proceeding, (1) the acquisition will have an adverse impact on the rates; (2) ratepayers will not be adequately protected from potential costs and risks of the acquisition; and (3) the acquisition will not provide sufficient benefits to offset potential costs and risks. Incentivizing acquisitions at this magnitude of cost

1 premium while also failing to provide material net benefits does not
2 serve the public interest.

3 **Q. Do you have an alternative recommendation if the Commission**
4 **does not deny the application?**

5 A. Yes. Before providing my alternative recommendation, I would note
6 that if the Commission does not deny the CPCN Application, which,
7 in addition to the issues specific to this case described above, such
8 a decision could trigger a domino effect of future fair value
9 acquisitions at rate bases significantly higher than net book value
10 despite a lack of offsetting benefits and further exacerbate upward
11 pressure on rates and affordability. To avoid such an outcome, I
12 recommend issuance of the CPCN and approval of the proposed
13 rates, which are presently charged by the County including a four-
14 year rate freeze, contingent on certain conditions. First, the
15 Commission should exercise its authority to set rates for the County
16 Water System on a system-specific basis, in accordance with its
17 authority reiterated in N.C.G.S. § 62-133.1A(e).¹⁵ Further, the
18 County Water System should remain on system-specific rates for the
19 duration of time that the purchase acquisition adjustment is in rate

¹⁵ (e) Commission's Authority. – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

1 base, or until such time after its next general rate case that CWSNC
2 clearly shows by the weight of credible evidence that the County
3 Water System customers and CWSNC uniform water customers
4 would mutually benefit from consolidation. Additionally, CSWNC and
5 the County should either agree to amend or the Commission should
6 require that the asset purchase agreement provide that the proceeds
7 from the sale shall either be: (1) held by the County in trust for the
8 benefit of County Water System customers, as a hardship fund or to
9 subsidize customer bills on a pro rata basis so that customers across
10 the state do not have to unfairly and unnecessarily share the burden
11 of the purchase price premium with County Water System
12 customers; or (2) credited to CWSNC as a direct reduction in rate
13 base of the acquired system to offset impacts of system-specific
14 rates on Carteret County Water System customers.

15 **Q. Does this conclude your testimony?**

16 **A.** Yes, it does.

QUALIFICATIONS AND EXPERIENCE

CHARLES JUNIS

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering in May 2011. I have been a licensed Professional Engineer in North Carolina since December 2015. I have over eleven years of water and wastewater engineering experience, and since joining the Public Staff in April 2013, have worked on general rate cases, new franchise and transfer applications, emergency operations proceedings, customer complaints, rulemakings, and other aspects of utility regulation. More specifically, I have assisted in the investigation and drafting of petitions and/or testified in the Webb Creek (Docket No. W-864, Sub 11), Riverbend Estates (Docket No. W-390, Sub 13), Mountain Air (Docket No. 1148, Sub 20), and Kinnakeet Shores (Docket No. W-1148, Sub 20) emergency operator proceedings. I also contributed to the Public Staff's Initial Comments and Recommended Rules filed in Docket No. W-100, Sub 60. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. Through this education and experience, I have gained considerable knowledge of relevant engineering and construction principles and utility operations, maintenance, and capital planning.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

**TESTIMONY OF
CHARLES JUNIS
ON BEHALF OF
THE PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

MARCH 10, 2023, UPDATED JUNE 13, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Charles 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.

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. What is the nature of the application in this proceeding?**

10 A. On August 2, 2022, Carolina Water Service, Inc. of North Carolina
11 (CWSNC) filed an application with the Commission requesting a
12 Certificate of Public Convenience and Necessity to provide water
13 utility service to the Carteret County (County) Water System (CPCN
14 Application). On August 26, 2022, CWSNC filed revisions to the
15 CPCN Application and a response to the Public Staff's deficiency
16 letter, which was filed on August 25, 2022. On September 2, 2022,
17 CWSNC filed supplemental documents, including plan and
18 specification approval letters from the Department of Environmental
19 Quality and its predecessor agencies.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to present to the Commission the
22 results of my investigation and the Public Staff's recommendations

1 regarding the CPCN Application. Specifically, I discuss the
2 implications of the Commission's decision in Docket No. W-354, Sub
3 398 (Sub 398), testimony and statements of customers, analysis of
4 the billing data, and potential benefits and harms to customers of
5 granting a CPCN to CWSNC and transferring ownership from the
6 County.

7 **Q. What is the scope of your investigation?**

8 A. I have reviewed the application and exhibits filed in the docket and
9 the filings in Sub 398. I have conducted discovery of CWSNC and
10 the County. I have worked with Public Staff witness Lynn Feasel,
11 Financial Manager of the Water, Sewer, and Telecommunications
12 Sections with the Accounting Division of the Public Staff, to evaluate
13 the fair value, fees, and rate impacts.

14 **Q. How has N.C. Gen. Stat. § 62-133.1A impacted this CPCN**
15 **proceeding?**

16 A. Session Law 2018-51 (House Bill 351), incorporated as N.C.G.S. §
17 62-133.1A (Fair Value Statute), became effective June 25, 2018. The
18 Fair Value Statute allows a water or wastewater public utility to elect
19 to establish rate base using the fair value of the utility property
20 instead of original cost when acquiring an existing water or
21 wastewater system owned by a municipality or county or an authority
22 or district established under Chapter 162A of the General Statutes.

1 If the utility elects to proceed under the Fair Value Statute, the buyer,
2 seller, and Public Staff each obtain an appraisal, which are averaged.
3 N.C.G.S. § 62-113.1A(b)(1)(c). If the Commission finds that the
4 average of the three appraisals will not result in a reasonable fair
5 value, the Commission may adjust the fair value as it deems
6 appropriate and in the public interest. N.C.G.S. § 62-113.1A(e). The
7 rate base value of the acquired system, which shall be reflected in
8 the acquiring public utility's next general rate case for rate-making
9 purposes, shall be the lesser of the purchase price negotiated
10 between the parties to the sale or the fair value plus the reasonable
11 fees and costs. N.C.G.S. § 62-113.1A(b)(4). On July 26, 2022, and
12 revised on August 11, 2022, CWSNC filed an application requesting
13 determination of fair value of utility assets pursuant to N.C. Gen. Stat.
14 § 62-133.1A and establishment of rate base for acquisition of the
15 County Water System in Sub 398.

16 **Q. What safeguards are included in the statutory provisions of**
17 **N.C.G.S. § 62-113.1A?**

18 A. The North Carolina Attorney General's Office (AGO) succinctly
19 highlighted key statutory provisions on page 4 of its reply comments
20 filed on June 1, 2020, in Docket No. W-100, Sub 60, as follows:

21 The Commission has been provided three significant
22 tools in the new statute in order to protect North
23 Carolina consumers from unreasonable rate increases.
24 First, the Commission is authorized to adjust the fair
25 value determined by the three appraisals if it finds that

1 the average will not result in a reasonable fair value
2 that is appropriate and in the public interest. N.C. Gen.
3 Stat. § 62-113.1A(e). *Second, it may classify the*
4 *acquired system as a separate entity for ratemaking*
5 *purposes. Id. Treating the acquired system as a*
6 *separate rate class for ratemaking purposes serves to*
7 *protect the public utility's existing customers from*
8 *upward pressure on their rates due to the acquisition,*
9 *but could result in very high rates for the customers in*
10 *the acquired system, depending on the particular*
11 *circumstances. Id. Third, the Commission may deny*
12 *the application. N.C. Gen. Stat. § 62- 133.1A(d).*

13 (Emphasis added).

14 **Q. Please summarize the key takeaways from the Commission's**
15 **decision in Sub 398.**

16 A. The following findings of fact are particularly important to highlight as
17 part of this proceeding:

18 19. In the public interest, it is appropriate for
19 the Commission to adjust the fair value to \$8,416,000.

20 20. Acquisition of the System will spread
21 certain of CWSNC's costs over a larger customer base,
22 although it is not possible on the present record to
23 quantify the extent to which this will benefit CWSNC's
24 existing customers or affect CWSNC's future rates.

25 21. The System assets will not be added to
26 rate base for rate setting purposes until CWSNC's next
27 rate case, which is anticipated to be in four years. As a
28 result, it is difficult to predict the impact of granting the
29 Application on future rates. However, if the rate base
30 were to be set at \$9.5 million plus reasonable
31 transaction fees and costs, the future rate impacts on
32 the System customers, if the Commission set System-
33 specific rates, or on CWSNC's existing customers, if
34 the Commission allowed CWSNC to put the System
35 into uniform rates, will be material.

36 22. At the fair value, as adjusted by the
37 Commission in its discretion, utilization of the Fair
38 Value Statute is in the public interest.

1 23. CWSNC's Revised Form Application
2 Exhibit 8, filed on August 11, 2022, provided a list of
3 the actual costs and fees incurred through August 9,
4 2022, and the estimated costs and fees through closing
5 totaling \$174,439.74. The Update to Revised Form
6 Application Exhibit 8 documents reasonable fees paid
7 to the utility valuation experts in addition to reasonable
8 transaction and estimated closing costs incurred by
9 CWSNC of \$312,039.

10 24. The water rates reflected in CWSNC's
11 Revised Form Application Exhibit 12 are the existing
12 Carteret County rates. CWSNC has agreed with
13 Carteret County that the customers of the System will
14 remain at Carteret County's current water rates for the
15 next four years. The agreed-upon rate freeze is
16 appropriate and beneficial to the System customers.

