

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

September 11, 2017

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Via Electronic Filing

Re: Carolina Water Service, Inc. of North Carolina
Application for a General Increase in Rates
Docket No. W-354, Sub 356
Report on Customer Comments From Charlotte and New Bern Public
Hearings Held on August 1 and 22, 2017, Respectively

Dear Ms. Jarvis:

Carolina Water Service, Inc. of North Carolina ("CWSNC" or "Company")
hereby submits for electronic filing its *Report on Customer Comments From
Charlotte and New Bern Public Hearings Held on August 1 and 22, 2017,
Respectively*.

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

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

Attorney for Carolina Water Service,
Inc. of North Carolina

c: Parties of Record

President; Bryce Mendenhall, CWSNC's Vice President of Operations; Tony Konsul, Regional Manager; and Mark Haver and Jack Jones, Area Managers.

A total of four witnesses testified at the Charlotte public hearing. All four witnesses reside in CWSNC's Bradfield Farms service area. Those four witnesses—William R. Colyer, Damian Michael Werner, Isaac Cochran, and Chanyne Cupil—testified primarily in opposition to the magnitude and impact of the proposed rate increase.

The witnesses generally voiced no current or ongoing service quality complaints which personally affect their respective utility service. Regarding the Company's quality of service, witness Colyer testified that:

“...the folks from Utilities, Inc....have continued to provide an excellent level of service to Bradfield Farms...I mean, they're in my speed dial, and if there's a problem they are quick to respond, and we do appreciate that.”

Regarding service quality, witness Cupil testified that she and her husband experienced one service-related problem in the eight years that they have been living in the community. The problem was related to a sewage backup which, although unpleasant, was resolved by the Company.

Witness Werner, who, when asked whether he had experienced any service-related problems, replied:

“I have not, but I know that we have had some issues lately with sewage backing up and so forth. Those were not affecting my house, but I've heard about it throughout the neighborhood. But, no, my service has been good. And I do -- like I said, I mean, my interactions with the Company have been okay, but I just can't see the justification for that kind of an increase.”

CWSNC's SPECIFIC RESPONSE TO CUSTOMER TESTIMONY: Two of the four customers from the Company's Bradfield Farms service area spoke to service quality issues.

First, witness Cupil testified that she and her husband have experienced only one service-related problem in the eight years that they have been living in the community and that their issue was satisfactorily resolved. The Company appreciates Ms. Cupil's testimony in this regard.

Second, witness Werner testified that he has not personally experienced any service-related problems with the utility service provided to him by CWSNC. The Company also appreciates Mr. Werner's testimony in this regard. In response to witness Werner's additional testimony that he has heard that other customers in his neighborhood have recently experienced problems related to sewage backups, CWSNC offers the following response:

CWSNC has searched its records regarding sewage backups which occurred close in time to witness Werner's testimony on August 1, 2017. The closest event in point of time occurred on June 2, 2017, at 7:30 a.m. at 7221 Maitland Court. This sewage backup caused flooding in the home at that address. Upon investigation, Company personnel found a backup at Maitland Court and Jardin Way. This event was caused by asphalt, rocks, and brick which were found in the manhole. A contractor (not affiliated with the Company) had repaved streets in the neighborhood prior to this backup. CWSNC contacted its insurance company and directed the insurer to take care of the affected customer;

ensure that any damage to the customer's property was corrected; and then seek recompense from the contractor. Follow-up conversations with the affected homeowner indicated that all issues had been satisfactorily resolved. The Company's insurance carrier is now seeking damages against the contractor. There have been no further complaints from the affected customer.

Company records indicate that there were no other backup events during 2017, which occurred at Bradfield Farms prior to the August 1, 2017 public hearing. During 2016, there was one event which occurred on May 25, 2016. Company personnel cleaned the main and found lots of "wipes" which caused this blockage. The blockage caused a sanitary sewer overflow of approximately 600 gallons which did not reach any surface waters, just a dry ditch. The overflow did not impact any homes.

For purposes of full disclosure, the Company also experienced a sewage backup after the public hearing at two manholes, located at 11204 Clayford Ridge Road and 7006 Daerwood Place, on August 26, 2017, at 7:51 p.m. This event was caused by a cable that was bored through the sewer pipe by contractors for AT&T. Approximately 750 gallons of sewage spilled into a drainage ditch. The sewage did not reach any surface water; nor did the overflow impact any homes. A permanent repair was completed on Monday, August 28, 2017.

To evaluate the integrity of the Bradfield Farms sewage collection system so as to minimize the chances for future backup problems, CWSNC contracted with a company (RedZone) to initiate a project which consists of using robotics

technology to internally examine the integrity of the Company's sewer collection pipe systems. The Bradfield Farms project, which began on September 6, 2017, will examine the integrity of the entire sewage collection system. The outcome of the project allows CWSNC to identify specific points in the sewage collection system which are in need of repair, rather than the Company having to undertake an unnecessary and expensive whole-system replacement. In particular, the project concentrates on pipe integrity, possible pipe damage, root intrusion, potential or actual blockages, and identifying sources of inflow and infiltration ("I&I").

