

**SANFORD LAW OFFICE, PLLC  
Jo Anne Sanford, Attorney at Law**

November 18, 2022

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

Via Electronic Delivery

Re: Carolina Water Service, Inc. of North Carolina and Water Resource Management LLC  
Docket Nos. W-354, Sub 396 and W-1073, Sub 7  
Application for Authority to Transfer the Echota Water Utility System, the Seven Devils Wastewater Utility System, and Public Utility Franchise in Watauga County, North Carolina, and for Approval of Rates  
Rebuttal Testimony of Donald H. Denton III

Dear Ms. Dunston:

On April 22, 2022, Carolina Water Service, Inc. of North Carolina (“CWSNC”) and Water Resource Management LLC (“Water Resource”) filed an Application for Transfer of Public Utility Franchise and for Approval of Rates (“Application”) seeking authority to transfer the water and wastewater utility systems and public utility franchise serving all of Water Resource’s service areas in Watauga County, North Carolina, from Water Resource to CWSNC and for approval of rates.

In support of the Application, CWSNC hereby files the Rebuttal Testimony of Donald H. Denton III, the Company’s President.

I hereby certify that I have today served a copy of this filing on the parties to these dockets.

As always, we thank you and your staff for your assistance; please feel free to contact me if there are questions or if additional information is required.

**Electronically Submitted**

**/s/Jo Anne Sanford**

North Carolina State Bar No. 6831

Attorney for Carolina Water Service, Inc. of  
North Carolina

- c: Lucy Edmondson, Chief Counsel, Public Staff  
Gina Holt, Manager, Legal Division, Natural Gas, Water, Sewer,  
Telephone, & Transportation Sections, Public Staff  
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Charles Junis, Director, Water, Sewer & Telephone Division, Public Staff  
Lynn Feasel, Financial Manager, Water, Sewer and Telecommunications  
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The Allen Law Offices, PLLC - Brady W. Allen and Dwight W. Allen,  
Attorneys for Lake Community Property Owner's Association, Inc.

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. W-354, SUB 396  
DOCKET NO. W-1073, SUB 7

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application by Carolina Water Service, )  
Inc. of North Carolina, 5821 Fairview )  
Road, Suite 401, Charlotte, North )  
Carolina 28209 and Water Resource ) REBUTTAL TESTIMONY OF  
Management LLC, 151 Mr. Bish ) DONALD H. DENTON III ON  
Boulevard, Boone, North Carolina ) BEHALF OF CAROLINA WATER  
28607, for Authority to Transfer the ) SERVICE, INC. OF NORTH  
Echota Water Utility System, the Seven ) CAROLINA  
Devils Wastewater Utility System and )  
Public Utility Franchise in Watauga )  
County, North Carolina, and for )  
Approval of Rates )

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November 18, 2022

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald H. Denton III, and my business address is  
3 5821 Fairview Rd., Suite 401, Charlotte, North Carolina 28209.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Senior Vice President, East Operations for Corix Regulated Utilities  
6 (“CRU”). I oversee the operations of Carolina Water Service, Inc. of North  
7 Carolina (“CWSNC” or “Company”), Blue Granite Water Company  
8 (“BGWC”) in South Carolina, and Sunshine Water Services in Florida, all  
9 of which are subsidiaries of CRU. In addition, I serve as President of  
10 CWSNC and BGWC.

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
12 **BACKGROUND.**

13 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of  
14 Technology as well as an Executive Masters in Business Administration  
15 from Queens University in Charlotte, North Carolina. I have worked in the  
16 utility sector for over 24 years in multiple capacities ranging from  
17 engineering to strategic planning and major project execution.

18 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CAROLINA WATER**  
19 **SERVICE, INC. OF NORTH CAROLINA?**

20 A. I am responsible for the Company’s regulated water and sewer operations  
21 in North Carolina, including facility operations, finance, business

1 development, safety, compliance, regulatory affairs, and customer  
2 service.

