

1 PLACE: Dobbs Building, Raleigh, North Carolina

2 DATE: Wednesday, June 20, 2018

3 TIME: 9:30 a.m. - 12:42 p.m.

4 DOCKET NO: W-1075, Sub 12

5 BEFORE: Commissioner Charlotte A. Mitchell, Presiding

6 Chairman Edward S. Finley, Jr.

7 Commissioner James G. Patterson

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IN THE MATTER OF:

12

KRJ, Inc., d/b/a KRJ Utilities Company,

13

Post Office Box 2369

14

Swansboro, North Carolina 28584

15

Application for Authority to Increase Rates

16

for Water and Sewer Utility Service in its

17

Southern Trace and Rockbridge Subdivisions in

18

Wake County, North Carolina.

19

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VOLUME: 2

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**FILED**

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N.C. Utilities Commission

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

2 FOR KRJ, INC., d/b/a KRJ UTILITIES COMPANY:

3 Robert H. Bennink, Jr., Esq.

4 Bennink Law Office

5 130 Murphy Drive

6 Cary, North Carolina 27513

7

8 FOR THE USING AND CONSUMING PUBLIC:

9 William E. Grantmyre, Esq.

10 Gina Holt, Esq.

11 Public Staff - North Carolina Utilities Commission

12 4326 Mail Service Center

13 Raleigh, North Carolina 27699-4300

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## 1 P R O C E E D I N G S

2 COMMISSIONER MITCHELL: Good evening. Let  
3 us come to order and go on the record. My name is  
4 Charlotte Mitchell, the presiding Commissioner for  
5 this hearing. Also with me on the panel for this  
6 proceeding are Chairman Edward S. Finley, Jr., and  
7 Commissioner James G. Patterson.

8 I now call for hearing at this time Docket  
9 Number W-1075, Sub 12, In the Matter of Application by  
10 KRJ, Inc., d/b/a KRJ Utilities Company, PO Box 2369,  
11 Swansboro, North Carolina 28584, for Authority to  
12 Increase Rates for Water and Sewer Utility Service in  
13 Its Southern Trace and Rockbridge Subdivisions located  
14 in Wake County, North Carolina.

15 On January 10, 2018, KRJ, Inc., d/b/a KRJ  
16 Utilities Company, hereafter I will refer to as KRJ or  
17 the Company, filed an Application with this Commission  
18 seeking authority to increase its rates for water  
19 utility service in Southern Trace and for water and  
20 sewer utility services in Rockbridge.

21 On January 26, 2018, the Public Staff  
22 notified KRJ of deficiencies in its Application. And  
23 thereafter, on January 30, 2018, the Company filed a  
24 response supplying the requested information.

1                   On February 6, 2018, the Commission issued  
2 its Order Establishing a General Rate Case, Suspending  
3 Rates, Scheduling Hearing and Requiring Customer  
4 Notice.

5                   On May 4, 2018, KRJ filed the direct  
6 testimony and exhibits of James R. Butler, a  
7 Professional Engineer, in support of the Company's  
8 Application.

9                   On May 15, 2018, the Commission held a  
10 hearing in Raleigh for the purpose of receiving  
11 testimony from customers and non-expert witnesses.

12                   On May 30, 2018, KRJ filed a report  
13 responding to issues raised and customer and  
14 non-expert witness testimony from the May 15th  
15 hearing.

16                   On June 7th, the Public Staff filed the  
17 affidavit of John R. Hinton and the testimony and  
18 exhibits of witnesses Gina Casselberry and Iris  
19 Morgan. The Public Staff later filed corrected  
20 testimony and exhibits of Witness Morgan on June 8th.

21                   Also on June 7th, the parties filed a  
22 Stipulation of Settlement for the Commission's  
23 consideration. A correction to the Stipulation was  
24 filed on June 8th.



1 Mr. Bennink.

2 MS. HOLT: Good morning. I'm Gina Holt with  
3 the Public Staff here on behalf of the Using and  
4 Consuming Public, and appearing with me is Public  
5 Staff lawyer William Grantmyre.

6 COMMISSIONER MITCHELL: Thank you, Ms. Holt.  
7 So that brings us to the public hearing portion of the  
8 hearing this morning. Has the Public Staff identified  
9 any witness that was unable to present testimony at  
10 the May 15th hearing that is here today wishing to  
11 testify?

12 MR. GRANTMYRE: Madam Chairperson, there are  
13 two witnesses signed up that I believe testified but  
14 there have been events subsequent to the May 15,  
15 service events that they want to testify as to, so we  
16 would ask that they be allowed to testify to the  
17 events that occurred subsequent to the May 15th.

18 Also, there's been about six persons that  
19 have arrived since the hearing started and some of  
20 those may want to testify, I'm not sure, but they  
21 haven't signed up yet because they came in after we  
22 finished the list.

23 COMMISSIONER MITCHELL: Okay. Very well, we  
24 will allow those two customers who were at the



1 May 15th public hearing to provide testimony on events  
2 that have happened subsequent to that time. Please  
3 call your witnesses.

4 MR. GRANTMYRE: The Public Staff calls  
5 Shelley Iverson.

6 COMMISSIONER MITCHELL: Ms. Iverson, please  
7 come to the stand.

8 THE WITNESS: May I give a -- is there some  
9 way to present a video? I don't know how to -- push  
10 play.

11 (Mr. Grantmyre takes the phone from the witness and  
12 shows the Commission)

13 THE WITNESS: If you push play, it's a  
14 video. Yeah, it's a video. If you could push play  
15 it's about 30 seconds.

16 MR. GRANTMYRE: We probably don't need the  
17 video, just the still picture is enough.

18 THE WITNESS: Okay.

19 COMMISSIONER MITCHELL: Okay. Ms. Iverson,  
20 let's get you sworn in.

21 SHELLEY IVERSON;  
22 having been duly sworn,  
23 testified as follows:

24 DIRECT EXAMINATION BY MR. GRANTMYRE:

1 Q Please state your name and address for the  
2 record.

3 A Shelley Iverson, 1016 Red Brick Road, Garner,  
4 North Carolina.

5 Q And you're a customer at Southern Trace?

6 A Yes, sir.

7 Q And you testified earlier at the May 15 hearing?

8 A Yes, sir.

9 Q Okay. And now you want to testify as to events  
10 subsequent to May 15th?

11 A Correct.

12 Q Please limit your testimony to subsequent to May  
13 15th.

14 A Subsequent to May 15th, brown water, no water,  
15 and I can't remember the dates, I had them, but  
16 what I'm showing you there, the week following  
17 we had numerous -- that was about half of the  
18 neighborhood had those issues -- the week  
19 following we had no water in about 10 homes.

20 Q How long did you have no water?

21 A Over 24 hours.

22 Q Continuous, no water?

23 A No water. Now, they were responsive. They did  
24 come out. They did everything they could. They

1 eventually got it fixed. But what I would like  
2 to say today more than the events of what  
3 happened are we have senior citizens on social  
4 security, fixed income, handicap people in our  
5 neighborhood that cannot tolerate a 43 percent  
6 increase in their water.

7 Q Yeah that -- but as to events subsequent to May  
8 15th, you say eventually they restored service --

9 A Yes, sir.

10 Q It was more than 24 hours?

11 A Correct.

12 Q Do you know how many people in the subdivision  
13 were out --

14 A It was Crystal Page. It was Graham Brown.

15 Q Are these the name of the streets?

16 A These are the residents.

17 Q Oh, okay.

18 A And those are the people that were contacting me  
19 as a communication point.

20 Q Thank you. Do you have any other comments?

21 A No, sir.

22 MR. GRANTMYRE: We have no further comments.

23 COMMISSIONER MITCHELL: Thank you.

24 Questions for the witness?

1 MR. BENNINK: No questions.

2 COMMISSIONER MITCHELL: Commissioners?

3 Thank you.

4 (The witness is excused.)

5 MR. GRANTMYRE: We'll call Jacqueline

6 Walker.

7 COMMISSIONER MITCHELL: Good morning,

8 Ms. Walker.

9 JACQUELINE WALKER;

10 having been duly sworn,

11 testified as follows:

12 DIRECT EXAMINATION BY MR. GRANTMYRE:

13 Q Please state your name and address.

14 A Jacqueline Walker, 1209 Magnolia Hill Road,

15 Garner, North Carolina 27529, Southern Trace

16 Subdivision.

17 Q Please proceed with your testimony as to events

18 subsequent to May 15th.

19 A Almost immediately after the hearing we began to

20 have low pressure in the neighborhood. Several

21 of the homeowners, especially as I said before,

22 those in the front of the neighborhood there was

23 no -- there was low pressure then there was the

24 brown water, the sludge water and no water.

1           There were numerous homeowners that did not have  
2           water or they had the black sludge coming out of  
3           their faucets as the video showed, several,  
4           numerous homeowners that had that problem.  And I  
5           stated last time that I never have any problems,  
6           I had problems, and I sent pictures into the  
7           email we had to Gina where my water is running  
8           out of my tap dark brown, and that took place  
9           for -- that was I believe a Thursday afterwards  
10          for the evening so we had to open up all of the  
11          lines and so on and so forth.  But when I noticed  
12          that the water was coming out brown I'm thinking  
13          what in the world is going on, I never have a  
14          problem.  So I personally go out into the  
15          neighborhood to see if someone is working on the  
16          wells because we've been told repeatedly if  
17          there's a problem with the water perhaps someone  
18          is working, they're doing something, so on and so  
19          forth, and I know we had the hearing so I assumed  
20          that people were on site to take care of some  
21          things so I went to check and I did not find  
22          anyone working on the wells.  What I did find was  
23          the gentleman who comes out to test the water and  
24          make sure things are okay, James, I believe is

1 his name. He was not aware of what was going on  
2 and so he told me that Stafford, which is the  
3 owner of KRJ, Jr., called his boss to have him  
4 come out to see why they were receiving  
5 complaints about the water discoloration and the  
6 water quality. So at that point he didn't know  
7 what was going on so he was checking to see if  
8 there was a leak or if something else going on,  
9 and he never found anything taking place.

10 In addition to that, the day prior  
11 to that, there was the no water issue so  
12 apparently one of the wells, two of the wells,  
13 wells 1 and 2, even though we're not supposed to  
14 number them, there was a storm that took place in  
15 Garner, Southern Trace did not have a storm,  
16 there was no storm, but we were told by Rod that  
17 the storm on I believe Tuesday night caused some  
18 type of disruption with the wells so then that's  
19 why we had the problem on Wednesday. There was  
20 no storm. We never got a follow up as to what  
21 was happening. James on site says that there was  
22 some type of electrical thing that happened. I'm  
23 going to assume for some reason something went  
24 out, therefore, the water wasn't flowing and

1           pumping properly hence no water, the dark water,  
2           the sludge water, so on and so forth. I still  
3           haven't gotten clarity on that. Rod did let us  
4           know -- I spoke with him personally kinda just to  
5           follow up, what in the world is going on, and he  
6           did say that someone was going to be on site the  
7           next day. He didn't say why. So I assumed  
8           you're just keeping people on the ground since  
9           there's a big ruckus right now to make sure  
10          things are stabilized. When I contacted him  
11          concerning my water I did not get a call back  
12          from him. I contacted -- they mentioned the  
13          gentleman from the emergency number, which I had  
14          never called so my first time speaking with him,  
15          and he could not give me any insight either. So  
16          there I am personally having brown water after  
17          never having a problem and I can get no answers.  
18          That's a problem. James, who was called on site,  
19          doesn't know anything about this. Later on in  
20          that afternoon the line was being flushed. On my  
21          street is where it ends. I'm one, two, three,  
22          four houses from the end. So apparently the  
23          lines are being flushed. We're not told of that  
24          and so consequently we're -- the people who never

1 have a problem are now having problems, and we  
2 only know that because one of the neighbors  
3 happens to come out and see the gentleman  
4 flushing the lines, and that's something to  
5 behold because it was really, really nasty, and  
6 apparently not been flushed for nine or 10 years.  
7 I don't think that's the way that it should be  
8 but that's what it was.

9 So, with that, James, the guy  
10 that's called out from the owner to see what's  
11 going on doesn't know that there's a flushing. I  
12 have spoken to Rod and Danny, I think is his  
13 name, no one said that anyone was going to be  
14 flushing because really if we knew we would have  
15 expected that. We would have turned off our  
16 icemakers so that the water doesn't go in there  
17 and cause a huge mess. We would not made all of  
18 the phone calls because we know what to expect if  
19 you're flushing the lines. And we didn't have  
20 that so I'm not really sure what that was all  
21 about; we never got a call. Even after that, the  
22 first -- Shelley lives at the front -- they have  
23 no water, we have brown water, I live in the  
24 middle, the people behind me at the end they



1 still have problems with pressure and they have  
2 problems with the discoloration. After all of  
3 this is cleared up, and we're the second run  
4 through of problems, after that's cleared up the  
5 following week the people at the front, they get  
6 problems again, and we're told there was water in  
7 the -- air in the lines and there was residual --

8 Q When you say --

9 A -- from the first incident.

10 Q When you say they had problems again, air in the  
11 lines, did they experience discolored water  
12 again?

13 A Yes, discolored water and there was air. There  
14 was the psh, psh, that sort of thing taking  
15 place.

16 Q Okay. Please proceed with your statement.

17 A So that's -- we're like three weeks in or so,  
18 something like that, two or three weeks in, and  
19 when the -- when we're told that there was air in  
20 the lines residual from the first incident that's  
21 a little questionable because we had problems and  
22 the problems were rectified and now all of a  
23 sudden we're having these problems again and  
24 you're saying it's subsequent of that first

1 event. So that's a little nebulous and so we're  
2 not really sure what's going on, and I think  
3 that's one of the problems that we expressed  
4 before, the communication factor, and what's  
5 authentic and what is not, what's cover up and  
6 what is not. When we can't get an answer from  
7 the emergency call that, *hey they're on site*  
8 *flushing*. We can't get that from the tech who's  
9 testing the water, *hey they're on site flushing*.  
10 No one knows what's going on. But afterwards  
11 that's the answer that we get and we continue to  
12 have problems. So that's -- that has happened  
13 since we were here last.

14 In addition to that, Rod and I  
15 spoke and he did talk about the communication gap  
16 being closed up because that's a huge problem and  
17 not being able to contact them, and I will say  
18 that they have been able to be contacted except  
19 for that incidence with me and they have been  
20 responsive which is much, much better; however,  
21 we're still having some problems. And  
22 unfortunately I feel at this juncture that once  
23 the hearing is all over and the decisions are  
24 made what assurance or accountability do we have

1 that, one, things will continue to flow in a  
2 progressive manner whether that is communication,  
3 whether that is being able to contact them to  
4 ensure that if water is down, or there's sludge,  
5 or there's no water, we can contact someone and  
6 someone will be on site to rectify that; what  
7 assurance do we have that any upgrades are going  
8 to be made to our system that's going to give us  
9 correct, adequate water pressure, water color,  
10 water taste, water smell, and not sludge; and  
11 that we're going to have that on a consistent  
12 basis; what assurance do we have? Who's going to  
13 give an account for that or hold them  
14 accountable? Because we've had promises before  
15 and they're still not -- we still don't have it  
16 taken care of so I think that's one of the big  
17 things.

18 Again, I say water is essential to  
19 life. If you consider Camp Lejeune, if you  
20 consider Flint, if you consider the places here  
21 in North Carolina, water is essential to life.  
22 So then what mechanisms will be in place for  
23 accountability that these upgrades will happen so  
24 that we won't continue to come to this place.

1 Q A few follow-up questions. The storm was on  
2 Tuesday night. When did -- did you experience  
3 the brown water or black water first or the --  
4 did you experience an outage?

5 A Me personally?

6 Q Yes.

7 A I did not experience an outage.

8 Q But you had the brown water?

9 A And this was not -- this was the next week. My  
10 water was the next week.

11 Q Okay. So --

12 A Or day.

13 Q -- after the storm you didn't experience --

14 A It was the next day, yeah, I apologize.

15 Q Okay. After the storm did you experience brown  
16 water the next day or the two days afterwards?

17 A I did but there was no storm.

18 Q Okay. Okay.

19 A There was no evident visible storm in the  
20 neighborhood.

21 Q At Southern Trace, okay.

22 MR. GRANTMYRE: I have no further questions.

23 MR. BENNINK: No questions.

24 COMMISSIONER MITCHELL: Questions?

1 (No response)

2 Thank you, Ms. Walker, you may step down.

3 THE WITNESS: Thank you.

4 (The witness is excused.)

5 MR. GRANTMYRE: Veronica Long signed up and  
6 was a maybe. Do you want to testify, Ms. Long.

7 MS. LONG: Sure.

8 VERONICA LONG;

9 having been duly sworn,

10 testified as follows:

11 DIRECT EXAMINATION BY MR. GRANTMYRE:

12 Q Please state your name and address for the  
13 record.

14 A Veronica Long, 1404 Stone Wealth Drive,  
15 Knightdale, North Carolina, Rockbridge community.

16 Q And you did not testify at the last case, or did  
17 you?

18 A No.

19 Q Please proceed with your testimony.

20 A Well, my testimony is about the rate increase.  
21 The amount that's been requested. We live in a  
22 community with families of hard working people,  
23 with retirees who have moved to Rockbridge to  
24 retire and that are on fixed incomes --

1 (Gentleman in audience raised his hand)

2 -- and we don't disagree with a  
3 rate increase but we do disagree with the amount  
4 that's been requested.

5 UNKNOWN SPEAKER: Amen.

6 A Over -- a rate increase of over 100, almost  
7 140 percent is outrageous. Our incomes have not  
8 increased by 140 percent. And all we're asking  
9 is that you be fair and reasonable in asking for  
10 this rate increase.

11 Our water quality is not the best  
12 water quality. It is cloudy and fizzy like you  
13 put an Alka-Seltzer tablet in the water. We  
14 can't drink it. We can't cook with it. We buy  
15 water. We're not being reimbursed for the cost  
16 of buying water. We have to buy bottled water to  
17 use to cook and drink with. So --

18 And the other thing is the  
19 billing. On the bill, when you receive your  
20 bill, it says *Due Upon Receipt*, and it is late  
21 after the 5th of the month. Well, you can send  
22 your bill in -- your payment in and then if they  
23 don't receive it, or however they process it, by  
24 the 6th of the month you have a threat to turn

1 your water off.

2 Q When you say threat, is that a written threat  
3 or --

4 A Yes. A postcard.

5 Q A postcard.

6 A A postcard comes in the mail. So with all of  
7 this said, we don't disagree with the increase as  
8 requested. We understand that the cost of  
9 business goes up. We just disagree with this  
10 amount. It is outrageous. It is outrageous.  
11 And gradual increases probably would be  
12 acceptable, but we need to see that our water  
13 quality is improving, that we need to be  
14 guaranteed that we can drink it, and we can cook  
15 with it, and that we don't have to go to the  
16 extra expense of purchasing water.

17 Q Do you realize that although the Company applied  
18 for a waste -- sewer increase, the Public Staff  
19 recommended a decrease in sewer rates, and the  
20 Company has agreed to a decrease in the sewer  
21 rates?

22 A So how does that --

23 Q There will be an --

24 A -- account --

1 Q -- increase in the water but a decrease in the  
2 sewer, and the overall increase will be  
3 approximately \$10.00 a month per customer in  
4 comparison to what the Company requested. But  
5 there will be a decrease in your sewer rates.

6 A Okay. \$10.00 a month.

7 Q Approximately. It may be a little different from  
8 that. I'm going by memory and I'm an old guy so.  
9 The -- how long have you lived in Rockbridge?

10 A Three years.

11 Q And have you experienced the fizzy water the  
12 entire three years?

13 A Yes. It's cloudy.

14 Q Cloudy, fizzy?

15 A Yes.

16 Q Where do -- you know as you enter Rockbridge you  
17 enter from the road where the tank is, you know,  
18 the main road that goes by there --

19 UNKNOWN SPEAKER: Poole Road.

20 Q -- where do you live in relationship to the tank?  
21 You're up on the hill?

22 A I live the second house from the corner which is  
23 at the bottom of the hill of --

24 Q Oh, you're at the bottom of the --



1 A -- Stone Wealth Drive and Stonewood Pines Drive.

2 Q Are you near the elevated tank?

3 A No.

4 Q Okay. So you're to the west?

5 A I'm to the west of it.

6 Q Okay, thank you. And have you discussed this  
7 fizzy water with the Company or the Company's  
8 representatives?

9 A No, I haven't discussed that with them. What  
10 happened was when -- a couple of years ago when  
11 we had the big problem with the uranium being in  
12 the water our builder supplied us with a home  
13 filtration system, but that hasn't stopped the  
14 cloudy, fizzy water.

15 Q Is it a cartridge-type filter that you stick  
16 cartridges in periodically?

17 A No.

18 Q It's a regular filter then?

19 UNKNOWN SPEAKER: It's from Kinetico.

20 Kinetico. It's a water softener --

21 (WHEREUPON, the Court Reporter  
22 interrupted the audience member.)

23 A It's a water softener system.

24 Q Okay. Thank you.

1 UNKNOWN SPEAKER: I apologize.

2 MR. GRANTMYRE: I have no further questions.

3 COMMISSIONER MITCHELL: Mr. Bennink,  
4 questions for this witness?

5 MR. BENNINK: Yes, just a few.

6 CROSS EXAMINATION BY MR. BENNINK:

7 Q Ms. Long, can you tell the Commission why you say  
8 you cannot drink or cook with the water? What  
9 are your reasons for that?

10 A Well, when you open the tap and you pour maybe a  
11 glass of water, the water is so cloudy and it's  
12 fizzy. It almost looks like you put an  
13 Alka-Seltzer tablet in it. And before getting  
14 the water softener system there were particles in  
15 the water. So when you look at it, it makes you  
16 fearful. You don't want to drink that. It's not  
17 clear.

18 Q Is that the sole reason? I mean, is that it?

19 A Yes. Why would you drink something like that?

20 MR. BENNINK: Thank you very much.

21 COMMISSIONER MITCHELL: Questions?

22 (No response)

23 Thank you. You may step down.

24 (The witness is excused.)

1 MR. GRANTMYRE: We have another, one other  
2 person that's signed up, Gregory Cols. Would you  
3 please confer -- do you want to -- oh, you said no you  
4 do not wish --

5 MR. COLS: I'm happy to if you'd like.

6 MR. GRANTMYRE: It's up to you.

7 MR. COLS: Do I have to go first to the  
8 stand?

9 MR. GRANTMYRE: It's up to you if you want  
10 to.

11 MR. COLS: Thank you. Good morning.

12 COMMISSIONER MITCHELL: Good morning.

13 GREGORY COLS;

14 having been duly sworn,

15 testified as follows:

16 DIRECT EXAMINATION BY MR. GRANTMYRE:

17 Q Please state your name and address.

18 A My name is Gregory Cols. Address is 1116  
19 Southern Trace Trail, Garner 27529. And I'm with  
20 the Southern Trace community.

21 Q Could you please spell your last name for the  
22 court reporter.

23 A C-O-L-S.

24 Q Please proceed with your statement.

1 A Thank you very much for allowing us to present.  
2 I wanted to be very short and echo the statements  
3 of my neighbors, Ms. Walker and Ms. Iverson. We  
4 understand that as time progresses things cost  
5 more and increases in utilities are a natural  
6 part of life; however, we believe that even a  
7 43 percent increase at one time would be very  
8 excessive, especially given the fact that our  
9 history of water quality, and water quantity, and  
10 pressure issues has really not gone away over  
11 time. I've been with the subdivision for about  
12 five and a half years and this has been a  
13 recurring thing that every summer there's issues  
14 with water, there's low pressure, I get home from  
15 work, I turn on the tap and there's just a  
16 dribble.

17 What we would like to see, or I  
18 would like to see is if there is going to be  
19 increases in the utilities, if there is a  
20 guarantee for an improvement in both the  
21 pressure, the quality of water, and the  
22 communication between the utility company and the  
23 residents within our subdivision, as Ms. Walker  
24 was saying earlier there has been a very

1 inconsistent communication line and a lot of the  
2 problems that we've experienced in the past month  
3 may have been either avoided or at least reduced  
4 if there was better communication. If there is a  
5 way that we can either spread out the increases  
6 over some amount of time or have some kind of  
7 guarantee from the utility company that these  
8 increases will go hand in hand with improvements  
9 in water pressure. We've been told by the  
10 utility company that, oh, this system was not  
11 designed to handle irrigation, for example. And  
12 then we have our HOA also recorded with Wake  
13 County that we have to maintain our yards and  
14 maintain the grass in an acceptable manner. So  
15 homeowners are presented with the challenge of do  
16 we either listen to the utility company that says  
17 don't water your grass or listen to the HOA that  
18 says maintain your yard, and that puts me as a  
19 homeowner in a tight spot where I'm trying to  
20 figure out ways that I can be a good customer  
21 with the water and not endanger my neighbors by  
22 not watering my grass, but also not risk getting  
23 in trouble with the HOA and the legal  
24 consequences that that can take.

1                   One thing I did want to mention, I  
2                   don't have a picture of it, but within the week  
3                   after, Ms. Iverson spoke about the sludge in the  
4                   line, I had just recently replaced the whole  
5                   house, cancer-style filter that's in my crawl  
6                   space and within a week the entire thing was  
7                   black and it was about, maybe six-inches full of  
8                   dark sediment, almost looked -- I didn't -- it  
9                   almost looked like chunks of dirt or rust or  
10                  something like that. Very unsettling to see that  
11                  happen within just a week. And we were not even  
12                  using water during the worst of the time because  
13                  we were out of town for a day so our water was  
14                  not on. But the residual contaminants in the  
15                  water during the flushing and all that stuff that  
16                  they were doing, which again, we didn't find out  
17                  until after the fact, still made its way into the  
18                  house, and some of it was caught in the filter  
19                  and I don't know how much of it went through and  
20                  is now in our appliances and we may have been  
21                  consuming.

22                                So I think there is a -- there's  
23                                been a pattern of not enough communication and a,  
24                                kind of a Band-Aid mentality of, oh, there's a

1           problem, well let's go fix it, but let's not  
2           address the bigger problem that there's, you  
3           know, we have approximately 180 houses in the  
4           neighborhood and there's been a lot of concern  
5           about the adequacy of our water system to supply  
6           a reasonable quantity of water to every resident.  
7           It's not fair that some residents who may be  
8           lower in elevation get water pressure but those  
9           who live up higher on the hill may experience  
10          shortages or no pressure, as some of my neighbors  
11          have experienced over the past month.

12                                In conclusion, I'd like to  
13          reiterate that as a subdivision with a variety of  
14          families - we have retired people, we have  
15          younger families, some just out of college. They  
16          moved to the area because of its affordability  
17          and they're finding themselves in a place where  
18          they're not sure if they can honestly sell their  
19          house with questions of the quality and the  
20          reliability of the water system. And as a  
21          homeowner I'm very concerned if I was to sell my  
22          house and that be the day that something bad  
23          happens and I've got a potential customer coming  
24          to look at my house and the water doesn't work.

1           These are concerns that go through my mind all  
2           the time and I know they -- I assume they would  
3           go through the minds of my neighbors. So I would  
4           ask that the Commission would be -- would  
5           consider that any kind of increase be, or would  
6           go hand-in-hand with a guarantee of improvements  
7           to the system, improvements to the water quality,  
8           the water pressure, and the reliability, and also  
9           with the communication between the utility  
10          company and the residents of the neighborhood.  
11          That's all. Thank you. Any questions?

