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June 18, 2024

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

RE: Docket No. W-1318, Sub 1

Dear Ms. Dunston:

Please accept for filing the following document in the above captioned dockets: Response of Owen Schultz for HH Water, Inc. on Customer Testimony.

Thank you for your attention to this matter.

Sincerely,
Edward S. Finley, Jr.
Counsel for HH Water, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing Response of Owen Schultz of HH Water Inc. on Customer Testimony in these dockets was duly served upon parties of record either by depositing same in a depository of the United States Postal Service, first class postage prepaid, or by electronic delivery.

This the 18 day of June 2024

Edward S. Finley, Jr.,

/s/ Edward S. Finley, Jr.

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COUNSEL FOR APPLICANT

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

Docket No. W-1318, Sub 1

In the Matter of		
Application of HH Water, Inc.)	Report of
For Approval of Rates for the High)	Owen Schultz
Hampton Service Area in Jackson County)	for HH Water
North Carolina)	Inc. on Customer
)	Testimony

NOW COMES HH WATER, INC. and submits this Report addressing service and service-related complaints expressed by customers at the June 4, 2024 public hearing at the Jackson County Courthouse in Sylva, North Carolina. This report is submitted by Owen Schultz.

Pursuant to the Commission’s scheduling order in this docket, the Applicant, HH Water Inc., is required to file a report addressing service and service-related complaints to which customers testified at the public hearing on June 4, 2024.

The Company's responses to the summarized complaints follow.

Only two witnesses testified, Ben Hill and Hope Saddler Poe. The witnesses primarily testified as to the magnitude of the rate increase requested by the Company. Mr. Hill stated that he has lived in the Sheep Laurel neighborhood within the High Hampton service area for approximately 25 years. Mr. Hill stated that he is a seasonal resident and normally comes to his high Hampton home every year from the end of May to the beginning of September and visits on some weekends during other months. Mr. Hill further stated that there are currently approximately 275 customers, the new developers are planning to build

a total of 450 to 500 new homes, and the new wells, installed new lines, and a new, large storage tank are to serve the new homes. He maintained that the existing customers do not need additional wells or storage capacity and are doing fine. He further stated that if additional wells or storage are built to serve new homes, the new homeowners should pay for them. He also stated that the developer is selling each lot with all utilities available for approximately \$500,000 to even \$3,000,000. The newer homes are 5,000 square feet to 10,000 square feet in size, which are larger than the older homes sizes of approximately 2,500 square feet to 3,000 square feet. Mr. Hill stated that he had some water outages and discolored water due to breaks in the water line caused by large construction trucks driving on the roads. He further stated that the Company acted quickly to repair those breaks.

Mr. Poe testified that he has been living in HH Water's service area, Sheep Laurel neighborhood, for approximately eight years. He is the current president of the Sheep Laurel Neighborhood Association. He testified that he has spoken to a lot of his neighbors who expressed concern about the magnitude of the proposed increase, and it is not just the two customers that testified at the hearing. He said that the Company has informed them that DEQ is requiring all the lead water lines to be replaced, and that there has been some work replacing some of these lines. In some areas, where the old galvanized (lead containing lines) were replaced, the Company has installed meters. He does not know if the Company plans to charge a flat rate or a metered rate. Mr. Poe wanted to know how much has been spent to replace the galvanized lines. He also was interested in knowing who is paying for the additional new wells and new storage tanks. Mr. Poe stated but he believes that since more capacity is not needed for the existing customers, the existing customers should not have to pay for added capacity. He mentioned that the Company has said that the wells are getting old. Mr. Poe further stated that he does not want to pay for the lots that the developer is profiting from. He also stated that there were a few times that water was out due to water line breaks caused by large construction trucks on the road. Mr. Poe further stated that one dry summer, the Company issued a water conservation notice urging customers not to use water lawns. He also mentioned that the customers were not informed of all the modifications, improvements and new construction that the Company

has planned until the notice of customers was mailed to the customers. In response to customer questions, the Company sent out two letters answering frequently asked questions and providing additional information regarding its future plans. After the hearing the Public Staff requested copies of these letters from the HH Water representative.

