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1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, POSITION WITH  
2  
3 OLD NORTH STATE WATER COMPANY, INC., AND YOUR BUSINESS  
4  
5 ADDRESS.  
6

7 A. My name is John McDonald, and I am the President of Old North State  
8  
9 Water Company, Inc. (ONSWC), f/k/a Old North State Water Company, LLC.  
10  
11 Prior to ONSWC's conversion to a corporation, my position was Managing  
12  
13 Member. My business address is 3212 6<sup>th</sup> Avenue South, Suite 200, Birmingham,  
14  
15 AL 35222.  
16

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?  
18

19 A. The purpose of this testimony is to respond to the allegations in the  
20  
21 Complaint filed January 3, 2022, and the testimony filed by D. Logan on October  
22  
23 3, 2022, in this matter.  
24

25 Q. DO YOU HAVE ANY EXHIBITS?  
26

27 A. Yes. McDonald Exhibit 1 contains a series of notices from the North  
28  
29 Carolina Department of Environmental Quality (DEQ), illustrating compliance  
30  
31 problems with the Majestic Oaks wastewater treatment plant. McDonald Exhibit 2  
32  
33 is a letter from DEQ encouraging transfer of utility assets from ONSWC to Pluris  
34  
35 Hampstead, LLC (Pluris), in light of the "troubled" nature of the ONSWC system  
36  
37 served by the Majestic Oaks treatment plant. McDonald Exhibit 3 is a copy of the  
38  
39 Special Use Permit application and associated staff report realign to installation of  
40  
41 a lift station at the ONSWC plant site in Pender County (which lift station facilitates  
42  
43 Pluris provision of bulk service to ONSWC), noting that ONSWC would  
44  
45 decommission its Majestic Oaks treatment plant. McDonald Exhibit 4 is a copy of  
46  
47

1 the Amended Asset Purchase Agreement between ONSWC and Pluris, stating  
2 terms for the transfer of the ONSWC utility assets and franchises in Pender County  
3 to Pluris, and also stating alternatives if the transfer were not to be approved by the  
4 Commission.  
5  
6  
7

8  
9 **Q. PLEASE DESCRIBE THE DEVELOPMENT AGREEMENT BETWEEN**  
10 **WLI INVESTMENTS AND ONSWC.**  
11

12  
13 **A.** On December 13, 2018, ONSWC entered an agreement (Agreement),  
14 negotiated and signed by Michael Myers on behalf of ONSWC, with WLI  
15 Investments, Inc. (WLI). WLI is affiliated with Mr. D Logan, a developer of  
16 various properties in Pender County, and WLI is the developer of a subdivision  
17 called Salter's Haven at Lea Marina (Salter's Haven) with 308 planned lots and a  
18 nearby 30-lot property separately owned by members of the Lea family (Lea Lots<sup>1</sup>).  
19 The Agreement provides for WLI to design and install wastewater collection  
20 systems for both Salter's Haven and the Lea Lots, connect those collection systems  
21 with the Majestic Oaks wastewater system, and contribute the collection systems  
22 to ONSWC.  
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33 The Agreement further provides that WLI must obtain ONSWC's approval  
34 of the collection system plans, such approval not to be unreasonably withheld,  
35 delayed, or conditioned.  
36  
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38  
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42  
43 <sup>1</sup> The 30 lots owned by Mr. Lea, which are near Salter's Haven, have been called the Lea Lots, the Lea  
44 Tract, and the ESA. "Lea Tract" is confusing because that term could also refer to the combined Salter's  
45 Haven and Lea Lots area (now planned for a total of 338 lots). "ESA" is a term used in the Agreement to  
46 describe the Lea Lots as an extended service area, close to but separate from Salter's Haven. I use the term  
47 "Lea Lots" (sometimes along with "ESA") in this testimony because that is consistent with how Mr.  
Logan's testimony describes the 30-lot property of Mr. Lea that is the subject of the Complaint.

