



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

February 23, 2022

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

Re: Docket Nos. W-992, Sub 8 and W-1328, Sub 9 – Application by Red Bird Utility Operating Company, LLC for Authority to Transfer the Crosby Utilities, Inc. Water and Wastewater System and Public Utility Franchise in Zebulon County, North Carolina, and for Approval of Rates

Dear Ms. Dunston:

Attached for filing on behalf of the Public Staff in the above-referenced dockets please find the public (non-confidential) version of the Testimony of D. Michael Franklin.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

Electronically submitted

/s/Gina C. Holt

Manager, Legal Division, Water, Sewer,
Telephone, & Transportation Sections

gina.holt@psncuc.nc.gov

Electronically submitted

/s/ Megan Jost

Staff Attorney

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Attachment

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

**DOCKET NO. W-992, SUB 8
DOCKET NO. W-1328, SUB 9**

In the Matter of
Application by Red Bird Utility Operating
Company, LLC, 1650 Des Peres Road,)
Suite 303, St. Louis, Missouri 63131, and)
Crosby Utilities, Inc., 7536 NC 39 Hwy,)
Zebulon, North Carolina 27597, for)
Authority to Transfer the Baywood Forest)
Subdivision Water and Wastewater Utility)
Systems and the Cottonwood Subdivision)
Wastewater Utility System and Public)
Utility Franchise in Wake County, North)
Carolina, and for Approval of Rates)
)
TESTIMONY OF
D. MICHAEL FRANKLIN
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION

February 23, 2023

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

2 A. My name is D. Michael Franklin. My business address is 430 North
3 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a Public
4 Utilities Engineer with the Water, Sewer, and Telephone Division of the
5 Public Staff – North Carolina Utilities Commission (Public Staff).

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

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

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

9 A. The purpose of my testimony is to provide the North Carolina Utilities
10 Commission (Commission) with the results of my investigation of specific
11 areas of the application filed on October 22, 2020, by Red Bird Utility
12 Operating Company, LLC (Red Bird), in Docket No. W-1328, Sub 9, and
13 Crosby Utilities, Inc. (Crosby), in Docket No. W-992, Sub 8, for transfer of
14 public utility franchise and for approval of rates (Joint Application)¹. I also
15 discuss whether the transfer is in the best interest of the using and
16 consuming public.

17 The specific areas of my investigation include customer complaints, Notices
18 of Violation, and Notices of Deficiency issued by the North Carolina
19 Department of Environmental Quality (DEQ) and assisting the Public Staff
20 Accounting Division with reviewing expenses and plant in service.

¹ Red Bird supplemented the Joint Application through filings made on May 27, May 28, and October 8, 2021, and on June 14 and July 18, 2022.

1 **Q. Please describe the Crosby service area and water and wastewater**
2 **utility systems.**

3 A. The Crosby service area is located in Wake County and is comprised of the
4 Baywood Forest water system serving approximately 210 water customers
5 in Baywood Forest Subdivision and the Cottonwood wastewater system
6 serving approximately 290 wastewater customers in both Cottonwood and
7 Baywood Forest subdivisions. The Baywood Forest water system consists
8 of three wells and well houses and six-inch and four-inch raw water mains
9 with valves and other appurtenances. The main well house/treatment
10 building at Well Site No. 2 has chlorine chemical feed equipment to maintain
11 the prescribed level of residual chlorine in distribution, an ion exchange
12 system for removal of radium and uranium, and a water softening system
13 for hardness, with tanks located inside Well House No. 2. A 10,000-gallon
14 hydropneumatic tank is installed at Well No. 2, and a 1,000-gallon
15 hydropneumatic tank is installed at Well No. 1. Well No. 3 pumps directly to
16 Well House No. 2 but does not operate simultaneously with Well No. 2. Well
17 House No. 1 has chlorine addition equipment, and Well No. 1, when
18 activated by the operator, pumps directly into the distribution system. Well
19 No. 1 is not currently in service because elevated levels of radionuclides
20 are present during long run times and there is no radionuclide treatment
21 system at Well No. 1.

22 The wastewater treatment plant (WWTP) is located in Cottonwood
23 subdivision and consists of a 57,500 gallons per day capacity extended

1 aeration package treatment plant with single train aeration and duplex
2 clarifiers. The system also has two tertiary sand filters; however, the filters
3 are not required to meet regulatory effluent limits and are currently not in
4 service. Wastewater collection from Baywood Forest and Cottonwood is
5 interconnected via gravity and force mains and utilizes two lift stations in
6 Baywood Forest. Treated wastewater is discharged to Poplar Creek, a
7 subbasin of the Neuse River Basin.