By and large the testimony of the two customer witnesses addressed ratemaking and cost recovery issues and not service-related issues. A more accurate accounting of the customer count would be that there were +/- 253 existing residential customers at the time that the property began to be redeveloped. The developer added +/- 217 new lots to the property for a total potential customer count at this time of 470 customers in TOTAL, not in addition to. Also, in addition to the +/- 253 customers of HH water prior to the redevelopment of the property, there have been +/- 42 homes completed and there are +/- 32 additional new homes underway. The total customer count currently is +/- 294. HH Water feels that the additional water storage is necessary for several reasons. One reason is fire flow. As old mainlines are replaced, hydrants are being added. A good example of this is the current Preston-Haskell mainline replacement project. The developer has pulled an old 1" galvanized line out of this old neighborhood and replaced it with 6" and 2" new mainlines and while doing so has added multiple hydrant locations. Additionally, the original design of the water system has a single water storage location which uses a single line for both filling the storage tanks and water distribution. By building a second storage tank facility in a separate location, the water system will see the benefit of better pressure regulation, a way of working on storage tanks while keeping water availability to all customers, and a better chance of firefighting without draining the total amount of drinking water storage. Lastly, historically High Hampton has run out of water in the past during a severe drought. We consider the installation of a second storage facility as a way of mitigating the chance of running out of water in future droughts.

The witnesses mentioned line breaks but acknowledged that they were caused by third party heavy construction vehicles hired by the developer traversing the lines. They mentioned that the line repairs redressed quickly. Mention was made of a notice to avoid watering lawns, but it appears that this notice was given before the test period in this

docket. Testimony by only one witness addressing some dissatisfaction with communications from the Company with respect to modifications, improvements and new construction with additional information that the Company addressed those concerns with two letters suggests to the Company that its communication efforts are not inadequate. The issue of installing meters and assessing customer rates on the basis of metered versus flat rate service is one appropriately addressed at the appropriate time through expert witness testimony.

A recurring complaint in the written testimony was that HH Water intentionally delayed notification of customers about the rate case. HH water contends that it followed the NCUC's rules for notification and as required by the NCUC properly documented notification.

VERIFICATION

STATE OF NORTH CAROLINA)
)
JACKSON COUNTY)

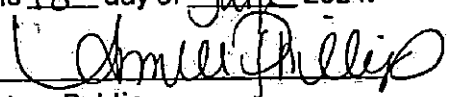
I, Owen Schultz, being duly sworn, depose and say:

I have reviewed the transcript of the public hearing conducted on June 4, 2024. I have read the foregoing report, and the facts stated therein are true of my personal knowledge, except as to any matters stated on information and belief. As to those matters, I believe them to be true.

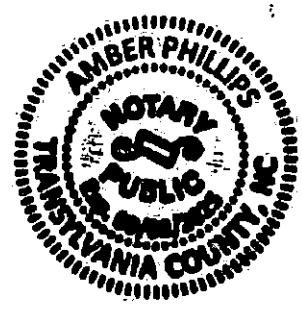

Owen Schultz

Sworn and subscribed before me

This 18th day of June 2024.


Notary Public

My Commission Expires: 9/08/2025



High Hampton Water, LLC FAQ

May 23rd, 2024

Dear High Hampton Water Customers:

Since sending out additional information about the High Hampton water system on May 7th, I have received more questions about the ongoing water rate case and public hearing coming up on June 4th. I have also received more questions about High Hampton's water system in general. I thought you would find it helpful if I addressed some of those questions and shared some new information with you as well. As always, I am available for clarification on most development issues with a simple phone call to my cell phone.

Best,

Owen Schultz
Vice President – High Hampton
Cell (828) 506-0880

Who owns the water utility HH Water, LLC?

High Hampton Investments owns the utility. High Hampton Investments also owns HH Land, HH Resort, and is a partner in the High Hampton Inn.

Who Operates the High Hampton Water System?

Sure Water Services is the current operator of the High Hampton Utility which handles both water and sewer. Ken and Connie Deaver are the owners of Sure Water Services. Ken has about 50 years of experience in operations and acquisitions of utilities. Please note that Sure Water Services is the operator of the water system hired by High Hampton Investments and is not the entity that is requesting the rate change.

Does the North Carolina Utilities Commission (NCUC) know that HH Water is owned by the same investment group that developed High Hampton?