3 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
4 **PROCEEDING CONSISTING OF SIXTEEN PAGES AND ONE**  
5 **EXHIBIT?**

6 A. Yes. My direct testimony and one supporting exhibit were filed in this  
7 docket on October 10, 2022.

8 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

9 A. The purpose of this rebuttal testimony is to respond to written testimony  
10 filed in this proceeding by customers Edward B. Winn, Jr. and James D.  
11 Moore III and Public Staff witnesses D. Michael Franklin and Lynn L.  
12 Feasel.

13 **Q. BY WAY OF BACKGROUND, PLEASE DESCRIBE THE RATES**  
14 **CURRENTLY BEING CHARGED BY WATER RESOURCE**  
15 **MANAGEMENT LLC (“WRM”) FOR WATER AND SEWER UTILITY**  
16 **SERVICE TO ITS CUSTOMERS IN WATAUGA COUNTY AND THE**  
17 **RATES WHICH CWSNC PROPOSES TO INITIALLY CHARGE IF THIS**  
18 **TRANSFER APPLICATION IS APPROVED BY THE COMMISSION.**

19 A. The present water utility rates for the Echota service area were approved  
20 in Docket No. W-1073, Sub 4, on December 16, 2015, and Docket No.  
21 W-1073, Sub 6, on March 26, 2021. The present wastewater utility rates

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for the Seven Devils service area were approved in Docket Nos. W-1073, Sub 5, and M-100, Sub 138, and have been in effect since February 13, 2015. Based upon a review of the Commission’s electronic docket system, WRM does not appear to have ever filed a general rate case for its water and sewer systems, and the current rates are, as a result, very low. Upon acquisition of the system, CWSNC proposes to initially charge the Company’s Sub 384 Commission-approved Uniform Rates for flat rate residential service for both water and wastewater utility service. The Sub 384 rates were approved by the Commission on April 8, 2022. The present and proposed rates for Echota and Seven Devils are as follows:

<u>Monthly Flat Rate Service</u>	<u>Present</u>	<u>Proposed</u>
Water (Echota)	\$20.00	\$68.71
Wastewater (Seven Devils)	\$28.20	\$85.12

**Q. PLEASE BRIEFLY DESCRIBE IN GENERAL THE POSITION TAKEN BY CUSTOMERS WINN AND MOORE REGARDING THE COMPANY’S PROPOSED SEWER RATE FOR SEVEN DEVILS.**

A. Customers Winn and Moore contend that it would be unreasonable for the Commission to approve the Company’s proposal to implement its Sub 384 Uniform Rate for flat rate residential wastewater utility service at Seven Devils upon approval of the transfer application, citing the magnitude of the requested rate increase above the present WRM wastewater rate, “rate shock” and other system-specific wastewater rates

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currently being charged by CWSNC. Customers Winn and Moore conclude their testimony with the following statement: “To avoid rate shock, if the transfer application is approved, any increase in the rate should be phased in over several years.”

In support of their position, customers Winn and Moore also point out that, in addition to the uniform rates, ten individual service area wastewater rates were approved in the Docket No. W-354, Sub 384 rate case. They assert that the fact that ten individual rates were approved demonstrates that both the Commission and CWSNC recognize that a uniform rate is neither mandatory nor applicable across the CWSNC system and that the Commission clearly has the authority to provide for different rates when conditions require it.

**Q. PLEASE BRIEFLY DESCRIBE IN GENERAL THE POSITION TAKEN BY THE PUBLIC STAFF REGARDING THE COMPANY’S PROPOSED WATER AND SEWER RATES FOR THE ECHOTA AND SEVEN DEVILS SERVICE AREAS.**

A. Public Staff witnesses Franklin and Feasel recommend that, in this transfer proceeding, the Echota and Seven Devils service areas should not be charged CWSNC’s Uniform Water and Sewer Rates and instead should be subject to a standalone rate schedule. The Public Staff’s stated basis for standalone rates is that the expected revenues to be collected

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by CWSNC's proposed rates would significantly exceed the revenue requirements recommended by the Staff in this case.