12        Q       Where do you live in the subdivision? As I  
13                understand it, upfront as you come from I guess  
14                Highway 50 --

15        A       Yes, sir.

16        Q       -- is the high point in the subdivision --

17        A       Yes.

18        Q       -- and as you go towards the back of the  
19                subdivision it goes down in elevation; is that  
20                correct?

21        A       Yes, sir, that's correct. My house is, it's  
22                about a quarter mile in from Highway 50. If I  
23                had to guess as to an elevation drop from the  
24                highest point, I would guess probably about



1 35 feet from the highest point. So, if I had to  
2 stand on my roof - I have a one story house - I  
3 would probably look at the lowest level of the  
4 highest house on the street, and that's just a  
5 guess but --

6 Q The Company has said there's about a total 100  
7 foot drop so you're somewhere in the middle?

8 A I'm in the middle, probably towards the upper  
9 half; yes.

10 Q And you experience low pressure how often in the  
11 summer months?

12 A I have experienced low pressure. I will say I've  
13 never experienced a complete outage but then  
14 again I work, my wife works, and it's just the  
15 two of us so we're not there all the time. What  
16 I've noticed the pattern is is that the earlier  
17 in the day that we get home, the lower the  
18 pressure, not all the time but on certain days.  
19 And sometimes -- if I had to put it in  
20 quantitative terms, if it takes 10 seconds to  
21 fill up a glass of water it might take 20. And  
22 usually lower pressure is accompanied by cloudy  
23 and fizzy water. And, again, I don't know if  
24 that's minerals or air in the line or what but

1 typically there's just kind of an odd coloration.

2 Q I assume the cloudy water eventually clears up if  
3 it's in a glass eventually. Will it or will it  
4 not clear if it sits?

5 A I'm trying to think if I've ever let it sit. It  
6 has cleared before, yes. There has been -- I  
7 mean, if I had to guess how long, I mean, 10  
8 minutes maybe, but again that's a guess.

9 Typically if it's cloudy and I'm saying I am  
10 thirsty I'm going to drink the water.

11 Q Now, you've been there about five and a half  
12 years; is that correct?

13 A Yes, sir.

14 Q You realize that the owner of the water company  
15 are the same group of people that whoever owns  
16 the water company also were affiliated with the  
17 developer of this subdivision?

18 A Yes, sir.

19 Q And the developer of the -- and they installed  
20 the water system, and are you aware that the same  
21 developer is the one who drafted and recorded the  
22 restrictive covenants requiring that you maintain  
23 your yards?

24 A Yes, sir.

1 MR. GRANTMYRE: Thank you. We have no  
2 further questions.

3 COMMISSIONER MITCHELL: Questions for the  
4 witness?

5 MR. BENNINK: No questions.

6 EXAMINATION BY CHAIRMAN FINLEY:

7 Q So there are restrictive covenants that say  
8 you've got to maintain your yard?

9 A Yes, sir.

10 Q And the HOA enforces that?

11 A Yes, sir.

12 Q What do they do if you don't water your grass?

13 A I have not been in the situation where my grass  
14 has gotten to the point where it begins to fail  
15 and erode. I have heard of stories, if I'm  
16 allowed to offer this, that neighbors have  
17 allowed their grass to die out and it begins to  
18 erode the soil and they have been contacted,  
19 notified by the HOA. As it -- as regards -- or  
20 in regards to potential fines I'm not familiar  
21 with any details.

22 Q So that would be a situation where the heat of  
23 the summer might have killed the grass and it  
24 wasn't replanted and you had erosion of the soil

1 and something like that?

2 A Yes, sir, that sounds correct.

3 Q But are you aware of a situation of where the  
4 officers of the homeowners association actually  
5 came and required somebody to water their grass?

6 A I am not familiar with any situation where they  
7 have been specifically told to water the grass.  
8 They said -- from the -- again, this is me being  
9 told what happened to another homeowner that they  
10 were required to fix the erosion which -- and  
11 that's the extent of it.

12 Q Okay. Are the residents of the community  
13 satisfied with the restrictive covenants and so  
14 forth? You wouldn't want to take a look at those  
15 and see if some might not be adjusted?

16 A I don't want to speak on behalf of the  
17 neighborhood at this time. If I may leave that  
18 as my answer.

19 Q Okay. Does the Company offer the opportunity for  
20 the residents to install an irrigation meter? Do  
21 you know what I mean by that --

22 A You're saying does the utility company?

23 Q Yes.

24 A Not that I'm aware.

1 CHAIRMAN FINLEY: Okay. That's all I have.  
2 Thank you.

3 COMMISSIONER MITCHELL: Questions on --

4 MR. BENNINK: No questions.

5 COMMISSIONER MITCHELL: Mr. Cols, you may  
6 step down. Thank you.

7 THE WITNESS: Thank you.

8 (The witness is excused.)

9 MR. GRANTMYRE: Are there any other  
10 customers that would like to testify?

11 (Gentleman stands up)

12 Yes, sir, please come forward. Did you  
13 testify earlier -- you didn't testify at May 15, did  
14 you?

15 UNKNOWN SPEAKER: No.

16 MR. GRANTMYRE: You can come up and testify.

17 GABRIEL HOXIE;

18 having been duly sworn,

19 testified as follows:

20 DIRECT EXAMINATION BY MR. GRANTMYRE:

21 BY MR. GRANTMYRE:

22 Q Please state your name and address.

23 A My name is Gabriel Hoxie. I live at 1036 Spanish  
24 Moss Lane, Garner, NC.

1 (WHEREUPON, the Court Reporter  
2 requested clarification of  
3 address.)

4 THE WITNESS: Spanish Moss Lane, Garner, NC  
5 27529.

6 BY MR. GRANTMYRE:

7 Q Is that Southern Trace or Rockbridge?

8 A Southern Trace.

9 Q Can you please spell your last name for the court  
10 reporter.

11 A Yes. H-O-X-I-E.

12 Q Please proceed with your statement.

13 A I've lived in Southern Trace with my parents for  
14 17 years, beginning September 11, 2001. Our  
15 house sits right on top of the hill. The well is  
16 on a side yard behind us in the woods, well one.  
17 In the summertime there is, when you turn on the  
18 water, if I'm going to work in the afternoon, I  
19 turn the water on to take a shower and there's no  
20 pressure, there's no nothing. I try to flush a  
21 toilet, there's no -- on the second story there's  
22 no pressure. I can't flush or I can't take a  
23 shower. So being on the top and have no pressure  
24 in water is, it's a little nerve-racking because

1 in our society we take showers every day to wash  
2 off the sweat and so it's just not, you know,  
3 it's just not good not to have water especially  
4 when you're paying for it.

5 And then this past -- over this  
6 hearing time having the segments in the water  
7 from the black water, the brown water, just when  
8 you turn on the shower or the toilet it's just  
9 BAM! You just hear like, it's like a bomb going  
10 off, like you're in a war zone, and I know in  
11 America we are not in a war zone. So it's just  
12 unsettling when you have all this dirty water  
13 coming in, almost like rusty pipes coming in and  
14 having a shortage of water. And this -- it's  
15 just very unsettling to have all of this sediment  
16 in the water and no pressure; no nothing.

17 And I know we have three wells in  
18 the neighborhood, and I know that we have 180  
19 houses in our neighborhood, and I know the  
20 developer developed this thing and then at some  
21 point he sold the rest in the back of our  
22 neighborhood -- sold the back of our neighborhood  
23 to another developer who built bigger houses than  
24 our houses. Our houses are the old houses in the

1 neighborhood. And the new houses are bigger by  
2 square feet back, I think it's at 3100 square  
3 feet to ours of twenty-three, and they get  
4 perfect water pressure and no problems with the  
5 water pressure, and it's just unsettling, it's a  
6 little unnerving because they have great water  
7 pressure and never have to worry about water  
8 pressure. And me at the top who's been there for  
9 a long time that can't water the grass because  
10 you have no pressure and can't take a shower,  
11 can't flush your toilets, especially in the  
12 summertime, it's just -- it's really hard to --  
13 it's just really hard. That's it.

14 Q Now, when you hear this loud boom or whatever  
15 from the shower, is that after you've had an  
16 outage or no water, and all of a sudden it  
17 sputters and comes back on. Is that what you're  
18 experiencing?

19 A I mean there's been water -- I mean there's water  
20 in the house, right. So after that then there  
21 was like, I think there is -- I think -- there  
22 was a storm that one night and they had -- the  
23 system went offline and rather the auto reserve  
24 tanks went offline and then all of the sediment



1 on the bottom came in and once they did turn on  
2 the water or there wasn't any water then all of  
3 it came into the house, and so then you had to  
4 worry about all your clothing and all of your --  
5 I think you're right. I think it was off water  
6 or all of the tanks was down to zero.

7 Q How close do you live to well number one? You  
8 said it's in the woods, is -- behind the house.  
9 Is that your house right next to the well?

10 A Yes.

11 Q Okay. So that -- and the tanks are right behind  
12 your house, too, then, aren't they?

13 A I'm at the corner. So I'm at the corner and the  
14 well is over here and there's a house right here  
15 behind it so I'm like catercorner to the well.

16 Q You're close to the tanks --

17 A Very close.

18 Q And even though you're that close to the tanks  
19 you didn't have any water?

20 A Yes. I mean, there's -- I mean, you take  
21 showers and it's just -- I mean, there's -- okay,  
22 there's water but it's just like a drip. It's  
23 like -- it's not even a drip, it's just one drip  
24 like -- you know, drips like bzzut, bzzut, bzzut,

1           like there's a drip, whurl (blowing air sound),  
2           drip (pause), drip (pause) when you turn on the  
3           water. And there's water there but it's just  
4           like a drip, drip, drip - very, very, very slow.

5   Q       Now, in the -- does happen every summer?

6   A       Every summer.

7   Q       And let's say there's 120 days in the summer,  
8           let's just say, how many of those 120 days would  
9           you experience this type of water drip  
10          approximately?

11  A       I'll probably say 80 of those days.

12                   MR. GRANTMYRE: Thank you. We have no  
13           further questions.

14                   COMMISSIONER MITCHELL: Questions for the  
15           witness?

16                   MR. BENNINK: Yes, just a few, please.

17  CROSS EXAMINATION BY MR. BENNINK:

18  Q       Mr. Hoxie, you referred to a storm recently. Was  
19           that the storm that we referred to as having  
20           occurred sometime in late May when you had the  
21           outage?

22  A       Yes.

23  Q       Did you experience a storm at your house?

24  A       Yes, I did.

1 Q And when you say during that summer you have --  
2 you can't flush the toilet or take a shower, I  
3 mean, are you saying that's all day long or is  
4 that only at certain times of the day and, if so,  
5 when is that?

6 A I would say that would happen in the afternoon  
7 like around two o'clock. When I had this other  
8 job I would have to go to work at three, I mean,  
9 two o'clock, and right before I leave I turn on  
10 the shower or try to flush the toilets and just  
11 not -- nothing. Especially the shower, I  
12 couldn't get any pressure whatsoever.

13 Q But the rest of the day would you have adequate  
14 pressure?

15 A Yes.

16 MR. BENNINK: Thank you very much.

17 THE WITNESS: Thank you.

18 COMMISSIONER MITCHELL: Questions from the  
19 Commission?

20 (No response)

21 Thank you, Mr. Hoxie, you may step down.

22 THE WITNESS: Thank you very much.

23 (The witness is excused.)

24 MR. GRANTMYRE: Are there any other

1 customers that would like to testify? There are none.

2 COMMISSIONER MITCHELL: Okay. Seeing no  
3 other customers or non-expert witnesses wishing to  
4 have testify, we will now close the portion of the  
5 proceeding dedicated to the taking of customer and  
6 non-expert witness testimony and we will go into the  
7 expert witness portion of this proceeding.

8 Before we begin, are there any preliminary  
9 matters to address from counsel?

10 MS. HOLT: Yes. We'd like to request that  
11 or move that Robert Hinton's affidavit be copied into  
12 the record as if given orally from the stand, and that  
13 he be excused from testifying.

14 MR. BENNINK: No objection.

15 COMMISSIONER MITCHELL: Without any  
16 objection, the affidavit of John R. Hinton will be  
17 copied into the record as if delivered orally from the  
18 stand, and he will be excused from testifying.

19 MS. HOLT: Thank you.

20 (WHEREUPON, the prefiled affidavit  
21 of JOHN R. HINTON is copied into  
22 the record as if given orally from  
23 the stand.)

24

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-1075, SUB 12

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	
Application by KRJ, Inc., d/b/a KRJ	)	
Utilities Company, Post Office Box 2369,	)	AFFIDAVIT
Swansboro, North Carolina 28584, for	)	OF
for Authority to Increase Rates for Water	)	JOHN R. HINTON
and Sewer Utility Service in its Southern	)	
Trace and Rockbridge Subdivisions in	)	
Wake County, North Carolina	)	

State of North Carolina

County of Wake

I, John R. Hinton, being first duly sworn do depose and say:

I am a Public Utilities Financial Analyst and the Director of the Economic Research Division of the Public Staff of the North Carolina Utilities Commission representing the using and consuming public.

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980, a Master of Economics from North Carolina State University in 1983. Since joining the Public Staff in May 1985, I have been involved with various electrical utility issues related to costs and planning, natural gas expansion projects, and I have testified in numerous general rate case proceedings for electric, natural gas, and water utilities,

including affidavits assessing financial viability and the fair rate of return with small water and sewer utility rate cases.

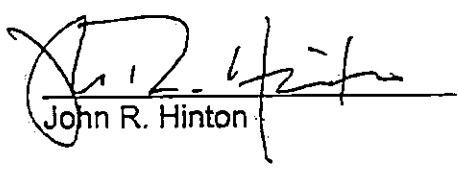
The purpose of this affidavit is to recommend to the Commission a fair rate of return to be employed as a basis for determining the appropriate revenue requirement for KRJ, Inc., (KRJ) to provide water utility service in its Southern Trace and the water and sewer utility service in its Rockbridge Subdivisions in Wake County, North Carolina.

For the water utility service and the sewer utility service, I recommend that KRJ be granted a 7.75% margin on operating revenue deductions or a 7.75% overall return on rate base. After investigation, the Public Staff has determined that Company's reasonable level of operating expenses is greater than its rate base for Southern Trace water utility service. For the Rockbridge subdivision, its utility rate base is greater than the reasonable level of operating expenses for both water and sewer utility service. As allows under G.S. 62-133.1 I have used the operating ratio method to evaluate KRJ's proposed rate increase for utility service in the Southern Trace subdivision, and as allowed under G. S. 62-133, I have used the rate base method to evaluate KRJ's proposed rate increase for utility service in the Rockbridge subdivision.

As outlined in Docket No. W-173, Sub 14, Montclair Water Company, several factors should be considered when judging the adequacy of a return. These are interest coverage, adequacy of the income level after interest expense, the level of inflation, and the quality of service.

In considering these factors in conjunction with this proceeding, I have not incorporated any consideration with respect to quality of service. Interest coverage has been provided at an adequate level. The level of inflation has been factored into the U.S. Treasury bond rate by investor expectations of the future levels of inflation. In my opinion, the recommended margin on expenses and overall return on rate base provide an adequate level of income after interest expense.

For these reasons, I recommend to the Commission that KRJ be granted a 7.75% margin on operating revenue deductions and a 7.75% return on rate base. This concludes my affidavit.

  
 John R. Hinton

Sworn to and subscribed before me  
 this the 7<sup>th</sup> day of June, 2018.

  
 Notary Public

Joanne M. Berube  
 NOTARY PUBLIC  
 WAKE COUNTY, N.C.  
 My Commission Expires 12-17-2022.

My Commission expires: 12/17/2022

1                   COMMISSIONER MITCHELL: Okay. Mr. Bennink,  
2 please call your first witness.

3                   MR. BENNINK: Okay. We -- KRJ Utilities  
4 calls James R. Butler to the witness stand, please.

5                   COMMISSIONER MITCHELL: Good morning,  
6 Mr. Butler.

7                   MR. BUTLER: Good morning.

8                                 JAMES R. BUTLER;  
9                                 having been duly sworn,  
10                                testified as follows:

11 DIRECT EXAMINATION BY MR. BENNINK:

12 Q     Mr. Butler, would you state your name and  
13         business address for the record, please?

14 A     James R. Butler, PO Box 2369, Swansboro, NC.

15 Q     Did you prefile testimony consisting of 18 pages  
16         along with two exhibits designated as Butler  
17         Exhibits 1 and 2 with the Commission on May 4,  
18         2018?

19 A     Yes, sir, I did.

20 Q     Do you have any changes or corrections or  
21         additions to make to that testimony?

22 A     No, sir, I do not.

23                   MR. BENNINK: Commissioner, we would request  
24 that Mr. Butler's prefiled testimony be copied into



1 the record as if given orally from the stand and that  
2 his exhibits be identified and marked as Butler  
3 Exhibits 1 and 2, please?

4 COMMISSIONER MITCHELL: Without objection,  
5 the testimony of Mr. Butler consisting of 18 pages  
6 will be copied into the record as if delivered orally  
7 from the stand, and the exhibits to that testimony  
8 shall be marked as prefiled.

9 (WHEREUPON, Butler Exhibits 1 and  
10 2 are marked for identification as  
11 prefiled.)

12 (WHEREUPON, the prefiled direct  
13 testimony of JAMES R. BUTLER is  
14 copied into the record as if given  
15 orally from the stand.)  
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**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION****DOCKET NO. W-1075, SUB 12**

In the Matter of  
Application by KRJ, Inc., d/b/a KRJ Utilities  
for Authority to Increase Rates for  
Water and Sewer Utility Service in Its Southern Trace and  
Rockbridge Subdivisions in  
Wake County, North Carolina

Pre-Filed Direct Testimony  
of  
JAMES R. BUTLER, PE  
Management Group of NC, Inc.

On Behalf Of  
KRJ, INC., D/B/A KRJ UTILITIES

May 4, 2018

1 **Q. Please state your name, occupation and business address for**  
2 **the record.**

3 A. My name is James Roderick Butler. I am the Vice President of  
4 Management Group of NC, Inc. ("MGNC") and am also a licensed  
5 Professional Engineer. My business address is Post Office Box 2369,  
6 Swansboro, North Carolina 28584-2369. I am also the Managing  
7 Member of JRB Engineering Associates, PLLC, a firm which provides  
8 detailed engineering design and consultation to public water and sewer  
9 utility entities.

10 **Q. Please summarize your professional background.**

11 A. I am a graduate of North Carolina State University, having received a  
12 B.S. degree in Civil Engineering. By profession, I have extensive  
13 experience as a professional engineer, utility system manager, and  
14 consultant. During my almost fifty-year professional career, I have  
15 provided detailed management, operation and design of water and  
16 sewer utility infrastructure; managed municipal and multiple regulated  
17 public utility entities; and provided a broad range of client and project  
18 support and coordination. A copy of my résumé is attached to this  
19 testimony as Exhibit 1.

20 **Q. Please explain the services you provide to KRJ, Inc., d/b/a KRJ**  
21 **Utilities (also referenced herein as "KRJ" or "Company") on behalf of**  
22 **Management Group of NC, Inc.**

- 1 A. MGNC is a corporate entity which provides the following operating  
2 services to regulated water and sewer utility companies, such as KRJ:
- 3 • Provide accounting and customer billing services to utility companies  
4 consistent with North Carolina Utilities Commission ("Commission" or  
5 "NCUC") and NARUC requirements
  - 6 • Managing utility system customer support
  - 7 • Provide services of regulatory liaison for utility companies with the  
8 NCUC and the North Carolina Department of Environmental Quality  
9 ("NCDEQ") - Division of Water Resources
  - 10 • Operational advisement and consultation to water and sewer utility  
11 companies and municipalities
  - 12 • Preparation of rate studies and cases for municipal and private  
13 regulated public utilities
- 14 Because KRJ itself has no employees, the Company has retained  
15 MGNC (specifically, my services) as an independent contractor to  
16 provide primary operating support and general supervision to the  
17 Company. I handle all of KRJ's customer billing; provide accounting  
18 services to KRJ regarding such billing and customer payments; provide  
19 operating and capital expense accounting and records retention;  
20 respond to customer complaints and billing questions; maintain  
21 Company records consistent with NCUC and NARUC requirements;  
22 prepare all reports on behalf of KRJ which are required by the NCUC,  
23 such as the Company's Annual Report, Regulatory Fee Reports, etc.;;  
24 file environmental quality reports; serve as KRJ's regulatory liaison to  
25 respond to questions from and supply information to the NCUC and

1 state environmental agencies; respond to questions from and consult  
2 with M&M Water and Wastewater Services ("M&M"), the contractor  
3 which serves as the certified water and wastewater treatment plant  
4 operator for the Southern Trace water and Rockbridge water and  
5 sewer systems; as well as other duties as needed.

6 In addition, I was solely responsible for the preparation of KRJ's  
7 pending 2018 Rate Case Application and have performed extensive  
8 work as a professional engineer on the Rockbridge water and  
9 wastewater systems since 2004. I have also provided management  
10 consulting services pertaining to the Southern Trace water system  
11 since 1996, and the Rockbridge utility systems since early-2007.

12 **Q. Please describe KRJ Utilities.**

13 A. KRJ Utilities is an investor-owned public utility pursuant to  
14 North Carolina General Statute ("G.S.") 62-3, does business as a  
15 regulated water and sewer utility in North Carolina, and is subject to  
16 the regulatory oversight of the Commission.

17 KRJ provides water utility service to customers in the Southern Trace  
18 Subdivision in Wake County pursuant to a Certificate of Public  
19 Convenience and Necessity ("CPCN") which was granted by the  
20 Commission in 1996 (NCUC Docket No. W-1075, Sub 0). The  
21 Company also provides water and sewer utility service to customers in  
22 the Rockbridge Subdivision pursuant to a CPCN granted by the NCUC

1 in Docket No. W-1075, Sub 5 on November 30, 2006.

2 Robert R. Stafford is the President of KRJ. Mr. Stafford owns 50% of  
3 KRJ's stock, with his wife, Katherine A. Stafford, owning the remaining  
4 50% of the Company's stock. Robert R. Stafford is also the President  
5 of Stafford Land Company ("Stafford Land"), a land development  
6 company, which is owned by members of his family, including his wife,  
7 Katherine A. Stafford. Stafford Land and KRJ have common  
8 ownership and, therefore, are affiliated entities.

9 In his testimony before the Commission in Docket No. W-1075, Sub 5,  
10 Mr. Stafford testified that he is not personally involved in the day-to-day  
11 operations of KRJ and that KRJ contracted with MGNC to:

12 handle our maintenance, meter reading, billing, emergency  
13 response, process and distribution system operations, and  
14 related tasks. MGNC, through its principal Rod Butler, has  
15 served us well for many years. Rod has years of experience  
16 in the water and wastewater utility areas, as indicated by his  
17 resume attached to my testimony as Appendix A. We rely  
18 upon him heavily, and, again, he does a good job for us.  
19 (NCUC Transcript at page 8)

20  
21 Mr. Stafford is still not personally involved in the day-to-day operations  
22 of the KRJ utility systems, basically delegating that responsibility to me  
23 and M&M, the certified water and wastewater treatment plant operator.

24 **Q. Please describe the Southern Trace Water System.**

25 A. The Southern Trace Subdivision is a single-family neighborhood  
26 located on NC 50 just north of the Wake/Johnston County line. It is

1 fully-developed with 193 lots and the water system currently serves  
2 190 customers. At the end of the test period for this case (June 30,  
3 2016), KRJ provided water utility service to 188 Southern Trace  
4 customers. The lots in the Subdivision are 1± acre and are served by  
5 the KRJ Southern Trace water system. Initially, the water system  
6 consisted of a single 5,400-gallon hydropneumatic tank and well. As  
7 the Subdivision grew, two additional wells and a second 5,400-gallon  
8 hydropneumatic tank were installed. The three wells consist of a  
9 37 gallon-per-minute ("gpm") well with a 5 horsepower ("hp")  
10 submersible well pump; a 72 gpm well with a 15 hp submersible pump;  
11 and a 20 gpm well with a 3 hp submersible well pump. The water  
12 distribution system consists of 4-inch and 6-inch PVC water mains and  
13 appurtenances.

14 **Q. Please describe the Rockbridge water and sewer utility**  
15 **systems.**

16 A. The Rockbridge Subdivision is a single-family development located  
17 in eastern Wake County, between Poole and Grasshopper Roads,  
18 which is continuing to be developed as it proceeds into its last phases.  
19 Rockbridge is approved for a total of 407 lots. At the end of the test  
20 period for this case (June 30, 2016), KRJ served 240 total customers  
21 at Rockbridge, consisting of 236 water and sewer customers and four  
22 water-only customers. Lot sizes at Rockbridge are smaller than at

1 Southern Trace; thus, a wastewater treatment system (rather than a  
2 septic system for each house) was necessary for this Subdivision. In  
3 June 2004, KRJ entered into an agreement with my engineering firm to  
4 design the Rockbridge water treatment, elevated water storage tank,  
5 wastewater reclamation (treatment) system, and reclaimed water reuse  
6 system.

7 The Rockbridge water system, which currently serves approximately  
8 324 water and sewer customers, consists of three wells: a 185 gpm  
9 well with a 25 hp submersible well pump; an 82 gpm well with a 10 hp  
10 submersible well pump; and a 35 gpm well with a 7.5 hp submersible  
11 well pump. The system also includes a treatment building with  
12 chlorination system, caustic soda and lime slurry chemical feed, and a  
13 uranium removal system. A 150,000-gallon elevated storage tank is  
14 located at the high point of the Subdivision, some distance from the  
15 wells and treatment building. The water distribution system consists of  
16 4-inch, 6-inch, 8-inch and 12-inch PVC and ductile iron water mains  
17 and appurtenances.

18 The Rockbridge sewer treatment system consists of an influent pump  
19 station; a 125,000 gallon per day (gpd) water reclamation plant  
20 (currently permitted for 116,000 gpd) consisting of: influent flow  
21 equalization; dual process trains consisting of anoxic process cells,  
22 aerobic process cells, and gravity clarification; gravity filtration system;



1 liquid chlorine storage and disinfection; UV disinfection; a 5-day upset  
2 pond; a 12,750,000 gallon long-term reclaimed water storage pond;  
3 reclaimed water pump station; and approximately 42 acres of spray  
4 irrigation fields. The sewer collection system consists 8-inch, 10-inch  
5 and 12-inch gravity sewer mains.

6 As a supplement to my direct testimony, I also attach, as Exhibit 2, a  
7 copy of a letter that I filed on April 12, 2006, behalf of KRJ in the Sub 5  
8 docket which provides additional information regarding the Rockbridge  
9 wastewater treatment system.

10 **Q. Please describe the Company's General Rate Case**  
11 **Application.**

12 A. On January 10, 2018, KRJ, Utilities filed an Application ("2018 Rate  
13 Case Application") in this docket seeking authority to increase its rates  
14 for (a) water utility service in the Southern Trace Subdivision and  
15 (b) water and wastewater utility service in the Rockbridge Subdivision.  
16 The test period for purposes of this general rate case is the twelve-  
17 month period of time ended June 30, 2016. At the end of the test  
18 period, KRJ served approximately 428 metered water customers and  
19 236 flat rate sewer customers.