1                   The Agreement also provides for ONSWC to expand its Majestic Oaks  
2  
3                   wastewater treatment plant (WWTP) to have enough treatment capacity to serve  
4  
5                   the 338 lots planned for Salter's Haven and the Lea Lots.  
6

7                   **Q.   HOW HAVE CIRCUMSTANCES CHANGED THE IMPLEMENTATION**  
8  
9                   **OF THAT AGREEMENT?**

10  
11                  **A.**           At the time of the Agreement, the Majestic Oaks WWTP did not have  
12  
13                  sufficient capacity to serve the 338 lots anticipated in the Agreement along with the  
14  
15                  other connected service areas of ONSWC. The connected service areas that are  
16  
17                  served by the Majestic Oaks WWTP, and the docket numbers for their respective  
18  
19                  Certificates of Public Convenience and Necessity (CPCN), are:

- 20  
21                       • Majestic Oaks and the Hampstead Shopping Center (Docket No. W-1300,  
22                       Subs 0 and 3);
- 23  
24                       • Forest Sound (formerly, Southside Commons and before that known as Grey  
25                       Bull) (Docket No. W-1300, Sub 20);
- 26  
27                       • Majestic Oaks West (Docket No. W-1300, Sub 30); and
- 28  
29                       • Salter's Haven at Lea Marina, Phases 1 and 2 (Docket No. W-1300, Sub 56)
- 30  
31

32                  All these systems are in Pender County (collectively, the Transfer Areas). ONSWC  
33  
34                  was willing to expand treatment capacity to serve the Transfer Areas and the Lea  
35  
36                  Lots, and that is reflected in Section 7 of the Agreement. The commitment to  
37  
38                  expand the Majestic Oaks WWTP was negotiated by Mike Myers, who at the time  
39  
40                  held a small ownership interest in ONSWC and also was the principal owner of  
41  
42                  Envirolink, Inc. Envirolink was the contract operator for the Majestic Oaks system  
43  
44                  until the fall of 2020.  
45  
46  
47

1 Two subsequent and interrelated circumstances have affected the ONSWC  
2  
3 commitment to expand treatment capacity at the Majestic Oaks WWTP.  
4

5 First, I discovered that the Majestic Oaks WWTP was in poor condition,  
6  
7 had received Notices of Violation from the Division of Water Resources (DWR) in  
8  
9 DEQ, and would face significant physical and regulatory obstacles to expansion.  
10  
11 For example, correspondence with DEQ in McDonald Exhibit 1 illustrates a series  
12  
13 of Notices of Violation issued by DEQ from September 2020 forward, and the  
14  
15 ONSWC struggle to get that plant back into compliance. McDonald Exhibit 2 is a  
16  
17 letter from DEQ encouraging transfer of the utility assets to Pluris because the  
18  
19 Majestic Oaks WWTP is a “troubled” facility with numerous violations. In  
20  
21 addition, ONSWC had difficulty obtaining a Special Use Permit from Pender  
22  
23 County, with the most recent permit being approved after ONSWC committed to  
24  
25 decommissioning the Majestic Oaks WWTP. See McDonald Exhibit 3. I estimate  
26  
27 that expansion of the Majestic Oaks WWTP would be a lengthy process, even in  
28  
29 the unlikely event that ONSWC could get the necessary regulatory approvals from  
30  
31 Pender County and DEQ, and would cost \$2.2 million or more. Expansion of the  
32  
33 Majestic Oaks WWTP was extremely doubtful in these circumstances.  
34

35 Second, I took action in response to what I perceived as poor business  
36  
37 practices and poor operational performance by the contract operator. I acted to  
38  
39 remove Mr. Myers as a member of ONSWC and discharged Envirolink as a  
40  
41 contract operator for ONSWC. This has been difficult, as it has consumed much  
42  
43 management time and also has resulted in litigation being brought against me and  
44  
45 ONSWC by Mr. Myers. However, I believe it was a prudent management decision  
46  
47



1 required to improve the performance of ONSWC utility operations, including the  
2  
3 Majestic Oaks WWTP.  
4