Yes, as a standard requirement of going through a rate case, the NCUC is conducting a deep financial audit and is aware of the ownership structure.

The local Cashiers paper reported that High Hampton was providing 70,000 gallons per day of water to one of the new developments in Cashiers. Is this true?

No, it is not true. That was an error in the Cashiers Chronicle. HH Water is not bound to service only High Hampton as it is a public water utility. However, to date HH Water has no agreements to service anyone outside of High Hampton with water. Several groups have approached HH Water about providing water service in Cashiers, however all have been declined.

Does the golf course use well water for irrigation?

No, the golf course has two lake-water pumping stations for their irrigation system. One is located near the 18th green and gets its water from Hampton Lake. The other is located near Jewel Lake's dam and gets its water from Jewel Lake. The golf course water usage has no connection to or impact on the Utility or its rates.

Is HH Investments recouping development costs through increasing the water rate?

No. High Hampton Investments paid for the water lines that were installed in conjunction with the development of the new lots and new resort core infrastructure. Those costs are not a part of the basis for the utility rate calculation. Instead, the rate calculation is to be based on work done for the benefit of the utility such as upgrading aging equipment, adding communications equipment, replacing existing mainlines, improving wells, adding more wells, etc. The NCUC, not the utility, determines what qualifies for inclusion in the calculations used to determine the rate base.

How did HH Water arrive at its requested rates?

The NCUC rate case process is quite technical and complex. We engaged professional accounting and legal consultants with decades of experience dealing with rate cases to help us work our way through the process to ensure we handled each step appropriately and filed a rate request based on accepted practices. The rate is calculated to match the annual operating expenses and to provide capital to maintain the entire infrastructure with a return of 7.62%. It is to everyone's advantage to have a properly funded and capitalized water utility. You can read more about the NCUC and the rate case process here: <https://www.ncuc.gov/Consumer/faq.html>

Why did HH Water wait to notify me until April if they applied for rate case in January?

HH Water has been following the protocol set forth by the NCUC. The rate case application was filed in January, but the utility did not receive the scheduling order from the NCUC until April 11th. This first scheduling order set a public meeting date of May 22nd, but that date would not work for the utility's consultants, so a later date was requested. The revised scheduling order was issued on April 22nd and required the utility to notify all customers within 10 days of the order, and to verify such communications were sent. That officially gave the utility until May 2nd to send out the notifications. The utility sent copies of the scheduling order via US Mail to the addresses the utility had on file for all water customers on April 30th. Later, having received some calls from customers that someone they knew had received a letter, but they hadn't, I decided to also send out the utility communication via an email blast. That email was sent on May 7th.

Why hasn't HH Water made any improvements to the old water system and only improved the new neighborhoods?

The belief that HH Water has not made any improvements to the old water system simply is not true. The new neighborhoods of Uplands, Fieldstone, and Chimney Top have new infrastructure because they were just built, but everyone should understand that they rely on the same backbone of the High Hampton water system as everyone else.

HH Water has made many improvements to the system that is shared by all customers. These include upgrades to the wells, adding generators to the wells so they can continue to provide water when the power is out, addition of a communications system allowing the wells and storage facility to communicate with each other and be remotely monitored with automatic alarms. The utility has also added new blow-offs so that we can flush the sediment produced by the wells and line breaks out of the system more thoroughly. The utility is also in the process of creating an accurate GPS map of the entire system for faster repairs and better management of the hundreds of valves and service locations. The utility has also drilled additional wells and is in the process of adding them to the system to make it more robust. In the near future the utility will construct a new 320,000-gallon storage facility to supplement the existing storage on Rock Mountain. The utility has also replaced the old mainline that ran down the golf course along Heaton Forest and added a mainline from the resort core to Wade Road for better flow and circulation in that section of the water system.

In addition to working on backbone items as listed above the utility has also completed capital improvement projects that specifically target old infrastructure. For instance, the utility is just about to finish replacing the entire mainline in the Preston-Haskell neighborhood. It was a deteriorating 1" galvanized line that is being replaced with a modern 6" mainline with new services and hydrants installed as well. The utility has also been rebuilding the Cherokee View water booster station, and although sewer related and not part of the water rate case, the utility has also rebuilt the sewer lift station in Sheep Laurel. The utility has more capital improvement projects on the schedule targeting old infrastructure such as the replacement of the mainline in Heaton Forest and reconnecting the Sheep Laurel loop to the Heaton Forest line for better water flow for all.