8 **Q. Have you conducted a site visit of the Crosby water and wastewater**
9 **systems and, if so, what were your observations?**

10 A. On January 31, 2023, I visually inspected the water and wastewater
11 systems while accompanied by Daniel Taylor of the DEQ Public Water
12 Supply Section and Mitchell Hayes of the DEQ Division of Water
13 Resources. The water and wastewater systems appear to be in fair
14 condition.

15 Since the last rate case in 2008, several improvements have been made by
16 the owner to the water system. In 2019, a new 10,000-gallon
17 hydropneumatic tank was purchased to replace the original 10,000-gallon
18 hydropneumatic tank, which was fabricated in 1981 and shows signs of
19 significant corrosion. The new hydropneumatic tank was connected to the
20 water system in 2022. The original tank is currently out of service, but there
21 are plans to refurbish it and use it for additional water storage capacity. In

1 2018, the ion exchange tanks and filter media for removal of radium and
2 uranium were replaced at Well No.2.

3 The WWTP exterior appears to be in good condition with little or no rust
4 evident. Rust and flaking are visible on the chlorination and effluent
5 discharge tanks, and rust is visible on piping near the aeration basin. In
6 2019, a new concrete flow equalization basin was installed to replace the
7 original metal basin. The flow equalization basin control panel shows signs
8 of aging and degradation, whereas the blower control panel appears to be
9 in better overall condition. The concrete structures, hatches, and piping of
10 the two sewer lift stations appear to be in good condition. The lifting rails at
11 Lift Station No. 1 are severely rusted, while the lifting rails at Lift Station No.
12 2 are in better overall condition. The two tertiary sand filters are overgrown
13 with vegetation; however, these filters are not in service and, according to
14 the wastewater system operator, are not required to meet regulatory effluent
15 limits. Mr. Hayes of DEQ's Division of Water Resources expressed no
16 concerns regarding the tertiary filters being out of service. There is required
17 emergency contact information signage at the WWTP and both lift stations.

18 **Q. Briefly describe the results of your investigation of DEQ Notices of**
19 **Violation and Civil Penalties.**

20 A. No DEQ Notices of Violation (NOVs) were issued for the Baywood Forest
21 water system (System No. NC0392218) between January 1, 2020, and
22 January 31, 2023. Further, I confirmed with DEQ that there are currently no

1 open violations. The last inspection of the water system was performed by
2 DEQ on June 15, 2022. No deficiencies or recommendations were identified
3 during the inspection.

4 The Cottonwood wastewater system is operated under DEQ permit
5 NC0065706 for the WWTP and WQCSD0542 for the collection portion of
6 the system. Cottonwood did not receive any NOVs between January 1,
7 2020, and January 31, 2023.

8 The WWTP was last inspected on February 14, 2019. The inspection
9 summary stated that, "Since the previous inspection the repair work to the
10 EQ basin has been performed and the plant was in good condition. No
11 compliance issues found."

12 The collection system was last inspected on September 16, 2019. Findings
13 from that inspection included missing emergency contact information
14 signage at both lift stations and grease accumulation at both wet wells.
15 Further, a map of the collection system was not available during the
16 inspection and there was no documentation of a grease control program.
17 While the collection system was determined to be "Not Compliant," no
18 NOVs were issued based on the inspection.

19 **Q. Did Red Bird provide Notice to Customers of the Joint Application?**

20 A. Yes. On September 22, 2022, the Commission issued the Order Scheduling
21 Hearings, Establishing Discovery Guidelines, and Requiring Customer
22 Notice (Scheduling Order). The Scheduling Order directed Red Bird to

1 provide the Notice to Customers no later than 10 days after the date of the
2 Scheduling Order and to submit a signed and notarized certificate of service
3 not later than 20 days after the date of the Scheduling Order. On October
4 3, 2022, Red Bird filed a Certificate of Service stating that the Notice to
5 Customers was mailed or hand delivered by the date specified in the
6 Scheduling Order.

7 **Q. Has the Public Staff received any customer complaints?**

8 A. Between January 1, 2020, and January 31, 2023, the Public Staff Consumer
9 Services Division (Consumer Services) received one customer complaint.
10 The complaint, which was received on June 17, 2021, and related to a billing
11 practice dispute, stated that the customer received harassing disconnect
12 notices by mail and telephone for being one day late with payment. Crosby's
13 response to the Consumer Services inquiry on the matter was that
14 customers are only called as a courtesy and are not threatened with
15 disconnection. Consumer Services informed the customer that Crosby has
16 the right to inform consumers if their bill is past due. The complaint was
17 closed on June 22, 2021.