Third, witness Colyer described the quality of CWSNC's utility service as "excellent" and he further stated that the Company is "quick to respond" to problems. The Company thanks Mr. Colyer for this testimony.

Finally, witness Cochran mentioned no problems with the quality of utility service provided by CWSNC during his testimony. He testified against the level of the proposed water and sewer rate increases, and spoke of a conflict which prevented many of his neighbors from attending the hearing.

Not surprisingly, customer testimony from witnesses Colyer, Werner, Cochran, and Cupil focused primarily on opposition to CWSNC's proposed rate increase, which is one of the primary issues to be decided by the Commission based upon careful consideration of all the evidence offered in this proceeding, including customer testimony. CWSNC's rates will be set in this legal proceeding by the Commission based upon the statutory requirements of proof and after

challenge by expert consumer advocates. No utility, including CWSNC, is entitled to a rate increase unless it has proved to the Commission essentially that it spent money—only as necessary, or “prudently”—to provide the service that is required. And CWSNC cannot recover on its investment in plant until after that plant is in use, providing service to customers, has been reviewed by the Public Staff, and is approved by the Commission. This is true whether the rate increase is sought in a general rate case, like this one, or under the “system improvement charges” (also known as WSIC and SSIC).

CWSNC concedes that the Company does not and should not receive rate increases unless it proves its case to the Commission—by presentation of evidence, subject to the law, and against the skilled opposition of the Public Staff. Rates charged by CWSNC must be based on cost of service, and must be justified by detailed proof which is carefully examined and may be challenged by the Public Staff in a contested legal proceeding such as this pending rate case. Rate increases, while controversial, are necessary to support prudent investment in this capital-intensive industry.

In that regard, CWSNC notes that, from July 2016, to date, CWSNC has spent an estimated \$92,000 on the following two completed projects within the Bradfield Farms service area:

1. WWTP Blower Replacement

Replaced one larger 125 hp blower at Bradfield Farms WWTP (blower end only). Blower had catastrophic failure. (\$26,000)

2. Elevated Storage Tank Painting

Project consisted of painting exterior of 250,000-gallon elevated storage tank. (\$66,000)

In addition, the Company is also currently in the process of conducting the new sewage collection system evaluation project at Bradfield Farms, as discussed above.

Furthermore, CWSNC is always willing to speak with customers regarding any questions they may have regarding billing, service, rates, etc. The Company takes very seriously its duty as a public utility in North Carolina to provide its customers with adequate, efficient, and reasonable service at reasonable rates as required by G.S. 62-32(b) and G.S. 62-131(b).

NEW BERN PUBLIC HEARING

A public hearing was held beginning at 7:00 p.m., on August 22, 2017, in New Bern, North Carolina at the Craven County Courthouse. Chairman Edward S. Finley, who served as the Presiding Commissioner, was joined by Commissioners ToNola D. Brown-Bland, James G. Patterson, Jerry C. Dockham, and Lyons Gray. Staff Attorney William Grantmyre appeared for the Public Staff on behalf of the using and consuming public, accompanied by Public Staff Water Engineer Gina Casselberry. Robert H. Bennink, Jr., of the Bennink Law Office, appeared on behalf of CWSNC, accompanied by Matthew Klein, the Company's President; Bryce Mendenhall, CWSNC's Vice President of Operations; Danny

Lassiter, Regional Manager; Eddie Baldwin, Area Manager; Richard Linneman, Financial Planning and Analysis Manager; Anthony Gray, Senior Financial and Regulatory Analyst; and Deb Clark, Communications Coordinator.

Two customer witnesses testified at the New Bern public hearing. Both witnesses reside in CWSNC's Fairfield Harbour service area. Those two witnesses—Simon Lock and Tom Musser—testified primarily in opposition to the magnitude and impact of the proposed rate increase, including rate design issues.

CWSNC's SPECIFIC RESPONSE TO CUSTOMER TESTIMONY: Witnesses Lock and Musser voiced no current or ongoing service quality complaints affecting their utility service. CWSNC appreciates that fact and believes that the complete lack of any testimony at the New Bern public hearing describing service problems demonstrates that the Company is providing "adequate, efficient, and reasonable service" to its Fairfield Harbour customers, as required by G.S. 62-131(b).