20 KRJ filed its 2018 Rate Case Application based on the operating ratio  
21 ratemaking methodology set forth in G.S. 62-133.1 and is requesting  
22 approval by the Commission of a 7.5% margin on the Company's

1 operating expenses. Should the Public Staff's investigation in this  
2 matter indicate that it would be more beneficial to the Company for its  
3 new rates to be set based on the rate base, rate of return methodology  
4 set forth in G.S. 62-133, KRJ requests that the Commission approve  
5 new rates utilizing the G.S. 62-133 ratemaking methodology.

6 The present rates have been in effect since they were approved by the  
7 Commission for the Southern Trace Subdivision in a general rate case  
8 Order dated January 14, 2005, in Docket No. W-1075, Sub 4, and for  
9 the Rockbridge Subdivision in the Order Granting Certificate of Public  
10 Convenience and Necessity and Approving Rates dated November 30,  
11 2006, in Docket No. W-1075, Sub 5. The approved rates for both  
12 Southern Trace and Rockbridge Subdivisions were subsequently  
13 reduced for the repeal of the gross receipts tax and State corporate  
14 income tax rate reductions.<sup>1</sup>

15 KRJ presently serves approximately 190 water customers in the  
16 Southern Trace Subdivision and approximately 331 customers at  
17 Rockbridge, consisting of 328 water and sewer customers and three  
18 water-only customers. KRJ, as a regulated public utility, has a  
19 continuing responsibility to upgrade the Company's utility infrastructure  
20 and make necessary improvements to ensure its ability to continue to

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<sup>1</sup> See Docket No. W-1075, Sub 10 and Docket No. M-100, Sub 138.

1 consistently provide adequate, efficient, and reasonable service to its  
2 customers as required by G.S. 62-131(b).

3 The Company also has an obligation to comply with changing  
4 environmental, health, and safety regulations and to fulfill its overall  
5 obligation to provide quality, dependable service pursuant to its  
6 certificates of public convenience and necessity. In addition, the  
7 Company continues to fund required operations and expense ("O&M")  
8 increases to ensure quality and compliant service.

9 **Q. What is the purpose of your direct testimony?**

10 A. The purpose of my direct testimony is to explain why KRJ Utilities has  
11 requested Commission approval to increase its water and sewer rates.  
12 In its 2018 Rate Case Application, the Company requested that its new  
13 proposed rates become effective, unless suspended by the  
14 Commission, for utility service rendered on and after Friday, February  
15 9, 2018.<sup>2</sup> I discuss some of the factors that have contributed to the  
16 need for this proposed rate increase and their impact on KRJ's  
17 customers. I also discuss the terms regarding the operating ratio  
18 (return on O&M expenses) which the Company is requesting in this  
19 case. In addition, I will sponsor the Company's financial exhibits,  
20 including pro forma income statements and balance sheets.

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<sup>2</sup> The NCUC suspended the Company's proposed new rates for up to 270 days pursuant to G.S. 62-134 by Order entered in this docket on February 6, 2018.

1 KRJ is both obligated and committed to facilitate and maintain the  
2 continued achievement of its goals and high standards regarding  
3 safety, operational performance, and customer service. Therefore, the  
4 Company's capital investments in utility plant in service and O&M  
5 expense---which provide necessary benefits to customers and which  
6 are dedicated to public use---must be recovered in rates.

7 **Q. What is the test year for this rate case?**

8 A. The test year for this general rate case is the twelve-month period of  
9 time ended June 30, 2016. Pursuant to G.S. 62-133(c), KRJ reserves  
10 its statutory right to update its expenses, for such things as rate case  
11 costs, based upon circumstances and events occurring up through the  
12 close of the hearing in this case.

13 **Q. Did KRJ Utilities cause a notice of proposed rate increase**  
14 **regarding the Company's 2018 Rate Case Application to be mailed to**  
15 **its customers?**

16 A. Yes. KRJ mailed the prescribed Notice to Customers, as approved  
17 and required by the Commission, to all of its affected customers in a  
18 timely manner.

19 **Q. Please describe the rates which KRJ's customers are currently**  
20 **being charged for water and sewer utility service.**

21 A. KRJ's present water rates for customers in the Southern Trace  
22 Subdivision are as follows:

1                   Monthly Metered Water Rates:

2                   Base charge, zero usage (minimum) \$19.12

3                   Usage charge, per 1,000 gallons     \$ 2.66

4                   KRJ's present water and sewer rates for customers in the Rockbridge

5                   Subdivision are as follows:

6                   Monthly Metered Water Rates:

7                   Base charge, zero usage (minimum) \$14.40

8                   Usage charge, per 1,000 gallons     \$ 1.49

9                   Monthly Flat Sewer Rates (Per REU): \$68.33

10    **Q.     What new rates does KRJ propose in this case?**

11    A. KRJ's new proposed water rates for customers in the Southern Trace

12                   Subdivision are as follows:

13                   Monthly Metered Water Rates:

14                   Base charge, zero usage (minimum) \$34.82

15                   Usage charge, per 1,000 gallons     \$ 4.84

16                   KRJ's new proposed water and sewer rates for customers in the

17                   Rockbridge Subdivision are as follows:

18                   Monthly Metered Water Rates:

19                   Base charge, zero usage (minimum) \$ 34.55

20                   Usage charge, per 1,000 gallons     \$ 3.57

21                   Monthly Flat Sewer Rates (Per REU): \$105.37

22                   KRJ is seeking additional gross revenue of approximately \$61,339

23                   from the Company's Southern Trace water operations.     KRJ's

1 proposed new rates would increase the average residential monthly  
2 water bill for Southern Trace customers from \$32.81 to \$59.72, an  
3 82.02% increase, based on an average monthly usage of 5,145  
4 gallons.

5 KRJ is seeking additional gross revenue of approximately \$84,865  
6 from the Company's Rockbridge water operations and \$107,497 from  
7 Rockbridge sewer operations. KRJ's proposed new rates would  
8 increase the average residential monthly water bill for Rockbridge  
9 customers from \$22.07 to \$52.92, a 139.78% increase, based on an  
10 average monthly usage of 5,145 gallons and the monthly flat sewer  
11 rate from \$68.33 to \$105.37, a 54.21% increase.

12 In total, by its 2018 Rate Case Application, KRJ seeks approval to  
13 increase current revenues by approximately \$253,701 in this case.

14 **Q. Were the financial schedules filed in conjunction with KRJ's**  
15 **2018 Rate Case Application prepared by you and/or under your**  
16 **direction?**

17 A. Yes, the schedules submitted in conjunction with the 2018 Rate Case  
18 Application were prepared by me.

19 **Q. Are those financial schedules incorporated as part of your**  
20 **testimony?**

21 A. Yes. They are incorporated herein by reference.

22 **Q. Please describe those schedules.**

1 A. The 2018 Rate Case Application includes the financial statements for  
2 KRJ. The referenced schedules include a Balance Sheet, Income  
3 Statement, Test Year / Present Revenues, and Proposed Revenues.

4 **Q. Please explain how test year expenses were adjusted.**

5 A. As previously stated, the Company's test year is the twelve-month  
6 period ended June 30, 2016. Pro forma adjustments were made to the  
7 test year expenses based on known and measurable changes to  
8 actual expenses.

9 **Q. Were known and measurable pro forma adjustments also**  
10 **made to the Company's income statement and its rate base**  
11 **statement?**

12 A. Yes, as detailed therein.

13 **Q. Why is KRJ requesting rate relief at this time?**

14 A. KRJ's current balance sheet and income statement were submitted in  
15 conjunction the Company's 2018 Rate Case Application. Without  
16 satisfactory rate relief, KRJ's ability to continue to provide safe, reliable  
17 and efficient water and sewer utility services to its customers and to  
18 meet its financial obligations will be impaired and made more difficult.

19 **Q. What margin on the Company's operating expenses is KRJ**  
20 **requesting in the case?**

21 A. KRJ filed its 2018 Rate Case Application based on the operating ratio  
22 ratemaking methodology set forth in G.S. 62-133.1 and is requesting

1 approval by the Commission of a 7.5% margin on the Company's  
2 operating expenses. Should the Public Staff's investigation in this  
3 matter indicate that it would be more beneficial to the Company for its  
4 new rates to be set based on the rate base, rate of return methodology  
5 set forth in G.S. 62-133, KRJ requests that the Commission approve  
6 new rates utilizing the G.S. 62-133 ratemaking methodology.

7 **Q. Please describe the primary reasons which underlie the**  
8 **Company's need for rate relief.**

9 A. The primary reasons for KRJ's requested rate increase involve  
10 increases in expenses incurred since the Company's rates were (a)  
11 last increased for the Southern Trace water system effective January  
12 14, 2005 (more than 13 years ago) and (b) initially set for the  
13 Rockbridge Subdivision on November 30, 2006 (more than 11 years  
14 ago).

15 The new rates applied for by KRJ are necessary because the  
16 Company has been unable to operate profitably and, in fact, incurred  
17 large operating deficits during the test year, as well as prior years. The  
18 failure to achieve an adequate level of earnings was caused by  
19 increased operating costs to upgrade the level of service and  
20 increased operating costs and capital investments required to comply  
21 with service obligations (including the regulatory lag encountered in the  
22 Company's inability to timely recover such costs through rates) since



1 rates were either last increased for Southern Trace or initially set for  
2 Rockbridge (in both instances, more than a decade ago).

3 **Q. If KRJ has been operating at a loss, why did the Company not**  
4 **file an application for a general rate increase before the it filed the**  
5 **2018 Rate Case Application?**

6 A. Certain critical issues affected the Company's decision not to file a  
7 general rate case prior to 2018. First, the Company determined that it  
8 was impractical to file individual rate cases for each of the two systems  
9 because the financial data supporting a request for rate relief is  
10 generally maintained as a single data set. Second, and more  
11 importantly, a primary factor in the delay was the uncertainty of rate of  
12 growth of Rockbridge. This factor is discussed in detail below.

13 The first subdivision plat, creating lots, for Rockbridge was recorded on  
14 October 27, 2006, by Stafford Land, the developer of Rockbridge.  
15 Initially, Rockbridge began developing houses at a moderate rate. In  
16 March 2007, K.Hov, the original builder at Rockbridge, broke ground  
17 on its first houses. A total of 42 houses were begun almost  
18 simultaneously. K.Hov built and sold a total of 69 houses at  
19 Rockbridge. Unfortunately, K.Hov, like so many other builders, was  
20 impacted by the housing slump and the 'too big to fail' ripple effect that  
21 ran through the financial industry during the 2007-2008 period. K.Hov,  
22 a New Jersey based corporation, was heavily invested in the Florida,

1 Arizona, Nevada, and California markets which were far more  
2 impacted by the financial crisis than other areas of the country. Sales  
3 of houses built by K.Hov began to decline in mid-2008, and no new  
4 structures were begun. Ultimately, in early-2009, K.Hov sold most of  
5 its remaining inventory at Rockbridge and exited the subdivision.

6 Some time elapsed before a replacement builder could be obtained,  
7 again due to the depressed housing market. For 18± months, the  
8 Rockbridge Subdivision, with its 69 houses, was effectively "dead" as  
9 there were no new building starts; the only traffic consisted of re-sales  
10 of the existing structures, including the remaining K.Hov inventory.

11 Stafford Land was ultimately successful in negotiating an agreement  
12 with Savvy Homes, LLC ("Savvy"), which began construction of three  
13 houses in Rockbridge in January 2010. As is always the case when a  
14 new builder enters a dormant or new development, it took some time  
15 for Savvy to develop any market momentum. Two more months  
16 elapsed before construction of any additional houses began. Savvy's  
17 last house "start" occurred in September 2011. Savvy had been active  
18 in Rockbridge for only 20 months. In total, Savvy constructed 48  
19 houses.

20 Savvy provided advance notice of its intent to exit Rockbridge, which  
21 allowed Stafford Land the opportunity to again pursue a replacement

1 builder. However, this time the subdivision didn't lay fallow as it had  
2 following the exit of K.Hov.

3 In August of 2010, Eastwood Homes of Raleigh ("Eastwood") began  
4 construction of houses. Eastwood remains active in Rockbridge to this  
5 day, having built a total of approximately 125 houses. In  
6 December 2013, a second builder, Royal Oaks Building Group  
7 ("Royal Oaks"), began construction of its first house in Rockbridge.  
8 Royal Oaks also remains active in Rockbridge, having built  
9 approximately 75 houses.

10 With this detailed history of the protracted development of the  
11 Rockbridge Subdivision in mind, the concern was that a rate increase,  
12 if sought and imposed prematurely, might itself thwart future  
13 subdivision and customer growth, thereby further stressing the  
14 development of the Subdivision. KRJ concedes that the Company  
15 could have filed a general rate case before 2018. However, because  
16 of the ongoing problems encountered with securing and retaining  
17 builders during the extended period of development of Rockbridge,  
18 KRJ decided to hold off on any rate case efforts until it was apparent  
19 that development of Rockbridge Subdivision was more established and  
20 robust.

21 Preparation of the actual 2018 Rate Case Application was also a very  
22 time-consuming and complicated effort which, once begun, took far

1 more time than anticipated to conclude and finalize for filing with the  
2 Commission.

3 In truth, KRJ's customers were beneficiaries of the Company's  
4 extended delay in filing for rate relief as they continued to pay rates for  
5 water and sewer utility service which did not cover KRJ's true costs of  
6 providing that service, including a reasonable profit margin.

7 **Q. Did the Company initially include costs for anticipated post-**  
8 **test year plant additions as part of its 2018 Rate Case Application?**

9 A. No. The Company does, however, reserve the right, pursuant to  
10 G.S. 62-133(c), to request consideration of actual changes in costs,  
11 revenues, and plant based upon circumstances and events occurring up  
12 to the time the hearing is closed, including updates to the Company's rate  
13 case costs. KRJ has subsequently provided information to the Public Staff  
14 in response to discovery requests regarding post-test year plant additions  
15 and requests consideration thereof in setting new rates in this proceeding.

16 **Q. Is this testimony true and accurate to the best of your**  
17 **knowledge, information, and belief?**

18 A. Yes, it is.

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

20 A. Yes.

1 BY MR. BENNINK:

2 Q Mr. Butler, would you please just give a brief  
3 discussion of your professional qualifications,  
4 please?

5 A I'm a Professional Engineer since 1976,  
6 registered in North and South Carolina and  
7 Virginia. I hold about all of the certified  
8 operator tickets that are issued by the Division  
9 of Environmental Quality for the operation of  
10 water and wastewater plants. For approximately  
11 10 years I was the Assistant Utilities Director,  
12 Acting Utilities Director and Director of  
13 Utilities for the City of Raleigh. I have been  
14 in private engineering practice since 1984. In  
15 1990, I founded a firm that began providing  
16 contract management services to small water and  
17 sewer utility companies. That company was  
18 renamed at a point along but it's still intact  
19 and that's where we are today.

20 Q And can you tell the Commission the services that  
21 you perform for KRJ Utilities?

22 A Management Group of NC, which is my firm, is a  
23 contract management service that provides meter  
24 reading, billing, accounting, collections,

1 banking, reporting, and regulatory liaison in  
2 behalf of our contract customer clients.

3 Basically, we provide all of the front office  
4 services. At a point in the past we did actual  
5 physical operation of the systems but we ceased  
6 that in 2010.

7 Q Did you prepare the general rate case application  
8 which was filed with the Utilities Commission in  
9 January of this year?

10 A Yes, sir, I did.

11 MR. BENNINK: Commissioner, I have no  
12 further questions for Mr. Butler at this point. He's  
13 available for cross. At some point I would like to  
14 ask him questions concerning the customer testimony  
15 that was given today. I can do that now or I can wait  
16 to see if there are questions from the Public Staff or  
17 the Commission.

18 MR. GRANTMYRE: We would prefer he do it now  
19 so that when we cross the witness on the customer  
20 testimony today he would have had the opportunity to  
21 answer the questions before we get into it.

22 COMMISSIONER MITCHELL: Mr. Bennink, please  
23 proceed.

24 MR. BENNINK: That's fine. We'll proceed.

1 BY MR. BENNINK:

2 Q Mr. Butler, let me ask you this, you did prepare  
3 and verify the report on customer comments that  
4 was filed with the Commission on May 30th of this  
5 year with reference to the public hearing that  
6 was held on May 15th, correct?

7 A That is correct. There were also some exhibits  
8 attached. One of which includes an incident  
9 report of the brown water issue that's been  
10 spoken to by several of the complainants a few  
11 minutes ago.

12 (WHEREUPON, the Court Reporter  
13 requested the witness to speak  
14 into the microphone.)

15 THE WITNESS: I'm sorry, I'm short.

16 BY MR. BENNINK:

17 Q Let's go through the customer testimony if we  
18 could and we'll go through witness by witness and  
19 you can make your comments. Do you have comments  
20 you want to make about the testimony offered by  
21 Witness Iverson today?

22 A Several, sir. First, the discussion of  
23 Ms. Iverson regarding the brown water and the  
24 like is part of that -- is addressed by the

1 incident report that was filed as Exhibit A to my  
2 report issued to the Commission subsequent to the  
3 May 15th hearing. The circumstance - and I'll  
4 avoid reading - the circumstance that occurred  
5 was the two of the three wells were offline due  
6 to an electrical malfunction. The most recent  
7 witness Mr. Hoxie verifies what I've been told by  
8 and another customer that there had been a  
9 lightning storm on the preceding Tuesday evening,  
10 if you will. All of the brown water and sludge,  
11 fun stuff came to our attention at -- based on a  
12 phone call that we received early in the morning  
13 about 6:50 on the 24th of May. When we got  
14 personnel to the site which was an hour and a  
15 half, two hours later, what we found was is that  
16 both of the tanks had been totally exhausted.  
17 The sequence of events obviously requires a bit  
18 of speculation but it appears that the two wells  
19 did go off as a result of the storm that was  
20 reported in the incident report, the third well  
21 was incapable of keeping up with the demand but  
22 it did kind of delay the ultimate problem to the  
23 system. What occurred on the morning of the 24th  
24 of May is that the tanks were totally depleted



1 and there was a significant amount of the air  
2 pack - these are hydropneumatic tanks - escaped  
3 the tanks and into the distribution system. When  
4 we got people there we found mains very full of  
5 air, sequestered iron that had been in the  
6 system, settled in the mains, had been  
7 re-suspended, and we went into basically an  
8 emergency mode of trying to flush the system and  
9 address the issues. There was no opportunity to  
10 provide any prior notification because we didn't  
11 know we were going to have a mess on our hands  
12 until we had a mess on our hands. The flushing  
13 of the system continued throughout that Thursday.  
14 We ceased at approximately 1600 hours to allow  
15 the system to at least recover some level of  
16 pressure before the evening, onslaught of people  
17 coming to the subdivision, reestablished the  
18 flushing operations the ensuing morning and did  
19 so that entire Friday. Generally, we got the  
20 vast majority of the re-suspended, sequestered  
21 iron out of the distribution system, but it did  
22 take a while. And the reason that it took as  
23 long as it did is that in part that the storage,  
24 and you've only got about 2500 gallons of

1 available storage in the two 5,000 gallon tanks.  
2 That's just a mathematic issue. The other thing  
3 is the mains in the subdivision required by the  
4 county, zoning ordinance, to be four and six  
5 inch, which are well in excess of what would  
6 necessarily be installed if you were designing  
7 the system, not with the provisions of the Wake  
8 County zoning ordinance or subdivision ordinance.  
9 So it takes more water than is available to flush  
10 the entire system, the system has to be flushed  
11 incrementally, and given the fact that we do have  
12 one well which was spoken to in my report overall  
13 that has a reduced yield that further exacerbated  
14 the ability of our personnel to address the brown  
15 water issues. I need to make note though that  
16 the system does comply with the primary standards  
17 of the Safe Drinking Water Act; secondary  
18 standards, that being aesthetic, obviously not  
19 during this incident.

20 The question of the  
21 communications, I'm not real sure how to address.  
22 We have done a lot of things internally, as I  
23 said in the report filed subsequent to the May  
24 15th hearing, to assure that we communicate with

1 each other. The difficulty in communicating with  
2 the customers is just exactly that. We don't  
3 have a list of all the phone numbers, we don't  
4 have a list of all the email addresses, and we  
5 really don't have a way of communicating other  
6 than I do send information when prudent to the  
7 homeowners association which, in fact, I did  
8 after this May 24th incident, I think it's  
9 actually on the 24th. I was up on the ground  
10 during the period of flushing and, in fact, it  
11 was pretty ugly. The system had not been flushed  
12 for apparently for a pretty good length of time.  
13 I do know it has not been flushed in the last  
14 four or five years due to the reduced flow from  
15 that one well. Prior to that I really can't say,  
16 it was a different contract operator operating  
17 the system. Suffice it to say, they are no  
18 longer with us for cause and I'll just stop it  
19 there. I don't know whether they flushed the  
20 system or not quite frankly. They were supposed  
21 to have.

22 The communication -- the  
23 communications between Stafford, Jr., who is not  
24 the owner - he's the son of the owner - Dale

1 Matthews who is the contract operator, and his  
2 employee, James Carter, I cannot speak to because  
3 obviously I was not there.

4 In the case of Ms. Long on  
5 Stonewell Drive -- I'm switching subdivisions  
6 from Southern Trace to Rockbridge -- the cloudy  
7 water. That's an interesting topic. The water  
8 in the subdivision coming from the wells  
9 is rather acetic. We add caustic soda and  
10 hydrated lime slurry to raise the pH. The reason  
11 for the lime is there is absolutely no --

12 Q Excuse me, you're talking about Rockbridge now?

13 A I shifted to Rockbridge.

14 Q Please proceed.

15 A There is no mineralogy in the water coming from  
16 the wells. The only mineralogy that was there  
17 was the uranium. When that issue was addressed  
18 in June of 2016, then that removed the one and  
19 only metal that was in the water. The water is  
20 extremely soft and with the acetic condition when  
21 you add just caustic to raise the pH, not only  
22 will you not achieve an acceptable pH or  
23 something in excess of seven, but it evolves  
24 carbon dioxide. That's the bubbles. That's the



1 the Safe Drinking Water Act. I understand the  
2 emotion of seeing water with carbon dioxide in it  
3 that's why we treat the water the way we do. We  
4 try to feed the line at a minimal level to  
5 achieve what we need to for pH and not drive the  
6 hardness up in the water to a point that that  
7 becomes an aesthetic issue. But the softener,  
8 I -- as I said I have spoken to a couple of other  
9 customers who had softeners. They were  
10 complaining about cloudy water, fizzy water. I  
11 told them to bypass their softener. After a bit  
12 of discussion I said bypass your softener and if  
13 it doesn't cure it call me back in a couple of  
14 weeks and I have not heard from them. So -- and  
15 it's just straight physio-chemistry, there's  
16 nothing -- no black heart to it. We're adding  
17 hardness in order to adjust the pH and address  
18 the carbon dioxide evolution, the softener undoes  
19 what we do.

20 I'm going to shift back now. I'm  
21 sorry. I probably should have put these in order  
22 by subdivision. Next to are Southern Trace,  
23 Mr. Cols, he spoke to the increased level and  
24 Mr. Grantmyre addressed that. Pressure, there

1 are irrigation systems in the subdivision that  
2 were not approved by KRJ. The builder in the  
3 back end of the subdivision, the lower end of the  
4 subdivision, the one who built the larger houses  
5 that were spoken to by Mr. Hoxie offered as an  
6 option to the purchase an in-ground  
7 irrigation system. The world's worst thing to do  
8 on a small water system that does not have  
9 elevated storage. You don't have the available  
10 storage. As I've mentioned, we've got  
11 approximately 2500 gallons of effective storage  
12 at Southern Trace within the 10,000 gallons worth  
13 of tank. That is opposed to Rockbridge, it has  
14 150,000 gallon elevated tank that has  
15 150,000 gallons of effective storage so you've  
16 got a multiple of storage there of what, probably  
17 40 times because of the difference between one  
18 nature of storage and another. If I had my  
19 liking I would ban irrigation in both  
20 subdivisions except for hand hose but I can't do  
21 that. The point of the matter is that in  
22 Southern Trace it is far more deleterious to the  
23 system if you have an irrigation system than it  
24 is in Rockbridge due to the availability of

1 storage.

2 The whole house filter that  
3 Mr. Cols spoke of as being filled up with  
4 sediment, I don't doubt it. What I saw of the  
5 water being flushed out of the system was pretty  
6 nasty, but it was flushed out of the system. I  
7 have not had any color calls, odor calls, or  
8 pressure calls during the month of June. I'm  
9 going to have phrase it that way. I can't say  
10 exactly when they ceased in May. The one  
11 instance - and I'm going to skip back for a  
12 second - it was brought up by Ms. Iverson that  
13 two of the customers, Page and Brown, had no  
14 water.. That was the Monday following the issue  
15 addressed in the incident report and the system  
16 being flushed on Thursday and Friday. What they  
17 had -- and they are absolutely the apex of the  
18 system, I mean, there is no question. We had a  
19 main full of air, pure and simple. With the  
20 cooperation of both of those customers to whom we  
21 issued a credit for the excess flow to their  
22 meter, a pocket of air in the main right at their  
23 houses was exhausted through their plumbing  
24 system out of an outdoor faucet, and it took



1 several hours to do and it's because again some  
2 of the air that exited the pressure tanks during  
3 the preceding week's episode, finding its way at  
4 the very top of the system. Those two customers  
5 were very cooperative. They have not complained.  
6 They have really become very valued customers to  
7 the extent that we have an ongoing dialogue with  
8 them. But that was a big air bubble that would  
9 have affected those two residents and as best I'm  
10 aware only those two residents. In the case of  
11 Mr. Hoxie's comments regarding the air, that was  
12 during that period when the water had been  
13 exhausted through the storage tanks due to the  
14 wells not functioning, and I am sure he got air  
15 because he is literally on top of the tanks.  
16 When it left the tanks he got it and for some odd  
17 reason, which I've never been quite able to  
18 rationalize, the air actually got down in some of  
19 the lower regions of the subdivision, too. I  
20 don't know whether it was pulled down in the  
21 process of flushing the system or not, but it did  
22 get down further than I would have anticipated.

23 One thing that I have a concern  
24 about, and this pertains to Mr. Hoxie, the houses

1 up at the upper end of the subdivision may have  
2 been installed or had installed with them when  
3 they were constructed pressure release valves or  
4 reducing valves, they are unnecessary. The  
5 pressure that we reached at the point of the  
6 wells are ceased to function or turned off is  
7 80-psi. That's the point of which the pressure  
8 reducing valve would be required by the plumbing  
9 code. If they're there they either need to be  
10 reset to pass more pressure or removed. They're  
11 just simply unnecessary up in that upper end of  
12 the subdivision. The issue with the pressure  
13 reducing valve is primarily the plumbers. They  
14 would rather install a \$100 device than spend  
15 half a day trying to convince an inspector they  
16 don't need it. Pure economics.