18 **Q. Has the Public Staff received any consumer statement of position?**

19 A. As of February 17, 2023, seven customers had filed consumer statements
20 in these dockets. All the consumer statements objected to the projected
21 future rate increases that would be the subject of a future rate case. None

1 of the consumer statements identified concerns or complaints with the water
2 or wastewater utility services provided by Crosby.

3 **Q. Is Crosby providing safe and reliable service?**

4 A. Yes. Based on my review of NOVs and penalties issued by DEQ and the
5 lack of significant customer complaints regarding water quality and
6 customer service issues, I have determined that Crosby is providing safe
7 and reliable service to its customers of the Baywood Forest water system
8 and the Cottonwood wastewater system.

9 **Q. What are the present and proposed water and wastewater utility
10 service rates?**

11 A. The present rates, fees, and additional charges charged by Crosby were
12 approved in Docket Nos. W-992, Sub 7 and M-100, Sub 138, and have been
13 in effect since December 7, 2016. Upon acquisition of the system, Red Bird
14 proposes to charge the current Commission approved rates, fees, and
15 additional charges for Baywood Forest and Cottonwood. The present and
16 proposed rates are as follows:

17 Monthly Metered Residential Water Service:

	<u>Present and Proposed</u>
18 Base Charge, zero usage	\$ 9.60
19 Usage Charge, per 1,000 gallons	\$ 1.92
20 <u>Monthly Flat Rate for Wastewater Service:</u>	\$44.03

1 **Q. What is your recommendation regarding the requested approval of**
2 **rates?**

3 A. The requested rates are the current Commission-approved rates for Crosby
4 and are just and reasonable.

5 **Q. Based on your investigation, what is your opinion of Red Bird's ability**
6 **to own and operate Crosby's Baywood Forest water and Cottonwood**
7 **wastewater systems?**

8 A. Based on my investigation, I believe Red Bird, a subsidiary of Central States
9 Water Resources, LLC, has the financial, technical, and managerial ability
10 to own and operate the Baywood Forest water and Cottonwood wastewater
11 systems. Through its parent company, Red Bird is adequately capitalized
12 and able to address repairs or capital improvements that may be required
13 to ensure continued safe and reliable operation of the aging systems.

14 **Q. Do you agree with the confidential prefiled direct testimony of Red**
15 **Bird witness Josiah Cox that the Crosby utility system is troubled?**

16 A. Based on the recent performance of both the water and wastewater
17 systems, including the lack of state regulatory compliance issues, the lack
18 of customer complaints on system performance, and the recent
19 improvements made by Crosby to both the water and wastewater utility
20 systems, I do not consider either the water system or wastewater system to
21 be troubled.

1 **Q. What adjustments have you made to plant additions since the last rate**
2 **case?**

3 A. In Exhibit 1 to the confidential prefiled direct testimony of Red Bird witness
4 Cox, Red Bird's responses to Public Staff Data Requests Nos. 4, 5, and 8,
5 and Red Bird's confidential response to Public Staff Data Request No. 11,
6 Red Bird provided information about plant additions since Crosby's last rate
7 case in Docket No. W-992, Sub 6. My recommended adjustments to those
8 plant additions include reducing the life of the [BEGIN CONFIDENTIAL] █
9 █ [END CONFIDENTIAL]. This
10 adjustment is based on the affidavit of Public Staff Accountant A. Denise
11 Barnett, Barnett Exhibit 1, Schedule 2-1 filed on March 5, 2008, in Docket
12 No. W-992, Sub 6. I also reduced the life of the [BEGIN CONFIDENTIAL]
13 █
14 █
15 █ [END CONFIDENTIAL]
16 based on my Engineering background and experience.

17 **Q. What is your recommendation concerning an acquisition adjustment?**

18 A. The Public Staff does not support Red Bird receiving an acquisition
19 adjustment in this proceeding. As a general proposition, when a public utility
20 buys assets that have previously been dedicated to public service as utility
21 property, the acquiring utility is entitled to include in rate base the lesser of
22 the purchase price or the net original cost of the acquired facilities owned
23 by the seller at the time of the transfer. See Order Approving Transfer and

1 Denying Acquisition Adjustment, *Petition of Utilities, Inc. for Transfer of the*
2 *Certificate of Public Convenience and Necessity for Providing Sewer Utility*
3 *Service on North Topsail Island and Adjacent Mainland Areas in Onslow*
4 *County from North Topsail Water and Sewer, Inc. and for Temporary*
5 *Operating Authority*, Docket No. W-1000, Sub 5 (N.C.U.C. January 6, 2000)
6 (W-1000, Sub 5 Order).