5 With the deterioration of the Majestic Oaks WWTP and my intent to  
6  
7 provide adequate wastewater service for the Transfer Areas developments, it  
8  
9 became necessary to find the most cost effective and quickly available wastewater  
10  
11 treatment option. That is how I came to negotiate with Pluris for use of its  
12  
13 Hampstead WWTP to provide bulk wastewater treatment service to Pluris for the  
14  
15 areas that had been served by the Majestic Oaks WWTP.  
16

17 There are two phases to the arrangement between ONSWC and Pluris. I  
18  
19 needed a prompt treatment solution to satisfy DEQ, mitigate regulatory sanctions,  
20  
21 and provide treatment that would be more reliable and compliant with regulations.  
22  
23 Pluris agreed to provide bulk treatment of the wastewater that otherwise would have  
24  
25 gone to the Majestic Oaks WWTP, and ONSWC agreed to pay Pluris all the  
26  
27 revenues from the customers in the subject service areas. See McDonald Exhibit  
28  
29 4, particularly Section 2.07. This bulk service arrangement was approved by the  
30  
31 Commission in Docket No. W-1300, Sub 69, and W-1305, Sub 29, by order of  
32  
33 April 6, 2021. While necessary to continue service to the customers, the bulk  
34  
35 treatment contract with Pluris has resulted in an ongoing financial loss for ONSWC  
36  
37 because the utility continues to have expenses and investment in the systems but no  
38  
39 revenues to pay for them.  
40

41 The long-term solution is for transfer of the utility franchises and assets  
42  
43 needed for Pluris to serve the Transfer Areas. ONSWC and Pluris agreed on terms  
44  
45  
46  
47

1 for a transfer, and applied for Commission approval of the transfer in Docket Nos.  
2  
3 W-1300, Sub 69, and W-1305, Sub 29, in September 2020.  
4

5 **Q. HOW DO THESE NEW CIRCUMSTANCES AFFECT THE AGREEMENT**  
6  
7 **BETWEEN ONSWC AND WLI?**  
8

9 **A.** The goal of Section 7 in the Agreement is to ensure that ONSWC provides  
10 enough treatment capacity to allow sewer utility service to all customers in the  
11 Transfer Areas and also in the 30 Lea Lots. That goal is achieved by the wastewater  
12 treatment being provided by Pluris as a bulk service for ONSWC on a temporary  
13 basis. That goal will be achieved on a permanent basis if the transfer is approved  
14 in Docket Nos. W-1300, Sub 69, and W-1305, Sub 29, which is why that approval  
15 is so important to WLI and the customers in the Transfer Areas. Pluris has a high  
16 quality membrane bioreactor treatment plant with a treatment capacity of 500,000  
17 gallons per day. According to Mr. Gallarda of Pluris, that is more than enough  
18 capacity to serve all potential customers in the Transfer Areas, the Lea Lots, and  
19 customers on Pluris' systems who are connected to that WWTP. Expansion of the  
20 Majestic Oaks WWTP is not feasible, and use of the Pluris treatment plant satisfies  
21 the public interest, customer needs, and developer needs for treatment capacity.  
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35 **Q. WILL WLI BE ABLE TO USE THE TREATMENT CAPACITY AT THE**  
36  
37 **PLURIS WWTP FOR HOMES IN THE 30-LOT LEA AREA IF PLURIS**  
38  
39 **REFUSES TO CONNECT TO THAT AREA?**  
40

41 **A.** The question incorrectly assumes that Pluris will refuse to connect the 30  
42 lots in the Lea Lots under any circumstance. The dispute here is about whether  
43 WLI is entitled under the Agreement to install a low pressure grinder pump system  
44  
45  
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47