Public Staff witness Feasel calculated proposed standalone revenue requirements for the Echota water system and the Seven Devils wastewater system to be \$247,709 and \$66,261, respectively. Using witness Feasel's recommended revenue requirements, witness Franklin designed and recommends the following monthly flat rates for water and sewer utility service: Echota Water - \$33.67 and Seven Devil's Wastewater - \$37.06.

In addition, the Public Staff, through witness Franklin's testimony, recommends that the Commission approve the transfer of the WRM public utility franchise to CWSNC at the rates recommended by the Staff and not the Uniform Rates proposed by CWSNC. The Public Staff also recommends that CWSNC install water meters in the Echota service area within one year of taking ownership of the Echota water system.

**Q. PLEASE DESCRIBE THE COMPANY'S POSITION IN RESPONSE TO THE CUSTOMER AND PUBLIC STAFF TESTIMONY SUMMARIZED ABOVE.**

A. CWSNC continues to believe that it would be reasonable and appropriate for the Commission to approve the Company's joint transfer application subject to immediate implementation of the CWSNC Uniform Water and



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Sewer Rates in the Echota and Seven Devils service areas for the reasons previously stated in my direct testimony.

However, in the spirit of reasonable compromise and in response to customer concerns, CWSNC, in good faith, now offers the following alternative compromise rate design implementation proposal for consideration and approval by the Commission.

First, CWSNC will accept the proposed water and sewer revenue requirements and flat rates proposed by the Public Staff for implementation upon Commission approval of the transfer application, subject to a Commission-authorized phase-in of the Company's Sub 384 uniform rates. CWSNC offers this proposal subject to a stipulation that the Company's acceptance of the Public Staff's proposed water and wastewater revenue requirements and rates should be declared by the Commission, if approved, to have no precedential value in view of the Company's offered compromise position and concerns set forth below.

Second, the Company asserts that a phase in of rates is reasonable and in the public interest for several reasons. The revenue requirement for the Echota and Seven Devils systems will increase beyond the Public Staff's numbers as a result of the necessary capital investments in the systems, including the addition of meters. Additionally, there are savings both in money and time for the Company, the Public Staff, and

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the Commission should the Company not be required to file standalone rate cases for the Echota and Seven Devils communities. Finally, the proposed phase in will address customer concerns to rate shock. Absent consistent incremental change to the Echota and Seven Devils rates, the concerns of future rate shock will remain unaddressed. If the recommended rates below are approved, this system will be at the Sub 384 rates after 36 months from Commission order, and still below the Company proposed Sub 400 rates. CWSNC will work to continue to address this rate disparity in a future rate case in a reasonable and incremental manner such that rate shock can be reasonably avoided.

Third, CWSNC proposes that the phase-in to the Sub 384 uniform water and wastewater rates proceed as follows:

	Public Staff Recommended				Sub 384 Rates
	Year 1	Year 2	Year 3		Year 4
	At Commission Order	12 months after Commission Order	24 Months after Commission Order		36 Months after Commission Order
Monthly Flat Rate Utility Service:					
Water	\$ 33.67	\$ 45.35	\$ 57.03		\$ 68.71
Wastewater	\$ 37.06	\$ 53.08	\$ 69.10		\$ 85.12
Monthly Metered Water Utility Service					
Base Charge, zero usage	\$ 13.50	\$ 17.18	\$ 20.85		\$ 24.53
Usage Charge, per 1,000 gallons	\$ 7.80	\$ 9.10	\$ 10.41		\$ 11.71
Reconnection Charge					
If water service cut off by utility for good cause	\$ 42.00	\$ 42.00	\$ 42.00		\$ 42.00
if water service is discontinued at customer's request	\$ 42.00	\$ 42.00	\$ 42.00		\$ 42.00
if sewer service cut off by utility for good cause	Actual Cost	Actual Cost	Actual Cost		Actual Cost

Fourth, this phased in approach toward implementation of the Sub 384

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Uniform Water and Sewer Rates is consistent with the joint testimony offered by customer witnesses Winn and Moore that, if the transfer is approved, any increase to their wastewater rate should be phased in over several years to avoid rate shock. This is exactly what CWSNC's current alternative, phased in rate design proposal does, while also ensuring that, within a reasonable period, the Company will be able to fully implement its Sub 384 Uniform Water and Sewer Rates. This alternative, compromise approach is fair and reasonable to both the Echota water and Seven Devils sewer customers as well as to the Company's existing customer base.