17 See Order Establishing Rate Base of Water System Acquired from
18 Carteret County, *Application by Carolina Water Service, Inc. of North*
19 *Carolina for Determination of Fair Value of Utility Assets Pursuant to*
20 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for*
21 *Acquisition of the Carteret County Water System*, Docket No. W-354,
22 Sub 398 (N.C.U.C. February 10, 2023) (Sub 398 Order).

23 Furthermore, the Public Staff gives significant weight to footnote 4
24 that states as follows:

25 The parties have not sought any deduction in the fair
26 value of the System for property that is not used and
27 useful. The Fair Value Statute allows a utility to
28 establish rate base using fair value instead of original
29 cost, N.C.G.S. § 62-133.1A(a), and it does not alter the
30 Commission's authority to set rates under Chapter 62.
31 N.C.G.S. § 62-133.1A(e). The determination about
32 whether utility property is used and useful is made at
33 the time of a rate case, in relation to the applicable test
34 period. N.C.G.S. § 62-133(b)(1). Therefore, the

1 Commission can exclude property for which a fair value
2 was determined in accordance with the Fair Value
3 Statute but at the time of the rate case is found not to
4 be used and useful.

5 *Id.* at 26. The Public Staff agrees with this conclusion and will provide
6 evidence regarding whether the utility property is used and useful in
7 the next general rate case if the CPCN is granted.

8 **Q. Please briefly summarize the CPCN Application.**

9 A. In its CPCN Application, CWSNC requests authority to serve the
10 territory currently served by the County Water System. The proposed
11 rates are the rates presently charged by the County to customers in
12 the North River/Mill Creek (PWSID NC0416197) and Merrimon
13 (PWSID NC0416198) water systems. On page 3 of the CPCN
14 Application, the service area is described, including that the systems
15 served a total of 1,254 customers at the end of the test year and the
16 mains and storage tank capacity can serve a total of 1,849
17 customers. On page 4 of the CPCN Application, the revenues and
18 expenses are presented for the 12 months ended June 30, 2021.

19 In its response on March 3, 2023, to Public Staff Data Request No.
20 6, CWSNC provided an updated addendum to its application for
21 transfer of public utility franchise and for approval of rates (Updated
22 Addendum). On May 25, 2023, CWSNC provided a modified version
23 of the Updated Addendum incorporating the Commission decisions
24 in the Sub 400 general rate case.

1 **Q. Do you have concerns about the Updated Addendum?**

2 A. Yes. The Updated Addendum utilizes expenses per equivalent
3 residential customer (ERC) from the Company's most recent rate
4 case in Docket No. W-354, Sub 384 (Sub 384); however, CWSNC
5 has requested recovery of materially higher expenses in the pending
6 rate case in Docket No. W-354, Sub 400 (Sub 400), especially as
7 part of the Water and Sewer Investment Plan (WSIP). The rate base
8 calculations do not include contributions in aid of construction
9 (CIAC), which would reduce the original cost plant and increase the
10 amount of the purchase acquisition adjustment. The depreciation
11 rates are modified to CWSNC's lower rates, which result in longer
12 estimated lives and reduce the benefit of the four-year rate freeze.

13 **Q. Has CWSNC or the County filed testimony in Sub 399?**

14 A. No.

15 **Q. Have any consumer statements of position been filed in the**
16 **subject docket?**

17 A. Yes. As of March 8, 2023, six customers had filed consumer
18 statements in this docket. All the consumer statements objected to
19 the increased cost of water and the projected future rate increases.

20 **Q. Please briefly summarize the consumer statements.**

21 A. All the consumer statements mention their disapproval of the
22 increase in rates associated with the sale. Ms. Lynda Phillips

1 emphasized that many of the customers on the system are low-
2 income and cannot afford additional price increases. Beverly
3 Tompkins expressed concerns over the high water bills impacting the
4 property values of the neighborhood.

5 Several consumers described their frustration with the County
6 Commissioners' management of the water system. Mr. Fred Harvey
7 stated that, due to the mismanagement of the County Water System,
8 customers should not be forced to pay for that incompetency. Mr.
9 Harvey also stated that this sets a poor standard for governmental
10 accountability in general. Ms. Phillips stated that the customers
11 asked the County Commissioners to explore other options, such as
12 a co-op with West Carteret Water. Mr. Lexan Blanchard also
13 mentioned his frustration at the lack of efforts made towards
14 investigating other alternatives. Ms. Lisa Camp stated that the
15 County Commissioners voted to deny a request to allow a committee
16 of customers to explore options, including grants, adding customers,
17 or increasing rates.

18 Ms. Camp stated that when she chose to connect to the County
19 Water System, her decision was based on the good quality of water
20 and reasonable price of buying water. She stated that when she
21 joined, she intentionally chose to buy a government-provided service
22 and has been a satisfied customer for years. Ms. Camp further stated

1 that since Carolina Water began operating the system in February
2 2022, the customers have noticed a decline in the quality of water,
3 including tinged water, sediment in standing water, and less water
4 pressure.

5 Ms. Beth Thompson also described recent water quality issues,
6 stating that she has seen a difference in clarity and taste. Ms. Phillips
7 also described her dishware feeling chalky due to the water quality.

8 **Q. Has a public hearing been held?**

9 A. Yes. On October 18, 2022, a public hearing for the purpose of
10 receiving testimony of customers regarding this matter was held at
11 the Carteret County Courthouse in Beaufort, North Carolina (Public
12 Hearing). Of the seven customers who testified at the Public Hearing,
13 six were in opposition to CWSNC acquiring the County Water
14 System.

15 **Q. Please briefly summarize the Company's response to the**
16 **testimony of customers at the Public Hearing.**

17 A. The Company filed its "Response to Customer Concerns – Beaufort
18 NC Public Hearing October 18, 2022" (Customer Report) on
19 November 22, 2022. The Customer Report described the service
20 water quality complaints described in the testimony of four
21 witnesses.

1 In addition to witness Patrick Kelly's complaint regarding a decrease
2 in water pressure, he later described to CWSNC staff that he had
3 pink rings in the toilet and sink and sediment in the water. CWSNC
4 staff performed a field test on the system's water and did not see any
5 staining or sediment. The results of the field test showed results in
6 the acceptable range except for the Secondary MCL standard for
7 manganese.

8 In response to witness Lisa Camp, who described the water
9 becoming yellow, CWSNC staff performed a visual inspection of the
10 water and analyzed the water pH, chlorine, phosphate, iron, free
11 ammonia, and monochloramines, and the results were found to be
12 in the normal ranges. CWSNC stated that no yellow water was
13 visible.

14 Witness Jennifer Day testified of low pressure, yellow water, and a
15 strong smell on an intermittent basis. CWSNC tested a water sample
16 on an outside spigot at her home. CWSNC reported that water
17 pressure and flow rate were both in a normal range and that no
18 yellow water was visible. CWSNC stated that to address the issue of
19 the intermittent smell of chlorine that she was experiencing, since her
20 home is on a dead-end line, CWSNC will increase flushing
21 frequency.

1 Witness Liz Ponder also testified of low pressure, yellow water, and
2 additionally, a chalky finish on her dishes. The Company did not
3 receive a response from her after its contact attempts and did not
4 find any outside spigots to collect a water sample for testing.

5 The Company investigated the complaints about intermittent drops
6 in pressure in the evening hours but did not provide an explanation
7 for this issue described by customers. CWSNC stated that the
8 County had received no complaints about this issue and therefore
9 did not have any insight into the problem. CWSNC checked the water
10 tower levels for anomalies and found little fluctuation, which would
11 indicate maintained consistent pressure. CWSNC plans to install a
12 pressure recorder at one customer's house and arrange a
13 communication system with the customer regarding his observation
14 of a low-pressure event. In addition to the County not receiving
15 pressure issue complaints, CWSNC reported that the County stated
16 that it had not received any yellow water complaints.

17 **Q. Please briefly summarize the Public Staff's response to**
18 **CWSNC's Customer Report.**

19 A. On December 16, 2022, the Public Staff filed its verified response
20 (PS Response) to CWSNC's Customer Report. The PS Response
21 included the Public Staff's review of the Customer Report, including
22 the Company's response to Public Staff's data requests. The Public

1 Staff noted that the Company's attempts to follow up with customers
2 occurred without notice in the late morning on a weekday, which is a
3 timeframe that would be unlikely to produce operating conditions
4 similar to the evening and nighttime when customers had reported
5 having pressure issues.

6 In reference to the pressure issues, the Public Staff described the
7 review of the Company's operations of the three elevated storage
8 tanks and booster pump stations. Although the Company had stated
9 in the Customer Report that the water tower levels had little
10 fluctuation, which indicates consistent pressure maintained, the
11 Public Staff reviewed the tank level data and observed that the
12 minimum and maximum tank level measurements were noticeably
13 higher after the customer hearing on October 18, 2022, than they
14 had been leading up to the Public Hearing and prior fall seasons. The
15 PS Response described that starting on October 25, 2022, the
16 minimum and maximum tank level measurements much more
17 closely matched the set points provided by the Company in the data
18 request response.