1 to serve the Lea Lots. ONSWC and Pluris are of the opinion that the Agreement  
2 does not entitle WLI to do so, and the parties here have a good faith disagreement  
3 on this point. Pluris has stated that it opposes the use of low pressure grinder pump  
4 systems when a property can be served by a gravity collection system. Pluris  
5 informs me that if the Commission approves the transfer application, it will assume  
6 ONSWC's obligations under the Agreement, including with respect to serving the  
7 Lea Lots. Pluris also informs me that it believes a proper engineering evaluation  
8 will not show that a gravity-fed collection system was not feasible and that grinder  
9 pumps with low pressure lines were necessary to serve the Lea Lots. Finally,  
10 Pluris has stated that if the Commission rules that WLI is entitled under the  
11 Agreement to install a low pressure grinder pump system to serve the Lea Lots, that  
12 Pluris will abide by that decision.  
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25 Section 2.2 of the Amended Asset Purchase Agreement between Pluris and  
26 ONSWC (McDonald Exhibit 4) provides that the "Purchased Assets" include "The  
27 Service Agreements between Seller and the owners or developers of the  
28 Properties...." Thus, once the transfer is approved by the Commission and a  
29 closing occurs, Pluris will be obligated to provide sewer service to the Lea Lots  
30 pursuant to the terms of the December 2018 Agreement between ONSWC and  
31 WLI. Under the Agreement terms, Pluris would only be able to refuse service to  
32 the Lea Lots if the collection system plans are not reasonable or the installation  
33 does not meet reasonable standards. The question of whether grinder pumps and  
34 low pressure lines are reasonable plans for the Lea Lots is the real issue in this  
35 Complaint proceeding, not the expansion of treatment capacity.  
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1 Q. THE COMPLAINT ALLEGES IN ¶ 26 THAT YOU TOLD WLI YOU  
2  
3 WOULD NOT SIGN A PERMIT APPLICATION FOR A SEWER  
4  
5 COLLECTION SYSTEM FOR THE LEA LOTS BECAUSE “PLURIS  
6  
7 REFUSES TO ACCEPT WLI INVESTMENT’S WASTEWATER  
8  
9 COLLECTION SYSTEM THAT INCLUDED GRINDER PUMPS AND  
10  
11 LOW-PRESSURE FACILITIES.” IS THAT ALLEGATION CORRECT?  
12

13 A. It is partially correct. I would have signed a permit application for a sewer  
14  
15 collection system for the ESA, which is the Lea Lots, and would have otherwise  
16  
17 supported WLI on its installation of a collection system for the ESA, if they were  
18  
19 willing to install a gravity system. WLI has not been willing to seek a permit for  
20  
21 and install a gravity system for the ESA, and that is unreasonable from my  
22  
23 perspective.  
24

25 Q. WHY IS IT UNREASONABLE FROM YOUR PERSPECTIVE?  
26

27 A. First, the December 13, 2018, Development Agreement that creates the  
28  
29 contractual rights and responsibilities of the parties has a section specific to the  
30  
31 ESA that describes collection system features that are inconsistent with use of a  
32  
33 low pressure system with grinder pumps.  
34

35 There are parts of the Agreement that refer to grinder pumps and low  
36  
37 pressure facilities, such as the Whereas clauses and the definitions section. Those  
38  
39 references are general statements for the Subdivision as a whole, including Salter’s  
40  
41 Haven. In fact, emails produced by WLI in discovery show that the drafting of the  
42  
43 Agreement from July 2018 to November 2018 pertained solely to the Salter’s  
44  
45 Haven area, and not the Lea Lots, until at the very end of November 2018 when  
46  
47

1 WLI asked to include the Lea Lots. A new Section 5 was added to the Agreement  
2  
3 in December of 2018 to address the Lea Lots, which became apparent in exhibits  
4  
5 presented to Mr. Myers during his deposition.  
6

7 The general references to grinder pumps in the Agreement were there before  
8  
9 the Lea Lots were added into the Agreement. For the Lea Lots, the new Section 5  
10  
11 is specific to the ESA and does not mention grinder pumps or low pressure  
12  
13 facilities. Rather, Section 5.3 of the Agreement requires the developer to install an  
14  
15 “ESA Wastewater Service Line” to each house within the ESA. It then states:  
16  
17 “This ESA Wastewater Service Line shall consist of a 4” wastewater service tap, a  
18  
19 service pipe of adequate size to serve the residence, a clean out at the easement or  
20  
21 right of way line, and an elder valve.” These components are used in a gravity  
22  
23 sewer collection system but not in a low pressure collection system. There would  
24  
25 not be an elder valve associated with a low pressure line from a grinder pump. Nor  
26  
27 would a low pressure line connect to a 4” wastewater service tap, as the low  
28  
29 pressure line from a grinder pump would be 1.5” or 2” in diameter. It is  
30  
31 unreasonable for WLI to insist on a collection system that is inconsistent with the  
32  
33 terms of the contract signed by WLI that are specific to the system to be installed  
34  
35 in the ESA/Lea Lots.  
36