7 The Commission has indicated "a strong general policy against the
8 inclusion of acquisition adjustments in rate base subject to exceptions in
9 appropriate instances." *Id.* at 24. In the W-1000, Sub 5 Order, the
10 Commission discussed the circumstances when the rate base treatment of
11 acquisition adjustments is proper. The Commission stated the following:

12 As should be apparent from an analysis of the Commission's
13 previous Orders concerning this subject, a wide range of
14 factors have been considered relevant in attempting to
15 resolve this question, including the prudence of the purchase
16 price paid by the acquiring utility; the extent to which the size
17 of the acquisition adjustment resulted from an arm's length
18 transaction; the extent to which the selling utility is financially
19 or operationally "troubled;" the extent to which the purchase
20 will facilitate system improvements; the size of the acquisition
21 adjustment; the impact of including the acquisition adjustment
22 in rate base on the rates paid by customers of the acquired
23 and acquiring utilities; the desirability of transferring small
24 systems to professional operators; and a wide range of other
25 factors, none of which have been deemed universally
26 dispositive. Although the number of relevant considerations
27 seems virtually unlimited, all of them apparently relate to the
28 question of whether the acquiring utility paid too much for the
29 acquired utility and whether the customers of both the
30 acquired and acquiring utilities are better off after the transfer
31 than they were before that time. This method of analysis is
32 consistent with sound regulatory policy since it focuses on the
33 two truly relevant questions which ought to be considered in

1 any analysis of acquisition adjustment issues. It is also
2 consistent with the construction of G.S. 62-111 (a) adopted in
3 State ex rel. Utilities Commission v. Village of Pinehurst. 99
4 N.C App. 224,393 S.E.2d 111 (1990), affd 331 N.C. 278,415
5 S.E.2d 199 (1992), which seems to indicate that all relevant
6 factors must be considered in analyzing the appropriateness
7 of utility transfer applications. As a result, . . . the Commission
8 should refrain from allowing rate base treatment of an
9 acquisition adjustment unless the purchasing utility
10 establishes, by the greater weight of the evidence, that the
11 price the purchaser agreed to pay for the acquired utility was
12 prudent and that both the existing customers of the acquiring
13 utility and the customers of the acquired utility would be better
14 off [or at least no worse off] with the proposed transfer,
15 including rate base treatment of any acquisition adjustment,
16 than would otherwise be the case. *Id.* at 27.

17 In this transfer proceeding, as previously stated, no DEQ NOV's were
18 identified for the Baywood Forest water system or the Cottonwood
19 wastewater system in the past three years and neither utility system has
20 open or unresolved violations. Further, DEQ determined based on the most
21 recent inspections of the Cottonwood WWTP and collection system
22 performed in 2019 that the WWTP was in "good condition" with no
23 compliance issues identified. While compliance deficiencies were identified
24 during the collection system inspection, they were not operational
25 deficiencies. Also, the 2022 inspection of the Baywood Forest water system
26 identified no deficiencies or recommendations. Therefore, contrary to Red
27 Bird witness Cox's testimony that the Crosby systems are "operationally
28 'troubled,'" the evidence demonstrates that there are no serious operational
29 problems currently affecting the Baywood Forest water system or the

1 Cottonwood wastewater system and that both systems are being operated
2 in a satisfactory manner.

3 Furthermore, inclusion in rate base of the Company's requested acquisition
4 adjustment to recover the entire difference between the purchase price and
5 the residual net plant in service, as properly calculated by the Public Staff,
6 would equate to a \$5.64 per month increase in residential water base rates
7 and a \$4.01 increase in monthly residential wastewater base rates.²

8 Approval of the proposed acquisition adjustment is not in the public interest
9 because the benefits to customers resulting from the allowance of rate base
10 treatment of an acquisition adjustment in this case would not offset the
11 resulting burden or harm to customers associated therewith.

12 **Q. Briefly describe Red Bird's plans for capital improvements.**

13 A. Within one to five years after completing the purchase of the Baywood
14 Forest water system, Red Bird intends to refurbish the original 10,000-
15 gallon hydropneumatic tank at Well No. 2 and connect the tank to the water
16 system for additional storage and upgrade the controls at Well No. 2 to
17 provide automatic alternation with Well No. 3. In future years, Red Bird
18 plans to replace the pumps at Well Nos. 1 and 2.