19 The PS Response stated that CWSNC started operating the system
20 in February of 2022 and implemented operational changes to the
21 greensand filtration system and the softener system. The Company
22 provided response to the Public Staff's data request stating that the

1 Company, in October of 2022, decreased the number of days
2 between backwash cycles of the greensand filtration system by 30%
3 and, in November of 2022, decreased the quantity of water treated
4 by the softener system between regeneration cycles by over 17%.
5 The Public Staff noted that these changes should improve the
6 effectiveness of the systems and therefore the water quality.

7 The PS Response concluded by stating that the Company has
8 inadequately addressed the content of the Public Hearing, the
9 Company's report does not fully address customers' concerns, and
10 CWSNC has not been forthright with operational changes it has
11 made. The Public Staff recommended that the Commission require
12 CWSNC to address its concerns in a follow-up report.

13 **Q. Please briefly summarize the Company's supplemental**
14 **response to the Public Hearing.**

15 A. The Company filed a "Supplemental Response to Customer
16 Concerns from Beaufort, NC Public Hearing" (Supplemental
17 Response) on January 17, 2023, to further address and follow-up on
18 customer concerns from the Public Hearing, specific questions
19 posed by the Commission in its Order filed on December 22, 2022,
20 and concerns expressed by the Public Staff in the PS Response, filed
21 December 16, 2022.

1 To respond to the Commission's question concerning water levels in
2 elevated storage tanks changing on October 18, 2022, and again on
3 October 25, 2022, the Company stated that it did not increase water
4 tank levels in an attempt to address the evening pressure drops.
5 After the public hearing, the Company began collecting data to
6 determine the cause of evening pressure drops, including analyzing
7 and adjusting automatic flushers, and then the Company adjusted
8 elevated tank setpoints on December 21, 2022.

9 In response to the Commission's question of whether water pressure
10 issues could have a cause other than tank levels, the Company
11 confirmed that the pressure concerns were corrected after the
12 adjustment of automatic flusher times and elevated tank setpoints.
13 The Company clarified that the collection and analysis of the data
14 extended beyond the date of the filing of the Customer Report.

15 The Commission asked if the Company increased the frequency of
16 the filter backwash cycle for the greensand filter to address
17 complaints of yellow water and if the desired results had been
18 produced. The Company stated that it changed the backwash
19 frequency from every 10 days to every 7 days in October 2022 but
20 did not state the reason for this change or if the desired outcome
21 resulting from the change was achieved. The Company stated that

1 the iron level, which has a secondary drinking water standard of 0.3
2 mg/L, is 0.04 mg/L after the change from 10 to 7 days.

3 In response to the Commission's question asking if the Company
4 increased the frequency of regenerating the water softening media
5 system to address complaints of chalky water and if the change
6 produced the desired result, the Company answered that it changed
7 the softener system brine draw setpoint from 35 minutes to 50
8 minutes. In November 2022, CWSNC changed the setpoint to
9 regenerate the facility softener system to every 190,000 gallons due
10 to the high hardness results. In December 2022, CWSNC changed
11 the setpoint to 185,000 gallons. CWSNC states that it has not
12 received chalky water complaints since the softener setpoints have
13 been adjusted.

14 The Company addresses points made by the Public Staff in the PS
15 Response in its Supplemental Response. The Company states that
16 it did not deliberately schedule and conduct site visits to avoid
17 customer contact or engagement. The Company also states that it
18 was in the process of continuing its investigation addressing the
19 issues beyond the November 7, 2022, deadline of its initial response.
20 The Company states that its ongoing findings or responses were not
21 omitted from the Customer Report in an attempt to withhold
22 information. The Company reiterates that it stated in the Customer

1 Report that the efforts to identify and resolve the issues were
2 ongoing. The Company concludes that, in addition to the measures
3 described in the Supplemental Response, the Company continues
4 to understand the system better and continues to improve the quality
5 of service.

6 **Q. Please briefly summarize the engineering assessment.**

7 A. The Fair Value Statute requires that, “[t]he acquiring public utility and
8 selling utility shall jointly retain a licensed engineer to conduct an
9 assessment of the tangible assets of the system to be acquired, and
10 the assessment shall be used by the three appraisers in determining
11 fair value.”¹ In Sub 398, the starting point for the engineering
12 assessment was a document prepared by Draper Aden Associates
13 (Draper Aden) entitled “Feasibility Study for Water System Merger”
14 dated December 2019.² For the use of the appraisers, CWSNC and
15 Carteret County retained Draper Aden “to conduct an assessment of
16 the tangible assets of the system to be acquired” and Draper Aden
17 produced “Update to Present Value of Water System” dated
18 December 2021.³

¹ N.C.G.S. § 62-133.1A(b)(2).

² Form Application Exhibit 5B filed in Sub 398.

³ Form Application Exhibit 5C filed in Sub 398.

1 **Q. Is there anything else in the Feasibility Study for Water System**
2 **Merger that is relevant to this proceeding?**

3 A. Yes. Regarding the County's capital improvement plan, Draper Aden
4 states⁴:

5 In 2013, the County completed a \$3.51 million water
6 system improvement project. Since 2013, there has
7 been little need for significant capital projects; there
8 were no capital projects scheduled in FY2019 and the
9 FY2020 budget does not include any. The County
10 continues to fund "pay as you go" capital projects, as
11 needed.

12

13 Overall, the water system is in good condition and the
14 County is not expecting any major capital investment
15 in the near future.

16 **Q. Were any deficiencies identified in the engineering**
17 **assessment?**

18 A. Form Application Exhibit 2 filed in Sub 398 summarizes, "[n]o
19 deficiencies noted."

20 **Q. Did CWSNC include in its application a five-year plan for**
21 **prudent and necessary infrastructure improvements as**
22 **required by Commission Form FV1?**

23 A. No. Form Application Exhibit 2 states in pertinent part, "CWSNC
24 plans no significant improvement above routine O&M, such as tank

⁴ Form Application Exhibit 5B, at 6, filed in Sub 398.

1 coatings which are covered in the current maintenance contract and
2 chlorine conversion from gas to liquid due to safety concerns.”

3 **Q. Does CWSNC anticipate making any improvements/additions in**
4 **the first year?**

5 A. Yes. On page 7 of its CPCN Application, CWSNC briefly describes
6 “Tank investments \$125,000.”

7 **Q. Does CWSNC anticipate the need for any major**
8 **improvements/additions in the next five to ten years?**

9 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
10 improvements / additions planned.”

11 **Q. Does CWSNC anticipate the need for any major replacements in**
12 **the next five to ten years?**

13 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
14 replacements planned.”

15 **Q. Have you visited the Carteret County Water System?**

16 A. Yes. On April 29, 2022, I, along with Public Staff Public Utilities
17 Engineer Mike Franklin and Attorney Zeke Creech and NewGen
18 Strategies and Solutions Consultant Mike Lane, traveled to Beaufort
19 to meet with Carteret County staff, including Eugene Foxworth, Tony
20 Cahoon, and Arrington Moore, and visually inspected the North
21 River/Mill Creek (PWSID NC0416197) and Merrimon (PWSID
22 NC0416198) water systems.

1 **Q. Please briefly summarize your observations from the site visit.**

2 A. The wellhouses were well maintained and clean. The elevated
3 storage tanks were in various states of acceptable to good condition
4 based on staggered recoating schedules and are regularly
5 inspected, maintained, and recoated pursuant to a water tank
6 management agreement with Southern Corrosion Incorporated. The
7 water treatment plant, including greensand filters, water softeners,
8 ortho-polyphosphate feed system, chloramines disinfection, and
9 onsite backup generator, was in good condition. The North River/Mill
10 Creek distribution system is sprawling, including over 55 miles of
11 water lines, nearly 600 valves, 175 hydrants, and interconnections
12 with the Town of Beaufort and Craven County. The Merrimon system
13 is approximately 18 miles away and serves about 20 customers.

14 **Q. What is your expert opinion of the condition of the utility**
15 **assets?**

16 A. Overall, it is my professional opinion that the utility assets are in good
17 condition and have been well maintained.

18 **Q. How would you describe the technical operations of Carteret**
19 **County?**

20 A. According to Public Water Supply Section records available on
21 Drinking Water Watch system, neither of the water systems has had
22 any violations issued or enforcement actions taken for over the last

1 six years. To my knowledge, the County provides safe, reliable, and
2 compliant service to the North River/Mill Creek and Merrimon water
3 systems.

4 **Q. Has the Commission addressed the evidence regarding the**
5 **condition of and service provided by the County Water System?**

6 A. Yes, the Commission found that, “[t]he System is well-maintained
7 and provides safe, reliable, and compliant service to customers.” Sub
8 398 Order at 6.

9 **Q. How would you describe the management of the utility?**

10 A. The County management is capable and has shown the ability to
11 improve its Water Fund financial outlook while also managing a
12 County-wide budget of over \$163 million. The County has effectively
13 sought and been awarded “cost free” capital grants and below
14 market interest rate loans to fund a significant portion of capital
15 needs. Carteret County provided an Excel spreadsheet detailing
16 infrastructure by funding sources, which shows a breakdown as
17 follows: Grants (\$6,491,452 / 54.27%); Loan (\$4,435,608 / 37.08%);
18 Developer Paid (\$305,944 / 2.56%); Other (\$727,732 / 6.08%); and
19 Total (\$11,960,736 / 100.00%).⁵ According to the FY23 Budget, the
20 County’s water fund (Water Fund) is 0.7% of the revenue in FY23.

⁵ Junis Exhibit 4 filed in Sub 398, is the Excel spreadsheet provided by the County.