37 **Q. IS THE WLI DEMAND FOR A GRINDER PUMP LOW PRESSURE**  
38  
39 **COLLECTION SYSTEM IN THE LEA LOTS UNREASONABLE IN**  
40  
41 **OTHER RESPECTS?**  
42

43 **A.** Yes. There is a strong need for Pluris to become the utility provider for the  
44  
45 Transfer Areas and the Lea Lots. This need arises from the problems with the  
46  
47

1 Majestic Oaks WWTP – problems that cannot be fixed without highly uncertain  
2 regulatory approvals and massive investment and delays. Pluris has a high quality  
3 treatment plant that can serve the Transfer Areas and the Lea Lots without the  
4 massive new investment, regulatory challenges, and delays that would face an effort  
5 to upgrade the Majestic Oaks WWTP. ONSWC has a temporary agreement for  
6 bulk sewer treatment service from Pluris, but the Transfer Areas need a permanent  
7 solution. Pluris has agreed to provide the permanent solution by acquiring the  
8 franchise and assets for the Transfer Areas. In doing so it would also step into the  
9 shoes of ONSWC with regard to developer agreements, including the Agreement  
10 between WLI and ONSWC that covers the Lea Lots as well as Salter's Haven.  
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21 However, Pluris has made clear that it does not want to see a low pressure  
22 collection system with grinder pumps installed in the Lea Lots, unless it is shown  
23 that a gravity system cannot be used there. No such showing has been made to  
24 date. The position of Pluris is that grinder pumps create problems for the serving  
25 utility, create problems and additional costs for homeowners, and that homeowners  
26 will complain to the utility about grinder pump problems notwithstanding  
27 covenants that put the maintenance and repair burden on the homeowners. It is my  
28 understanding that Pluris has operated systems elsewhere that have some grinder  
29 pumps, and is willing to accept and serve the existing grinder pumps in Salter's  
30 Haven, but based on its experience with grinder pumps Pluris does not want to  
31 acquire additional grinder pumps for any area that can be served by gravity  
32 collection.  
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1 To date, WLI has not conducted an engineering evaluation to show that a  
2 gravity system is not feasible for the Lea Lots. When I discussed this situation with  
3 Mr. Logan, his sole stated concern was to save money for WLI by installing grinder  
4 pumps, as they would be less expensive to install than a gravity-fed system. He did  
5 not provide any analysis or estimations. It is my understanding from listening to  
6 the deposition of Mr. Gallarda that Pluris would be open to accepting a grinder  
7 pump low pressure system for the Lea Lots if a valid engineering analysis showed  
8 the need to use that type of system instead of a collection system. Again, no such  
9 analysis has been provided to date.  
10  
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19 Given the lack of any engineering analysis showing low pressure facilities  
20 are the only realistic option for the Lea Lots, I do not believe it would be reasonable  
21 for ONSWC to accept low pressure facilities with grinder pumps at the Lea Lots.  
22 Low pressure lines with grinder pumps will cost homeowners more in the long  
23 term, and they are disfavored by Pluris and the Public Staff. It is very much in the  
24 public interest for Pluris to acquire the Transfer Areas. If the transfer is approved,  
25 it will be legally and practically impossible for ONSWC to provide service to the  
26 Lea Lots. The only reasonable outcome is for transfer of the ONSWC wastewater  
27 utility system serving the Transfer Areas (including Salter's Haven) to Pluris. The  
28 transfer contract requires Pluris to be the successor to the Agreement and thus serve  
29 the Lea Lots; and Pluris will not voluntarily accept responsibility for grinder pumps  
30 in the Lea Lots absent proof that a gravity system cannot be used there. Even if the  
31 Agreement with WLI did provide for use of grinder pumps in the Lea Lots, which  
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1 it does not, the critical need for approval of the transfer outweighs any other  
2 considerations.  
3