17 Now, in my response to the 5/15  
18 hearing, I proposed a number of improvements  
19 primarily control for both of the systems to give  
20 us not only a far more acute measurement in  
21 pressure and control of the operation of the  
22 wells but also the ability of both to observe it  
23 at distance, over the internet basically, and  
24 modify those pump settings if need be and also

1 issue alarms if the pressure in the systems get  
2 out of acceptable levels. That is proposed in  
3 that report and I stand by those proposals. I  
4 think I'm done.

5 Q Let me ask you a few other questions for  
6 clarification, and let's go back through each  
7 witness. Ms. Iverson - do you have anything  
8 further that you want to say regarding her  
9 testimony?

10 A I do not. I believe I hit all the points.

11 Q Witness Walker - now, I believe Witness Walker is  
12 president of the homeowners association at  
13 Southern Trace; is that correct?

14 A That is my understanding.

15 Q And what is -- has been your experience in the  
16 past in terms of your working relationship with  
17 the homeowners association?

18 A This is the first opportunity I've had to have  
19 any contact with Ms. Walker. She apparently is  
20 relatively new to the board. I did have an  
21 ongoing relationship with some of the preceding  
22 board members. I was providing information and  
23 will continue to provide information to an email  
24 address that they had provided me for issues that

1 I am anticipating or observing in the system such  
2 as known low pressure, are people irrigating,  
3 I've put in text that they have retransmitted to  
4 what people they do have email addresses to  
5 suggesting irrigation methods, suggesting they  
6 contact Ag Extension regarding the particular  
7 type of grass they have, and what levels of  
8 irrigation may or may not be desirable and  
9 particularly on the soils that are characteristic  
10 in Southern Trace. And before, when my firm was  
11 operating the system, we would not only issue  
12 flushing notices by mail but also through that  
13 same email portal so that we got as many of the  
14 customers aware that we were going to do  
15 preventative or proactive flushing as we could.  
16 I would like to think that we have that avenue  
17 available but I do not believe that that contacts  
18 or the homeowners association has the vehicle to  
19 contact all of the customers, and I know that we  
20 do not other than through the mail.

21 Q Would it be your intention to use Ms. Walker as a  
22 primary contact person for customers?

23 A Well, they have -- the board has given me three  
24 email addresses which I have committed to my

1 email address book and one is Ms. Iverson, one is  
2 Ms. Walker, and one is a generic to the board  
3 members. And any time that I have anything to  
4 convey to them, yes, I will do definitely do  
5 that. I have also instituted an email address on  
6 my end that is dedicated to data coming back to  
7 me from customers, homeowners associations,  
8 whomever, that is a side stream from my normal  
9 business email so I can see if, rather than it  
10 getting buried in the 50 or 60 other emails I get  
11 every day. And that was provided in the report  
12 of the May 15 hearing. It's also now published  
13 on the customer invoice section of the monthly  
14 water bill along with the phone numbers.

15 Q So that's a new means of whereby the customers  
16 can contact you directly?

17 A Correct.

18 Q And that has just recently been put on customer  
19 bills for their use?

20 A It went out about two weeks ago on the Southern  
21 Trace bills and it went out on the bills that I  
22 mailed yesterday to Rockbridge.

23 Q In terms of your Exhibit A to the customer  
24 report, the incident report, this incident

1 started Thursday morning you say approximately  
2 seven o'clock in the morning when you were first  
3 notified --

4 A That's correct.

5 Q -- notified about that? This was immediately  
6 prior to the Memorial Day weekend?

7 A Yes, it -- I believe that's correct; yes.

8 Q This was a Thursday. May 24th was a Thursday and  
9 this was the following Monday?

10 A It may well have been.

11 Q That was part of the reason, for instance, in  
12 terms of the flushing you did you were careful --  
13 you flushed on Thursday and Friday, you stopped  
14 flushing at that point to let the system recover  
15 and so people would have water available --

16 A Exactly. A cardinal rule of the water business  
17 is don't go flushing anything on the weekend  
18 because that's when you've the vast of the people  
19 at home and thereby you're going to have the  
20 negative impact of the vast majority of people or  
21 the greater number of people. So we flushed for  
22 two days we had available and then ceased at a  
23 point where it appeared that the system was in  
24 reasonably good shape and did not continue into

1 the weekend.

2 Q And it was following week, and maybe as a result  
3 of this flushing, that the air appeared in the  
4 lines, at least for the two customers; is that  
5 correct?

6 A That air actually occurred at the time that the  
7 upset occurred on -- in May on the 24th. Why it  
8 took three or four days to go a block and a half,  
9 I don't know. But those two customers, Mr. Brown  
10 and Ms. Page, are where the line -- air would  
11 logically end up because they are really on the  
12 top of the mountain.

13 Q Do you have anything else to say about Witness  
14 Walker's testimony?

15 A No, sir.

16 Q You spoke to the testimony of Ms. Long. You  
17 addressed the cloudiness and fuzziness in the  
18 water -- fizziness in the water. Do you have  
19 anything else to say that you want to say?

20 A Well, I did skip by the past due notice that she  
21 made comment of. Consistent with the Order of  
22 the Commission, our bills are due upon billing  
23 date which I've always taken to be the date that  
24 we mail it. They are past due 15 days

1           thereafter. Consistent with part of the  
2           Commission's Rules, we issue a past due notice on  
3           the first working day after or on the past due  
4           date if payment is not received in full. That  
5           notice is specifically worded to advise the  
6           customer they have seven days and, in fact, the  
7           7th day is called out in the text of that past  
8           due notice. If it goes past due, in the case of  
9           Rockbridge it will be on the 5th because I hold  
10          that constant, then the past due notice will say  
11          that if a payment is not received by the 12th  
12          that termination may ensue. No questions. That  
13          is consistent with the Commission's Rules of a  
14          seven day window opportunity for people to remedy  
15          a past due bill. And it's very seldom there's  
16          turn off on that day but allow some additional  
17          latitude because of the delays that are potential  
18          in the mail.

19        Q       Now, at the public hearing Witness Pat Foran  
20                raised a complaint about the billing practices.

21        A       Uh-huh (yes).

22        Q       And you addressed that specifically consistent  
23                with what you just said in the customer report  
24                and the Commission can find that explanation



1           there?

2    A       Yes, sir. In fact, the report on the hearing of  
3           the 15th includes a redacted customers bill stub  
4           indicating just exactly that, but a past due date  
5           and a due date that the bill is actually mailed  
6           on and it actually calls out the date that it is  
7           mailed on.

8    Q       Do you have any general observations you want to  
9           make about the complaints that we've heard at  
10          both hearings by customers that say they won't  
11          drink the water?

12   A       I believe that it is because of both emotion and  
13          potential misinformation. In the case of  
14          Rockbridge, we did have the uranium issue that  
15          would have caused a good bit of stress to the  
16          customers and I know it did. And independent of  
17          what is said at this point, they may still be  
18          maintaining some concern, but the uranium in the  
19          water, a uranium removal system was installed and  
20          made operational at the end of June, June 28th if  
21          I'm not mistaken, of 2016. There have been no  
22          detects whatsoever of uranium since. The gross  
23          alpha level which is inherent to uranium is well  
24          within regulatory standards. The system has --

1 as soon as that system went into place removing  
2 the uranium, went back into full compliance with  
3 the Safe Drinking Water Act. And there are no  
4 technical or legal reasons why somebody should  
5 not be consuming the water. They may have a  
6 preference to taste, I know I do. I don't drink  
7 the tap water at my house. I run it through a  
8 filter myself, but that is purely a matter of  
9 personal preference.

10 Q What kind of -- are you on a municipal system?

11 A I'm on a municipal sized, not-for-profit, member  
12 owned.

13 Q Well water?

14 A Oh, yes. Oh, yes. All series of wells. They've  
15 got, I'm going to say, maybe 4000 customers, and  
16 a number of wells in the Croatan Forest.

17 Q And if you would give a short explanation of how  
18 both of these systems operate in terms of -- I  
19 guess coming into this case I assumed that if you  
20 had an elevated storage tank or hydropneumatic  
21 tanks that the water first came from those tanks.  
22 Now, I think I've been schooled on that and  
23 that's not the way the systems operate.

24 A No. Both systems -- well, with the exception of

1           one well at Southern Trace. The wells pump into  
2           the distribution system, the distribution system  
3           distributes the water to the customers with the  
4           tanks being the shock -- tanks at Southern Trace  
5           being the shock absorber between pumping rate and  
6           consumption rate. The pumping rate exceeds  
7           consumption, it increases the volume of water in  
8           the tank until the tank pressure achieves the  
9           point and the wells exceeds rank. If the  
10          consumption exceeds the pumping rate, the water  
11          level on the tank declines as well as the  
12          pressure as the air in the tank expands to again  
13          satisfy the demand that exceeds the pumping rate.

14                         The case of Rockbridge is an  
15          entirely different proposition. There is an  
16          elevated tank at Rockbridge. It is approximately  
17          three-quarters of a mile from the water plant.  
18          The water plant again pumps into the  
19          distribution, the distribution system takes the  
20          water to the houses and to the tank and any  
21          differential, whether the pumping rate exceeds  
22          the demand, the water level on the tank rises or  
23          if the demand exceeds the pumping rate the water  
24          level in the tank lowers. The biggest difference

1           between the two systems is the available water to  
2           satisfy that excess demand. In the case of  
3           Southern Trace it's about 2500 gallons. In the  
4           case of Rockbridge it's 150,000 gallons. So the  
5           ability of Rockbridge to accept excessive demands  
6           over the pumping rate for an extended period is  
7           far greater than at Southern Trace simply because  
8           of the absence of elevated tank. The reason for  
9           the elevated tank at Rockbridge and not Southern  
10          Trace is that the Public Water Supply Section's  
11          portion of the administrative code only demands  
12          an elevated tank for 300 or more connections.  
13          Southern Trace does not make that number,  
14          Rockbridge exceeds that number; therefore,  
15          Rockbridge must have had an elevated tank. It is  
16          very unlikely -- and I'm not going to try to  
17          presume the Commission -- but it is very unlikely  
18          that if a small system were to put in an elevated  
19          tank that it would be found to be rate eligible,  
20          that would be for the Public Staff.  
21          Q       So the incident that you had in late May at  
22          Southern Trace when the two wells went offline,  
23          and we're assuming it was because of an  
24          electrical --

1 A Correct.

2 Q -- power outage or a strike, the situation was  
3 masked at least a while because there was some  
4 water in the hydropneumatic tanks that made up  
5 the difference at least for awhile?

6 A And one tank -- one pump was running.

7 Q One pump was running.

8 A Yes.

9 Q One well was running.

10 A Yep.

11 Q You had the water in the hydropneumatic tanks but  
12 then when they went dry that's --

13 A That's when it got ugly.

14 Q All right. Mr. Cols - he complains of low  
15 pressure. I think -- is he at a higher  
16 elevation?

17 A He is -- the subdivision has approximately  
18 100 feet of a vertical drop from front to back.  
19 Mr. Cols, from his description -- I can't place  
20 his house number specifically, but from his  
21 description he's apparently a third of the way  
22 down. With that 100 feet of elevation, pure laws  
23 of physics, he's going to cause the people in the  
24 lower end to have a pressure available to them of

1 roughly 43 pounds greater than those at the  
2 front, which does queue into a degree to why the  
3 people at the back simply don't perceive of a  
4 pressure problem. First, they would have those  
5 pressure release -- reducing valves such that  
6 their in-house pressure would be constant unless  
7 the pressure on the system dropped decidedly  
8 lower than it would normally be. So even though  
9 their pressure may vary from 120 pounds to  
10 60 pounds, let's say, they're not going to see a  
11 whole lot of difference inside the house. The  
12 people on the front end, if the pressure varies  
13 from 80 to 40, now, they're going to see every bit  
14 of it.

15 Q Now, when you say the front end do you mean the  
16 higher elevation?

17 A The higher elevation. I'm sorry. Yes. So the  
18 question of pressure in the system is a matter of  
19 more of a perceived pressure. It's not the  
20 actual pressure. It's not to say that the  
21 pressure does not drop on the higher elevation,  
22 yes it will. When demands in the tank -- system  
23 exceeds the pumping rate and the water in the  
24 tanks is gradually expended, the available

1 pressure in the system is likewise diminished.

2 Q When is water pumped to the tanks?

3 A Any time the pressure in the tanks drop below 70  
4 psi.

5 Q So it's not just a certain time of day --

6 A No.

7 Q -- or at night?

8 A It's all driven on the pressure at the tank.

9 Q Let's talk about the inability to -- are the  
10 problems caused by the lawn watering, the  
11 in-ground systems in particular? Tell the  
12 Commission if you had, for instance, three or  
13 four -- three or four of those systems, what that  
14 does to the capacity, pumping capacity of the  
15 system?

16 A Right now we're sitting with a pumping capacity  
17 of, if memory serves me, around 91 gallons per  
18 minute. An irrigation head on an in-ground  
19 system will run approximately five gallons a  
20 minute. If you've got four systems with five  
21 heads running simultaneously then you've got 20  
22 heads at five gallons a minute and that exceeds  
23 what we can pump through the system period. That  
24 expends the storage very quickly. If I could I

1 would demand that they be disconnected, any  
2 in-ground system be disconnected. From a legal  
3 standpoint that would be a taking without  
4 compensation I can't do that. But I have done  
5 everything I can to try to educate people in the  
6 subdivision that the in-ground systems may make  
7 their yard green but it also can very easily  
8 adversely affect their neighbors. A lot of  
9 people have heard me and do not use them or use  
10 them only sparingly. There are still some  
11 customers that basically ignore anything that  
12 I've said to them regarding avoiding using  
13 in-ground irrigation. How do I know? No, I'm  
14 not driving around in the subdivision. I'm  
15 looking at the water usage. And when you've got  
16 one customer that uses 6000 gallons a month and  
17 the customer next door uses 36,000 it's pretty  
18 obvious what's going on.

19 Q Do you know how many in-ground systems there are  
20 in Southern Trace?

21 A The best I'm aware, somewhere around 14, but  
22 there are only about three or four of them that  
23 are being used to any extent based on the water  
24 usage that I'm observing.



1 Q Do you have anything else to say about Witness  
2 Cols complaint about low pressure?

3 A I do not other than the fact that he may also  
4 want to take a look and see if he has a pressure  
5 release -- reducing valve. Pressure reducing  
6 valves have a insertion loss of approximately  
7 10-psi. That's even if the thing is set at its  
8 highest output pressure it's still going to have  
9 a 10 pound loss across it. So if he's got 60  
10 pounds coming to his house and like 50 coming in  
11 the house, same situation, if a system, pressure  
12 has been drawn down 40 pounds, if he's got  
13 normally 60 coming in and we're down by 40-psi  
14 then he's going to have far less than the 50  
15 coming into his house.

16 Q What is the minimum required pressure by the  
17 state?

18 A Two numbers, the Utilities Commission wants  
19 30-psi. The Public Water Supply wants 30-psi but  
20 only requires a boil advisory should the pressure  
21 drop below 20-psi. During the period of our May  
22 upset, the pressure was never observed to be  
23 lower than 20-psi; however, it may have been air  
24 pressure more so than water pressure. The reason

1           for that number with the Public Water Supply is a  
2           concern of backflow.

3    Q       And how do you measure that pressure?

4    A       We have pressure gauges within the wellhouse at  
5           the tank, actually within all wellhouses but the  
6           one that actually predicates is the one at the  
7           tank because they were at the highest elevation  
8           of the system.

9    Q       And that reminds me, I think you did attach to  
10           the customer report as Exhibit B some sample  
11           pressure reports; is that correct?

12   A       Chlorine reports.

13   Q       That's chlorine, okay.

14   A       Yeah, that was to speak to the comments that were  
15           made by some of the --

16   Q       You're right.

17   A       -- in some of the testimony at the first hearing.

18   Q       But do you have any reason to believe or know  
19           that customers, at least to the best of your  
20           knowledge, are receiving a minimum pressure of  
21           30?

22   A       To the best of my knowledge they are getting at  
23           least 30-psi. In the case of Southern Trace the  
24           pressure variations are going to be greater, as I

1 mentioned before, compared to Rockbridge due to  
2 the nature of -- or the difference in the nature  
3 of the two storages.

4 Q And again, give a little more detail again.

5 A In Southern Trace you're dealing with ground  
6 storage tanks, the pressure tanks, half water  
7 half air, approximately 25 percent of it is  
8 actually available water that's why I said  
9 effective storage of 2500 gallons at -- out to  
10 10,000 gallons. As it is expended in the air it  
11 increases -- expands, the pressure there  
12 decreases and it is a direct or a specifically  
13 inverse relationship to pressure and volume. In  
14 this case of Rockbridge with the elevated tank,  
15 the bottom of the vessel of the elevated tank is  
16 114 feet off the ground which gives an absolute  
17 minimum pressure at the base of the tank at  
18 approximately 40-p -- five psi were the tank to  
19 be entirely empty and it would take 150,000  
20 gallons of water having exceeded pumping rate for  
21 that to occur. So basically the Rockbridge  
22 system by virtue of the elevated storage has a  
23 lot more elasticity than the Southern Trace  
24 system to accept excess demand.

1 Q And finally Witness Hoxie - how do you account  
2 for his testimony that during the summertime 80  
3 out of 120 days approximately at say two o'clock  
4 in the afternoon he doesn't have sufficient  
5 pressure to have flush a toilet or take a shower?

6 A Pure speculation, I would imagine the house has  
7 pressure relief at our reducing valve. It is  
8 normal for the system in the summer given some  
9 degree of casual water usage to drop down to  
10 somewhere around 50-psi at the tanks which is the  
11 high end of the system. There has to be  
12 something constraining that pressure, eliminating  
13 that pressure by virtue of potentially a pressure  
14 reducing valve such that the water pressure  
15 within the house is observed to be so low because  
16 50-psi is pretty good water pressure.

17 Q But I believe you said normally that the pressure  
18 relief valve could reduce it by 10 pounds.

19 A Just pure insertion loss is 10 pounds.

20 Q Okay.

21 A If it's set lower the pre -- typically the come  
22 out of the box at 50-psi, but they can vary  
23 anywhere from 80-psi as an output to 20-psi. If  
24 it's set too low then obviously pressure in the

1 house is going to be low just at the onset. The  
2 insertion loss -- again, if we drop to say even  
3 40-psi at the tanks, if there is a pressure  
4 relief -- a reducing valve it would make the  
5 in-house pressure, regardless of the valve  
6 setting, be 30-psi. That's kind of marginal  
7 pressure. Again, pure speculation, but there  
8 apparently is some feature within the plumbing of  
9 that house that is constraining the water.

10 Q At 30-psi could you -- would you normally be  
11 expected that you could flush the toilet or take  
12 a shower?

13 A Sure. Sure. Now, the water meter itself  
14 introduces a certain amount of pressure loss  
15 because its mechanical device is driven by the  
16 water going through it, but at 30-psi which is  
17 again the Commission and Water Supply's minimum,  
18 that is considered to be acceptable pressure.  
19 Now, if you had a two-story house, that gets kind  
20 of thin because you lose five pounds every time  
21 you go up on a flight of stairs so 30 pounds on a  
22 three-story house is going to give you 20 pounds  
23 on the third story and that would unacceptable in  
24 most cases.

1 Q Do you have any other comments you want to make  
2 at this time?

3 A No, sir.

4 Q Let me ask you before we turn it over for cross  
5 examination, tell us about your ability and  
6 willingness to communicate with customers?

7 A Up until this hearing I thought I had an  
8 excellent relationship with the customers. I'd  
9 say half of them would call me by name when I  
10 answered the phone. We have congenial  
11 conversations. I can only think of maybe two or  
12 three conversations in the last eight or 10 years  
13 that have been non-congenial and that wasn't  
14 instituted on my behalf. I have had an  
15 individual that would get overheated every once  
16 in a while regardless. I have always been  
17 available to the people. I pride myself on  
18 returning any voice mail that is left, which is  
19 occurring today because I'm sitting here and not  
20 answering the phone but tomorrow I'll be or this  
21 afternoon when I get back I'll be returning every  
22 voice mail that's there. I attempt to resolve  
23 any issue that the customer brings up at our  
24 first contact. If I can't I try to get back to

1           them as soon as I get a handle on the resolution.  
2           I was quite taken aback by the comments at the  
3           May 15 hearing because I was hearing a lot of  
4           things that I had never heard before. Had I  
5           heard that well I called three times about the  
6           leak in the street, probably. I did not consider  
7           that necessarily to be an urgent issue because a  
8           service line leak is not an urgent issue, it's a  
9           as-soon-as-you-can-get-to-it issue as long as  
10          it's not doing property damage. A main leak is  
11          an entirely different issue. That's a red light  
12          siren event. But prior to this process, I was  
13          unaware of the vast majority of the complaints  
14          that were expressed other than the singular  
15          character, I had cloudy water or I have low  
16          pressure, but of the number, again I have had I  
17          think one person contact me regarding water  
18          quality this month and it was an issue that  
19          appears to be focusing on a softener issue and  
20          fuzzy water. I just don't hear the level of  
21          complaints that have been expressed at this  
22          hearing. I'm the only one that answers the phone  
23          since my wife died.

24          Q       And let me just ask you, I know during the course

1 of this case I've called you many times on the  
2 line and there have been many times when I've  
3 gotten voice mail and so there are times when you  
4 are not -- you're at the dentist, you're on the  
5 phone, you have to take a voice mail, you call  
6 back.

7 A Or I'm on another call.

8 Q But you do endeavor to respond to voice mails as  
9 soon as --

10 A Absolutely.

11 Q -- possible?

12 A In fact, I had one customer at Rockbridge, name  
13 omitted, that was here for the hearing on the  
14 15th and she called me to talk about -- had a  
15 small bill question, and she said, *I was at the*  
16 *hearing and these people are saying that you*  
17 *don't call them back or you're hard to get to,*  
18 *I've never experienced that. Now that's hearsay,*  
19 *I understand, but that's what I was told.*

20 Q Now, let's do address the fact that some calls go  
21 to what I'll call the operator.

22 A Okay. There are two phone numbers published on  
23 the bill. One says account inquiries, that's me.  
24 The other says service emergencies, that call is



1           routed to the contract operator or whatever of  
2           his personnel are on call that particular period.  
3           Basically I have a separate number that I  
4           transfer to the cell phone of whoever is on call.  
5           If a call goes to him he is or they as it may be,  
6           are supposed to advise me of the calls the  
7           following business day. I have stressed the  
8           necessity for that to occur subsequent to the  
9           information from the 15th hearing.

10        Q     Do you think there was -- has there been a  
11           failure to communicate in some degree there in  
12           the past?

13        A     I don't know for certain but there's clearly the  
14           opportunity.

15        Q     Because some customers were obviously calling  
16           them on the emergency number, correct?

17        A     I think that's -- well a lot of the issue with  
18           these service line leaks makes -- that come in,  
19           is a lot of times when people see water coming  
20           out of the ground they call it a water main  
21           break. If it's a service line that is not an  
22           urgent issue. That is an issue that's either  
23           triage, you determine if it's doing any physical  
24           damage, is it doing any property damage, is it in

1 a position that it could do property damage and  
2 that determines whether it is a right now  
3 circumstances, a next working day circumstance, a  
4 this is Friday how about next Monday  
5 circumstance. Water main breaks is an entirely  
6 different issue. Most people when they call in a  
7 main leak they call it a main break when, in  
8 fact, we have not had a very limited number of  
9 main breaks at -- in fact, we had no main breaks  
10 at either of the two systems. Say the one where  
11 one a contractor installing fiber optic drilled  
12 an 8-inch main that had been marked and he didn't  
13 pay attention to the marking, but if somebody  
14 calls the contract operator he is suppose to  
15 relay that information now to me and to the  
16 maintenance, construction new manager who is  
17 supposed to advise me of when it's going to be  
18 repaired. That was not in place before. This is  
19 a communications gap that we are trying to fill  
20 in.

21 Q And that was going to be my next question. If  
22 you can tell the Commission the things you've  
23 done to try to bridge this gap here to provide  
24 better service?

1 A Well, the most singular thing is we're all  
2 talking to each other. Nobody is taking a call  
3 and just sitting on it or calling one person.  
4 The three parties that need to be aware is the  
5 physical operator, the maintenance and repair  
6 supervisor, and me because I get 90 percent of  
7 the phone calls. But likewise, if the  
8 maintenance and repair supervisor advises the  
9 operator and me that the repair will be done  
10 tomorrow, and somebody calls on the emergency  
11 number, the operator should be able to say that  
12 it's going to be repaired tomorrow or I have been  
13 advised that it will be repaired tomorrow. That  
14 did not occur in the past. We definitely had a  
15 failing of internal communications that we've  
16 attempted to address.

17 Q And for clarification, before this case I always  
18 used the term "service line" to be the line on  
19 the customer's property between the meter and the  
20 customer's house which was -- is the customer's  
21 responsibility?

22 A Okay. Let's go back. The service line is from  
23 the main to the meter and that is the  
24 responsibility of the utility. The house service

1 is the line from the meter to the house that is  
2 installed by the builder and his plumber and that  
3 is the responsibility of the property owner.

4 Q So there are two contexts for the service line  
5 then, and you're saying when customers think  
6 there are main breaks, with the exception I think  
7 of the one instance where a contractor may  
8 have -- was there an instance where the  
9 contractor damaged the main?

10 A Oh, the contractor absolutely drilled an 8-inch  
11 main.

12 Q But the other leaks that were testified to were  
13 service line breaks between the main and the  
14 meter?

15 A Correct.

16 Q And in those instances what determines how  
17 quickly, I mean --

18 A Well, what determines our response is and should  
19 have always been but we've tightened this up, the  
20 question is is it causing imminent damage or a  
21 hazard, and if the answer is no generally a  
22 service line leak becomes a next working day  
23 proposition. If it is causing damage like as in  
24 water running down into somebody's garage or

1           trying to pick up the driveway or such that's a  
2           right now proposition. A water main would be a  
3           right now proposition in any instance because  
4           that can adversely affect the entire system. We  
5           have had discussions with contractors doing the  
6           repair, that was where a lot of the delays were  
7           coming the maintenance and repair manager was  
8           passing the information to the contractor, the  
9           contractor was saying well I'm out laying pipe in  
10          XYZ subdivision making good money. I'll get to  
11          it when I get to it. And there was an extended  
12          delay between the time the service line leaks  
13          were called in and they were actually repaired.

14        Q     And what has been your experience during 2018 to  
15          date with service line breaks?

16        A     I cannot recall of a single service line break  
17          during this calendar year.

18        Q     The testimony at the May 15th hearing primarily  
19          seemed to relate to the 2015, '16, '17; is that  
20          the correct recollection?

21                    COMMISSIONER MITCHELL: Mr. Bennink, please  
22          limit your questions to testimony heard today.

23        A     The majority of the service line leaks have been  
24          concentrated in a very limited area in the first

1 section of Rockbridge. We have not had any  
2 service line leaks to my short-term recollection.  
3 In Southern Trace we did though have three issues  
4 where service lines were hit by a contractor  
5 again installing fiber optics a couple of years  
6 ago in Southern Trace.

7 BY MR. BENNINK:

8 Q Do you have anything else you want to say at this  
9 point?

10 COMMISSIONER MITCHELL: No, sir.

11 MR. BENNINK: The witness is available for  
12 cross examination.

13 COMMISSIONER MITCHELL: Mr. Grantmyre.

14 MR. GRANTMYRE: This could take awhile.  
15 Would it be appropriate to have the morning break  
16 because our questions plus the Commission's questions  
17 could take at least another hour.