² Rate impact is determined by dividing the respective revenue requirement included in the prefiled testimony of Public Staff witness Lynn Feasel by the number of customers (210 for water and 290 for wastewater) by the number of months in a year.

1 Within one to five years after completing the purchase of the Cottonwood
2 wastewater system, Red Bird plans to install a standby generator at Lift
3 Station No. 1 and a portable diesel generator including manual transfer
4 switch at Lift Station No. 2. Additional planned capital improvements include
5 replacing the pump guide rails and the valve vault drain at Lift Station No 1
6 and installing a hoist for trash basket retrieval at both Lift Stations No. 1 and
7 No. 2. At the WWTP, in the first five years of ownership, Red Bird plans to
8 replace the diffusers and drip pipes in the aeration tanks and sludge holding
9 tank. In future years, Red Bird intends to implement electrical improvements
10 at the flow equalization basin and recoat and repair portions of the main
11 aeration tank.

12 It will be incumbent upon Red Bird to ensure the capital improvements are
13 reasonable and prudent if they wish to have the capital investment
14 associated with the improvements added to rate base and included in rates
15 in a future rate case proceeding. Inclusion of the currently planned
16 improvements totaling **[BEGIN CONFIDENTIAL]** [REDACTED]
17 [REDACTED] **[END CONFIDENTIAL]** for the wastewater system
18 and based on the resulting revenue requirements to support the
19 improvement costs as identified in the prefiled testimony of Public Staff
20 witness Feasel would result in a \$9.12 per month increase in residential
21 water base rates and a \$7.04 increase in monthly residential wastewater
22 base rates.

1 Q. Do you agree with Red Bird's estimated due diligence expenses?

2 A. No. As provided in the confidential prefiled direct testimony of Red Bird
3 witness Cox, as of the date of witness Cox's testimony, Red Bird had
4 incurred due diligence costs totaling [BEGIN CONFIDENTIAL] [REDACTED]
5 [REDACTED]
6 [REDACTED] [END CONFIDENTIAL]. A review of confidential Exhibit
7 2 of witness Cox's testimony in conjunction with Red Bird's confidential
8 responses to Public Staff data requests indicates that, of the total due
9 diligence costs identified by Red Bird, approximately [BEGIN
10 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] has been spent on
11 engineering support, while the remainder has been spent on legal
12 expenses. These costs are more than 1,400% of the due diligence
13 expenses typically requested by applicants which are normally comprised
14 of the closing costs associated with the sale of the utility system. Inclusion
15 of the current due diligence expenses in rate base would equate to a \$3.90
16 per month increase in residential water base rates and a \$2.92 increase in
17 monthly residential wastewater base rates. The Public Staff's position is that
18 the majority of these costs should be absorbed by Red Bird as a cost of
19 doing business and not be included in rate base.

20 The Public Staff recommends due diligence expenses of \$10,000 be
21 included in rate based. This is consistent with previous transfer applications,
22 including those in Docket No. W-354, Sub 396 where the Public Staff has
23 recommended due diligence expenses of \$8,229 be included in rate base

1 and Docket No. W-218, Sub 527, where the Public Staff recommended, and
2 the Commission approved, the inclusion of \$4,000 in attorney fees in rate
3 base.

4 **Q. Do you have concerns with Red Birds proposed operating expenses?**

5 A. Yes. In confidential attachment E.1 of the Joint Application, Red Bird
6 identifies their expected total outside labor expenses for both the
7 Brookwood Forest water and Cottonwood wastewater systems as **[BEGIN**
8 **CONFIDENTIAL]** [REDACTED]
9 [REDACTED] **[END CONFIDENTIAL]**. While it is unclear
10 whether this includes any corporate allocation amount, the amount
11 identified by Red Bird is, regardless, significantly more than the \$64,997
12 approved in Crosby's last rate case for salary and wages and contractor
13 operator expenses. Additionally, Red Bird's expected outside labor
14 expenses and employee salary expenses exceed the \$55,020 provided by
15 Red Bird in the Joint Application, Attachment C, Revenues and Expenses
16 for 12 Months Ended December 31, 2016 for Crosby's total salaries (except
17 owner) and salaries paid to owner. No expense amount for contract labor
18 was included in Attachment C. While future operating expenses are not
19 addressed in this proceeding, the Public Staff will ensure any future Red
20 Bird rate case, that these expenses, as with all expenses, are reasonable
21 and prudent.