4  
5 **Q. HAVE YOU REVIEWED THE EMAIL EXCHANGE THAT MR. LOGAN**  
6 **CITES AS EVIDENCE THAT ONSWC HAS AGREED TO GRINDER**  
7 **PUMPS FOR THE LEA LOTS?**  
8  
9

10  
11 **A.** Yes, that July 9, 2018, email is mentioned on page 12 of Mr. Logan's direct  
12 testimony and is included as a part of WLI's Direct Exhibit 3.  
13

14  
15 **Q. DOES THAT EMAIL EXCHANGE SHOW A CONTRACTUAL**  
16 **COMMITMENT BY ONSWC TO ACCEPT GRINDER PUMPS IN THE**  
17 **LEA LOTS?**  
18  
19

20  
21 **A.** No, in my opinion it does not. The Agreement from December 2018 sets  
22 the obligations of ONSWC. In Section 17.11 it allows future modifications where  
23 written and signed by the parties. I am not a lawyer, but the email exchange cited  
24 by Mr. Logan does not appear to me to be a signed contract amendment.  
25  
26

27  
28 Moreover, the email from Mr. Myers says ONSWC is "open to Alternative  
29 B" regarding "Off-site sewer infrastructure requirements"), meaning low pressure  
30 sewer with grinder pumps. I read this as inviting further negotiation, not a firm  
31 commitment.  
32  
33

34  
35 The depositions of Mr. Logan and Mr. Myers indicate this wording  
36 addressed a scenario where the entire Subdivision would be served by a low  
37 pressure collection system. Obviously that option was not chosen, as there are only  
38 26 of 308 lots in Salter's Haven served with a low pressure grinder pump system,  
39 the rest of the lots are served by a gravity-fed collection system.  
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1 Finally, the email reference to low pressure and grinder pumps falls under  
2 the subject heading of "Lea Tract." (See WLI Direct Exhibit 3) This is not the 30-  
3 lot property that is called the Lea Lots as discussed in my testimony. The email  
4 from Mr. Myers states "The Lea Tract is planned for 300 homes." This indicates  
5 he is discussing the Salter's Haven development, which does have 26 lots with  
6 grinder pumps, and not the 30 Lea Lots. This email must be read as a whole to get  
7 the proper meaning.  
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15 **Q, DO YOU HAVE ANY CONCLUDING REMARKS?**

16  
17 **A.** Yes. I am in an awkward position because I want to accommodate WLI and  
18 also want to transfer the Majestic Oaks wastewater system to Pluris. Unfortunately  
19 I cannot do both. ONSWC has the right under the Agreement is to approve  
20 collection system plans for the ESA, meaning the Lea Lots, subject to the  
21 requirement that "such approval not to be unreasonably withheld, conditioned, or  
22 delayed." I have reasonably withheld approval of plans to install low pressure with  
23 grinder pumps in the Lea Lots.  
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31 My decision is reasonable because, first, the Agreement contains wording  
32 that is inconsistent with use of grinder pumps in the Lea Lots. I am following the  
33 written Agreement terms that WLI agreed to.  
34  
35  
36

37 Second, and most important in terms of the public interest, the loss of the  
38 Majestic Oaks WWTP as a viable option means ONSWC needs to transfer the  
39 Majestic Oaks wastewater system to Pluris, the transfer requires Pluris to be the  
40 successor in interest to ONSWC contracts with developers, and Pluris is opposed  
41 to the use of grinder pumps in the Lea Lots unless it is provided an engineering  
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43  
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1 analysis showing that grinder pumps are the only viable option for the Lea Lots.  
2  
3 WLI has not provided that analysis. In other words, WLI's position in this  
4  
5 complaint case jeopardizes the greater public interest in sewer service for all the  
6  
7 Transfer Areas. That is not a reasonable outcome and therefore the ONSWC refusal  
8  
9 to agree to grinder pumps for the Lea Lots has not been unreasonable.  
10

11 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

12  
13 **A.** Yes, it does.  
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