18 COMMISSIONER MITCHELL: Okay. We'll take a  
19 break and we'll come back at 11:30.

20 (Recess at 11:15 a.m., until 11:30 a.m.)

21 COMMISSIONER MITCHELL: Okay. Let's go back  
22 on the record, please. Mr. Grantmyre, the witness is  
23 yours for cross examination.

24

1 CROSS EXAMINATION BY MR. GRANTMYRE:

2 Q I'm going to ask a number of questions starting  
3 from the back of your previous testimony. On a  
4 service line, the service line is less of a  
5 priority than a main break, and the reason for  
6 that is because the service line is very small, a  
7 three-quarter inch or five-eighths inch line and  
8 can only give out a limited amount of water; is  
9 that correct?

10 A That and the fact that it only -- does not affect  
11 the potential damage to the entire system. Our  
12 service lines are three-quarter inch, you are  
13 correct. Most service leaks are not really even  
14 a full break of the service line, they are a  
15 puncture of one sort or another. The leaks that  
16 we have had in Rockbridge have been more like  
17 knife cuts due to the way that the rock in that  
18 particular area breaks, it breaks on an extremely  
19 sharp angle and if it ends up in the back of the  
20 material over time it will the cut into the  
21 service line. Those that I have actually seen,  
22 the actual cut in the service line wasn't about a  
23 quarter of an inch long.

24 Q Now, with respect to Mr. Hoxie, he was talking

1           about low or no pressure in his house a lot of  
2           days in the summer. You said in your testimony  
3           you think there may be a feature within the house  
4           that constrains the water?

5       A     And I'm being non-specific. Obviously, anything  
6           I say on that would be speculation other than  
7           there is a potential of a pressure reducing valve  
8           being there.

9       Q     Now, if there's a pressure reducing valve, you  
10          said the inverter is about a 10 percent -- 10-psi  
11          loss. Can pressure reducing valves get clogged  
12          also?

13      A     Oh, yes. Oh, yes. They have a screen. It's a  
14          relatively large screen. The holes in the screen  
15          are about the size of lead in a wooden pencil.  
16          But at the same time, yes, over time if they get  
17          any larger for that matter they can develop a  
18          level of corrosion and foul that screen. That's  
19          why I was saying that were there houses in that  
20          upper areas, the higher areas of Southern Trace  
21          with pressure reducing valves, they should either  
22          be reset to the highest permitted -- pressure  
23          that they will actually allow to pass or  
24          physically removed for that matter. Now, the



1 later being a plumbing issue rather than a  
2 homeowner issue.

3 Q What your testimony is if they're at the higher  
4 end of the system that is the higher elevation  
5 that has lower pressure, the pressure reducing  
6 valve is unnecessary and may be restricting the  
7 flows or reducing the pressure --

8 A Absolutely.

9 Q -- and the customer would be much better off  
10 eliminating the pressure reducing valve?

11 A Correct.

12 Q Now, the pressure reducing valve is usually  
13 installed either after the meter, out by the  
14 street, or underneath the house; is that correct?

15 A I don't know of any that were installed in  
16 Southern Trace behind the meter. They're in the  
17 house one way or another.

18 Q Okay.

19 A I have actually seen them in the crawl space, if  
20 that's where the main cut off valve is; at the  
21 water heater, if that's where the main cut off  
22 valve is; I've also seen them embedded in the  
23 wall of either an entry coat closet or a pantry  
24 closet and immediately adjacent to the main shut

1 off valve.

2 Q But in any event it's after the water meter and  
3 the company's responsibility ends at the water  
4 meter?

5 A Oh, yes, it's something that is entirely the  
6 property owners which was installed by the  
7 builder's plumber at the time of construction.

8 Q Now, you said there are approximately three or  
9 four of these in-ground irrigation systems that  
10 use extensive amounts of water?

11 A Yes, sir.

12 Q Do you know what time of day these three or four  
13 persons utilize their in-ground system?

14 A I do not.

15 Q Has -- once upon a time I used to work for a  
16 company that had a SCADA system on an area that  
17 had extensive in-ground water systems, and we  
18 noticed that beginning about one o'clock in the  
19 morning til about six or seven in the morning  
20 there was extensive irrigation going on. Has the  
21 Company ever considered placing a restriction on  
22 these in-ground systems that they must set their  
23 settings say at two to four in the morning or  
24 something like that?

1     A     I have not. Two reasons: First, I appreciate  
2           your comment on the SCADA. That's clearly part  
3           of my recommendation in the report from the  
4           previous hearing, and it is a full-blown SCADA  
5           system that will allow both remote monitoring as  
6           well as constant recording of pressures. I am of  
7           the impression, and I may bear correction right  
8           quick, but I am of the impression that to impose  
9           any sort of usage restriction including any time  
10          would require the sanctioning by the Commission.  
11          Now, if that is not correct please straighten me  
12          out.

13     Q     Well, we're not quite sure of that but it would  
14           certainly be at the Public Staff's recommendation  
15           that you impose a similar type restriction  
16           because these are set up automatically and they  
17           can set it any time they want. But if, in fact,  
18           they have it during the morning rush hour or from  
19           5:00 to 7:00 or from 5:00 to 6:30, that  
20           materially affects the other customers in the  
21           subdivision and they could just as easily set the  
22           system from 1:00 to 3:00 or 1:00 to 2:30. So  
23           that would be something that the Public Staff  
24           would encourage. And, if not, the Public

1 Staff -- if it does require Commission approval,  
2 which I don't think it does, but if it does the  
3 Public Staff would support you on that.

4 A Okay.

5 Q Now, you had testified that uranium at Rockbridge  
6 which affects the customers, and you installed  
7 the filter to remove it, the uranium, and your  
8 report says it's been very successful. Can you  
9 explain the preponderance of uranium and  
10 radiological problems naturally occurring in the  
11 bedrock in eastern Wake County and going all the  
12 way down to the Fayetteville area?

13 A Yes. Now, I'm unfamiliar with the Fayetteville  
14 area.

15 COMMISSIONER MITCHELL: Mr. Butler, please  
16 move forward towards the mic.

17 A Okay. I'm unfamiliar with the Fayetteville area.  
18 However, there is a band of granite that is east  
19 of the Neuse River. I have seen it as far to the  
20 east as Wendell. It starts approximately even  
21 with Clayton and runs well up into Franklin  
22 County that bears a significant probability of  
23 yielding water containing radium, uranium or  
24 both. Franklin County is renown for it. The

1 eastern section of the Wake County is fairly  
2 familiar with the problem, but it is almost  
3 random. We have three wells. The three wells  
4 are within 1000 feet of one another. Two of them  
5 show uranium and one never has. Why the  
6 difference being that close I could not explain.

7 Q Now, with regard to the flushing, when you flush  
8 the mains, there are two entrances to the  
9 Southern Trace Subdivision; is that correct?

10 A Yes, there is.

11 Q Has the Company ever considered posting signs at  
12 the entrance to advise customers of flushing or  
13 planned flushing?

14 A Planned flushing, I always do direct mail. I  
15 always have practiced that. That is -- the one  
16 area that I do not have knowledge of was a period  
17 of approximately four years when there was a  
18 different contract operator on site. But when we  
19 were operating the system with my personnel and  
20 now if there is planned flushing then mailing  
21 notices will be sent out to all the customers  
22 indicating the days and the times and strongly  
23 suggesting that they not do laundry during the  
24 period the flushing is being done, or if they

1 notice any sort of discoloration in the water.  
2 We could and there is no reason we shouldn't  
3 purchase some signs and store them in one of the  
4 wellhouses that we could stick out to say we're  
5 flushing the mains, if we're doing something  
6 impromptu. The only concern I would have about  
7 that and it's not really a concern, but the  
8 limitation is somebody who is in the subdivision  
9 doesn't leave and go by the sign would not likely  
10 see it.

11 Q Well, the Public Staff only recommends this as a  
12 supplement to direct mail or another  
13 communication, not in place of it. Now, would it  
14 be possible for the Company to discuss with the  
15 HOA to get the email list of customers that the  
16 Company doesn't have and/or the customer  
17 telephone numbers, assuming that the various  
18 customer authorizes the HOA to provide your  
19 company that information so that you may have  
20 better contact information?

21 A I would -- generally I have phone numbers but in  
22 instances like this I would prefer the email  
23 because I can do a bulk email if need be, or if  
24 the HOA would do a bulk email once I would send

1 the information to them. The concern I do have  
2 is whether or not the HOA actually has updated  
3 email addresses.

4 Q But you would be willing to discuss that with the  
5 HOA --

6 A Oh sure.

7 Q -- to see if you can improve the communication?

8 A Yes.

9 Q We happen to have the president in the room  
10 listening and taking notes I see. Now, would you  
11 please explain to the Commission exactly what a  
12 SCADA system is? You've recommended in your  
13 report that you intend to see if you can get  
14 installed, assuming you get the financing, at  
15 both Rockbridge and at Southern Trace. Can you  
16 explain exactly what this system is in simple  
17 layman's terms that I can understand?

18 A Well first, SCADA stands for supervisory control  
19 and something. I can't remember. A SCADA system  
20 is an interactive communication and control  
21 system between a computer server and remote  
22 terminal units. The remote terminal units are  
23 located at the elevated tank or well, or wells as  
24 the case may be. What it does is it receives

1 data from say a pressure sensor to an electronic  
2 signal that is transmitted to the server. The  
3 server has set points within it that are used to  
4 determine whether the pumps should run or should  
5 not run or if the pressure is sufficiently low  
6 that it should issue an alarm. Then the SCADA  
7 system sends signals back out to the remote sites  
8 causing the pumps to run, to not run, or if there  
9 is an alarm situation it sends a text email,  
10 voice mail, whatever, to a list of personnel that  
11 are in a position to respond to abnormal  
12 conditions. The particular one I am looking at  
13 is based on the data channels of the major  
14 cellular companies and it verifies the validity  
15 of the communications pipe every five seconds.  
16 It's not a piece of equipment that's sitting out  
17 there waiting for somebody to send a signal for a  
18 signal. If everybody is talking to everybody all  
19 the time so that if there is a break down in the  
20 communication that also gets alarmed and notified  
21 to people so that they can get on to the various  
22 sites that might be affected and manually operate  
23 the system if need be during the period the  
24 communication failure would occur.



1                   Same story for the equipment.  If  
2                   a remote terminal unit dies, there's going to be  
3                   an alarm that occurs that indicates that  
4                   particular device is down.  All of the equipment  
5                   does have battery back up to assure that even  
6                   when there is a power failure the equipment stays  
7                   out there talking so that you know everybody is  
8                   alive.

9    Q    The system you're looking at -- your office is in  
10       Swansboro?

11   A    Uh-huh (yes).

12   Q    Now you would have access through your computer  
13       then or through the SCADA system to see exactly  
14       what is going on - each well, whether they are  
15       running, the pressures at the tank; if, in fact,  
16       a well has kicked out, you can see that; you  
17       would also have been the ability to at least try  
18       to turn the well back on and see if it's possible  
19       - so you would have a much better control and a  
20       visual that's basically as if you're sitting  
21       there in the room watching everything operate  
22       right in front of you?

23   A    Even more so that it would allow me to do the  
24       same thing from a smart phone.

1 Q Now, what is the approximate cost that it would  
2 cost you to install it at say Rockbridge and  
3 Southern Trace? I know there'd be different  
4 costs but just ballpark?

5 A Probably fifteen thousand to seventeen thousand  
6 at Southern Trace, and somewhere twenty-five or  
7 so at Rockbridge.

8 Q Have you had any progress with getting approval  
9 for that, for the spending?

10 A We have discussed it and the position of the  
11 ownership is that as soon as they can find the  
12 money it will be done. I believe what they're  
13 doing is looking for the increased income from  
14 the rate increase to provide the funding.

15 Q You had testified earlier about Ms. Brown and Ms.  
16 Page, that they got the air pocket because  
17 they're at the top of the system. The question  
18 is did they get a bill adjustment because they  
19 had to flush off their water?

20 A Yes.

21 Q And they're happy with their bill adjustment?

22 A I presume so. I haven't heard anything on the  
23 contrary. What I did was based on the length of  
24 time that the air was being expelled and an

1            approximate flow rate, which I used the 8 gallons  
2            a minute of water equivalent, I just simply  
3            calculated what the metered water not used was  
4            worth and rounded it up to the next nice dollar.

5        Q        Now, you had mentioned it earlier, it confuses  
6            people, you tell them you have 10,000 gallons of  
7            hydro tank storage and only 2500 gallons of,  
8            which is one-quarter of the amount, of really  
9            usable water in there. Can you just give a brief  
10           simple explanation of what causes that?

11        A        The tanks first at rest - when the pumps are not  
12            running or not being called - and the pressure is  
13            70, 75 pounds, whatever the set point is, the  
14            tanks are half full of water and half full of  
15            air. So right there we're already down to having  
16            out of the 10,000 gallons a tank, not the  
17            5,000 gallons of wet. In order for the air to  
18            expand and expel that water, as the air expands  
19            and the water is pushed out the pressure in the  
20            tank drops. And the extent to which that can  
21            occur before you say we've expelled all the water  
22            that is there and, therefore, that is the  
23            affected water is that 30-psi point.

24        Q        So on a system like Southern Trace, and you

1 testified to it a number of times, because you  
2 have only 2500 gallons versus the one hundred  
3 fifty at Rockbridge, you are much less able to  
4 handle the huge demand from in-ground sprinklers  
5 than say Rockbridge would be?

6 A Precisely. The system at Rockbridge is more akin  
7 to a municipal system simply by virtue of the  
8 storage.

9 Q Now, there'd be some customers that'd say why  
10 don't you put an elevated storage tank at  
11 Southern Trace. If you would have put let's say  
12 a 100,000 gallon-a-day elevated storage tank,  
13 what would be the approximate cost?

14 A Somewhere between \$350,000 and \$450,000.

15 Q And, of course, that would all go in rates?

16 A Absolutely, if the Commission would approve it  
17 obviously. And that -- I'm going to take a  
18 parenthetical right now -- if the Commission  
19 would be willing -- no, I can't say that. I'm  
20 talking about somebody else's money.

21 Q Well, that would result in a significant impact  
22 on the customers' rates.

23 A Absolutely. It would effectively double or  
24 triple the rate base.

1 Q More than that. Well, anyway -- now, with  
2 respect to the management of the Company,  
3 essentially KRJ is controlled by Mr. Stafford; is  
4 that correct?

5 A That is correct.

6 Q And he may only own -- and his family owns the  
7 interest and he owns the interest; is that  
8 correct? Or are you not sure?

9 A To the best of my knowledge, it's Stafford and  
10 his wife.

11 Q But he does not get involved in the day-to-day  
12 management, does he.

13 A Only the financial side.

14 Q And you mentioned Robert Stafford, Jr., his son,  
15 and he does not get involved in the day-to-day  
16 management, does he?

17 A He gets more involved into the construction and  
18 maintenance of the system.

19 Q And he has done some of the grass cutting on the  
20 effluent spray fields at Rockbridge; is that  
21 correct?

22 A He actually does under a different company.

23 Q Okay. And then you have a contract operator and  
24 what's the name of that contract operator?

1 A M&M Water and Wastewater Services.

2 Q And you said -- is Dale Matthews the --

3 A That's one of the M's.

4 Q Okay. One of the M's?

5 A Uh-huh (yes).

6 Q And James, what is his last name?

7 A Carter.

8 Q He's not the other M?

9 A No, he's actually one of the part-time employee  
10 who is employed full-time by one of the local  
11 municipalities.

12 Q Now, how many systems does M&M operate to your  
13 knowledge?

14 A I do not know.

15 Q Now, you testified at one time that you were  
16 actively managing the operations at Southern  
17 Trace; is that correct?

18 A Both systems.

19 Q Both of the systems, but you are now doing the  
20 front office work and you listed everything but  
21 it's not the active management, but based on this  
22 rate case and the customer testimony it seems  
23 like you have been dragged into the active  
24 management; is that correct?

1 A Well, I do the front office and by sheer  
2 necessity of my technical expertise have been --

3 CHAIRMAN FINLEY: Mr. Grantmyre, I'm going  
4 to ask you a question. Are these questions that  
5 you're asking this witness necessary for us to resolve  
6 the disputes in this case. Haven't y'all settled the  
7 case?

8 MR. GRANTMYRE: Well, I think the question  
9 of the active management and how it's being managed  
10 is --

11 CHAIRMAN FINLEY: What do you want -- what  
12 would you want us to do with the information you're  
13 trying to get?

14 MR. GRANTMYRE: Well, we've settled the case  
15 and the Commission can do whatever they want. That's  
16 up to the Commission. But there seems to be a break  
17 down between the management and how it's managed and  
18 I'm just trying to explore that.

19 CHAIRMAN FINLEY: Well, why don't -- if you  
20 have a -- it seems like that that would be something  
21 you could have resolved in your settlement discussions  
22 and if there's something you want us to do why don't  
23 you ask us to do that and we'll take a look at it.  
24 But usually when we have settled cases we don't have

1 this much investigation after the fact?  
2 MR. GRANTMYRE: Well, I'll move on then.  
3 That completes my questions.  
4 COMMISSIONER MITCHELL: Thank you, Mr. Grantmyre. Questions by the Commission? Chairman  
5 Mr. Grantmyre. Finley.  
6 EXAMINATION BY CHAIRMAN FINLEY:  
7 Mr. Butler, do you have problems in locating the  
8 names of the customers in the Rockbridge  
9 subdivision?  
10 A Well, I've got the names I just don't have --  
11 Telephone numbers?  
12 A -- telephone -- well, I may or may not have the  
13 telephone numbers. I try to get the telephone  
14 numbers when they sign up for service initially  
15 but, if they change it, there's no updating of it  
16 unless I just happen to have a casual  
17 conversation.  
18 Q What about email addresses?  
19 A I do not have any of them.  
20 Q Have you tried to get those?  
21 A I have not. Up until this point I have not  
22 recognized that there is a necessity for it. I  
23 did at one point attempt to send something out  
24



1 through the managing company for the Rockbridge  
2 HOA and found out that they did not have a  
3 complete email address list either.

4 Q What will you -- Ms. Walker is sitting back  
5 there -- did y'all have any discussion at the  
6 break to see what the difficulty would be in your  
7 getting email and telephone numbers?

8 A I will ask Ms. Walker and also the management  
9 company at Rockbridge if they will provide that  
10 or if their owners will allow it to be provided.

11 CHAIRMAN FINLEY: Mr. Bennink, I would ask  
12 that -- Mr. Bennink.

13 MR. BENNINK: Yes.

14 CHAIRMAN FINLEY: I would ask that you all  
15 engage in that conversation and see the best you can  
16 do to come up with email addresses and telephone  
17 numbers so that the Company can notify customers when  
18 they're going to be doing system improvements and that  
19 type of thing.

20 MR. BENNINK: Yes, sir.

21 BY CHAIRMAN FINLEY:

22 Q And is there a single entrance or how many  
23 entrances are there to the Southern Trace?

24 A At Southern Trace there are two entrances.

1           They're approximately 200 yards apart.

2    Q       At some of the systems I'm aware of the water  
3           company that's going to be doing whatever, system  
4           maintenance or flushing, it will put a sign --  
5           the day before it will put a sign at the entrance  
6           and it will let people know what they are going  
7           to be doing in case there's difficult reaching  
8           those customers. Have you considered that?

9    A       That will be done on both systems. And if it is  
10           planned flushing or such I will also do the mail  
11           notification.

12   Q       Well, I think the problem is the mail is a little  
13           bit delayed.

14   A       Well, the mail is erratic, no question. And my  
15           prior practice was to mail those out 10 days  
16           prior to the anticipated date.

17           CHAIRMAN FINLEY: I would suggest you think  
18           about putting notifications at the entrances so people  
19           can see them. That's all I have. Thank you.

20           COMMISSIONER MITCHELL: Commissioner  
21           Patterson.

22           COMMISSIONER PATTERSON: I've just got two  
23           or three questions.

24

1 EXAMINATION BY COMMISSIONER PATTERSON:

2 Q You operate as an independent business consulting  
3 kind of a operation?

4 A Yes. , Yes, sir.

5 Q How many other clients do you have other than --

6 A I've got two other.

7 Q Two other clients?

8 A Yes, utility systems.

9 Q During a week how much time do you spend on this  
10 particular client?

11 A Probably upwards of 25 to 30 hours.

12 Q So you spend more time on this client than you  
13 would --

14 A I do.

15 Q -- than you do your others?

16 A I do.

17 Q And you are the only employee of your company.

18 A Since my wife's passing, yes.

19 Q Okay.

20 A Well -- I'm sorry. I do have a part-time field  
21 technician in Wake County who I use to triage  
22 water leaks, to do some sampling for my own  
23 purposes in the case of Rockbridge and for  
24 regulatory purposes in the case of the other two

1 systems, and she also does the meter reading.

2 Q And this next question is speculation. Do you  
3 speculate that you will get the funding to make  
4 the improvements that you have suggested in your  
5 report?

6 A I have strongly enough recommended them and the  
7 owner has historically responded to  
8 my recommendations. The availability of the  
9 funds is really a matter of the timing.

10 Q And if you get the SCADA system who monitors it?

11 A Primarily me, but the vast majority of the issue  
12 that it resolves is assuring that we get timely  
13 information on abnormal conditions in pressure,  
14 equipment operation, equipment failure and the  
15 like.

16 Q So would M&M need that information?

17 A They would be also able to get to the system to  
18 view that information but not to adjust the set  
19 points of where pumps start and stop. There are  
20 multiple levels of access authority from look  
21 don't touch to you can touch to acknowledge an  
22 alarm which, of course, it records who  
23 acknowledged it, when and what alarm, to setting  
24 up the actual set points for pressure control and

1 so forth.

2 Q Do you have to approve any activity that M&M  
3 needs to do, to fix a pipe or whatever?

4 A No, they are at will to proceed with any sort of  
5 repairs that are characteristic to the plant  
6 operation. They do not do pipeline repairs.  
7 That is a different contract for licensing  
8 reasons. But if a chemical pump fails, they fix  
9 it. The bill comes through to me on the way to  
10 the ownership for payment. But at the same time  
11 they are authorized under their contract to  
12 proceed with any repair that they deem necessary  
13 up to I think \$1,500 per item without regard.  
14 They are asked to let me know when they have done  
15 something so that I can be aware of it.

16 COMMISSIONER PATTERSON: Thank you. I have  
17 nothing else.

18 COMMISSIONER MITCHELL: Mr. Butler, several  
19 questions for you.

20 THE WITNESS: Yes, ma'am.

21 EXAMINATION BY COMMISSIONER MITCHELL:

22 Q Regarding the monthly water and sewer  
23 availability fees for Rockbridge, who or what  
24 entity is currently paying those fees?

1 A Currently no one. They should be being paid by  
2 Stafford Land, the developer. Stafford has  
3 underwritten the cash shortfalls of the  
4 Rockbridge system since day one as were they  
5 paying the availability fees. The observation of  
6 the owner was if it needs money I'll give it  
7 money and that's basically the way he approached  
8 the availability fees. I understand full well  
9 that is not consistent with the original order,  
10 but Stafford has been underwriting the operating  
11 shortfalls of the Rockbridge system since day  
12 one.

13 Q Okay. Thank you. I interpret your testimony  
14 regarding well number two at Southern Trace to be  
15 that it's not certain the point in time at which  
16 that well will be restored to its full capacity.  
17 Do you have an update at this point in time on  
18 the status of the return of that well to full  
19 capacity?

20 A I'm not trying to be coy, okay, I got a quote  
21 that was unresponsive. I went to a second firm,  
22 they said *it's just more than I want to*  
23 *undertake.* I went to a third firm, they gave me  
24 a quote that was very unspecific. I asked them

1 for specificity as to what they intended to do  
2 several times. No response. I have approached a  
3 fourth firm who actually holds the patent for the  
4 process that was proposed for the -- by the first  
5 firm. They asked for a number of pieces of  
6 documentation - well logs, driller's logs,  
7 chemical analysis and so forth. I provided that  
8 to them right at two weeks ago. They  
9 acknowledged receipt, and frankly rather  
10 surprised that I was able to provide them that  
11 much information that quickly. I've gotten no  
12 response. I've sent an email back asking if they  
13 were still alive.

14 The renovation of the well, and  
15 candidly this is new to me as an engineer, I've  
16 done some reading on it but never have been hands  
17 on. It's clearly a process that is far above a  
18 well driller. This particular process, they do a  
19 mechanical cleaning to the well and then they  
20 actually inject liquid carbon dioxide to the  
21 bottom of the well that basically boils out the  
22 well. Carbon dioxide not being toxic in any  
23 shape, form or fashion, but it is said to  
24 dislodge any sort of material that may be fowling

1 the rock fissures. And I'm also said -- told  
2 that there are some other contractors that use  
3 essentially the same process but use liquid  
4 nitrogen instead of liquid carbon dioxide. But  
5 it's a cut above a well driller and there are  
6 only a few number of firms in the country that  
7 either do it, or in the case of North Carolina  
8 are licensed to do it in the state. So I  
9 honestly don't know. I'm pursuing it and I'm  
10 actively pursuing but it's a matter of me being  
11 able to arrive at a contractor who will be  
12 responsive and who has competency in the field.

13 Q Would the restoration of that well, well number  
14 two, to its full capacity alleviate the water  
15 pressure issues that the customers of Southern  
16 Trace have been experiencing?

17 A It would definitely mitigate them. Anytime that  
18 you've gotten a greater demand to re- -- a  
19 greater supply to address a greater demand you're  
20 improving the pressure stability of the system.  
21 That's not to say that you couldn't have an  
22 extreme demand if people do try to go back into  
23 the irrigation mode and erase any gain that's  
24 been made. But assuming that all other things



1 stay equal, yes, restoring that well to its  
2 normal or to its original yield will definitely  
3 improve the pressure issues in the system.

4 Q During the May 24th incident, I believe it's your  
5 testimony, that two of the wells were taken  
6 offline due to storm activity; is that correct?

7 A Well, they apparently went off as a result of  
8 storm activity, not on Thursday when the  
9 incidents that I reported occurred, but more  
10 aptly the Tuesday night preceding. That's when  
11 the storm was. And what we found was the circuit  
12 breakers were tripped.

13 Q And was either of those wells well number two?

14 A One was two, one was three. Based on the reduced  
15 yield of two, the two smaller of the three wells.

16 Q So post incident is well number two back to 25  
17 gallons per minute?

18 A It was back to 25 gallons a minute within a  
19 matter of 30 or 40 minutes of people getting on  
20 the ground on the 24th.

21 Q Regarding pressure variations in the Rockbridge  
22 Subdivision, what efforts have you made other  
23 than individual conversations with customers  
24 about their various activities and impact on

1 pressure?

2 A Well frankly, I'm not aware of any particular  
3 pressure issue. One individual testified on the  
4 15th that he thought he didn't have adequate  
5 pressure to run his irrigation system. The  
6 pressure is as it is because he is on high  
7 ground. We try to maintain the tank no less than  
8 half full although the tank must be cycled  
9 between full and somewhere less simply to turn  
10 the water over to assure that there's a  
11 consistent chlorine concentration in it. We do  
12 not try to expend the tank but even if the tank  
13 were expended the vessel, not the riser, but if  
14 the vessel was fully expended there would still  
15 be 46-psi at the ground at the base of the tank  
16 which is the high point of the subdivision which  
17 is well in excess of the 30-psi regulatory  
18 minimum.