1 **Q. Are Carteret County's present rates sufficient to cover its**
2 **costs?**

3 A. Based on a greater understanding of the County's financial records
4 and audited financial records since the 398 proceeding, the rates
5 were sufficient to cover the County's costs during the 12 months
6 ended June 30, 2022.

7 On page 24, the audited financial report states as follows:⁶

8 The County's proprietary fund provides the same type
9 of information found in the government-wide
10 statements but in more detail. Total net position was
11 \$5,812,673, a \$419,775 increase from the previous
12 year. Unrestricted net position of the Water Fund at the
13 end of the fiscal year was \$1,907,678, a \$586,930
14 increase. Expenses were less than projected, and
15 combined with the transfer in from the Water Taxing
16 District Special Revenue Fund, net position increased.
17 As in previous years, the Water Fund is not self-
18 supporting and relies on the water taxing district
19 revenues to transfer into the fund. In fiscal year 2022,
20 \$372,670 was transferred from the water taxing district,
21 \$32,330 less than the previous year.

22 The unrestricted net position of the Water Fund increased by
23 \$586,930, or \$214,260 more than the \$372,670 transferred from the
24 water taxing district. The statement that, "[a]s in previous years, the
25 Water Fund is not self-supporting and relies on the water taxing
26 district revenues to transfer into the fund" appears to be in conflict

⁶ Annual Comprehensive Financial Report For the Fiscal Year Ended June 30, 2022. Available at <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1410> (last visited on March 8, 2023).

1 with this data. The income before contributions and transfers was
2 \$47,105. *Id.* at 43.

3 **Q. Does Carteret County have sufficient access to capital?**

4 A. Yes. Carteret County significantly expanded the water system in the
5 2000s. The County budgets for depreciation and interest expenses.
6 Please also see the discussion below of funding programs to which
7 the County has access.

8 **Q. Is the Carteret County Water System designated as distressed?**

9 A. Yes. As of September 27, 2022, Carteret County has been
10 designated as distressed by the State Water Infrastructure Authority
11 and the Local Government Commission. However, the “distressed”
12 designation is administrative in nature and does not reflect the
13 operational and financial challenges as would a system designated
14 by the Commission as “troubled.” The Carteret County system is not
15 a troubled system as that designation is used by the Public Staff and
16 Commission.⁷

17 **Q. Does being designated a distressed unit have benefits?**

18 A. Yes. As a distressed unit, in addition to access to the Drinking Water
19 State Revolving Fund and Drinking Water Reserve Program,
20 Carteret County is eligible to apply for funds from the Viable Utility

⁷ See Q. and A. starting on page 27 regarding Docket No. W-1000, Sub 5 for Commission’s discussion of “troubled” system.

1 Reserve and additional construction grants⁸ funded by allocation
2 from the American Rescue Plan Act (ARPA).

3 **Q. After closing, would CWSNC have access to the benefits**
4 **available to a distressed unit?**

5 A. No. The distressed unit designation is limited to public water or
6 wastewater systems operated by a local government unit, as defined
7 in N.C.G.S. § 159G-20(4a) and (13). CWSNC will not have access
8 to millions of dollars of grants and below market interest rate loans
9 available to distressed systems.

10 **Q. Has CWSNC addressed its future plans for integrating the**
11 **acquired system into an existing rate division?**

12 A. Yes, CWSNC proposes to transfer the customers at existing rates as
13 charged by Carteret County and then integrate them into its uniform
14 water rate division as part of its next general rate case. CWSNC
15 projects the present rates would be charged for the next four years
16 and then increased by 28.19% in the average residential bill in 2027.⁹

17 The Utility Asset Purchase Agreement¹⁰ states as follows:

18 CWSNC would retain your current rates at the time of
19 APA execution until our next approved rate case, at
20 which time Carteret customers would move into our

⁸ Division of Water Infrastructure American Rescue Plan Act (ARPA) Administration Plan-Feb.2022. Available at <https://deq.nc.gov/water-infrastructure/dwi-arpa-administration-plan-feb-2022/download?attachment> (last visited on October 8, 2022).

⁹ Form Application Exhibit 3 in Sub 398.

¹⁰ Exhibit O to Form Application Exhibit 6B filed in Sub 398.

1 then current rate structure. We anticipate the next rate
 2 case filing would occur in July 2022 with new uniform
 3 rates becoming effective 12-18 months after filing.

4 In response to Public Staff Data Request 2, Question 1,¹¹ CWSNC
 5 provided the following response:

6 The original Form Application Exhibit 3 rates were
 7 based on estimates of the expected rate case filing in
 8 the Sub 400 Docket. It was unknown at the time the
 9 specific rate increases that would be requested by rate
 10 group. Subsequent to the Sub 400 rate filing, CWSNC
 11 has more information available as to its rates in 2027
 12 with the subsequent rate case filing that would be
 13 applicable to Carteret customers. The 2027 rates are
 14 still an estimate at an approximate 5% increase in the
 15 filing after the current WSIP period ending. Please see
 16 attached DR#2 – Exhibit 3 Update.xlsx, table included
 17 below.

18

Docket	CWSNC Uniform Water					Carteret Avg. Residential Bill	
	Avg. Us	BFC	Usage/1,	Avg Bil..	Increase	Water	Increase
Sub 384	4000	24.53	11.71	\$ 71.37		\$ 70.55	
Sub 400 WSIP Yr 1	4000	28.78	13.57	\$ 83.06	16.38%	\$ 70.55	0.00%
Sub 400 WSIP Yr 2	4000	29.76	14.03	\$ 85.88	3.40%	\$ 70.55	0.00%
Sub 400 WSIP Yr 3	4000	30.72	14.48	\$ 88.64	3.21%	\$ 70.55	0.00%
New Filing	4000	32.26	15.20	\$ 93.07	5.00%	\$ 93.07	31.92%

19 On page 21, the Commission's Sub 398 Order states as follows:

20 On further questioning from the Commission, witness
 21 Denton stated that CWSNC would not include the
 22 System in its rate base until its next rate case, in
 23 approximately four years, and that in the meantime the
 24 value of the asset would be depreciated at
 25 approximately 2% per year, such that the remaining
 26 rate base at that time would be \$8.7 million. Tr. vol. 2,
 27 110-12. He stated that the shareholders would absorb
 28 the loss and that the Company does not plan to seek

¹¹ Junis Exhibit 7 filed in Sub 398, is CWSNC's response to Public Staff Data Request 2, Question 1.

1 any type of special deferral accounting treatment. Id. at
2 112.

3 **Q. What is the original cost less depreciation of the Carteret**
4 **County Water System?**

5 A. As of June 30, 2022, the County's audited financial records indicate
6 total capital assets less depreciation in the amount of \$5,402,027.

7 **Q. Is the original cost less depreciation net of CIAC or "cost free"**
8 **capital?**

9 A. No. However, 56.83% of the capital funding is CIAC (either in the
10 form of grants or developer contributions). Therefore, the original
11 cost less depreciation and amortization of CIAC would be
12 approximately \$2,332,055.

13 **Q. What is the significance of CIAC or "cost free" capital on**
14 **ratemaking?**

15 A. The significance is that CIAC offsets associated plant in service,
16 thereby reducing the return on rate base and depreciation expense
17 for ratemaking purposes. Customers are not charged for utility plant
18 that has already been paid for by customers, builders, developers, or
19 someone else. CIAC includes grants, connection or tap fees,
20 capacity fees, meter installation fees, cash contributions from
21 developers, utility plant installed or paid for by the contributor and

1 conveyed to the utility, and land conveyed by the contributor to the
2 utility.

3 **Q. Are the acquisition adjustment criteria applicable for evaluation**
4 **of the CPCN application?**

5 A. Yes. As a general proposition, when a public utility buys assets that
6 have previously been dedicated to public service as utility property,
7 the acquiring utility is entitled to include in rate base the lesser of the
8 purchase price or the net original cost of the acquired facilities owned
9 by the seller at the time of the transfer. See Order Approving Transfer
10 and Denying Acquisition Adjustment, *Petition of Utilities, Inc. for*
11 *Transfer of the Certificate of Public Convenience and Necessity for*
12 *Providing Sewer Utility Service on North Topsail Island and Adjacent*
13 *Mainland Areas in Onslow County from North Topsail Water and*
14 *Sewer, Inc. and for Temporary Operating Authority*, Docket No. W-
15 1000, Sub 5 (N.C.U.C. January 6, 2000) (W-1000, Sub 5 Order). The
16 Commission has indicated "a strong general policy against the
17 inclusion of acquisition adjustments in rate base subject to
18 exceptions in appropriate instances." *Id.* at 24.