**Q. PLEASE DESCRIBE ANY CONCERNS THAT CWSNC HAS WITH RESPECT TO THE STANDALONE WATER AND SEWER REVENUE REQUIREMENTS PROPOSED BY THE PUBLIC STAFF.**

A. CWSNC appreciates the fact that the Public Staff, through the testimony of witnesses Franklin and Feasel, has determined and recommended that (1) the transfer should be approved and (2) the Company's aggregate purchase price of \$70,000<sup>1</sup> for the Echota water and Seven Devils sewer

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<sup>1</sup> In my prefiled testimony, I noted that: "Attached as Exhibit 1 is support for Water Resource's net investment in its water and sewer systems, which CWSNC notes is approximately \$120,000. The Company reviewed Water Resource's books over the last several years and has noted several items that appear to have been incorrectly coded as expenses on Water Resource's books instead of recorded as plant in service. In addition, CWSNC has recalculated the net book value at CWSNC's current depreciation rates."

The \$70,000 purchase price to be paid by CWSNC for the WRM rate base assets, when compared to WRM's net investment of \$120,000, is clearly a benefit to both the Company's existing ratepayers as well as the new customers to be acquired by CWSNC upon approval of the proposed transfer.

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systems is reasonable for inclusion in rate base and determining cost of service upon approval of the transfer. Nevertheless, the Public Staff's standalone revenue requirement understates CWSNC's total dollar capital investment in this transfer proceeding which should be eligible for inclusion in rate base because it understates and does not recognize full due diligence costs incurred by the Company in conjunction with this transaction. To date, the Company has incurred due diligence costs totaling \$24,746 and estimates additional costs through the conclusion of the transfer case process which should be reviewed in in the next rate case.

In her testimony, witness Feasel states that for Echota Water she included transaction due diligence costs in the amount of \$8,229.39<sup>2</sup> in purchase acquisition adjustments as part of her standalone cost of service recommendation. Thus, the Public Staff's water and sewer rate base determinations and proposed rates are understated. Acceptance of those understated determinations in this case is a concession made by CWSNC in the spirit of compromise designed to move this case forward without further controversy, but with no future prejudicial precedent to the

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<sup>2</sup> In my prefiled direct testimony, I specifically noted that: "CWSNC is also incurring due diligence costs in conjunction with this application which are currently estimated to be approximately \$45,000, which the Company requests be authorized for inclusion in rate base in this proceeding in addition to the purchase price of \$70,000."

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Company. In addition, Public Staff witness Feasel calculated her proposed standalone rate base and accumulated depreciation numbers using WRM depreciation rates instead of CWSNC depreciation rates. Final due diligence costs should be reviewed and included in CWSNC's next general rate case for ratemaking purposes as was done in prior acquisition application dockets.

**Q. WHAT IS CWSNC'S POSITION REGARDING RATE BASE TREATMENT FOR ADDITIONAL PAYMENTS OF \$706 PER NEW CUSTOMER CONNECTION FOR UP TO 184 CONNECTIONS AS AN "INCENTIVE PAYMENT" FOR FUTURE PHASE IV LOTS?**

A. As I stated in my direct testimony, CWSNC requests rate base treatment as those payments are made and new customers are added to the water system. This ratemaking treatment is consistent with the Public Staff's recommendation in the testimony of witness Franklin that these incentive payments "...should not be included in the rate base until the connections to Echota Phase IV are implemented." There is no difference of opinion with the Public Staff here.