1 **Q. What is your recommendation concerning the bond for the water and**
2 **wastewater utility systems?**

3 A. North Carolina General Statute § 62-110.3(a) provides that no franchise
4 may be granted to any water or sewer utility company “until the applicant
5 furnishes a bond, secured with sufficient surety as approved by the
6 Commission, in an amount not less than ten thousand dollars (\$10,000).” In
7 addition, the bond “shall be conditioned upon providing adequate and
8 sufficient service within all the applicant's service areas.” Further, N.C.G.S.
9 § 62-110.3(a) provides:

10 In setting the amount of a bond, the Commission shall
11 consider and make appropriate findings as to the following:

- 12 (1) Whether the applicant holds other water or
13 sewer franchises in this State, and if so its
14 record of operation,
15 (2) The number of customers the applicant now
16 serves and proposes to serve,
17 (3) The likelihood of future expansion needs of the
18 service,
19 (4) If the applicant is acquiring an existing
20 company, the age, condition, and type of the
21 equipment, and
22 (5) Any other relevant factors, including the design
23 of the system.

24 Commission Rules R7-37 and R10-24 restate and reaffirm most of these
25 provisions and requirements. The amount of bond set pursuant to N.C.G.S.
26 § 62-110.3 and Commission Rules R7-37 and R10-24 should help ensure
27 the continued provision of adequate and sufficient water and wastewater
28 services in the event a water and wastewater utility is unable to provide
29 such service due to financial constraints, mismanagement, and/or other

1 factors. The factors and findings set forth in N.C.G.S. § 62-110.3(a)(1) – (5)
2 make clear that the bond amount depends heavily on the applicant’s
3 financial, managerial, and technical expertise, the applicant’s prior
4 performance where applicable, the number of current and projected future
5 water customers, system expansion plans and needs, the complexity of the
6 applicant’s system and facilities, and any other factors that bear upon the
7 risk of the applicant providing inadequate, inconsistent, and/or insufficient
8 water and wastewater services. N.C.G.S. § 62-110.3 and Commission
9 Rules R7-37 and R10-24 make it clear that a higher risk of deficient water
10 and wastewater services necessitates a higher bond amount.

11 If the Commission approves the transfer, it will be the first certificate of
12 public convenience and necessity to provide both water and wastewater
13 services granted to Red Bird by the Commission. Red Bird does not have a
14 history of operations and management in North Carolina, and their track
15 record in other states is not necessarily directly transferable given the size
16 of and distance between Bear Den Acres, Baywood Forest, Cottonwood,
17 Ocean Terrace, and Pine Knoll Townes, and reliance on contract operators,
18 resulting in a more unique set of circumstances on a system-by-system
19 basis. Considering this lack of track record and the anticipated capital
20 improvements projected for the Baywood Forest water system and
21 Cottonwood wastewater system, I recommend that a \$90,000 bond be
22 posted by Red Bird for the Baywood Forest water system and that a

1 \$110,000 bond be posted for the Cottonwood wastewater system, for a total
2 bond amount of \$200,000.

3 **Q. What is your recommendation regarding the requested transfer of the**
4 **public utility franchise?**

5 A. While the Public Staff has found that Red Bird has the financial, technical,
6 and managerial ability to own and operate the Baywood Forest water and
7 Cottonwood wastewater systems, the Public Staff's support of the
8 requested transfer is contingent on the amount included in rate base not
9 exceeding the plant in-service amount of \$272,955 plus \$10,000 in due
10 diligence expenses. The Public Staff does not consider the Crosby utility
11 systems to be troubled and believes that, if the total purchase price minus
12 the residual plant in service amount and due diligence expenses in excess
13 of the \$10,000 recommended by the Public Staff are approved and included
14 in rate base, the result would be a \$9.54 per month increase in residential
15 water base rates and a \$6.93 increase in monthly residential wastewater
16 base rates. The Public Staff does not believe that such an increase in
17 customer rates would be in the best interest of the Baywood Forest water
18 system and Cottonwood wastewater system customers.

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

20 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

D. MICHAEL FRANKLIN

I graduated from the University of South Carolina, earning a Bachelor of Science Degree in Engineering. I worked in the electric utility industry for 33 years prior to joining the Public Staff in June 2019. While employed by the Public Staff, I have worked on utility rate case proceedings, new franchise and transfer applications, customer complaints, and other aspects of utility regulation.