19 In the W-1000, Sub 5 Order, the Commission discussed the
20 circumstances when the rate base treatment of acquisition
21 adjustments is proper. The Commission stated the following:

22 As should be apparent from an analysis of the
23 Commission's previous Orders concerning this subject,

1 a wide range of factors have been considered relevant
2 in attempting to resolve this question, including the
3 prudence of the purchase price paid by the acquiring
4 utility; the extent to which the size of the acquisition
5 adjustment resulted from an arm's length transaction;
6 the extent to which the selling utility is financially or
7 operationally "troubled;" the extent to which the
8 purchase will facilitate system improvements; the size
9 of the acquisition adjustment; the impact of including
10 the acquisition adjustment in rate base on the rates
11 paid by customers of the acquired and acquiring
12 utilities; the desirability of transferring small systems to
13 professional operators; and a wide range of other
14 factors, none of which have been deemed universally
15 dispositive. Although the number of relevant
16 considerations seems virtually unlimited, all of them
17 apparently relate to the question of whether the
18 acquiring utility paid too much for the acquired utility
19 and whether the customers of both the acquired and
20 acquiring utilities are better off after the transfer than
21 they were before that time. This method of analysis is
22 consistent with sound regulatory policy since it focuses
23 on the two truly relevant questions which ought to be
24 considered in any analysis of acquisition adjustment
25 issues. It is also consistent with the construction of G.S.
26 62-111 (a) adopted in State ex rel. Utilities Commission
27 v. Village of Pinehurst. 99 N.C App. 224,393 S.E.2d
28 111 (1990), affd 331 N.C. 278,415 S.E.2d 199 (1992),
29 which seems to indicate that all relevant factors must
30 be considered in analyzing the appropriateness of
31 utility transfer applications. As a result, . . . the
32 Commission should refrain from allowing rate base
33 treatment of an acquisition adjustment unless the
34 purchasing utility establishes, by the greater weight of
35 the evidence, that the price the purchaser agreed to
36 pay for the acquired utility was prudent and that both
37 the existing customers of the acquiring utility and the
38 customers of the acquired utility would be better off [or
39 at least no worse off] with the proposed transfer,
40 including rate base treatment of any acquisition
41 adjustment, than would otherwise be the case. *Id.* at
42 27.

1 Different from prior cases with acquisition adjustments, the
2 Commission has determined rate base by adjusting the fair value in
3 Sub 398. However, it remains to be determined whether the issuance
4 of a CPCN, including approval of rates, and associated sale of the
5 system are in the public interest. The County Water System is not
6 troubled in the sense that the utility assets are beyond their useful
7 life, there are serious or widespread environmental compliance
8 issues, there is a lack of capital funding, or the County lacks
9 technical, managerial, and/or financial expertise and capabilities.
10 The potential acquisition of the County Water System is not an
11 exceptional situation that warrants an exception to the general policy
12 against including acquisition adjustments in rate base, or in this case
13 setting into motion CWSNC's plans to ultimately include the fair value
14 in rates. CWSNC has not demonstrated that an "acquisition
15 adjustment" in the form of fair value will provide substantial benefits
16 to all customers, and those benefits outweigh the cost of including
17 the acquisition premium in rate base.

18 **Q. Why is it important to identify and balance the costs and**
19 **benefits of the proposed sale and application for CPCN?**

20 A N.C.G.S. § 62-110(a) provides that "no public utility shall hereafter
21 begin the construction or operation of any public utility plant or
22 system or acquire ownership or control thereof, either directly or
23 indirectly, without first obtaining from the Commission a certificate

1 that public convenience and necessity requires, or will require, such
2 construction, acquisition, or operation.” Furthermore, N.C.G.S. § 62-
3 111(a) provides that “no franchise now existing . . . shall be sold . . .
4 except after application to and written approval by the Commission,
5 which approval shall be given if justified by the public convenience
6 and necessity.” As explained in the Order Approving Merger Subject
7 to Regulatory Conditions and Code of Conduct issued September 29,
8 2016, in Docket Nos. E-2, Sub 1095; E-7, Sub 1100; and G-9, Sub
9 682 (Duke/Piedmont Merger Order):

10 In prior merger proceedings the Commission has
11 established a three-part test for determining whether a
12 proposed utility merger is justified by the public
13 convenience and necessity. That test is (1) whether the
14 merger would have an adverse impact on the rates and
15 services provided by the merging utilities; (2) whether
16 ratepayers would be protected as much as possible
17 from potential costs and risks of the merger; and (3)
18 whether the merger would result in sufficient benefits to
19 offset potential costs and risks. See Order Approving
20 Merger Subject to Regulatory Conditions and Code of
21 Conduct (Duke/Progress Merger Order), issued June
22 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub
23 986, aff’d, In re Duke Energy Corp., 232 N.C. App. 573,
24 755 S.E.2d 382 (2014). These questions are related to
25 one another and together establish a reasoned
26 framework upon which utility mergers may be
27 evaluated. In making these assessments, the
28 Commission has also examined factors such as
29 whether service quality will be maintained or improved,
30 the extent to which costs can be lowered and rates can
31 be maintained or reduced, and whether effective
32 regulation of the merging utilities will be maintained. See
33 Order Approving Merger and Issuance of Securities,
34 issued April 22, 1997, in Docket No. E-7, Sub 596.

1 Duke/Piedmont Merger Order, at 68. The Public Staff believes the
2 Commission's three-part test for determining whether a proposed
3 merger is justified by the public convenience and necessity is also
4 applicable in determining the appropriateness of the proposed sale
5 and application for CPCN to serve the territory of the Carteret County
6 Water System. The test for the present case is: (1) whether the
7 acquisition will have an adverse impact on the rates and services
8 provided by the acquiring utilities; (2) whether ratepayers will be
9 protected as much as possible from potential costs and risks of the
10 acquisition; and (3) whether the acquisition will result in sufficient
11 benefits to offset potential costs and risks.

12 **Q. Will the acquisition have an adverse impact on the rates?**

13 A. Yes. In its Sub 398 Order, the Commission found that the future rate
14 impacts will be material if rate base is set at the purchase price plus
15 fees. The Commission determined that it was not in the public
16 interest to approve the requested fair value for rate base of
17 \$9,500,000 plus fees and determined the fair value to be a lower
18 amount, \$8,416,000 plus fees. However, the future rate impacts to
19 customers remain material.

20 **Q. Please summarize the evaluation of rate base.**

21 A. One measure that should inform the Commission's decision is a
22 comparison of rate base per customer of the system to be acquired

1 and the acquiring utility. The rate base per customer amounts for
 2 water rate divisions calculated by Public Staff witness Feasel from
 3 the Commission's order in the Sub 384 rate case are as follows in
 4 the table below.

5 Table 1

Rate Division	Rate Base	Customer Count	Rate Base Per Customer
CWSNC Uniform Water	\$68,514,633	29,317	\$2,337
BF/FH Water	\$3,321,564	3,533	\$940

6 The fair value and associated fees amount to approximately \$6,835
 7 per customer.¹² The acquired rate base per customer is nearly three
 8 times the rate base per customer of the CWSNC Uniform Water rate
 9 division and, if established as rate base, would negatively impact
 10 both the Carteret County customers to be acquired and CWSNC's
 11 existing Uniform Water customers.

12 **Q. Briefly describe the billing analysis.**

13 A. Based on the County's response to Public Staff Data Request 3,
 14 Question 2, I have analyzed the billing determinants and projected
 15 the number of customers from fiscal year 2022 to fiscal year 2027.

¹² Based on fair value and estimated fees and closing costs, the rate base per customer is \$8,728,039 divided by 1,277 customers (as of June 2022 billing), which equals \$6,834.80.

1 Please see **Public Staff Junis Exhibit 1**. Consistent with CWSNC's
2 assumption in the Updated Addendum, I utilized a 1.50% compound
3 annual growth rate to project the end of period customer count and
4 then average, or midpoint, number of customers for the given year. I
5 projected a monthly average of 1,366 customers during fiscal year
6 2027 (July 1, 2026, through June 30, 2027). The average monthly
7 usage per customer was 3,343 gallons during fiscal year 2022 and
8 3,336 during the first seven months of fiscal year 2023. Based on the
9 consistency in these recent periods, I assumed average monthly
10 usage per customer to be 3,343 gallons in future years for the
11 purpose of estimation.

12 **Q. What would be the estimated rate impact to Carteret County**
13 **Water System customers of the fair value and estimated fees**
14 **and closing costs?**

15 A. Based on the lesser of the purchase price (\$9.5 million) negotiated
16 between the parties to the sale or the fair value (\$8.416 million) set
17 by the Commission plus the proposed reasonable fees and costs,
18 which is \$8,416,000 plus \$312,039, Public Staff witness Feasel
19 calculated the revenue requirement in 2027 to be \$986,996,960,784.
20 Assuming system specific rates for 1,366 projected customers in
21 2027 on the County Water System, the average monthly rate impact
22 of the fair value and fees and closing costs would be \$60.2158-61
23 per County Water System customer.

1 **Q. What would be the estimated rate impact to CWSNC Uniform**
2 **Water customers of the fair value and estimated fees and**
3 **closing costs?**

4 A. Similar to the calculation above, except adding the 1,366 projected
5 customers to the equivalent residential customer (ERC) count of
6 29,426 existing CWSNC Uniform Water customers,¹³ the average
7 monthly rate impact of the fair value and fees and closing costs would
8 be approximately ~~\$2,672.60~~ per customer.

9 **Q. What would be the estimated average monthly bill per customer**
10 **on a system-specific basis?**

11 A. Based on the fair value, fees and closing costs, and tank investment
12 in rate base and an estimate of expenses similar to CWSNC's
13 Updated Addendum, except using data from Rate Year 3 of the Sub
14 400 rate case, Public Staff witness Feasel calculated the revenue
15 requirement in 2027 to be ~~\$1,625,1891,599,162~~. Assuming system-
16 specific rates, the estimated average monthly bill would be
17 ~~\$99.1597.56~~ per County Water System customer.