**Q. WHY SHOULD THE COMMISSION REJECT THE PUBLIC STAFF'S RECOMMENDATION THAT CWSNC SHOULD BE REQUIRED TO INSTALL WATER METERS IN THE ECHOTA SERVICE AREA WITHIN ONE YEAR OF TAKING OWNERSHIP OF THE WATER SYSTEM?**

1 A. For the following reasons, it is not likely that CWSNC will be able to install  
2 the water meters in the first year of operation as recommended by the  
3 Public Staff. The current lead time for water meters is eight to twelve  
4 months. The construction and utility markets have experienced delivery  
5 challenges of equipment and supplies over the last three years, driven by  
6 raw material delivery and labor shortages.

7 In addition, Echota customers are currently directly connected into  
8 the water distribution system. Adding meter infrastructure where line  
9 location will be required typically adds complexity, schedule delays, and  
10 potentially increased cost to the installation. CWSNC is investigating  
11 alternatives including installing meters under the multifamily units (in the  
12 crawlspaces) as an alternative. This will not, however, address the long  
13 supply chain timeline.

14 **Q. HOW DO YOU RESPOND TO THE IMPLIED CRITICISM OFFERED BY**  
15 **PUBLIC STAFF WITNESS FRANKLIN THAT “AFTER MORE THAN A**  
16 **YEAR OF OPERATING THE ECHOTA AND SEVEN DEVILS UTILITY**  
17 **SYSTEMS AND APPROXIMATELY SIX MONTHS AFTER FILING THE**  
18 **TRANSFER APPLICATION WITH THE COMMISSION, CWSNC**  
19 **DETERMINED ADDITIONAL CAPITAL EXPENSES WERE**  
20 **REQUIRED.”**

1 A. CWSNC was retained by WRM beginning on September 16, 2021, to  
2 serve as the contract operator of the water and sewer systems which the  
3 Company now seeks to purchase. In my prefiled direct testimony, I stated  
4 that: "Over the six months since the transfer application was filed  
5 [April 22, 2022], CWSNC has identified additional capital needs at both  
6 the Echota water system and Seven Devils sewer system." It should not  
7 be surprising to the Public Staff and, for that matter, to the current  
8 customers of WRM, that CWSNC, in its role as contract operator of the  
9 water and sewer systems in question, gained (and continues to gain)  
10 greater insight as to the capital needs and operational issues which must  
11 be addressed at Echota and Seven Devils once the transfer of ownership  
12 is approved.

13 The implied criticism from the Public Staff is misplaced. More  
14 importantly, the Public Staff has not taken issue with or questioned, at  
15 least up to this point in time, the need for any of the capital improvements  
16 discussed in my direct testimony.

17 The Public Staff's criticism also fails to recognize that the  
18 Commission's transfer application form at page 7 asks, in pertinent part,  
19 as follows: "Are there any major improvements/additions required in the  
20 next five years and the next ten years?" Because there is no definition of  
21 the term "major improvements/additions" in the form application, there is

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ambiguity as to what should be listed. I addressed this ambiguity in my direct testimony by providing a list of recently identified capital projects and the estimated cost of each. I hope that this explanation adequately and clearly responds to witness Franklin’s statement at page 15, lines 10 - 13, of his prefiled testimony.

**Q. PLEASE ADDRESS THE TESTIMONY OFFERED BY CUSTOMERS WINN AND MOORE THAT TEN INDIVIDUAL SERVICE AREA WATEWATER RATES WERE APPROVED BY THE COMMISSION IN THE SUB 384 RATE CASE.**

A. The testimony regarding this issue by customers Winn and Moore is inapt in that it does not recognize or discuss the following significant differences between customers on CWSNC’s Uniform Wastewater Rates and the ten cited sewer systems.

First, CWSNC is organized into four rate divisions, as follows: Uniform Water Rate Division; Uniform Sewer Rate Division; Bradfield Farms/Fairfield Harbour/Treasure Cove (“BF/FH/TC”) Water Rate Division; and Bradfield Farms/Fairfield Harbour (“BF/FH”) Sewer Rate Division.