Regarding the testimony from witnesses Lock and Musser in opposition to the magnitude and impact of the proposed rate increase, CWSNC hereby incorporates by reference the discussion and explanation set forth above in conjunction with the Charlotte public hearing as the Company's response. As previously stated, rate increases, while controversial, are necessary to support prudent investment in the Company's capital-intensive water and sewer industry. In that regard, from May 2016, to date, CWSNC invested approximately \$550,000 for the following five water and sewer projects within the Fairfield Harbour service area:

1. Sewer System Investigation Phases I, II, and III

The Company investigated 124,000 linear feet of 8-inch through 12-inch sanitary pipe segments along with 306 manhole inspections in the Fairfield Harbour subdivision. Project also included the Lift Station #3 sewer line point replacement of 16 feet of pipe, and raising/repairing 7 manholes. (\$331,000)

2. Sewer Line Replacement CIPP Liner

Project consisted of slip-lining approximately 243 feet of existing gravity sewer main in the Fairfield Harbour collection system due to severe inflow and infiltration (I&I). The cured-in-place liner was installed from Lift Station #3 to a manhole. (\$48,500)

3. Install New Auger Wash Press for Static Screen

Installation of new influent headworks screenings auger wash press at the wastewater treatment plant. (\$106,000)

4. Install New Booster Pumps with VFD Electrical Tank Removal Engineering

The project consisted of removing the existing 10,000-gallon code hydropneumatic storage tank at Fairfield Harbour water system and installation of new VFDs and controls to operate the existing booster pumps. (\$20,000)

5. Replacement of Standby Generator at Lift Station # 17 - 80 KW

Project consisted of installing a new 80 KW stationary standby generator with sub-base diesel fuel tank and sound attenuated enclosure to provide necessary power to the lift station during outages. (\$41,000)

In conclusion, CWSNC again states that the Company stands ready and willing to speak with customers, such as witnesses Lock and Musser, regarding any questions they may have regarding billing, service, rates, etc.

GENERAL RESPONSES TO CUSTOMER ISSUES AT PUBLIC HEARINGS

In response to customer comments and concerns which were generally expressed at all public hearings, CWSNC will, in addition to the responses set forth above in conjunction with the Charlotte and New Bern public hearings, generally address some important principles and facts that impact both the Company's service obligation and the rules that apply to the rate-setting process. The Company appreciates this opportunity to speak to its concerned customers and to its regulators¹.

1. Proposed Rates – The legal principles that govern ratemaking are set forth in North Carolina General Statutes, Chapter 62, and in rules promulgated under those statutes. By law, the Commission may lawfully grant a rate increase to CWSNC only if the Company proves, in the face of a comprehensive investigation by the Public Staff (and any other intervenor opposition), that such an increase is authorized under the law, based on the actual cost and level of prudent and reasonable investment in plant and operation. Further, investment in plant is only recoverable after it has been made, placed into service, and audited by the Public Staff. This principle, referred to as the “used and useful” requirement, applies whether costs are recovered in a general rate case or under a system improvement charge.²

¹ Much of this information has been included in prior reports; the repetition is for the benefit of the customers whose service territories were addressed in the Charlotte and New Bern public hearings.

² Also, known as the Water System Improvement Charge (WSIC) and the Sewer System Improvement Charge (SSIC).

2. Investment in Replacing Aging Infrastructure – As documented by the U.S. Environmental Protection Agency (“EPA”) and the American Water Works Association (“AWWA”) there is a need for significant investment—more than \$20 billion—throughout North Carolina in replacing aging water and wastewater infrastructure, including drinking water pipes, wastewater collection pipes, and wastewater treatment facilities.³

3. Customer Communications:

A. Legal Compliance. In a general rate case, the Notice to Customers is prescribed by the requirements of statute and is issued by the Commission, based upon the input of CWSNC and the Public Staff. It is a joint effort to provide specific information to all customers about current and proposed rates. In a case like this—the first post-consolidation rate case for CWSNC—the length and complexity of the Notice to Customers serves the purpose of detail and transparency, yet is likely daunting to many customers who attempt to understand all its contents and the personal impact.

B. Improvements Regarding Communications With Customers.

CWSNC has recently augmented its communications capacity and

³ See, http://portal.ncdenr.org/c/document_library/get_file?uuid=df1eeae-d14b-455d-9ad4-73b5d635f057&groupId=14655572. See also, “Buried No Longer,” American Water Works Association (AWWA) - <http://www.awwa.org/Portals/0/files/legreg/documents/BuriedNoLonger.pdf>; Drinking Water Needs Assessment, U.S. Environmental Protection Agency - <https://www.epa.gov/sites/production/files/2015-07/documents/epa816r13006.pdf>; and Wastewater Needs Assessment, U.S. Environmental Protection Agency - <https://www.epa.gov/cwns/clean-watersheds-needs-survey-cwns-2012-report-and-data>.

is working diligently on additional means to communicate with its customers. Emphasis will be on enhancing the ability to communicate electronically, in general, and through social media, in particular. The success of this approach will depend on the availability and accuracy of various modes of contact, and will thus be a function of customer permission and homeowners' association ("HOA") participation. Customers have very different preferences for how they communicate with the Company, and CWSNC is working to maximize the capacity of the various means of communication.