19 Q One more question about Southern Trace, you  
20 testified about the flushing activity that  
21 occurred subsequent to the May 24th issue, can  
22 you describe very briefly the flushing program,  
23 assuming there is one, for Southern Trace?

24 A Well, there is a written protocol for Southern

1 Trace; however, when the system was as stirred up  
2 as it was in May, May 24 - 25, a routine flushing  
3 protocol is not going to be effective. You're in  
4 something of crisis management, you start  
5 flushing from the tanks and just basically work  
6 your way through the system. A prescribed  
7 flushing protocol involves closing some specific  
8 valves to cause the flow to the system to be  
9 unidirectional and then you work in that  
10 direction progressively bringing water behind you  
11 and stirring up water in front of you until you  
12 get through the system. Now that protocol  
13 exists, it's written; it's what we were using  
14 when my personnel was doing the physical  
15 operation, but the occurrence in May was more of  
16 a crisis response than a programmed procedure.

17 Q Once you've restored well number two to its full  
18 capacity, assuming that happens, will the  
19 flushing program change?

20 A The flushing could then go back to a more routine  
21 flushing procedure. When we were operating it  
22 the flushing was done three times a year. I  
23 frankly think that may be a little excessive but  
24 it definitely needs to be done in the spring and

1 fall so that you're not interfering with the  
2 higher demand periods of the summer.

3 Q Okay. One last question. You testified  
4 regarding the impact of softeners in the  
5 Rockbridge Subdivision?

6 A Yes, ma'am.

7 Q Has there -- other than just individual  
8 conversations with individual customers, have you  
9 engaged in education of the customers regarding  
10 the impact of softeners?

11 A I have not because a number of customers that  
12 were affected by that offer of the builder were  
13 relatively small. I'm told like maybe a dozen of  
14 the 324 customers that exist right now. And that  
15 was done by that particular builder to keep  
16 presale contracts active as opposed to having  
17 prospective builders walk away from them. So it  
18 was done for a very limited period. As best I am  
19 aware that offer was in place for no more than  
20 maybe two or three months.

21 Q Final question. We've heard from the board of  
22 the homeowners association for Southern Trace,  
23 does Rockbridge have a similarly active  
24 homeowners association and are you in contact

1 with the officers of that HOA?

2 A I am not in contact with the officers. I am in  
3 contact with the management company that the  
4 officers have employed. A bit of difference,  
5 Rockbridge first of size, they do not  
6 self-manage. Rockbridge has, like I said, 324  
7 customers -- will have over 400 to start with.  
8 Most of the people are somewhat younger and more  
9 devoted to other activities than managing a  
10 homeowners association. Southern Trace is a more  
11 mature population and self-management apparently  
12 works better for them than contract management.

13 Q So can the management company that works within  
14 the Rockbridge Subdivision provide you with email  
15 lists or other ways of contacting the members of  
16 that community?

17 A No, they're incomplete. I attempted to do that  
18 at one time not too terribly long ago and found  
19 out that the homeowners' association didn't have  
20 current address -- phone numbers or email  
21 addresses for more than about a third of the  
22 individual owners.

23 COMMISSIONER MITCHELL: Questions on the  
24 Commission's questions?

1 MR. GRANTMYRE: We've got none.

2 COMMISSIONER MITCHELL: Follow-up from  
3 Chairman Finley.

4 EXAMINATION BY CHAIRMAN FINLEY:

5 Q Mr. Butler, I mean it couldn't be that hard  
6 between the homeowners' association and you to  
7 get email addresses and telephone numbers --

8 A What I've been doing while I'm running my mouth  
9 is running through my mind is I'm just going to  
10 simply do a direct mail to all of the customers  
11 asking them to share their phone numbers and  
12 email addresses with me.

13 Q Why don't you put a bill insert in your bill and  
14 say look we want you to -- that would be one way  
15 and then whatever else you can think of to try to  
16 get the numbers?

17 A I would like to but the nature of our bill, it  
18 cannot support an intelligent insertion. It's  
19 one of these affairs that folds, folds, seals,  
20 and that sort of routine and there's just not a  
21 way to insert anything, but a direct mail I can  
22 do and I think that's going to be the most  
23 productive.

24 Q You couldn't put a little extra piece of paper in

1 the envelop and say please send me your email  
2 address and your telephone number?

3 A There is no envelop. It makes the envelop as the  
4 thing goes through the folder. I wish I could.

5 (Laughter)

6 Q How about a separate mailing?

7 (Laughter)

8 A A separate mailing is what it's going to have to  
9 be.

10 Q Think about it. I think, I mean, I think if you  
11 tried between you and the two homeowners'  
12 associations you can get the email addresses and  
13 telephone numbers.

14 A I'm definitely going to. What I am thinking  
15 right now in my pointy little head is to send a  
16 post card out to everybody asking them to send an  
17 email to this dedicated email address I've got  
18 including their phone numbers and their email  
19 addresses so that we can get in contact with  
20 them.

21 CHAIRMAN FINLEY: All right.

22 COMMISSIONER MITCHELL: Questions on the  
23 Commission's questions?

24 MR. GRANTMYRE: No.

1 MR. BENNINK: No questions.

2 COMMISSIONER MITCHELL: Mr. Butler, you  
3 are -- you may step down.

4 THE WITNESS: Thank you.

5 (The witness is excused.)

6 MR. BENNINK: Commissioner Mitchell, if I  
7 could at this point move our evidence into the record.

8 COMMISSIONER MITCHELL: Yes, please do.

9 MR. BENNINK: We would like to have the rate  
10 case application which was filed on January 10th of  
11 this year admitted into evidence. We would like to  
12 have the response whereby the Company provided  
13 information, additional information regarding its  
14 application that was filed on January 30, 2018,  
15 admitted into evidence. We would ask that the direct  
16 testimony and exhibits of Mr. Butler be moved into  
17 evidence. We also ask that the Report on Customer  
18 Comments from the Public Hearing on May 15th that was  
19 filed in this docket on May 30th be moved into  
20 evidence as well as the exhibits to that report. And  
21 then we ask that the Stipulation filed by KRJ  
22 Utilities and the Public Staff on June 7th of this  
23 year consisting of 12 pages plus a corrected  
24 stipulation page filed on June 14, 2018, be moved into



1 evidence.

2 COMMISSIONER MITCHELL: Thank you,  
3 Mr. Bennink. Without objection, the rate case  
4 application, the supplement to that application filed  
5 on January 30th, the testimony and exhibits of Company  
6 Witness Butler, the report on customer comments and  
7 the exhibits thereto, and the Stipulation will be  
8 accepted into evidence.

9 MR. BENNINK: Thank you.

10 (WHEREUPON, Application of KRJ  
11 Utilities; Report on Customer  
12 Comments From Public Hearing,  
13 including Exhibits A, B and C;  
14 Application Response Providing  
15 Additional Information;  
16 Stipulation of KRJ Utilities and  
17 Public Staff; and Butler Exhibits  
18 1 and 2 are admitted into  
19 evidence.)

20 COMMISSIONER MITCHELL: Mr. Grantmyre,  
21 please calls your first witness.

22 MS. HOLT: The Public Staff calls Iris  
23 Morgan.

24 IRIS MORGAN;

1                   having been duly sworn,  
2                   testified as follows:

3 DIRECT EXAMINATION BY MS. HOLT:

4 Q     Please state your name and business address for  
5         the record.

6 A     Iris Morgan, business address is 430 North  
7         Salisbury Street, Raleigh, North Carolina.

8 Q     And what is your position with the Public Staff?

9 A     I am an accountant with the water section of the  
10        Public Staff, Water Division.

11 Q    Ms. Morgan, did you prefile in this docket on or  
12        about June 7, 2018, testimony in question and  
13        answer form consisting of 19 pages and two  
14        exhibits and schedules?

15 A    Yes, I did.

16 Q    And on June 8, 2018, did you file corrections to  
17        your testimony?

18 A    Yes, I did.

19 Q    Do you have any additional corrections  
20        or additions to your testimony?

21 A    No.

22 Q    If I were to ask you those same questions today,  
23        would your answers be the same?

24 A    Yes, they would.

1 MS. HOLT: I would ask that the corrected  
2 testimony of Ms. Morgan be copied into the record as  
3 if given orally from the stand, and that her exhibits  
4 be identified as premarked.

5 COMMISSIONER MITCHELL: Very well, the  
6 testimony of Public Staff witness Iris Morgan shall be  
7 copied into the record as if given orally from the  
8 stand as corrected and the exhibits marked as  
9 prefiled.

10 (WHEREUPON, Morgan Exhibits I and  
11 II are marked for identification  
12 as prefiled.)

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

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**KRJ, INC., d/b/a KRJ UTILITIES  
DOCKET NO. W-1075, SUB 12**

**CORRECTED TESTIMONY OF IRIS MORGAN  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION**

**JUNE 8, 2018**

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

3 A. My name is Iris Morgan and my business address is 430 North  
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant in  
5 the Water Section of the Public Staff – Accounting Division and  
6 represent the using and consuming public in this proceeding.

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

9 A. I have been employed by the Public Staff since September 2, 2002.  
10 I joined the Public Staff Accounting Division on December 1, 2008.

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

13 A. I am a graduate of North Carolina Wesleyan College with a Bachelor  
14 of Science degree in Accounting and Business Administration, a  
15 Masters of Accounting and Financial Management, Masters in  
16 Business Administration and a Masters in Public Administration.  
17 Prior to joining the Public Staff Accounting Division, I was employed  
18 with the Public Staff Consumer Services Division.

1 Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR POSITION?

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

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
9 PROCEEDING?

10 A. The purpose of my testimony is to present the results of my  
11 investigation of the levels of revenues, expenses, and investments  
12 filed by KRJ, Inc., d/b/a KRJ Utilities (KRJ or Company), in support  
13 of its application to increase total operating revenues as follows:

	<u>Present</u>	<u>Proposed</u>
	<u>Revenues</u>	<u>Revenues</u>
14 Southern Trace – Water	\$ 74,797	\$ 136,009
15 Rockbridge – Water	\$ 85,093	\$ 201,068
16 Rockbridge - Sewer	\$ 274,950	\$ 418,962

17  
18  
19 Q. MS. MORGAN, PLEASE DESCRIBE THE SCOPE OF YOUR  
20 INVESTIGATION INTO THE COMPANY'S FILING.

21 A. The Company filed its application for a rate increase on  
22 January 10, 2018, based on the test year ended June 30, 2016.  
23 My investigation included a review of the application filed by the  
24 Company, a review of documentation provided by the Company in

1 response to written data requests, and a review of the Company's  
2 financial records.

3 **Q. WOULD YOU BRIEFLY DESCRIBE THE PRESENTATION OF**  
4 **YOUR TESTIMONY AND EXHIBITS?**

5 A. Yes. For each issue, I will present a discussion of how and why  
6 I differ from the Company. I will also present schedules  
7 showing the calculation of my adjustments to revenues,  
8 expenses, and rate base. Additionally, my schedules will  
9 also reflect adjustments recommended by other Public Staff  
10 witnesses. Schedule 1 of my exhibit presents the margin on  
11 operating revenue deductions requiring a return. Schedules 1(a)  
12 and 1(b) of my exhibit present the return on original cost rate base  
13 under present rates, Company proposed rates and Public Staff  
14 recommended rates. Schedules 2, 2(a) and 2(b) along with  
15 their supporting schedules, present the original cost rate base.  
16 Schedule 3, 3(a) and 3(b) along with their supporting schedules,  
17 present the net operating income for a return. Schedule 4 represents  
18 the Public Staff's calculation of operating ratios.

19 **Q. WHAT MODIFICATION OF THE TEST YEAR HAVE YOU MADE IN**  
20 **THIS PROCEEDING?**

21 A. KRJ filed its application for a rate increase on January 10, 2018,  
22 based on a test year ending June 30, 2016. At the time the  
23 application was filed, the test year rate base, revenues, and

1 expenses were 18 months old and did not reflect any known  
2 and measurable changes to KRJ's cost of service after the end of the  
3 test year. Therefore, the Public Staff witnesses have made  
4 adjustments in this proceeding to update the Company's test year to  
5 recognize certain events affecting rate base, revenues and expenses  
6 as a result of certain known and measurable changes that occurred  
7 through March 31, 2018.

8 As part of the overall update adjustment, I have made adjustments  
9 to recognize changes to plant in service, accumulated depreciation,  
10 contributions in aid of construction (CIAC), accumulated amortization  
11 of CIAC and depreciation and amortization expense that occurred  
12 through March 31, 2018.

13 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**  
14 **COMPANY'S RATE REQUEST FOR SOUTHERN TRACE WATER**  
15 **OPERATIONS?**

16 **A.** Based on my investigation, the Company's original cost rate base  
17 at June 30, 2016, updated to March 31, 2018, is \$83,398. The level  
18 of operating revenue deductions requiring a return (total operating  
19 expenses excluding regulatory fee and income taxes) is \$97,194.  
20 I have calculated an increase in the gross revenue requirement using  
21 the overall operating margin rate of 7.75%, the rate provided by  
22 Public Staff witness John R. Hinton. Use of this operating margin on  
23 operating revenue deductions produces an increase of \$32,377

1 in the gross water revenue requirement. The resulting total revenue  
2 requirement is \$107,174, of which \$106,983 is water service  
3 revenue. Therefore, the Public Staff recommends that water rates  
4 be set to reflect a \$32,377 increase, resulting in an annual level  
5 of service revenues of \$106,983.

6 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**  
7 **COMPANY'S RATE REQUEST FOR ROCKBRIDGE WATER**  
8 **OPERATIONS?**

9 A. Based on my investigation, the Company's original cost rate base at  
10 June 30, 2016, updated to March 31, 2018, is \$448,926. The level  
11 of operating revenue deductions requiring a return (total operating  
12 expenses excluding regulatory fee and income taxes) is \$120,515.  
13 I have calculated an increase in the gross revenue requirement using  
14 the overall rate of return of 7.75%, the rate provided by Public Staff  
15 witness Hinton. Use of this return on rate base produces an increase  
16 of \$76,944 in the gross water revenue requirement. The resulting  
17 total revenue requirement is \$162,037, of which \$159,888 is water  
18 service revenue. Therefore, the Public Staff recommends that water  
19 rates be set to reflect a \$76,944 increase, resulting in an annual level  
20 of service revenues of \$159,888.

21 **Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE**  
22 **COMPANY'S RATE REQUEST FOR ROCKBRIDGE SEWER**  
23 **OPERATIONS?**



1 A. Based on my investigation, the Company's original cost rate base at  
2 June 30, 2016, updated to March 31, 2018 is \$336,054. The level of  
3 operating revenue deductions requiring a return (total operating  
4 expenses excluding regulatory fee and income taxes) \$204,492.  
5 I have calculated a decrease in the gross revenue requirement using  
6 the overall rate of return of 7.75%, the rate provided by Public Staff  
7 witness Hinton. Use of this return on rate base produces a decrease  
8 of \$39,216 in the gross sewer revenue requirement. The resulting  
9 total revenue requirement is \$235,734 of which \$226,451 is sewer  
10 service revenue. Therefore, the Public Staff recommends that sewer  
11 rates be set to reflect a \$39,216 decrease, resulting in an annual  
12 level of service revenues of \$226,451.

13 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**  
14 **STAFF WITNESSES HAVE YOU INCORPORATED IN YOUR**  
15 **EXHIBIT?**

16 A. My exhibit reflects the following adjustments recommended by other  
17 Public Staff witnesses:

18 1. The recommendation of Public Staff Financial Analyst  
19 Hinton regarding the margin on operating revenue  
20 deductions requiring a return and the return on original  
21 cost rate base;

- 1           2.    The recommendations made by Public Staff Engineer  
2                    Casselberry with regard to the following items pertaining  
3                    to:  
4                    a.    Service revenues at present rates;  
5                    b.    Service revenues at proposed rates;  
6                    c.    Contract services – operations;  
7                    d.    Contract maintenance and repair;  
8                    e.    Purchased power;  
9                    f.    Chemicals;  
10                  g.    Testing;  
11                  h.    Sludge removal; and  
12                  i.    Depreciation rates.

13   **Q.    IN WHAT AREAS HAVE YOU ADJUSTED THE COMPANY'S**  
14           **CALCULATION OF ITS RATE BASE, REVENUES, AND**  
15           **EXPENSES?**

- 16   A.    The accounting and ratemaking adjustments which I am proposing  
17           and will discuss relate to the following items:  
18           1.    Plant in service;  
19           2.    Accumulated depreciation and depreciation expense;  
20           3.    Contributions in Aid of Construction (CIAC), accumulated  
21                    amortization and amortization expense;  
22           4.    Cash working capital and average tax accruals;  
23           5.    Miscellaneous revenues;

- 1 6. Uncollectible accounts;
- 2 7. Insurance expense;
- 3 8. Other expense;
- 4 9. Contract management;
- 5 10. Legal fees;
- 6 11. Bad debt expense;
- 7 12. Rate case expense;
- 8 13. Regulatory fee; and
- 9 14. State and federal income taxes.

10 **PLANT IN SERVICE**

11 **Q. PLEASE EXPLAIN HOW YOU CALCULATED PLANT IN SERVICE**  
12 **FOR SOUTHERN TRACE WATER OPERATIONS.**

13 A. I began my calculation of plant in service with the amount of  
14 \$265,819 that was approved in the last general rate case proceeding,  
15 Docket No. W-1075, Sub 4. To this amount, I added \$79,079 of plant  
16 additions based on my review of the Company's financial records.  
17 Next, based on the recommendation of Public Staff Engineer  
18 Casselberry, I included \$44,603 of additional plant items. These  
19 adjustments resulted in a total amount of \$389,501, for plant in  
20 service, as shown on Schedule 2-1 of my exhibit.

21 **Q. PLEASE EXPLAIN HOW YOU CALCULATED PLANT IN SERVICE**  
22 **FOR ROCKBRIDGE WATER AND SEWER OPERATIONS.**

1 A. Public Staff Engineer Casselberry and I examined the Company's  
2 financial records and data request responses to determine the level  
3 of plant in service for this rate case proceeding. Based on our review  
4 of KRJ's financial records and data request responses, we calculated  
5 total plant in service for water operations of \$1,463,500 for the test  
6 year. To this amount, I added \$9,174 of additional plant items, based  
7 on the recommendation of Public Staff Engineer Casselberry. As a  
8 result of these plant additions, the total amount of plant in service for  
9 Rockbridge water operations is \$1,472,674, as shown on Schedule  
10 2-1(a) of my exhibit.

11 Based on review of the Company's financial records, I calculated  
12 total plant in service of \$5,289,689 for Rockbridge sewer operations  
13 as of June 30, 2016. To this amount, I included \$15,988 of additional  
14 plant items based on the recommendation of Public Staff Engineer  
15 Casselberry. As a result of these adjustments, total amount of plant  
16 in service for sewer operations is \$5,305,677, as shown on Schedule  
17 2-1(b) of my exhibit.

18 **ACCUMULATED DEPRECIATION AND DEPRECIATION**  
19 **EXPENSE**

20 **Q. PLEASE EXPLAIN HOW YOU HAVE CALCULATED**  
21 **ACCUMULATED DEPRECIATION AND DEPRECIATION**  
22 **EXPENSE FOR SOUTHERN TRACE WATER OPERATIONS.**

1 A. I have calculated amounts for accumulated depreciation and  
2 depreciation expense to reflect depreciation related to the adjusted  
3 plant assets shown on Schedule 2-1. Accumulated depreciation and  
4 depreciation expense reflect the service lives approved in the Sub 4  
5 rate case proceeding and the service lives recommended by Public  
6 Staff Engineer Casselberry. Additionally, I calculated accumulated  
7 depreciation based on the year each plant asset was placed in  
8 service using the half-year convention through March 31, 2018, as  
9 shown on Schedule 2-1 of my exhibit.

10 **Q. PLEASE EXPLAIN HOW YOU HAVE CALCULATED**  
11 **ACCUMULATED DEPRECIATION AND DEPRECIATION**  
12 **EXPENSE FOR ROCKBRIDGE WATER AND SEWER**  
13 **OPERATIONS.**

14 A. I have calculated amounts for accumulated depreciation and  
15 depreciation expense to reflect depreciation related to the adjusted  
16 plant assets shown on Schedules 2-1(a) and 2-1(b). Accumulated  
17 depreciation and depreciation expense reflect the service lives  
18 recommended by Public Staff Engineer Casselberry. Additionally, I  
19 calculated accumulated depreciation based on the year each plant  
20 asset was placed in service using the half-year convention through  
21 March 31, 2018, as shown on Schedules 2-1(a) and 2-1(b) of my  
22 exhibit.

1                   **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

2   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENTS TO CONTRIBUTIONS**  
3           **IN AID OF CONSTRUCTION FOR SOUTHERN TRACE WATER**  
4           **OPERATIONS.**

5   A.   My calculation of CIAC begins with the \$218,448 amount approved  
6           by the Commission and used to calculate rates in the Company's last  
7           rate case proceeding, Sub 4. To this amount, I added \$35,500 of  
8           tap-on fees collected since the Sub 4 rate case proceeding. My  
9           adjustment resulted in total CIAC of \$253,948 for Southern Trace  
10          water operations, as shown on Schedule 2-2 of my exhibit.

11 **Q.   WHAT ADJUSTMENTS HAVE YOU MADE TO CONTRIBUTIONS**  
12           **IN AID OF CONSTRUCTION FOR ROCKBRIDGE WATER**  
13           **OPERATIONS?**

14 A.   I examined the Company's financial records and data request  
15          responses to determine the level of tap-on fees and contributed plant  
16          for this rate case proceeding. Based on my review of the Company's  
17          financial records, I calculated \$713,910 of tap-on fees and  
18          contributed plant collected from 2007 through March 31, 2018, as  
19          shown on Schedule 2-2(a) of my exhibit.

20 **Q.   WHAT ADJUSTMENTS HAVE YOU MADE TO CONTRIBUTIONS**  
21           **IN AID OF CONSTRUCTION FOR ROCKBRIDGE SEWER**  
22           **OPERATIONS?**

1 A. First, I calculated \$3,297,851 of tap-on fees and contributed plant  
2 collected from 2007 to March 31, 2018. Then, as ordered in the  
3 previous proceeding, Docket No. W-1075, Sub 5, Order Granting  
4 Certificate of Public Convenience and Necessity and Approving  
5 Rates, dated November 30, 2006, the Commission established in  
6 ordering paragraph No. 6, that in all future rate proceedings, the  
7 sewer plant costs to be recovered from future customers through the  
8 collection of tap fees will be considered to be excess capacity, and  
9 shall not be included in rate base. Therefore, I calculated imputed  
10 tap-on fees to reflect future tap-on fees collected as excess capacity,  
11 resulting in a total amount of \$664,000 of imputed tap-on fees for a  
12 total amount of \$3,961,851 of CIAC for sewer operations, as shown  
13 on Schedule 2-2(b) of my exhibit.

14 **ACCUMULATED AMORTIZATION AND AMORTIZATION**

15 **EXPENSE**

16 **Q. PLEASE EXPLAIN HOW YOU HAVE CALCULATED**  
17 **ACCUMULATED AMORTIZATION AND AMORTIZATION**  
18 **EXPENSE FOR SOUTHERN TRACE WATER OPERATIONS.**

19 A. I have calculated amounts for accumulated amortization and  
20 amortization expense to reflect amortization related to the adjusted  
21 tap-on fees and contributed plant collected shown on Schedule 2-2.  
22 Accumulated amortization and amortization expense reflect the 25-  
23 year amortization period approved in the Sub 4 rate case proceeding.

1           Additionally, I calculated accumulated amortization based on the  
2           length of time each contribution was collected using the half-year  
3           convention through March 31, 2018, as shown on Schedules 2-2 of  
4           my exhibit.

5   **Q.   PLEASE EXPLAIN HOW YOU HAVE CALCULATED**  
6   **ACCUMULATED AMORTIZATION AND AMORTIZATION**  
7   **EXPENSE FOR ROCKBRIDGE WATER AND SEWER**  
8   **OPERATIONS.**

9   A.   I have calculated amounts for accumulated amortization and  
10       amortization expense to reflect amortization related to the adjusted  
11       tap-on fees and contributed plant shown on Schedules 2-2(a) and 2-  
12       2(b). Accumulated amortization and amortization expense for  
13       Rockbridge water reflect the 25-year amortization period  
14       recommended by the Public Staff. The accumulated amortization  
15       and amortization expense for Rockbridge sewer reflect a 50-year  
16       amortization period recommended by the Public Staff. Additionally, I  
17       calculated accumulated amortization based on the length of time  
18       each contribution was collected using the half-year convention  
19       through March 31, 2018, as shown on Schedules 2-2(a) and 2-2(b)  
20       of my exhibit.



1           **CASH WORKING CAPITAL AND AVERAGE TAX ACCRUALS**

2    **Q.    PLEASE EXPLAIN YOUR ADJUSTMENT FOR CASH WORKING**  
3           **CAPITAL NET OF AVERAGE TAX ACCRUALS.**

4    A.    The Company did not provide an amount for this item on its  
5           application. In my calculation, I have included 1/8 of total operating  
6           expenses as a measure of cash working capital. I have calculated  
7           average tax accruals as 1/2 property tax.

8                           **MISCELLANEOUS REVENUES**

9    **Q.    WHAT ADJUSTMENTS HAVE YOU MADE TO MISCELLANEOUS**  
10           **REVENUES FOR ROCKBRIDGE WATER OPERATIONS?**

11   A.    On its revised application, the Company included \$321 for  
12           miscellaneous revenues water operations. To this amount, I made  
13           an adjustment to add \$2,187 of availability revenues. This  
14           adjustment results in a total amount of \$2,508 of miscellaneous  
15           revenues for water operations, as shown on Schedule 3(a) of my  
16           exhibit.

17   **Q.    WHAT ADJUSTMENTS HAVE YOU MADE TO MISCELLANEOUS**  
18           **REVENUES FOR ROCKBRIDGE SEWER OPERATIONS?**

19   A.    On its revised application, the Company did not include an amount  
20           for miscellaneous revenues sewer operations. Therefore, I made an  
21           adjustment to include \$10,207 of availability revenues. This  
22           adjustment resulted in a total amount of \$10,207 for miscellaneous

1 revenues for sewer operations, as shown on Schedule 3(b) of my  
2 exhibit.

3 **UNCOLLECTIBLE ACCOUNTS**

4 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO UNCOLLECTIBLE**  
5 **ACCOUNTS FOR SOUTHERN TRACE WATER OPERATIONS?**

6 A. I made an adjustment to reclassify \$281 of bad debt expense to  
7 uncollectible accounts, as shown on Schedule 3 of my exhibit.

8 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO UNCOLLECTIBLE**  
9 **ACCOUNTS FOR ROCKBRIDGE WATER AND SEWER**  
10 **OPERATIONS?**

11 A. I made an adjustment to reclassify \$359 and \$924 of bad debt  
12 expense to uncollectible accounts for water and sewer operations,  
13 respectively, as shown on Schedules 3(a) and 3(b) of my exhibit.