The other nine of the sewer systems referenced by customers Winn and Moore are part of the Company’s Uniform Sewer Rate Division. Of



Docket No. W-354, Sub 396

Docket No. W-1073, Sub 7

1 those nine sewer systems, six<sup>3</sup> are purchased sewer systems, which  
2 means that CWSNC does not itself treat their wastewater, but, instead,  
3 purchases bulk treatment services from another utility. The rates for  
4 purchased sewer systems are set differently by the Commission than  
5 those systems where CWSNC provides the treatment services. For this  
6 reason, the comparison of the rates charged by CWSNC to customers in  
7 purchased sewer systems by customers Wynn and Moore is also  
8 inappropriate.

9 Three additional systems on the Sub 384 chart (Regalwood and  
10 White Oak, White Oak High School, and Child Castle Daycare) are not  
11 part of a purchased sewer system, but the residential customers at  
12 Regalwood/White Oak are charged the Company's Uniform Sewer Flat  
13 Rate (the same rate which would be applicable to Seven Devils). Rates  
14 for the White Oak High School and Child Castle Daycare are customer-  
15 specific based on their unique circumstances. Thus, any rate comparison  
16 here is also inappropriate.

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<sup>3</sup> College Park, Kings Grant – Charlotte, White Oak Plantation/Winston Point/Lee Forest, Mt. Carmel, Ridges at Mountain Harbour, and Fairfield Mountain/Apple Valley.

1       **Q.    DO YOU CONTINUE TO MAINTAIN THAT THE PUBLIC INTEREST**  
2       **AND PUBLIC CONVENIENCE AND NECESSITY WILL BE SERVED BY**  
3       **APPROVAL OF THE CWSNC/WRM TRANSFER APPLICATION?**

4       A.    Yes. The purpose of this Application is to facilitate the transfer of the water  
5       and sewer systems owned by WRM to CWSNC at a price which is fair and  
6       reasonable to both the seller and the buyer and on terms which are  
7       beneficial and not detrimental to the current customers of CWSNC or  
8       those of WRM. I again reiterate that, in this instance, the water and sewer  
9       systems currently owned by WRM, while not yet operationally troubled to  
10      the extent that there is a need for appointment of an emergency operator,  
11      is in financial and operational difficulty. The water and sewer systems at  
12      issue will unquestionably benefit from the significant financial and local  
13      operational resources and expertise which CWSNC will provide upon  
14      approval of the transfer application. It is prudent to do reasonable things  
15      to support avoidance of a descent into “officially” troubled status, which  
16      this transfer will do.

17                In addition, consistent with my direct testimony, I want to reiterate  
18      that significant warning signals have been emanating from these water  
19      and sewer systems, as demonstrated by even a cursory review of the  
20      Annual Reports heretofore filed by WRM. The WRM operational financial  
21      losses have not been a secret and, unsurprisingly, CWSNC continues to

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discover and evaluate additional system needs as it has conducted its due diligence and as it has served as contract operator.

I also reaffirm my direct testimony where I stated that if the requested transfer is approved, the WRM customers will clearly receive substantial benefit in two essential ways: first, from the operational expertise and service improvements which will be timely and prudently provided by the Company; and, secondly, from the financial integrity offered by CWSNC as a well-run and well capitalized public utility able to provide consistently safe, reliable, and compliant service.

**Q. ARE THERE ADDITIONAL COMMENTS THAT YOU WISH TO OFFER REGARDING PUBLIC INTEREST AND RATEMAKING CONSIDERATIONS?**

A. Yes. Clearly, the public interest will be served by approval of this pending transfer application. CWSNC has the technical, managerial, operational, and financial capacity to provide adequate, safe, efficient, and reasonable water and sewer utility service on an ongoing basis to existing customers as well as customers in the current WRM service area.

Accordingly, consistent with G.S. 62-111(a), CWSNC requests that the Commission conclude that approval of the pending transfer application is justified by the public convenience and necessity and is in the public interest. CWSNC also requests that the Commission approve the

1 Company's proposed phased in rate implementation proposal and  
2 determine the Company's rate base request consistent with this  
3 testimony. The Company further requests that the Commission not  
4 approve the Public Staff's recommendation that CWSNC should be  
5 required to install water meters in the Echota service area within one year  
6 of taking ownership of the water system.

7 **CONCLUSION**

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

9 A. Yes, it does.