C. Outreach to Customers. Company personnel made themselves available both before and after the public hearings to speak with customers and respond to questions and concerns.

4. Rate Comparisons. An attempt to make general, but meaningful, comparisons between statewide average costs for all water and wastewater service providers and the costs of a provider like CWSNC often results in an "apples to oranges" assessment. The core distinction is found in the concept of "economies of scale." The costs of serving an individual customer in Raleigh or Charlotte, by a governmental utility enterprise, will likely on average be less than the cost of serving the typical CWSNC customer. This is the case because, among other things, urban areas are densely populated, they generally source water from large surface impoundments or rivers, they treat waste in large central treatment facilities, governmental entities tax their citizens, and they are often not required

to utilize “cost-of-service” ratemaking, as are the utilities regulated under Chapter 62 of the General Statutes. Contrast this to the areas served by CWSNC and others like it: often rural, less densely populated, generally not subject to city taxation, and frequently served by smaller waste treatment plants and by hundreds of wells, dispersed across the state and drawing water up from rock. The difference in cost attributes are obvious, and should inform any conversation about comparisons in respective average costs.

5. General Comments. CWSNC appreciates and takes seriously this opportunity to respond to the complaints and concerns expressed by the Company’s customers. While customers may not see visible signs of any improvements or repairs being made to their water and sewer systems, CWSNC notes that investments made by the Company in its water and sewer utility systems throughout the State of North Carolina are not always obvious to customers, given the nature of some of the work. Additionally, should there be a need for major investment for upgrades or repairs—as there will inevitably be for every system—CWSNC has an obligation arising from its status as a regulated public utility to make necessary capital investments to ensure that consumers receive reliable and adequate utility service.

Furthermore, objections to the proposed rate increase request and rate design matters (flat rate versus metered rate, irrigation rates, etc.) raised by some customers involve complex issues to be decided by the Commission based upon

careful consideration of all the evidence, including customer testimony, offered in this proceeding.

Respectfully submitted, this the 11th day of September, 2017.

SANFORD LAW OFFICE, PLLC

Electronically Submitted

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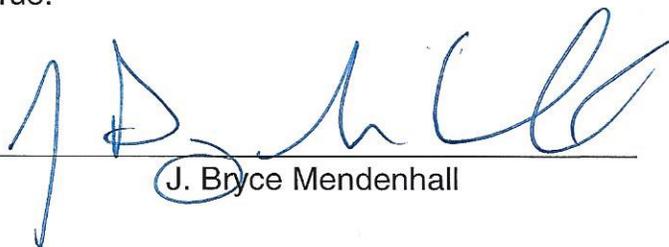
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**ATTORNEYS FOR CAROLINA WATER
SERVICE, INC. OF NORTH CAROLINA**

VERIFICATION

J. Bryce Mendenhall, being duly sworn, deposes and says:

That he is the Vice-President of Operations for Carolina Water Service, Inc. of North Carolina; that he is familiar with the facts set out in the attached **REPORT ON CUSTOMER COMMENTS FROM PUBLIC HEARINGS IN CHARLOTTE AND NEW BERN, NORTH CAROLINA HELD ON AUGUST 1 AND 22, 2017, RESPECTIVELY**, filed in Docket No. W-354, Sub 356; that he has read the foregoing Report and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.

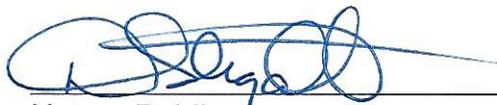


J. Bryce Mendenhall

North Carolina

Mecklenburg County

Sworn to and subscribed before me this the 11 day of September, 2017.

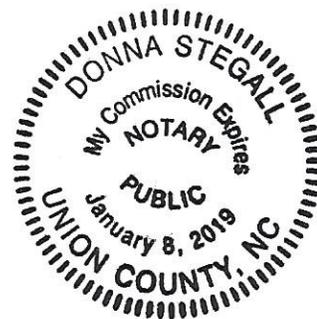


Notary Public

Donna Stegall

Printed Name

My Commission Expires: 01/08/2019



CERTIFICATE OF SERVICE

I hereby certify that on this the 11th day of September, 2017, a copy of the foregoing **REPORT ON CUSTOMER COMMENTS FROM PUBLIC HEARINGS IN CHARLOTTE AND NEW BERN, NORTH CAROLINA HELD ON AUGUST 1 AND 22, 2017, RESPECTIVELY**, filed in Docket No. W-354, Sub 356 has been duly served upon all parties of record by electronic service, as follows:

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