18 **Q. How do the County's present rates compare to CWSNC's**
19 **Uniform Water rates and system-specific rates?**

¹³ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The County's present rates, which were approved by the Board of
2 Commissioners on September 20, 2021, and became effective
3 September 21, 2021, are a basic charge of \$40.25 per month for
4 residential customers, including the first 1,000 gallons, and a volume
5 charge of \$10.10 per 1,000 gallons after the first 1,000 gallons.¹⁴
6 CWSNC's present rates were approved on April 8, 2022, in Docket
7 No. W-354, Sub 384. ~~On February 2, 2023, CWSNC filed Appendix~~
8 ~~E-1, On May 12, 2023, the Commission issued its Order Approving~~
9 ~~Schedules of Rates, Schedules of Connection Fees, and Customer~~
10 ~~Notices, including~~ a schedule of rates for the Uniform Water rate
11 division for Rate Year 3 in Docket No. W-354, Sub 400. As noted
12 above, in response to Public Staff Data Request 2, Question 1,
13 CWSNC stated "[t]he 2027 rates are still an estimate at an
14 approximate 5% increase in the filing after the current WSIP period
15 ending." Using this assumption and the revenue requirement
16 calculated as a result of rate base accounting of the fair value and
17 associated fees, I calculated an estimate of CWSNC's future Uniform
18 Water rates. The comparison is shown in the table below using the
19 Carteret County average monthly usage of 3,343 gallons per
20 customer.

¹⁴ Water Service FY 23 Fee Schedule. Available at <https://www.carteretcountync.gov/DocumentCenter/View/10202/Water-Service-Fee-Schedule-FY2022-2023> (last visited on October 13, 2022).

1 Table 2

Rate Classification	Base	Usage Per 1,000 gallons	Ave Monthly Bill
Carteret County	\$40.25	\$10.10	\$63.91
Uniform W – Sub 384	\$24.53	\$11.71	\$63.68
Uniform W – Sub 400	\$28.61 <u>29.44</u>	\$13.78 <u>14.08</u>	\$74.68 <u>76.51</u>
Future Uniform Water	\$32.71 <u>33.51</u>	\$14.47 <u>14.78</u>	\$81.08 <u>82.92</u>
System-Specific	\$39.64 <u>39.02</u>	\$17.80 <u>17.51</u>	\$99.15 <u>97.56</u>

2 The acquisition will have an adverse impact on rates whether
3 consolidated into uniform rates or set as system-specific rates for the
4 acquired customers.

5 **Q. Will the acquisition have an adverse impact on services**
6 **provided by the acquiring utilities?**

7 A. No. Utility service to the existing County Water System customers
8 should be the same, or better, after acquisition as CWSNC's record
9 of service is satisfactory and CWSNC has the technical, managerial,
10 and financial capacity to provide water utility service in this franchise
11 location. It should be noted that CWSNC and the County entered into
12 an operation and maintenance oversight agreement dated January
13 24, 2022. Under the agreement, CWSNC provides a certified
14 operator to serve as Operator in Responsible Charge (ORC) and
15 consultation services to County staff for a maximum of one hour per
16 day pursuant to the terms and conditions.

1 **Q. Will ratepayers be protected as much as possible from potential**
2 **costs and risks of the acquisition?**

3 A. No. As a result of the Sub 398 proceeding, rate base was established
4 at a fair value of \$8,416,000 plus associated fees of \$312,039. This
5 includes costs incurred for appraisals that were not relied upon by
6 the Commission to calculate the fair value. Further, the rate base far
7 exceeds the original cost less depreciation and amortization of CIAC
8 of approximately \$2,332,055. There is also the crucial issue of
9 whether the entirety of plant is used and useful, subject to
10 determination by the Commission in the next rate case.

11 **Q. Will the acquisition result in sufficient benefits to offset**
12 **potential costs and risks?**

13 A. No. The record is void of tangible evidence of benefits that would
14 materially offset the potential costs and risks. In pertinent parts, the
15 Commission discussed benefits as follows:

16 The Company, in the present case, offered generalized
17 opinions regarding the benefits of consolidation and
18 growth. However, the Company did not quantify the
19 benefits to customers of spreading costs over a larger
20 customer base or demonstrate that the value of those
21 benefits would exceed the costs to customers. The
22 Company failed to adequately respond to the Public
23 Staff's questions about whether the operating costs of
24 the System will be higher than necessary because of
25 inefficient design of the System. The Company did not
26 articulate any business plan for growth of the System
27 or integration of the System into the Company's other
28 systems that would suggest that acquisition of the
29 System was part of a considered strategy for organic
30 growth or improved operational efficiencies.

1
2 The Commission observes that the evidence of a
3 benefit to System customers is decidedly mixed. The
4 County Commission has no present plans to use any
5 of the sales proceeds to directly benefit System
6 customers specifically, for instance by creating a
7 hardship fund for System customers who have difficulty
8 affording the rates under private ownership.

9 Sub 398 Order at 24-25. The County (after paying off its Water Fund
10 liabilities, interest payable, and debt balances) will net cash from the
11 Water Fund of approximately \$1,071,582. See **Public Staff Junis**
12 **Exhibit 2**. The net cash from the Water Fund described above added
13 to the purchase price of \$9.5 million for the County Water System
14 assets result in a grand total of approximately \$10.5 million, no part
15 of which is currently planned to be used to offset this transaction's
16 impact on County Water System customers.

17 **Q. Do you recommend that the Commission grant the franchise?**

18 A. No. I recommend that the Commission deny CWSNC's CPCN
19 Application to provide water utility service to the Carteret County
20 Water System. As described in greater detail above, and in testimony
21 in the Sub 398 proceeding, (1) the acquisition will have an adverse
22 impact on the rates; (2) ratepayers will not be adequately protected
23 from potential costs and risks of the acquisition; and (3) the
24 acquisition will not provide sufficient benefits to offset potential costs
25 and risks. Incentivizing acquisitions at this magnitude of cost

1 premium while also failing to provide material net benefits does not
2 serve the public interest.

3 **Q. Do you have an alternative recommendation if the Commission**
4 **does not deny the application?**

5 A. Yes. Before providing my alternative recommendation, I would note
6 that if the Commission does not deny the CPCN Application, which,
7 in addition to the issues specific to this case described above, such
8 a decision could trigger a domino effect of future fair value
9 acquisitions at rate bases significantly higher than net book value
10 despite a lack of offsetting benefits and further exacerbate upward
11 pressure on rates and affordability. To avoid such an outcome, I
12 recommend issuance of the CPCN and approval of the proposed
13 rates, which are presently charged by the County including a four-
14 year rate freeze, contingent on certain conditions. First, the
15 Commission should exercise its authority to set rates for the County
16 Water System on a system-specific basis, in accordance with its
17 authority reiterated in N.C.G.S. § 62-133.1A(e).¹⁵ Further, the County
18 Water System should remain on system-specific rates for the
19 duration of time that the purchase acquisition adjustment is in rate

¹⁵ (e) Commission's Authority. – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

1 base, or until such time after its next general rate case that CWSNC
2 clearly shows by the weight of credible evidence that the County
3 Water System customers and CWSNC uniform water customers
4 would mutually benefit from consolidation. Additionally, CSWNC and
5 the County should either agree to amend or the Commission should
6 require that the asset purchase agreement provide that the proceeds
7 from the sale shall either be: (1) held by the County in trust for the
8 benefit of County Water System customers, as a hardship fund or to
9 subsidize customer bills on a pro rata basis so that customers across
10 the state do not have to unfairly and unnecessarily share the burden
11 of the purchase price premium with County Water System
12 customers; or (2) credited to CWSNC as a direct reduction in rate
13 base of the acquired system to offset impacts of system-specific
14 rates on Carteret County Water System customers.

15 **Q. Does this conclude your testimony?**

16 **A.** Yes, it does.

QUALIFICATIONS AND EXPERIENCE

CHARLES JUNIS

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering in May 2011. I have been a licensed Professional Engineer in North Carolina since December 2015. I have over eleven years of water and wastewater engineering experience, and since joining the Public Staff in April 2013, have worked on general rate cases, new franchise and transfer applications, emergency operations proceedings, customer complaints, rulemakings, and other aspects of utility regulation. More specifically, I have assisted in the investigation and drafting of petitions and/or testified in the Webb Creek (Docket No. W-864, Sub 11), Riverbend Estates (Docket No. W-390, Sub 13), Mountain Air (Docket No. 1148, Sub 20), and Kinnakeet Shores (Docket No. W-1148, Sub 20) emergency operator proceedings. I also contributed to the Public Staff's Initial Comments and Recommended Rules filed in Docket No. W-100, Sub 60. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. Through this education and experience, I have gained considerable knowledge of relevant engineering and construction principles and utility operations, maintenance, and capital planning.