14 **INSURANCE EXPENSE**

15 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO INSURANCE**  
16 **EXPENSE FOR SOUTHERN TRACE WATER OPERATIONS?**

17 A. On its revised application, the Company included \$1,805 for  
18 insurance expense. Based on review of the Company's data request  
19 responses, I made an adjustment to remove \$302 for a missing  
20 invoice. This adjustment result in a total amount of \$1,503 for  
21 insurance expense, as shown on Schedule 3-1 of my exhibit.

1 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO INSURANCE  
2 EXPENSE FOR ROCKBRIDGE SEWER OPERATIONS?

3 A. The Company included \$2,350, for insurance expense on its revised  
4 application. Based on review of the Company's data request  
5 responses, I made an adjustment to remove \$302 for a missing  
6 invoice. This adjustment result in a total amount of \$2,048 for  
7 insurance expense, as shown on Schedule 3-3 of my exhibit.

8 OTHER EXPENSE

9 Q. WHAT ADJUSTMENTD HAVE YOU MADE TO OTHER EXPENSE  
10 FOR ROCKBRIDGE SEWER OPERATIONS?

11 A. The Company included \$870 for other expense on its revised  
12 application. Based on review of the Company's financial records, I  
13 made an adjustment to include an additional \$300 for trash pick-up.  
14 This adjustment resulted in a total amount of \$1,170 of other  
15 expenses, as shown on Schedule 3-4 of my exhibit.

16 CONTRACT MANAGEMENT

17 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO CONTRACT  
18 MANAGEMENT FOR ROCKBRIDGE WATER AND SEWER  
19 OPERATIONS?

20 A. The Company included \$14,084 for water operations and \$12,058  
21 for sewer operations on its revised application for contract  
22 management. Based on review of the Company's financial records,

1 I made an adjustment to add \$4,687 of contract management  
2 expenses. Next, I made an adjustment to add \$3,409 to reflect  
3 customer growth. These adjustments resulted in a total amount of  
4 \$17,198 for water operations and \$17,040 for sewer operations for  
5 contract management, as shown on Schedule 3-1 of my exhibit.

6 **LEGAL FEES**

7 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO LEGAL FEES For**  
8 **SOUTHERN TRACE WATER OPERATIONS?**

9 A. The Company included \$208 on its revised application for legal fees.  
10 I have made an adjustment to remove \$109 for a missing invoice.  
11 This adjustment result in a total amount of \$99 for legal fees, as  
12 shown on Schedule 3-2 of my exhibit.

13 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO LEGAL FEES FOR**  
14 **ROCKBRIDGE WATER AND SEWER OPERATIONS??**

15 A. The Company included \$3,050 for water operations and \$3,050 for  
16 sewer operations on its revised application for legal fees. Based on  
17 review of the Company's financial records, I made an adjustment to  
18 remove \$2,842 of missing invoices for water operations and remove  
19 \$1,050 of missing invoices for sewer operations. These adjustments  
20 resulted in a total amount of \$208 of legal fees for water operations  
21 and \$2,000 of legal fees for sewer operations, as shown on Schedule  
22 3-2 of my exhibit.

1

**BAD DEBT EXPENSE**

2 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO BAD DEBTS**  
3 **EXPENSE FOR SOUTHERN TRACE WATER OPERATIONS?**

4 A. The Company included \$281 on its revised application for bad debt  
5 expense. I made an adjustment and reclassified \$281 to uncollectible  
6 accounts, as shown on Schedule 3 of my exhibit.

7 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO BAD DEBTS**  
8 **EXPENSE FOR ROCKBRIDGE WATER AND SEWER**  
9 **OPERATIONS?**

10 A. The Company included \$359 and \$924 on its revised application of  
11 bad debt expense for water and sewer operations, respectively. I  
12 reclassified the \$359 and \$924 of bad debt amounts, to uncollectible  
13 accounts, as shown on Schedules 3(a) and 3(b).

14

**RATE CASE**

15 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO RATE CASE**  
16 **EXPENSE?**

17 A. On its application, the Company did not include an amount for rate  
18 case expense. Therefore, I have calculated rate case expense to  
19 include the cost of the filing fee of \$250, legal fees of \$26,793,  
20 administrative fees of \$37,988 and office supplies and overhead of  
21 \$1,728, for a total amount of \$66,759; for rate case expense. Then,  
22 I amortized the total cost over three years. These costs resulted in a

1 total amount of 5,027, for rate case expense for Southern Trace  
2 water operations and \$8,652 for Rockbridge water operations and  
3 \$8,573 for Rockbridge sewer operations, as shown on Schedules 3-  
4 3 and 3-5 of my exhibits.

5 **REGULATORY FEE**

6 **Q. HOW HAVE YOU ADJUSTED THE REGULATORY FEE?**

7 **A.** I have calculated the regulatory fee using the statutory rate of 0.14%.

8 **STATE AND FEDERAL INCOME TAXES**

9 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE AND**  
10 **FEDERAL INCOME TAXES.**

11 **A.** State and federal income taxes are based on the statutory corporate  
12 rates for the level of income presented after all Public Staff  
13 adjustments.

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

15 **A.** Yes, it does.

1 BY MS. HOLT:

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

4 A Yes, I do.

5 Q Could you please read it?

6 A Yes.

7 (WHEREUPON, the summary of IRIS  
8 MORGAN is copied into the record.)  
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**KRJ UTILITIES  
DOCKET NO. W-1075, SUB 12  
SUMMARY OF FILED TESTIMONY OF IRIS MORGAN**

KRJ Utilities (KRJ) filed its application for a rate increase on January 10, 2018, based on the test year ending June 30, 2016, updated to March 31, 2018. I performed an accounting audit of the financial data filed in the application.

I made several adjustments to the levels of rate base and operating expenses filed by KRJ in support of its application. In addition, I have incorporated in my exhibits several adjustments recommended by Public Staff Engineer Casselberry. Based on the results of the Public Staff's investigation, KRJ's original cost rate base is \$83,398 for Southern Trace water operations, \$448,926 for Rockbridge water operations, and \$336,054 for Rockbridge sewer operations, producing a total revenue requirement of \$504,945 of which, \$107,174 is Southern Trace water service revenues, and \$397,771 is Rockbridge water and sewer service revenues.

On June 8, 2018, KRJ and the Public Staff filed a Stipulation resolving all issues between the parties. Morgan Exhibits I and II reflect the amounts agreed to by the Stipulating Parties for rate base, total operating revenues and total operating expenses.

This concludes the summary of my testimony.



1 MS. HOLT: Thank you. Ms. Morgan is  
2 available for cross examination.

3 COMMISSIONER MITCHELL: Thank you.

4 MR. BENNINK: I have just one or two  
5 questions for clarification.

6 CROSS EXAMINATION BY MR. BENNINK:

7 Q Ms. Morgan, Commissioner Mitchell asked  
8 Mr. Butler some questions about availability fees  
9 and whether they are being paid or not. I just  
10 want to look at your schedule, Exhibit 2,  
11 Schedule 3(a), page 1 of 2.

12 A Is that for Rockbridge, sir?

13 Q Yes. I think there are no availability fees for  
14 Southern Trace. It's only Rockbridge.

15 A You said Schedule --

16 Q Schedule, let's see, Exhibit 2, Schedule 3(a),  
17 page 1 of 2.

18 A Okay.

19 Q Now, this is the schedule for Rockbridge water,  
20 correct?

21 A Correct.

22 Q And line 2 called miscellaneous revenues are the  
23 availability fees, correct?

24 A That's correct.

1 Q And so when you came up with your revenue  
2 requirement, the total revenue requirement you  
3 came up with for operating revenues in the  
4 settlement was \$162,037, correct?

5 A Yes.

6 Q And of that \$2,508 represents miscellaneous  
7 revenues to be recovered through availability  
8 fees?

9 A That is correct.

10 Q And those were imputed fees. They will not be  
11 paid by customers. They will be paid -- they  
12 would be attributable to the developer?

13 A Yes.

14 Q And then let's look at the same schedule for  
15 Rockbridge sewer, Schedule 3(b), page 1 of 2.

16 A Yes.

17 Q That indicates that of the total revenue  
18 requirement miscellaneous revenues or  
19 availability fees will be \$10,207, correct?

20 A Correct.

21 Q And that will not be paid by customers as part of  
22 the revenue requirement?

23 A Correct.

24 MR. BENNINK: That's all I have.

1 COMMISSIONER MITCHELL: Any redirect?

2 MS. HOLT: No.

3 COMMISSIONER MITCHELL: Questions from the  
4 Commission? Chairman Finley? Commissioner Patterson?

5 COMMISSIONER PATTERSON: Just one.

6 EXAMINATION BY COMMISSIONER PATTERSON:

7 Q In your summary you say the Stipulation resolved  
8 all issues. We've heard a number of service  
9 issues and all of that is involved in the  
10 Stipulation or is it just the financial aspect of  
11 it?

12 A My understanding is financial.

13 Q Just the financial?

14 A Yes, sir.

15 COMMISSIONER PATTERSON: Thank you.

16 COMMISSIONER MITCHELL: Ms. Morgan, I have a  
17 few questions for you.

18 EXAMINATION BY COMMISSIONER MITCHELL:

19 Q You have your testimony in front of you, correct?

20 A Yes, I do.

21 Q Exhibit 1, Schedule 3, page 1 of 2. Let me know  
22 when you're there.

23 A Okay. I'm there.

24 Q Okay. Line 5 includes an amount of \$13,888

1 related to loss from disposal of equipment. Do

2 you see that?

3 A Yes, sir -- ma'am. Excuse me.

4 Q Would you explain what this expense item relates

5 to?

6 A I believe it had to do with the loss or disposal

7 of a sewage tank I think or not to -- I'm sorry,

8 a water tank. I really don't know off the top of

9 my head but I'll be more than glad to get that

10 information to you.

11 COMMISSIONER MITCHELL: Okay. Would the

12 Public Staff be willing to provide that information as

13 a late-filed exhibit?

14 MS. HOLT: Yes.

15 COMMISSIONER MITCHELL: We're specifically

16 interested in what this expense item relates to, what

17 was disposed of, what caused the loss on the disposal,

18 and whether this is a loss that's going to be

19 recurring every year. Alternatively, we also need to

20 know whether that loss represents an amount being

21 amortized. And, Ms. Holt, that -- my question was

22 related to Southern Trace water, and we see a similar

23 amount related to Rockbridge water.

24 MS. HOLT: Okay.

1                   COMMISSIONER MITCHELL: So would you please  
2 include in your late-filed exhibit the same  
3 information for the Rockbridge water expense?

4                   MS. HOLT: Yes, we will do that.

5 BY COMMISSIONER MITCHELL:

6 Q       Okay, Ms. Morgan, regarding the allocation factor  
7 used for rate case expense referenced in your  
8 Exhibit 1, Schedule 3-3, if you'll look down in  
9 footnote 3 on that exhibit?

10 A       Exhibit 3-3 for rate case expense.

11 Q       Schedule 3-3, do you see it?

12 A       Yes.

13 Q       Okay. Is this based on a customer ratio between  
14 Southern Trace, Rockbridge water and Rockbridge  
15 sewer?

16 A       Yes. Yes, it is.

17 Q       Okay. Thank you. Also same exhibit same page,  
18 line 3, column A.

19 A       Okay.

20 Q       There is a negotiated settlement estimate of  
21 thirty-seven thousand dollars nine -- \$37,988.

22 A       Correct.

23 Q       For administrative fees.

24 A       Yes.

- 1 Q Could you explain the nature of these costs?
- 2 A These are Mr. Butler's fees that contributed  
3 to -- that he charged for putting together the  
4 rate case and providing all of the data request  
5 responses and collecting all that data and  
6 providing it to me, the time that he billed for,  
7 be his rate for charging the Company for  
8 compiling all that information together.
- 9 Q Okay. And those fees are only for Mr. Butler's  
10 time, for no other contractor's time?
- 11 A No. That is correct.
- 12 Q With regard to the amortization period for rate  
13 case expenses was a five-year period considered  
14 due to the company's history of not filing a rate  
15 case every three years?
- 16 A No. That was typical and standard that we used  
17 three years. It was not brought up to be  
18 extended beyond that time.
- 19 Q Okay. Just a few more. On Exhibit 2, Schedule  
20 3(a), let me know what you get there, page 1 of  
21 2. Oh, this is the question I had earlier. It's  
22 the disposal amount so I think we've covered that  
23 with Ms. Holt?
- 24 A Okay.

1 Q While you're on the stand do you happen to know  
2 what that amount pertains to?

3 A Without looking at the documentation, I can't  
4 remember specifically, but we do have the  
5 documentation.

6 COMMISSIONER MITCHELL: All right. Thank  
7 you. Ms. Holt will provide that to us.

8 I have nothing further. Any questions on  
9 the Commission's questions?

10 MR. GRANTMYRE: No.

11 MR. BENNINK: No.

12 COMMISSIONER MITCHELL: Thank you,  
13 Ms. Morgan, you're dismissed.

14 (The witness is excused.)

15 MS. HOLT: I'll move that Ms. Morgan's  
16 testimony and exhibits be admitted into evidence.

17 COMMISSIONER MITCHELL: Without objection,  
18 that will be admitted into evidence.

19 (WHEREUPON, Morgan Exhibits I and  
20 II are admitted into evidence.)

21 MR. GRANTMYRE: We'll call Gina Casselberry.

22 COMMISSIONER MITCHELL: Good morning,  
23 Ms. Casselberry, or good afternoon, Ms. Casselberry.

24 GINA CASSELBERRY;

1                   having been duly sworn,

2                   testified as follows:

3 DIRECT EXAMINATION BY MR. GRANTMYRE:

4 Q     Could you please state your name and position  
5         with the Public Staff?

6 A     My name is Gina Casselberry. I'm a Utilities  
7         Engineer with the Water Division.

8 Q     And did you cause to be prefiled on June 7, 2018,  
9         direct testimony consisting of 21 pages and  
10        exhibits numbered 1, 2 and 3?

11 A     I did.

12 Q     If we were to ask you those same questions today  
13         would your answers be the same?

14 A     Yes.

15 Q     Do you have any additions or corrections to your  
16         testimony?

17 A     Yes. I'd like to add one addition that we  
18         received four more customer position letters last  
19         night and I forwarded those to the Chief Clerk to  
20         be included in the official file.

21                 MR. GRANTMYRE: We would ask that her  
22         testimony be copied into the record as if given orally  
23         and her exhibits be identified?

24                 COMMISSIONER MITCHELL: Ms. Casselberry's



1 testimony shall be copied into the record as if given  
2 orally from the stand, and the exhibits shall be  
3 identified as prefiled.

4 (WHEREUPON, Casselberry Exhibits  
5 1, 2 and 3 are marked for  
6 identification as prefiled.)

7 (WHEREUPON, the prefiled direct  
8 testimony of GINA CASSELBERRY is  
9 copied into the record as if given  
10 orally from the stand.)

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**KRJ, INC. D/B/A KRJ UTILITIES  
DOCKET NO. W-1075, SUB 12**

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

**June 7, 2018**

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

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

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

10 **A.** I graduated from Michigan Technology University receiving a Bachelor  
11 of Science Degree in Civil Engineering. Prior to joining the Public Staff,  
12 I worked for McKim and Creed Engineers, PA, as a Project Engineer  
13 designing water and sewer systems. I have been with the Public Staff's  
14 Water Division since February, 1992. I have presented  
15 recommendations in rate increase proceedings, new franchise and  
16 transfer applications and other matters before the Commission for the  
17 past twenty-six years.

1 Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?

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

9 Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN  
10 THIS CASE.

11 A. On January 10, 2018, KRJ, Inc. d/b/a KRJ Utilities (Company or KRJ)  
12 filed an application with the Commission to increase its rates for  
13 providing water utility service in Southern Trace Subdivision and water  
14 and sewer utility service in Rockbridge Subdivision in Wake County,  
15 North Carolina. My investigation included review of customer  
16 complaints, contact with the Division of Water Resources (DWR),  
17 Public Water Supply Section (PWSS) and Water Quality (WQ), review  
18 of company records, analysis of revenues at existing and proposed  
19 rates and site inspection of the three KRJ utility systems. I have also  
20 assisted Public Staff Accountant Iris Morgan in reviewing expenses  
21 and plant in service.

1 Q. PLEASE DESCRIBE KRJ'S SERVICE AREAS.

2 A. Southern Trace Subdivision is located on NC 50, just north of the  
3 Wake County and Johnston County line. The water system consists  
4 of three wells, a 5,400-gallon and a 5,000-gallon hydro-pneumatic  
5 tank with an air compressor, 6-inch and 4-inch distribution lines, and  
6 other related appurtenances.

7 Rockbridge Subdivision is located in eastern Wake County, south of  
8 Knightdale and US64/US264, between Poole Road and  
9 Grasshopper Road.

10 The water system consists of three wells, a treatment building with a  
11 chlorination system, a caustic soda and lime slurry chemical feed  
12 system, a 150,000-gallon elevated storage tank, water mains,  
13 valves, and other related appurtenances. Due to issues arising from  
14 elevated concentrations of uranium in wells nos. 1 and 2, a uranium  
15 removal system was installed in 2016, which includes four 42-inch  
16 by 72-inch composite fiberglass reinforced plastic vessels filled with  
17 anion exchange resin, a brine resin regeneration system, a resin  
18 backwash system, and other related appurtenances. The liquid  
19 waste generated from the regeneration system and backwash  
20 system is discharged and treated in the Rockbridge wastewater  
21 treatment plant (WWTP). Loaded and spent resin is hauled off site  
22 by Chase Environmental of Oak Ridge, a Tennessee licensed  
23 conveyor and disposal contractor for radioactive materials.

1 The WWTP consists of an influent station; a 116,000 gallon per day  
 2 (gpd) reclaimed water generation system, consisting of a 49,400-  
 3 gallon aerated flow equalization basin, a mechanically cleaned bar  
 4 screen, two 92,700-gallon aeration basins, two 25,890-gallon  
 5 clarifiers, 54,000-gallon and 20,000-gallon sludge holding basins, a  
 6 chlorine contact basin, a dechlorination basin, dual ultraviolet  
 7 disinfection system, pumps, aerators, blowers, mains, a generator,  
 8 and other appurtenances. The reclaimed water is conveyed to a 12.8  
 9 million gallon synthetic lined storage pond with a 685,000-gallon  
 10 synthetic lined upset pond. The treated effluent is then sprayed on  
 11 39.84 acres of spray irrigation area.

12 **Q. WHAT ARE KRJ'S PRESENT AND PROPOSED RATES?**

13 A. KRJ's present and proposed rates for water and sewer utility service  
 14 are shown below:

15 **Southern Trace Subdivision**

16	Present	Proposed
17	<u>Rates</u>	<u>Rates</u>
18 <u>Monthly Metered Water Rates:</u>		
19 Base charge, zero usage (minimum)	\$19.12	\$ 34.82
20 Usage charge, per 1,000 gallons	\$ 2.66	\$ 4.84

21 The proposed rates would increase the average residential monthly  
 22 water bill from \$32.81 to \$59.72, an 80.02% increase, based on a  
 23 monthly usage of 5,145 gallons.

1	<b>Rockbridge Subdivision.</b>		
2		Present	Proposed
3		<u>Rates</u>	<u>Rates</u>
4	<u>Monthly Metered Water Rates:</u>		
5	Base charge, zero usage	\$14.40	\$ 34.55
6	Usage charge, per 1,000 gallons	\$ 1.49	\$ 3.57
7	<u>Monthly Flat Sewer Rates:</u>		
8	(Per REU)	\$68.33	\$105.37

9 The proposed rates would increase the average residential monthly  
 10 water bill from \$22.07 to \$52.92, a 139.78% increase, based on a  
 11 monthly usage of 5,145 gallons, and the monthly flat sewer rate from  
 12 \$68.33 to \$105.37, a 54.21% increase.

13 **Q. WHAT IS THE PUBLIC STAFF'S POSITION REGARDING KRJ'S**  
 14 **TEST YEAR?**

15 A. It is the Public Staff's position that the test year ending June 30,  
 16 2016, which was filed by the Company, is out dated and does not  
 17 reflect current operations and customer growth in Rockbridge  
 18 Subdivision. Therefore, the Public Staff updated the end of the test  
 19 year to the 12-month period ending March 31, 2018. Revenues  
 20 calculated at present and proposed rates reflect actual customers at  
 21 the end of the test-year period, March 31, 2018, and plant serving  
 22 them.

23 **Q. HAVE YOU REVIEWED THE OPERATIONAL STATUS OF THE**  
 24 **WATER SYSTEM WITH PWSS AND WQ?**

1 A. Yes. I contacted the Raleigh Regional Office. Regional office  
2 personnel expressed no concerns with water quality or the operation  
3 of the water systems or sewer system. On May 15, 2018, I inspected  
4 the three systems with Mr. Rod Butler and other members of the  
5 Public Staff. The water systems in Southern Trace and Rockbridge  
6 were in good condition and adequately maintained. The new  
7 uranium removal system in Rockbridge was installed and  
8 operational. All of the chemical feed pumps used for treatment were  
9 operating and the containers were approximately 85 percent full.  
10 The WWTP in Rockbridge was in good condition. I did not notice  
11 anything unusually about the operation of the plant nor did I detect  
12 any odor, other than next to the intake and bar screen which is  
13 normal. The ponds were well maintained and had plenty of free  
14 board. The spray fields located near the entrance to Rockbridge  
15 were adequately maintained. It is the Public Staff's opinion that the  
16 water and sewer systems in Southern Trace and Rockbridge are  
17 adequately maintained and operating properly.

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

20 A. Yes. The Public Staff received two written complaints. The hearing  
21 was held as scheduled and eleven customers testified. Three  
22 customers testified at the hearing from Southern Trace Subdivision.  
23 The customers testifying were: Thomas D. Rains, Jacqueline Walker

1 and Shelley Iverson. Eight customers testified from Rockbridge  
2 Subdivision. The customers testifying were: Craig E. Buzak, Pat  
3 Foran, Robert C. Herbert, Jr., Tania Teel, Brian Maxwell, Gerald  
4 Daniel, Kathleen Kendzierski and Ginger Rodgers. All of the  
5 customers objected to the magnitude of the increase. The two  
6 primary concerns in Southern Trace were water pressure and  
7 coloration of the water. Mr. Rains had concerns with the design of  
8 the system and operations. The primary complaints in Rockbridge  
9 Subdivision were; response time to water leaks, system outages,  
10 water pressure, chlorine levels and the safety of the water. KRJ was  
11 required to file a report addressing customer complaints and  
12 concerns.

13 On May 30, 2018, KRJ filed its Report on Customer Comments from  
14 Public Hearing in Raleigh, North Carolina as required. I have read  
15 the report and commend KRJ for its thorough response concerning  
16 customer complaints. The Public Staff is satisfied with the  
17 Company's response to customer concerns, the implementation of  
18 its new procedures and policies to improve response times to leaks  
19 and customer complaints, and its commitment to install supervisory  
20 control and data acquisition (SCADA) control systems in Southern  
21 Trace and Rockbridge Subdivisions. I have no further  
22 recommendations.



1 Q. BRIEFLY DESCRIBE YOUR BILLING ANALYSIS?

2 A. As I previously testified, the end of the test year period was updated  
3 to the 12-month period ending March 31, 2018. I reviewed the  
4 number of customers and the consumption for each month for  
5 Southern Trace and Rockbridge Subdivisions based on the updated  
6 billing data provided by the Company. Based on my review, I  
7 determined 190 end-of-period (EOP) metered water customers in  
8 Southern Trace Subdivision, 327 EOP metered water customers and  
9 324 flat-rate sewer customers in Rockbridge Subdivision.

10 Q. DO YOU RECOMMEND A CUSTOMER GROWTH FACTOR (CGF)  
11 FOR SOUTHERN TRACE OR ROCKBRIDGE?

12 A. I do not recommend a CGF for Southern Trace, because the growth  
13 was less than one percent. I recommend a CGF of 1.1106 for water  
14 and sewer in Rockbridge Subdivision. My calculations are based on  
15 growth for residential water and sewer customers as shown below:

16 Southern Trace

17 Water: 190 EOP customers x 12 months/2273 bills = 1.00308

18 Rockbridge

19 Water 323 EOP res. customers x 12 months/3490 bills = 1.1106

20 Sewer 323 EOP res. customers x 12 months/3490 bills = 1.1106

21 I recommend applying the CGF of 1.1106 to chemical expenses and  
22 purchased power for water operations; and to chemical expenses and

1 purchased power associated with pumping and sludge removal for  
2 sewer operations.

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

5 A. Yes, I have provided Public Staff Accountant Morgan with  
6 recommendations for adjustments to contract operating services,  
7 chemical expenses, purchased power, testing expenses, maintenance  
8 and repair expenses, and sludge removal.

9 CONTRACT SERVICE OPERATIONS

10 KRJ has a contract with M&M Water Services (M&M) for the operation  
11 and maintenance of the water treatment, storage, and distribution  
12 systems serving Southern Trace and Rockbridge Subdivisions, and  
13 the wastewater, collection, treatment, and re-use irrigation system  
14 serving Rockbridge Subdivision. M&M is responsible for the day-to-  
15 day operations of the water and sewer facilities which includes:  
16 providing certified Operators in Responsible Charge (ORC), daily  
17 inspections, chemical treatment, maintaining chemical inventories,  
18 collecting samples and delivering them to a certified laboratory,  
19 regulatory reporting, investigating customer complaints in regard to  
20 water quality, weekly testing of the generator at the WWTP and  
21 providing 24-hour, seven-days-a-week emergency service when  
22 necessary. The contract amounts do not include maintenance and  
23 repair, which are billed separately. The contract amount is \$1,416 per

1 month for each water system, and \$5,027 per month for the  
2 wastewater facility at Rockbridge.

3 Southern Trace

4 The Company made a pro-forma adjustment of \$8,400, an increase of  
5 \$700 per month, for the addition of Well No. 3. The Public Staff does  
6 not oppose the increased amount. I recommend \$25,392 (\$2,116 x 12  
7 months) for contract operating service.

8 Rockbridge - Water

9 The Company made a pro-forma adjustment of \$1,080 for additional  
10 labor expenses. I reclassified the \$1,080 in labor expenses to  
11 maintenance and repair expenses. I recommend \$16,992 (\$1,416 x  
12 12 months) for contract operating service.

13 Rockbridge - Sewer

14 The Public Staff does not oppose the contract amount. I recommend  
15 \$60,324 (\$5,027 x 12 months) for contract operating service.

16 CHEMICAL EXPENSES

17 Southern Trace

18 I updated chemical expenses to reflect the 12-month period ending  
19 March 31, 2018. Based on my review of invoices provided, I  
20 determined \$714 is appropriate.

1           Rockbridge - Water

2           I updated chemical expenses to reflect the 12-month period ending  
3           March 31, 2018. Based on my review of invoices provided, I  
4           determined \$4,451 is appropriate. I made an upward adjustment of  
5           \$216 by recalculating the cost for caustic soda, using Water Guard's  
6           new price of \$2.29 per gallon. This recalculation resulted in chemical  
7           expenses of \$4,667. I also adjusted chemical expenses for customer  
8           growth ( $\$4,667 \times 1.1106$ ). I recommend \$5,184 for chemical  
9           expenses.