Lastly, the utility has several new exploratory wells to drill.

I think it would be hard to argue that the old system has not been vastly improved.

A higher water rate was needed to effectively operate the water system and make the necessary future capital investments for continued improvements.

Why do I have to pay for water year-round if I am only a part time resident?

While the HH Water system has a limited customer base most of which are seasonal residents, the utility is required to keep the water system up and running 24/7/365 regardless of who is in town and who is not. There is not a large enough customer base to have seasonal billing and allow the utility to operate appropriately.

Why does water at High Hampton cost more than water at my permanent residence?

Water systems rates are based on a number of things including the size of the customer base across which the costs of the system can be spread, the cost of operating the system including testing, treatment, monitoring, and repairs, the cost of labor and materials in the location of the system, the age of the system, and the cost of capital improvement projects to keep the system stable. These items can vary substantially from system to system, but all rates are typically heavily regulated by some sort of commission, municipality, or board.

Who is being asked to pay the new rates?

There is a rumor I have heard from residents that they believe only the older lots in High Hampton are being asked to pay an increased rate. That is not true. The rate case will apply to all residential customers of the utility. The commercial customers of the Utility (The Inn and Club) are also seeing a large increase in their water bills as was outlined by the NCUC in the scheduling order. The rate for the Inn and Club combined has been requested to be increased from \$1,504.13 to \$10,326.05

How is it fair to charge everyone the same rate for water if houses are drastically different in size and people use water differently?

Historically there have been no water meters used at High Hampton. The NCUC may rule that all homes in High Hampton and the Inn and Club buildings must be metered. The NCUC may also suggest a combined base rate plus a metered rate. A combined rate is fair to both the utility and the utility's customers as it provides the utility with steady income throughout the year using the base rate and allows the customers to pay a fair rate over the base rate depending on their metered use. Meters are also very helpful in finding leaks and water use abuse. Note that if required, the cost of installing the meters will likely be north of \$600,000 and some of these costs will be recouped in a new rate case filed in the future.

What is the well situation at High Hampton?

HH Water gets its water from a series of wells located within High Hampton. Currently, there are three wells online. Well #7 is located on White Owl Road, Well #10 is located near the Chimney Top Entrance, and Well #5 is located across from well #10 near golf hole #6. We have drilled 5 additional wells, three of which had low output. The two good wells are Well #11 located on Zeb Alley Rd, and Well #14 located in Chimney Top. We also have well #8 which was drilled by Will McKee behind the Methodist Church but had not been added to the water system. We are in the process of adding Wells #14 and #8 to the water system. Well #11 will follow.

We have identified some locations for exploratory wells. We have two sites along Hwy 107 on the knoll near the medical center. We have a site located off Wade Road between golf holes #12 and #14, and we have the Cherokee Campground site. We will likely start drilling the exploratory wells later this year.

The State has recommended we shoot for a goal of 1 gallon per minute of well capacity per house. We will exceed that goal with the wells we have already drilled. It is important to understand that well capacity can change overtime. After the last recent drought, we decided to pump test the wells in our system and you can see in the chart below that wells 5,7, and 10 have an overall reduction in output. We feel confident though that HH Water is in good shape with the additional wells we have already drilled. The exploratory wells will hopefully add a little more surplus of water capacity.

Well #	Status	Original GPM	Current GPM
5	Active	151	74
7	Active	50	52
10	Active	150	89
8	Online Soon	128	128
14	Online Soon	105	105
11	Online Later	78	78
TOTALS:		662	526

New HH Water, LLC Information:

The information shared above addresses the questions I have recently received. The information below is new information about topics that I also wanted to share with you.