Billing Data and Projection

Year	Average Customers Billed	3/4" Code 01	1" Code 03	2" Code 04	4" Code 05	Merrimon Code 06	Eastmans Creek Code 07	Total Meters Billed	Average Monthly Usage	Total Gallons Billed
FY19	1,188	1,131	22	3	1	29	2	1,188	3,628	51,720,768
FY20	1,206	1,149	22	3	1	29	2	1,206	3,462	50,102,064
FY21	1,231	1,174	22	3	1	29	2	1,231	3,816	56,369,952
FY22	1,262	1,205	22	3	1	29	2	1,262	3,343	50,626,392
Projected FY23	1,287	1,230	22	3	1	29	2	1,287	3,343	51,629,292
Projected FY24	1,306	1,249	22	3	1	29	2	1,306	3,343	52,391,496
Projected FY25	1,325	1,268	22	3	1	29	2	1,325	3,343	53,153,700
Projected FY26	1,345	1,288	22	3	1	29	2	1,345	3,343	53,956,020
Projected FY27	1,366	1,309	22	3	1	29	2	1,366	3,343	54,798,456

Carteret County Water System
W-254, Sub 399
Public Staff Data Request 4
2/28/2023

Docket No. W-354, Sub 399
Public Staff Junis Exhibit 2

- 1: In the event the proposed transaction closes, what sums from the County's Water Fund:
- Can be retained?
 - Must be returned, paid, or repaid to third parties (Please identify by name) and in what amounts?
 - If uncertain as to (a) or (b) above, please indicate why, including what steps, inquiries, and research the County and CWS have made to determine the above.

1.a

Cash	2,724,863.00	
Restricted CD for USDA Revenue Bond	<u>43,932.00</u>	
Total Cash		2,768,795.00

Liabilities:

Payroll:

Fica	990.00	
Federal withholding taxes	449.00	
State withholding taxes	157.00	
NC Retirement System withholdings	2,151.00	
Community Eye Care withholdings	20.00	
Health Equity withholding	3,602.00	
Standard Life Insurance withholding	54.00	
Blue Cross Blue Shield withholding	1,034.00	
Ameritas withholding	21.00	
Allstate withholding	13.00	
Nationwide withholding	15.00	
Prudential withholding	<u>445.00</u>	
Total Payroll liabilities		8,951.00

Outstanding purchase orders: (See Purchase Order spreadsheet for list 1.b) 43,793.00

Customer Deposits (See Customer Deposit spreadsheet for list 1.b) 124,040.00

Interest Payable: (See accrued interest spreadsheet for calculation 1.b)

USDA Revenue Bond	18,686.00	
State Revolving Loan Fund - Phase I	595.00	
State Revolving Loan Fund - Phase II	<u>4,116.00</u>	
Total Interest Payable		23,397.00

Long Term Debt Payable

USDA Revenue Bond	906,000.00	
State Revolving Loan Fund - Phase I	31,032.00	
State Revolving Loan Fund - Phase II	<u>560,000.00</u>	
		<u>1,497,032.00</u>

Total Liabilities 1,697,213.00

Cash in Greater than Liabilities 1,071,582.00

1.c Grant Repayments

USDA Grant: \$1,515,000

Carteret County inquired to USDA regarding repayment of the grant if the transaction closes. USDA's response was, "If they are selling to a for-profit, the grant recapture would have to be calculated and determined based upon a fair market sale value from an appraisal performed by a NC licensed real estate appraiser. The appraisal will have to be reviewed and concurred in by the Regional Appraisal Division."

No other follow up has occurred with USDA.

NCDEQ \$2,969,280 Grant

Carteret County has not reached out to the grantor regarding this grant.

Rural Economic Development Center, Inc. \$670,000 Grant

Carteret County has not reached out to the grantor regarding this grant.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

TESTIMONY OF
LYNN FEASEL
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION

MARCH 10, 2023, UPDATED JUNE 13, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Lynn Feasel. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Financial Manager of the Water, Sewer, and Telecommunications
6 Sections with the Accounting Division of the Public Staff – North
7 Carolina Utilities Commission (Public Staff).

8 **Q. Briefly state your qualifications and experience.**

9 A. My qualifications and experience are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony in this proceeding is to present the
12 results of my investigation of the Carolina Water Service Inc. of North
13 Carolina's (CWSNC) application in this docket. Specifically, I discuss
14 my calculations of the revenue requirement impact from the Public
15 Staff's estimated operating and maintenance (O&M) expenses to
16 operate the Carteret County Water System after acquisition, and the
17 revenue requirement impact from the Commission's February 10,
18 2023 Order in Docket No. W-354, Sub 398 (Sub 398 Order)
19 approving a fair value of the Carteret County Water System,
20 including transaction and closing costs, as well as \$125,000 tank
21 investment in the first year recommended by witness Junis. The

1 revenue requirement is calculated to reflect the rate impact after the
2 existing Carteret County rates are in place for four years after the
3 acquisition.

4 **Q. Please explain the Public Staff's calculation of original cost rate**
5 **base.**

6 A. The Public Staff's calculation of original cost rate base includes the
7 following components: 1) plant in service; and 2) accumulated
8 depreciation of plant in service.

9 **Plant in Service**

10 Per the Commission's Sub 398 Order, the approved reasonable and
11 appropriate fair value of the Carteret County Water System was
12 determined to be \$8,728,039, to include \$8,416,000 for the fair value
13 of the system and \$312,039 for transaction and closing costs.
14 Additionally, Public Staff witness Junis also recommends an
15 additional \$125,000 tank investment to be included for 2023. I have
16 calculated the plant in service to include all the above items.

17 **Accumulated Depreciation**

18 I calculated accumulated depreciation of the approved fair value of
19 the Carteret County Water System and tank investment through
20 December 31, 2026, as CWSNC proposes to keep the current

1 County rates in effect for four years, assuming the first year starts at
2 the beginning of 2023. (Tr. vol. 3, 171-195. from docket W-354, Sub
3 398).

4 **Q. Please explain the Public Staff's calculation of O&M expense**
5 **and other estimated expenses.**

6 A. The Public Staff calculated projected O&M expenses specifically
7 related to the Carteret County Water System based on two factors:
8 1) total estimated O&M expenses and other expenses in 2027; and
9 2) estimated County customer counts in 2027. Since the new County
10 rates are estimated to take effect at the beginning of 2027, the Rate
11 Year 3 O&M expenses in CWSNC's most recent rate case in Docket
12 No. W-354, Sub 400 reflect the most representative ongoing level
13 O&M expenses, since Rate Year 3 ends March 31, 2026, which is
14 close to the date the new County rates will take effect. For most of
15 the O&M expense items, I utilized the total Rate Year 3 O&M
16 expenses divided by the equivalent residential customer (ERC)
17 count of 29,426 to calculate the average O&M expense per
18 customer, then applied the average O&M expense per customer to
19 the projected 1,366 County customers to calculate the estimated

1 O&M expenses for County customers.¹ In addition, I calculated
2 depreciation expense based on the depreciation rates recommended
3 by Public Staff witness Junis.

4 **Q. Please explain the Public Staff's calculation of return on rate
5 base.**

6 A. The Public Staff utilized 7.22% overall return on rate base with 50/50
7 debt equity capital structure, 4.64% debt rate, and 9.8% return on
8 equity rate to calculate the overall return for rate base. The capital
9 structure, debt rate, and equity rate are identical to the rates
10 approved by the Commission in CWSNC's most recent rate case in
11 Docket No. W-354, Sub 400.

12 **Q. What is the Public Staff's proposed revenue requirement?**

13 A. The Public Staff's recommended revenue requirement based upon
14 the calculations detailed above is \$1,625,189. This amount
15 represents the revenue requirement for the first year, i.e., 2027, after
16 the existing rates last for four years starting from 2023.

17 **Q. How does the recommended revenue requirement impact utility
18 rates per customer?**

¹ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The average monthly rate per customer will be \$99.15 in 2027 for the
2 projected 1,366 Carteret County customers. The existing County
3 monthly rate per customer is \$40.25. The testimony of Public Staff
4 witness Junis further discusses the rate impact of the revenue
5 requirements.

6 **Q. Do you have an updated Exhibit?**

7 A. Yes. Feasel Exhibit 1 with updated Schedules is attached hereto.

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

9 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas companies, filed testimony and affidavits in various general rate cases, calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc., calculated quarterly earnings for various natural gas companies, calculated refunds to consumers from AH4R and Progress Residential and reviewed franchise and contiguous filings for multiple water and sewer companies.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

TESTIMONY OF
LYNN FEASEL
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION

| **MARCH 10, 2023, UPDATED JUNE 13, 2023**

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Lynn Feasel. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Financial Manager of the Water, Sewer, and Telecommunications
6 Sections with the Accounting Division of the Public Staff – North
7 Carolina Utilities Commission (Public Staff).

8 **Q. Briefly state your qualifications and experience.**

9 A. My qualifications and experience are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony in this proceeding is to present the
12 results of my investigation of the Carolina Water Service Inc. of North
13 Carolina's (CWSNC) application in this docket. Specifically, I discuss
14 my calculations of the revenue requirement impact from the Public
15 Staff's estimated operating and maintenance (O&M) expenses to
16 operate the Carteret County Water System after acquisition, and the
17 revenue requirement impact from the Commission's February 10,
18 2023 Order in Docket No. W-354, Sub 398 (Sub 398 Order)
19 approving a fair value of the Carteret County Water System,
20 including transaction and closing costs, as well as \$125,000 tank
21 investment in the first year recommended by witness Junis. The

1 revenue requirement is calculated to reflect the rate impact after the
2 existing Carteret County rates are in place for four years after the
3 acquisition.

4 **Q. Please explain the Public Staff's calculation of original cost rate**
5 **base.**

6 A. The Public Staff's calculation of original cost rate base includes the
7 following components: 1) plant in service; and 2) accumulated
8 depreciation of plant in service.