10           Rockbridge - Sewer

11           I updated chemical expenses to reflect the 12-month period ending  
12           March 31, 2018. Based on my review of invoices provided, I  
13           determined \$10,492 is appropriate. I made an upward adjustment of  
14           \$965 by recalculating the cost for caustic soda, using Water Guard's  
15           new price of \$2.29 per gallon. This recalculation resulted in chemical  
16           expenses of \$11,457. I also adjusted chemical expenses for customer  
17           growth ( $\$11,457 \times 1.1106$ ). I recommend \$12,724 for chemical  
18           expenses.

19   PURCHASED POWER

20           Southern Trace:

21           I updated purchased power expenses to reflect the 12-month period  
22           ending March 31, 2018. Based on my review of invoices provided, I

1 determined \$6,874 is appropriate. I recommend \$6,874 for purchased  
2 power expenses.

3 Rockbridge:

4 The three wells at Rockbridge are within the same fenced compound  
5 as the WWTP, lift station, and reclaimed water storage ponds and has  
6 one power source that provides power to the entire facility. As a result,  
7 the Company allocated purchased power expenses for the wells in  
8 Rockbridge based on the total amount of purchased power expenses  
9 for the wells in Southern Trace.

10 The Public Staff does not object to this methodology since the wells do  
11 not have their own power source, both service areas have three wells,  
12 and Duke Energy Progress provides power to Rockbridge and  
13 Southern Trace. I recalculated the portion of purchased power  
14 expense that should be allocated to water operations based on  
15 invoices for the updated test year, ending March 31, 2018 as shown  
16 below:

17	\$6,874	cost of power for Southern Trace
18	11,658,659	gallons sold in Southern Trace
19	\$589.60	\$6,874/11.658659
20	16,039,461	gallons sold at Rockbridge
21	\$9,457	\$589.60 x 16.039461

22 I also adjusted for customer growth purchased power expense for  
23 water operations (\$9,457 x 1.1106). I recommend purchased power  
24 expense of \$10,503 for water operations.

1 I determined \$37,919 for purchased power expense for the WWTP site  
 2 based on my review of invoices for the updated test year. I deducted  
 3 \$9,457, which was allocated to water operations, resulting in \$28,462  
 4 for power at the WWTP plant site. As I previously testified, the WWTP  
 5 operates based on timers and not consumption. Therefore, I did not  
 6 adjust for customer growth, purchased power expense for the WWTP.  
 7 However, I did adjust purchased power for pumping and the spray  
 8 fields. Based on my review of invoices for the updated test year, I  
 9 determined \$708. My adjustment for customer growth is \$786 ( $\$708 \times$   
 10  $1.1106$ ). I recommend \$29,248 ( $\$28,462 + \$786$ ) for purchased power  
 11 expense for sewer operations.

TESTING EXPENSES

Southern Trace

13  
 14 My recommendation for testing expenses reflects current testing  
 15 costs, represented over the required frequency (monthly, annually,  
 16 and every three, six, or nine years) for each test under the Safe  
 17 Drinking Water Act. I recommend testing expenses of \$2,310 for  
 18 water operations. My calculations are shown in Casselberry Exhibit  
 19 No. 1.

Rockbridge

20  
 21 My recommendation for testing expenses reflects current testing  
 22 costs, represented over the required frequency (monthly, annually,  
 23 and every three, six, or nine years) for each test under the Safe

1 Drinking Water Act and KRJ's wastewater permit. I recommend  
 2 testing expenses of \$1,396 for water operations and \$1,476 for  
 3 sewer operations. My calculations are shown in Casselberry Exhibit  
 4 No. 2.

5 MAINTENANCE AND REPAIR EXPENSES

6 Southern Trace

7 The Applicant expensed \$19,141 for maintenance and repair  
 8 expenses. The invoices KRJ provided did not match the amount  
 9 expensed on the application. Based on my review of invoices  
 10 provided, I determined \$27,417 as the appropriate amount before  
 11 adjustments. I made the following downward adjustments:

12	Removed, payments for capital project	\$10,000
13	Removed, boom truck used in capital project	\$ 4,213
14	Removed, repair outside of test year	\$ 344
15	Removed, repair outside of test year	\$ 904
16	Removed chemical expenses were updated	\$ 196
17	<u>Reclassify, meter, Well No. 1 capital project</u>	<u>\$ 1,064</u>
18	Total	\$16,721

19 I recommend \$10,696 for maintenance and repairs expenses.

20 Rockbridge: Water

21 The Applicant expensed \$55,297 for maintenance and repair  
 22 expenses associated with water operations. The invoices KRJ  
 23 provided did not match the amount expensed on the application.  
 24 Based on my review of invoices provided, I determined \$63,895 as the  
 25 appropriate amount before adjustments. I made the following  
 26 downward adjustments:

1	Removed, repair outside of test year	\$ 1,339
2	Removed, repair outside of test year	\$ 527
3	Removed, repair outside of test year	\$ 1,517
4	Reclassified, amortized uranium disposal	<u>\$49,830</u>
5	Total	\$53,213

6 As I previously testified, I reclassified 1,080 from contracting services.  
7 I agree with the additional expense of \$762 for Rosemont filter bags  
8 and \$7,500 for repairs on mains and service lines. I added \$9,966,  
9 which is the amount for uranium disposal (\$49,830) amortized over five  
10 years. I recommend \$29,990 for maintenance expenses associated  
11 with water operations (\$63,895 - \$53,213 + \$1,080 + \$762 + \$7,500 +  
12 \$9,966).

13 Rockbridge: Sewer

14 The Applicant expensed \$18,866 for maintenance and repairs  
15 expenses associated with sewer operations. The invoices provided  
16 did not match the amount expensed on the application. Based on my  
17 review of invoices provided, I determined \$23,928 as the appropriate  
18 amount before adjustments. I made the following downward  
19 adjustment:

20	Removed, payment outside of test year	\$ 1,000
21	Removed, repair outside of test year	\$ 1,339
22	Removed, repair outside of test year	\$ 1,074
23	Remove, payment on capital project	\$ 1,774
24	Remove, outside of test year	\$ 1,512
25	Remove, outside of test year	\$ 2,761
26	Remove, payment on capital project	\$ 1,774
27	Remove, double bill	\$ 617
28	Remove, outside of test year	\$ 3,160
29	<u>Removed, unrelated to sewer</u>	<u>\$ 262</u>
30	Total	\$15,273



1 I agree with the pro-forma adjustment of \$3,900 for cleaning 10 percent  
 2 of the gravity mains and \$16,400 for maintaining the spray fields. I  
 3 recommend \$28,955 ( $\$23,928 - \$15,273 + \$3,900 + \$16,400$ ) for  
 4 maintenance and repair expenses associated with sewer operations.

5 SLUDGE REMOVAL

6 I updated expenses related to sludge removal to reflect current costs  
 7 for the 12-month period ending March 31, 2018. Based on my review  
 8 of invoices provided, I determined \$6,008 for sludge removal. I  
 9 adjusted the cost of sludge removal for customer growth in the amount  
 10 of \$6,672 ( $\$6,008 \times 1.1106$ ). I also included Grandville Farm's annual  
 11 permit fee of (\$250) and Soil Plus, LLC's annual cost for bio-solids  
 12 samples (\$1,275). I recommend \$8,197 for sludge removal ( $\$6,672 +$   
 13  $\$250 + \$1,275$ ).

14 **Q. HAVE YOU MADE ANY RECOMMENDATIONS TO PLANT IN**  
 15 **SERVICE?**

16 **A. Yes.**

17 Southern Trace:

18 I recommend \$44,603 for new plant in service. The amount listed for  
 19 Well No. 2 includes the \$10,000 payment and the \$4,213 boom truck  
 20 rental, which I removed from maintenance and repair expenses. My  
 21 additions are as follows:

	<u>Item</u>	<u>Amount</u>	<u>Date</u> <u>in Service</u>	<u>Life</u> <u>Ext.</u>
1				
2				
3	Pump replacement Well No. 1	\$ 6,073	8/16/2016	7
4	Pump replacement Well No. 3	\$ 7,859	6/2/2016	7
5	Replace pump/repair Well No. 2	\$26,213	8/7//2015	7
6	Water meter, Well No. 1	\$ 1,064	5/5/2016	20
7	Meters	\$ 1,675	2016/2017	25
8	PRV replacement	\$ 1,719	4/23/2018	10
9	Total	\$44,603		

10 Rockbridge: Water

11 I recommend \$9,174 for new plant in service.

	<u>Item</u>	<u>Amount</u>	<u>Date</u> <u>in Service</u>	<u>Life</u> <u>Ext.</u>
12				
13				
14	Meters	\$ 9,174	2017/2018	25

15 Rockbridge: Sewer

16 I recommend \$15,988 for new plant in service. The amount includes  
17 the two payments of \$1,774 each, which I removed from maintenance  
18 and repair expenses. My addition is as follows:

	<u>Item</u>	<u>Amount</u>	<u>Date</u> <u>in Service</u>	<u>Life</u> <u>Ext.</u>
19				
20				
21	Replace Blower	\$ 7,098	4/29/2015	10
22	Replace Blower	\$ 8,890	4/2018	10
23	Total	\$15,988		

24 **Q. WHAT ARE THE ANNUAL SERVICE REVENUES UNDER**  
25 **PRESENT AND PROPOSED RATES?**

26 **A.** My calculations for service revenues at present and proposed rates  
27 are shown below:

1  
2  
3  
4  
5  
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27

Southern Trace Subdivision

Water Utility Service

Revenue at Present Rates:

190 EOP customers x \$19.12 x 12 months =	\$ 43,594
11,658,659 gallons x \$2.66/1,000 gallons =	<u>\$ 31,012</u>
	\$ 74,606

Revenue at Proposed Rates:

190 EOP customers x \$34.82 x 12 months =	\$ 79,390
11,658,659 gallons x \$4.84/1,000 gallons =	<u>\$ 56,428</u>
	\$135,818

Rockbridge Subdivision

Water Utility Service

Consumption adjusted for customer growth:

Residential	15,409,941 gallons x 1.1106 =	17,114,280
HOA		<u>629,520</u>
Total gallons		17,743,800

Revenue at Present Rates:

327 EOP customers x \$14.40 x 12 months =	\$ 56,506
17,743,800 gallons x \$1.49/1,000 gallons =	<u>\$ 26,438</u>
	\$ 82,944

Revenue at Proposed Rates:

327 EOP customers x \$34.55 x 12 months =	\$135,574
17,743,800 gallons x \$3.57/1,000 gallons =	<u>\$ 63,345</u>
	\$198,919

Sewer Utility Service

Revenue at Present Rates:

324 EOP customers x 68.33 x 12 months =	\$265,667
---	-----------

Revenue at Proposed Rates:

324 EOP customers x \$105.37 x 12 months =	\$409,679
--	-----------

1 Q. WHAT IS YOUR RECOMMENDATION CONCERNING KRJ'S  
2 PROPOSED RATES?

3 A. The Public Staff's recommended service revenues are listed below:

4 Service Revenues:

	<u>Water</u>	<u>Sewer</u>
5 Southern Trace	\$106,983	N/A
6 Rockbridge	\$159,888	\$226,451

8 The Public Staff recommends a partial rate increase for water utility  
9 service in Southern Trace and Rockbridge Subdivisions and a rate  
10 decrease for sewer utility service in Rockbridge Subdivision.

11 Q. PLEASE DESCRIBE YOUR RATE DESIGN AND RECOMMENDED  
12 RATES?

13 A. I have designed rates for water service such that approximately 60  
14 percent of the service revenues is applied to the consumption charge  
15 and 40 percent is applied to fixed costs. This approach promotes water  
16 conservation and still allows the Company a reasonable cash flow. My  
17 calculations are shown below.

18 SOUTHERN TRACE SUBDIVISION

19 Water Utility Service

20 Service revenue	\$106,983
21 40.7%	\$ 43,542
22 Difference	\$ 63,441

1 Estimated base charge:  
 2 \$43,542/190 EOP customers x 12 months = \$19.10  
 3 Estimated usage charge:  
 \$63,441/11,658,659 gallons x 1,000 = \$5.44  
 4 Revenue at Public Staff's Recommended Rates:  
 5 190 EOP customers x \$19.12 x 12 months = \$ 43,594  
 6 11,658,659 gallons x \$5.44/1,000 gallons = \$ 63,423  
 7 \$107,017

ROCKBRIDGE SUBDIVISION

Water Utility Service

10 Service revenue \$159,888  
 11 40% \$ 63,955  
 12 Difference \$ 95,933

13 Estimated base charge:  
 14 \$63,955/327 EOP customers x 12 months = \$16.30  
 15 Estimated usage charge:  
 \$95,933/17,743,800 gallons x 1,000 = \$5.41  
 16 Revenue at Public Staff's Recommended Rates:  
 17 327 EOP customers x \$16.30 x 12 months = \$ 63,961  
 18 17,743,800 gallons x \$5.41/1,000 gallons = \$ 95,994  
 19 \$159,955

Sewer Utility Service

21 Estimated flat rate  
 22 226,451/324 EOP customers x 12 months = \$58.25  
 23 Revenue at Public Staff's Recommend Rate  
 24 324 EOP customers x \$58.25 x 12 months = \$226,476

25 KRJ's present and proposed rates and the Public Staff's  
 26 recommended rates are shown on Casselberry Exhibit No. 3.

1 Q. WHAT IS YOUR RECOMMENDATION CONCERNING OTHER  
2 CHARGES?

3 A. The Public Staff's does not oppose increasing KRJ's reconnection  
4 charge from \$23.91 to \$25.00, if water service is cut off by utility for  
5 good cause, and from \$19.12 to \$20.00, if water service is  
6 disconnected at customer's request; or increasing the returned check  
7 charge from \$23.96 to \$25.00 for Southern Trace Subdivision. The  
8 Public Staff does not oppose increasing KRJ's reconnection charge  
9 from \$14.40 to \$15.00 if water service is cut off by utility for good cause  
10 and if water service is disconnected at customer's request; or  
11 increasing the returned check charge from \$23.96 to \$25.00 for  
12 Rockbridge Subdivision. The Public Staff opposes adding a new  
13 disconnection charge and/or collection charge in addition to the  
14 reconnection charge.

15 DOES THIS CONCLUDE YOUR TESTIMONY?

16 A. Yes.

1 BY MR. GRANTMYRE:

2 Q Now, with respect to those three letters or four  
3 letters we received last night, does that add or  
4 modify your testimony in any way?

5 A No.

6 Q Do you have a summary of your testimony?

7 A I do.

8 Q Please go ahead and provide your summary?

9 (WHEREUPON, the summary of GINA  
10 CASSELBERRY is copied into the  
11 record.)  
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KRJ, INC. d/b/a KRJ UTILITIES  
DOCKET NO. W-1075, SUB 12  
SUMMARY OF TESTIMONY OF GINA Y. CASSELBERRY

0200

On January 10, 2018, KRJ, Inc. d/b/a KRJ Utilities (Company or KRJ) filed an application with the Commission to increase its rates for providing water utility service in Southern Trace Subdivision and water and sewer utility service in Rockbridge Subdivision in Wake County, North Carolina.

My investigation included review of customer complaints, contact with the Division of Water Resources (DWR), Public Water Supply Section (PWSS) and Water Quality (WQ), review of company records, analysis of revenues at existing and proposed rates and site inspection of the three KRJ utility systems. I have also assisted Public Staff Accountant Iris Morgan in reviewing expenses and plant in service.

The Public Staff updated the test year to the 12-month period ending March 31, 2018, to reflect current operations and customer growth in Rockbridge Subdivision. Based on my review of billing data, I determined 190 end-of-period (EOP) metered water customers in Southern Trace Subdivision, 327 EOP metered water customers and 324 flat-rate sewer customers in Rockbridge Subdivision.

The Public Staff received two written complaints. The hearing was held as scheduled. Three customers testified at the hearing from Southern Trace Subdivision and eight customers testified from Rockbridge Subdivision.

On May 30, 2018, KRJ filed its Report on Customer Comments from Public Hearing in Raleigh, North Carolina as required. The Public Staff reviewed the report and was satisfied with the Company's response to customer concerns, the implementation of its new procedures and policies to improve response times to leaks and customer complaints, and its commitment to install supervisory control and data acquisition (SCADA) control systems in Southern Trace and Rockbridge Subdivisions. I have no further recommendations.

The Public Staff recommends a partial rate increase for water utility service in Southern Trace and Rockbridge Subdivisions and a rate decrease for sewer utility service in Rockbridge Subdivision.

Pursuant to the Stipulation Agreement filed in this docket on June 7, 2018, the Company has agreed to all of the recommendations made in my testimony, and adopted the exhibits to my pre-filed testimony.

This concludes my summary.



1 BY MR. GRANTMYRE:

2 Q Now, with respect to the paragraph where you talk  
3 about the number of customers testifying that the  
4 three from Southern Trace and the eight from  
5 Rockbridge, you're referring there to the May 15  
6 night hearing, correct?

7 A Yes.

8 Q And that does not include today's testimony?

9 A No.

10 MR. GRANTMYRE: We have no further  
11 questions. She's available for cross examination.

12 MR. BENNINK: No questions.

13 COMMISSIONER MITCHELL: Questions from the  
14 Commission? Chairman Finley? Commissioner Patterson?

15 Good morning, Ms. Casselberry, I do have a  
16 few for you.

17 THE WITNESS: Okay.

18 EXAMINATION BY COMMISSIONER MITCHELL:

19 Q So you've testified that the Public Staff is  
20 satisfied that the company's report on customer  
21 comments, comments made at the public hearing on  
22 May 15th, and that you're -- the Public Staff is  
23 satisfied with the company's new protocols that  
24 it implemented in response to the concerns that

1 were expressed at that hearing, and you've also  
2 testified in support of the company's proposal to  
3 install SCADA in Rockbridge and Southern Trace.  
4 Since we've heard extensive comments about the  
5 Company's responsiveness, or lack thereof, and if  
6 the issues that the customers are experiencing  
7 with communication from the Company, would the  
8 Public Staff be willing to check in with the  
9 Company in six months to follow up on these  
10 concerns and report back its findings with the  
11 Commission?

12 A Yes, we can do that.

13 Q Okay. Thank you. At the May 15th hearing we  
14 heard from several customers regarding the strong  
15 smell of chlorine and these were specifically  
16 related to -- these were Rockbridge customers I  
17 believe, and KRJ has provided information  
18 indicating that the chlorine residuals were  
19 within an acceptable range and I believe provided  
20 documentation to support that assertion, and KRJ  
21 has also responded that some variation in  
22 chlorine concentrations will always exist  
23 throughout the distribution system due to  
24 distance from plant. In your position is there

1 anything else that can be done to alleviate those  
2 issues for those customers that are located at  
3 various points on the system that routinely  
4 experience high concentrations of the residual?

5 A The only thing I can suggest is sometimes if you  
6 run the water a little bit longer it might help a  
7 little bit. I notice here in the Dobbs Building  
8 it has a strong chlorine so if you run it a  
9 little bit first before you fill up that glass of  
10 water or if you let it sit a little while then  
11 drink the water it helps a little bit.

12 Q Okay. A customer from the Rockbridge Subdivision  
13 expressed an interest in metered sewer rates  
14 versus a flat monthly sewer rate. Since KRJ is  
15 the water provider in Rockbridge, did the Public  
16 Staff investigate the possibility of metered  
17 sewer rates?

18 A Considering there was only one customer we did  
19 not. That was not our recommendation. We would  
20 prefer a flat rate at this time.

21 Q Okay. The Stipulating Parties have agreed to a  
22 monthly flat rate of \$58.25 for sewer service in  
23 the Rockbridge Subdivision which represents a  
24 decrease from the present monthly flat rate of

1           \$68.33 that was established in the CPCN docket  
2           many years ago. What do you believe are the main  
3           reasons for this decrease?

4       A     I would have to say the decrease probably has  
5           something to do with the plant in service but  
6           that probably would be better for the accountant  
7           to address that. I know what the service revenue  
8           is and so you take the service revenue divide it  
9           by the number of customers divide it by 12 months  
10          and you get the flat rate. It has to do with  
11          plant in service.

12                    COMMISSIONER MITCHELL: Ms. Holt, is that  
13           something that you all can provide in a late-filed  
14           exhibit as well, just a response to the question, *what*  
15           *are the primary drivers for the decrease in the sewer*  
16           *rate for Rockbridge.*

17                    MS. HOLT: Yes.

18                    COMMISSIONER MITCHELL: Thank you.

19                    MR. BENNINK: Commissioner, the Company  
20           would like to participate in that because we have  
21           definite ideas about what the driver is in terms of  
22           the rate decrease as well. I think we'll agree on  
23           with it but we'll cooperate with the Public Staff on  
24           that:

1                   COMMISSIONER MITCHELL: Very well. Thank  
2 you.

3 BY COMMISSIONER MITCHELL:

4 Q     Ms. Casselberry, the Stipulation involves the  
5        agreement to eliminate the requirement that KRJ  
6        notify respective customers regarding water and  
7        sewer rates in the Rockbridge Subdivision before  
8        they execute a contract to purchase a home. What  
9        has changed other than build-out of the  
10       subdivision that would make this requirement no  
11       longer necessary?

12 A     Would you repeat the question?

13 Q     Sure. The Stipulation involves an agreement to  
14        eliminate the requirement to notify prospective  
15        KRJ customers regarding the water and sewer rates  
16        within the Rockbridge Subdivision before they  
17        execute a contract to purchase a home. And can  
18        you explain what has changed other than continued  
19        build out of the subdivision that would make this  
20        requirement no longer necessary?

21 A     No. I would have to ask the Company why they --  
22        I can't answer that question.

23               MR. GRANTMYRE: We will provide that in our  
24 late-filed exhibit.

1                   COMMISSIONER MITCHELL: Okay. Thank you.

2 BY COMMISSIONER MITCHELL:

3 Q     Ms. Casselberry, one last question. Are SCADA  
4       systems frequently used -- in your experience are  
5       SCADA systems frequently installed in smaller  
6       water systems that are analogous to or comparable  
7       to Southern Trace?

8 A     Most small water systems don't have a SCADA  
9       system.

10                  COMMISSIONER MITCHELL: Okay. I have  
11 nothing further. Any additional questions from the  
12 Commission?

13                  MR. GRANTMYRE: I have one quick question.

14 EXAMINATION BY MR. GRANTMYRE:

15 Q     With regard to the sewer rate reduction, isn't  
16       customer growth on the sewer system the major  
17       driver for the rate reduction?

18 A     That is one of the factors, yes.

19 Q     And as additional customers added to sewer  
20       systems a lot of the revenues of the additional  
21       customers go directly to the bottom line?

22 A     Yes, especially since it's a flat rate.

23                  MR. GRANTMYRE: Thank you.

24

1 EXAMINATION BY MR. BENNINK:

2 Q To follow up on the questions from your counsel,  
3 Mr. Grantmyre, one of the drivers from the rate  
4 decrease is also the imputation of the tap fees,  
5 the sewer tap fees of \$8,000 for the unsold,  
6 undeveloped lots; isn't that correct? I mean,  
7 that adjustment reduces the company's rate base  
8 for purposes of this case by I think a ballpark  
9 of \$650,000?

10 A Yes, it does reduce the rate base.

11 Q And that is a driver of the rate reduction?  
12 Without that adjustment the rate base would be  
13 \$650,000 higher allowing the Company to accrue a  
14 return of seven and three-quarters percent on  
15 that plus depreciation expense? And we'll sort  
16 this out in the late-filed exhibit. But  
17 Mr. Grantmyre is right, customer growth is one  
18 thing in terms of customer growth --

19 CHAIRMAN FINLEY: A late-filed exhibit would  
20 be a good place to get all of that straightened out.

21 THE WITNESS: Well, I think the question was  
22 to compare it to the last rate case and so I'd have to  
23 know information about the last rate case in order to  
24 compare it to this rate case. And so those are --

1 those facts are correct but to compare why it went  
2 down compared to the last rate case I would have to do  
3 a little bit more research.

4 COMMISSIONER MITCHELL: Thank you,  
5 Ms. Casselberry.

6 MR. BENNINK: One other question.

7 BY MR. BENNINK:

8 Q In terms of the paragraph in the Stipulation  
9 which would allow the Company to discontinue the  
10 notice of requiring the developer to include a  
11 notice of the rates in future sale of lots, are  
12 you -- this provision came from the CPN -- CPCN  
13 proceeding for Rockbridge in the Sub 5 case;  
14 isn't that correct? Do you know that?

15 A I didn't participate in that case so I don't know  
16 the answer to that question.

17 Q Are you aware of any other utilities that are  
18 required to give such a notice, required to  
19 provide such a notice of the rates in sales  
20 agreements?

21 A Off the top of my head I'm not aware of it, no.

22 MR. BENNINK: All right.

23 COMMISSIONER MITCHELL: Okay,  
24 Ms. Casselberry, you are dismissed. Thank you.



1 (The witness is excused.)

2 MR. GRANTMYRE: We would request that her  
3 testimony and exhibits be introduced into evidence.

4 COMMISSIONER MITCHELL: Without objection  
5 they will be accepted into evidence.

6 (WHEREUPON, Casselberry Exhibits  
7 1, 2 and 3 are admitted into  
8 evidence.)

9 MR. GRANTMYRE: That concludes the Public  
10 Staff's case.

11 COMMISSIONER MITCHELL: Thank you,  
12 Mr. Grantmyre. So that brings us to proposed orders.  
13 Typically the Commission requests a proposed order 30  
14 days from the notice of the mailing of the transcript,  
15 is that sufficient in this case?

16 MR. BENNINK: Yes, that's sufficient.

17 MR. GRANTMYRE: Yes. There's been  
18 significant work done on the proposed order already so  
19 I expect it will be long before the 30 days.

20 COMMISSIONER MITCHELL: Thank you very much.  
21 Anything else that we need to address prior to  
22 adjourning?

23 MR. BENNINK: Maybe for purposes of  
24 clarification I want to say we put Mr. Butler on the

1 stand to address, and we think we fully addressed from  
2 the company's standpoint, the customer testimony today  
3 so we would not intend to file an additional customer  
4 report.

5 COMMISSIONER MITCHELL: Very well.

6 MR. BENNINK: All right.

7 COMMISSIONER MITCHELL: Thank you,  
8 Mr. Bennink. If there is nothing further, we are  
9 adjourned. Thank you.

10 (WHEREUPON, the proceedings were adjourned.)

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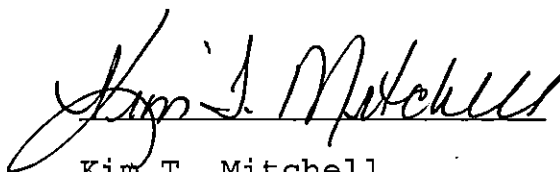
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## C E R T I F I C A T E

1  
2 I, KIM T. MITCHELL, DO HEREBY CERTIFY that  
3 the Proceedings in the above-captioned matter were  
4 taken before me, that I did report in stenographic  
5 shorthand the Proceedings set forth herein, and the  
6 foregoing pages are a true and correct transcription  
7 to the best of my ability.

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9 

10 Kim T. Mitchell  
11 Court Reporter II  
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**FILED**

**JUN 28 2018**

**Clerk's Office  
N.C. Utilities Commission**