EPA Forever Chemicals (PFAS) Update:

On April 10th the EPA announced that it is going to regulate “forever chemicals” known in the industry as PFAS. Forever chemicals are manmade chemicals that break down very slowly in the environment. They have been found nationwide, globally, in people’s bloodstreams, and in our food supplies. You can read all about PFAS here:

<https://www.epa.gov/pfas/pfas-explained>

The EPA announced on April 10th that they had decided to set the regulatory acceptable rate of PFAS in drinking water at 4 parts per trillion. Prior to this announcement the EPA reached out to water systems across the nation and asked if they would participate in a voluntary study. HH Water was one of the water utilities in Jackson County that volunteered to be in the study. The EPA did a couple of tests on our site and did find traces of PFAS, but they were below the 4 parts per trillion limit. My understanding is that every site in Jackson County tested positive for PFAS. I did not here if anyone was over the limit.

It is expected that the EPA’s announcement is going to be fought in court. Once this plays out, we will find out whether we are going to be required to test for PFAS as part of our utility requirements. We will keep you posted.

EPA Lead Pipe Service Line Inventory:

The EPA, as part of the Safe Water Drinking Act, has required all water utilities nationwide to conduct inventory of their customers service lines and to report back which service lines are lead or galvanized metal. This inventory is due on October 16th, 2024. You can read more about it here: <https://doh.wa.gov/sites/default/files/2023-01/331-711.pdf>

Service lines are the line between the utility’s meter/valve box and the customer’s home. Service lines are owned by the customer. HH Water is actively inventorying all our customer’s water lines for homes built prior to January of 1989, and will let you know if you have a lead or galvanized water line. Lead and galvanized service lines will be required to be replaced by the EPA.

As we have been working our way through the inventory, we have not been able to find valve boxes for many of the homes. It is possible that the valve boxes don’t exist as we have found homes on the system directly connected to the mainline. It is also possible that the boxes are buried. You may soon receive a communication asking if you know the location of your service box (if one exists).

Irrigation and Water Feature Policy:

HH Water's policy on using potable water for automatic irrigation systems and water features is that this is not an allowed use. Potable water is a critical and expensive resource for the community. In addition to the concerns of the overuse of the potable water supply, there are also concerns of backflow into the water system from such uses. If you have an automatic irrigation system or water feature directly connected to the potable water supply, please physically disconnect it immediately. The disconnection must have an air gap. A valve does not meet this requirement.

7

From: High Hampton djohnson@hamptonrealtync.com
Subject: Notice: Change in Water Rates
Date: May 7, 2024 at 1:43 PM
To: owen.schultz@me.com

[View this email in your browser](#)

HIGH HAMPTON

Dear High Hampton Water Residential Water Customer:

Per the requirements of the North Carolina Utilities Commission (NCUC), HH Water, LLC (a subsidiary of HH Investments) recently sent out a letter via US Postal Service informing you that HH Water, LLC has requested a rate increase. If you have not yet received this letter you should expect to see it over the next couple of days. I have attached a [digital copy](#) as well. Several customers of HH Water, LLC have reached out for additional information. Here are some bullet points for you:

- Current rates for residential use are \$20.94/month. HH Water, LLC has requested these rates go to \$97.86/month.
- HH Water LLC has invested a significant amount of capital recently, over \$1.4 million, and is in the process of investing an additional \$900,000 for upgrades for the efficient operation of the water system. This is the main driver for the rate increase request. These costs include the drilling of new wells to add to the system, the replacement of aging water lines that have reached the end of their service life, communications systems so the wells and storage facilities can talk to each other and be remotely monitored, and soon the addition of a new 320,000 gallon water storage facility. There is more work planned in the near future.
- HH Water has not had a rate increase since the original rates were established in 2005 - 19 years ago. The customers of HH Water have enjoyed very low rates over the last 19 years.
- The increased rate is calculated using a rate model that determines the Revenue Requirement which includes all expenses, including depreciation and taxes, and an overall return of 7.20% on the investment.

investment.

- The requested rate is a suggested rate by HH Water, LLC and is not necessarily what the NCUC will approve. The NCUC is essentially a consumer advocacy group ensuring that utility customers are treated fairly and that utilities earn a fair return on their investments. The NCUC will decide the rate that HH Water, LLC can charge accordingly based on audited expenditures and operational costs.
- It is worth noting that the NCUC takes into consideration whether water system work was done as part of recent development to the benefit of the developer or is part of the larger system benefiting all water customers.

Best,

Owen Schultz
Vice President • High Hampton
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www.highhampton.com

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You have indicated interest in High Hampton or you are a club member.

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