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13 of the system and \$312,039 for transaction and closing costs.
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15 additional \$125,000 tank investment to be included for 2023. I have
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19 the Carteret County Water System and tank investment through
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7 50/50 debt equity capital structure, 4.64% debt rate, and 9.825%
8 return on equity rate to calculate the overall return for rate base. The
9 capital structure, debt rate, and equity rate are identical to the rates
10 recommended by the Public Staff approved by the Commission in
11 CWSNC's most recent rate case in Docket No. W-354, Sub 400.

12 **Q. What is the Public Staff's proposed revenue requirement?**

13 A. The Public Staff's recommended revenue requirement based upon
14 the calculations detailed above is \$1,599,1621,625,189. This amount
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18 **rates per customer?**

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3 County monthly rate per customer is \$40.25. The testimony of Public
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5 requirements.

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7 A. Yes. Feasel Exhibit 1 with updated Schedules is attached hereto.

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CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
RETURN ON ORIGINAL COST RATE BASE

CWSNC WATER OPERATIONS

Line No.	Item	Capitalization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [1] (c)	Overall Cost Rate [4] (d)	Net Operating Income [5] (e)
Present Rates:						
1	Debt	50.00%	\$3,718,276 [2]	4.64% [1]	2.32%	\$172,528 [5]
2	Equity	50.00%	3,718,277 [2]	9.80% [1]	4.90%	364,391 [5]
3	Total	100.00%	\$7,436,553 [3]		7.22%	\$536,919 [6]

[1] Per W-354 Sub 400 final order.
 [2] Column (a) multiplied by Line 3, Column (b).
 [3] Feasel Exhibit I-updated, Schedule 2, Line 5.
 [4] Column (a) multiplied by Column (c).
 [5] Column (b) multiplied by Column (c).
 [6] Column (e), L1 + L2.

CAROLINA WATER SERVICE, INC., OF NC
Docket No. W-354, Sub 399
ORIGINAL COST RATE BASE

CWSNC WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	<u>Amount Per Public Staff</u>
1	Commission approve fair value	\$ 8,728,039 [1]
2	Tank	125,000 [2]
3	Accumulated depreciation	(1,416,486) [3]
4	Net plant in service (L1 + L2 + L3)	<u>7,436,553</u>
5	Original cost rate base (L4)	<u>\$7,436,553</u>

- [1] Commission approved fair value of the system per W-354 Sub 398, plus additional investment recommended I
[2] Company proposed to add \$125,000 tank.
[3] Calculated by the Public Staff to depreciate plant in service for four years through December 31, 2026.

CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
NET OPERATING INCOME FOR A RETURN

CWSNC WATER OPERATIONS

Line No.	Item	Projected NOI	Public Staff Recommended Rates	
		Amount Per Public Staff [1] (a)	Net Public Staff Increase [6] (b)	Operations After Rate Increase [7] (c)
Operating Revenues:				
1	Service revenues	\$1,006,942	\$609,655	\$1,616,597
2	Miscellaneous revenues	8,977	(385)	8,592 [2]
3	Uncollectible accounts		0	0
4	Total operating revenues (Sum of L1 thru L3)	<u>1,015,919</u>	<u>609,270</u>	<u>1,625,189</u> [8]
Maintenance Expenses:				
5	Salaries and wages		0	0
6	Electric power	55,501 [2]	0	55,501 [2]
7	Purchased water		0	0
8	Administrative and office expense	16,064 [2]	0	16,064 [2]
9	Maintenance and repair	59,025 [2]	0	59,025 [2]
10	Testing	9,835 [2]	0	9,835 [2]
11	Chemicals	17,444 [2]	0	17,444 [2]
12	Transportation	13,332 [2]	0	13,332 [2]
13	Operating expenses charged to plant		0	0
14	Outside services - other	234,146 [2]	0	234,146 [2]
15	Total maintenance expenses (Sum of L5 thru L14)	<u>405,347</u>	<u>0</u>	<u>405,347</u>
General Expenses:				
16	Salaries and wages	196,417 [2]	0	196,417 [2]
17	Office supplies and other office expense		0	0
18	Regulatory commission expense		0	0
19	Pension and other benefits		0	0
20	Rent		0	0
21	Insurance		0	0
22	Office utilities		0	0
23	Miscellaneous		0	0
24	Total general expenses (Sum of L16 thru L23)	<u>196,417</u>	<u>0</u>	<u>196,417</u>
Depreciation and Taxes:				
25	Depreciation expense	354,122 [2]	0	354,122 [2]
26	Amortization of CIAC		0	0
27	Amortization of PAA		0	0
28	Amortization of ITC		0	0
29	Franchise and other taxes		0	0
30	Property taxes	6,311 [2]	0	6,311 [2]
31	Payroll taxes	15,108 [2]	0	15,108 [2]
32	Regulatory fee	1,422 [3]	853	2,275 [9]
33	Deferred Income Tax		0	0
34	State income tax	(3,383) [4]	15,210	11,827 [10]
35	Federal income tax	(27,710) [5]	124,573	96,863 [11]
36	Total depreciation and taxes (Sum of 25 thru L35)	<u>345,870</u>	<u>140,636</u>	<u>486,506</u>
37	Total operating revenue deductions (L15 + L24 + L36)	<u>947,634</u>	<u>140,636</u>	<u>1,088,270</u>
38	Net operating income for a return (L4 - L37)	<u>\$68,285</u>	<u>\$468,634</u>	<u>\$536,919</u>

CAROLINA WATER SERVICE, INC., OF NC

**Docket No. W-354, Sub 399
FOOTNOTES TO SCHEDULE 3**

CWSNC WATER OPERATIONS

- [1] Per company's addendum updated to reflect W-354 Sub 400 final order.
- [2] Based on the Public Staff calculation.
- [3] Line 4 Column (a) multiplied by 0.14%.
- [4] Feasel Exhibit I-updated, Schedule 3-4, Column (a), Line 16.
- [5] Feasel Exhibit I-updated, Schedule 3-4, Column (a), Line 18.
- [6] Column (c) minus Column (a), unless otherwise footnoted.
- [7] Column (a) plus Column (b), unless otherwise footnoted.
- [8] Revenue requirement calculated by the Public Staff.
- [9] Line 4 Column (c) multiplied by 0.14%.
- [10] Feasel Exhibit I-updated, Schedule 3-4, Column (b), Line 16.
- [11] Feasel Exhibit I-updated, Schedule 3-4, Column (b), Line 18.

CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
CALCULATION OF INCOME TAXES

CWSNC WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	Projected NOI [1] <u>(a)</u>	Public Staff Recommended Rates [3] <u>(b)</u>
1	Operating revenue	<u>\$1,015,919</u>	<u>\$1,625,189</u>
	Operating revenue deductions:		
2	Maintenance expenses	405,347	405,347
3	General expenses	196,417	196,417
4	Depreciation expense	354,122	354,122
5	Amortization of CIAC	0	0
6	Amortization of PAA	0	0
7	Amortization of ITC	0	0
8	Franchise and other taxes	0	0
9	Property taxes	6,311	6,311
10	Payroll taxes	15,108	15,108
11	Regulatory fee	1,422	2,275
12	Gross receipts tax	0	0
13	Interest expense	172,528 [2]	172,528 [2]
14	Total deductions (Sum of L2 thru L13)	<u>1,151,255</u>	<u>1,152,108</u>
15	Taxable income (L1 - L14)	<u>(135,336)</u>	<u>473,081</u>
16	State income tax (L15 x 2.5%)	<u>(3,383)</u>	<u>11,827</u>
17	Federal taxable income after state income tax (L15 - L16)	<u>(131,953)</u>	<u>461,254</u>
18	Federal income tax (L17 x 21%)	<u>(27,710)</u>	<u>96,863</u>
19	Excess deferred income tax amortization	<u>0</u>	<u>0</u>
20	Net amount (L15 - L16 - L18 - L19)	(104,243)	364,391
21	Add: Interest expense	<u>172,528 [2]</u>	<u>172,528 [2]</u>
22	Net income for a return (L20 + L21)	<u>\$68,285</u>	<u>\$536,919</u>

[1] Feasel Exhibit I-updated, Schedule 3, Column (a).
 [2] Feasel Exhibit I-updated, Schedule 1, Column (e), Line 1.
 [3] Feasel Exhibit I-updated, Schedule 3, Column (c).

CAROLINA WATER SERVICE, INC., OF NC
 Docket No. W-354, Sub 399
CALCULATION OF REVENUE REQUIREMENT

CWSNC WATER OPERATIONS

Line No.	Item	Amount (a)	Retention Factor (b)	Revenue Requirement (c)
	Operating revenue deductions:			
1.	Maintenance expenses	405,347	0.998600	405,915
2.	General expenses	196,417	0.998600	196,692
3.	Depreciation expense	354,122	0.998600	354,618
4.	Amortization of CIAC	0	0.998600	0
5.	Amortization of PAA	0	0.998600	0
6.	Amortization of ITC	0	0.998600	0
7.	Franchise and other taxes	0	0.998600	0
8.	Property taxes	6,311	0.998600	6,320
9.	Payroll taxes	15,108	0.998600	15,129
10.	Total operating revenue deductions	<u>\$977,305</u>	0.998600	<u>\$978,675</u>
	Net operating income for a return:			
11.	Debt service return	172,528	0.998600	172,770
12.	Equity return	364,391	0.769172	473,744
13.	Adjustment for excess deferred income tax	0	0.769172	0
14.	Adjustment for revenues not subject to GRT	0	0.998600	0
15.	Revenue requirement			<u>\$1,625,189</u>