

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

January 23, 2023

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
Proposed Recommended Order

Dear Ms. Dunston:

Attached please find the Proposed Recommended Order, submitted for filing by Carolina Water Service, Inc. of North Carolina in the referenced docket.

I hereby certify that by copy of this letter, I have served this filing on the parties of record.

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
John Little, Staff Attorney, Public Staff
Charles Junis, Director, Water, Sewer & Telephone Division, Public Staff
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**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) Management LLC, 151 Mr. Bish Boulevard, Boone,) North Carolina 28607, 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)	CWSNC'S PROPOSED RECOMMENDED ORDER APPROVING TRANSFER, SETTING RATES, AND REQUIRING CUSTOMER NOTICE
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HEARD: Tuesday, November 1, 2022, at 7:00 p.m., in the Watauga County
Courthouse, 842 West King Street, Courtroom 1, Boone,
North Carolina 28607

Thursday, December 8, 2022, at 10:00 a.m., in Commission Hearing
Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh,
North Carolina 27603

BEFORE: Commissioner Hearing Examiner Dustin Rhodes

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

Jo Anne Sanford, Sanford Law Office, PLLC, Post Office Box 28085,
Raleigh, North Carolina 27611

For Water Resource Management, LLC

David T. Drooz, Fox Rothschild, LLP, 434 Fayetteville Street,
Suite 2800, Raleigh, North Carolina 27601-2943

For the Using and Consuming Public:

John D. Little, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

For the Community Lakes Property Owner's Association, Inc.

Brady W. Allen and Dwight W. Allen, The Allen Law Offices, PLLC, 4030 Wake Forest Road, Suite 115, Raleigh, North Carolina 27604

BY THE COMMISSION: On April 22, 2022, Carolina Water Service, Inc. of North Carolina (CWSNC or Company), and Water Resource Management, LLC (Water Resource or WRM), filed an Application for Transfer of Public Utility Franchise and for Approval of Rates (Transfer 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 WRM to CWSNC and for approval of rates. CWSNC filed supplemental and additional materials in support of the Application on April 26 and May 11, 2022. WRM currently serves 613 monthly flat rate water utility customers and 149 monthly flat rate wastewater utility customers in its service areas in Watauga County, North Carolina.

The present water utility rates for the Echota service area were approved in Docket No. W-1073, Sub 4, on December 16, 2015, and Docket No. W-1073, Sub 6, on March 26, 2021. The present wastewater utility rates for the Seven Devils service area were approved in Docket Nos. W-1073, Sub 5, and M-100, Sub 138, and has been in effect since February 13, 2015.

As initially stated by CWSNC in the Transfer Application, upon acquisition of the system, CWSNC proposed to charge the CWSNC Uniform Rates for flat rate

residential service for both water and wastewater utility service approved by the Commission on April 8, 2022, in Docket No. W-354, Sub 384. The present and initially-proposed rates are as follows:

Monthly Flat Rate Service:	Present	Proposed
Water (Echota)	\$ 20.00	\$ 68.71
Wastewater (Seven Devils)	\$ 28.20	\$ 85.12 ¹

Presently, the Echota service area customers are not metered. In the Transfer Application CWSNC stated that, upon acquisition, the Company planned to install water meters and provide metered service to the 613 Echota water utility system customers. Once meters are installed, CWSNC proposed to charge the metered water customers the CWSNC Uniform Rates for monthly metered water service (residential and commercial) approved by the Commission in Docket No. W-354, Sub 384, on April 8, 2022.²

The Public Staff – North Carolina Utilities Commission (Public Staff) presented this matter at the Commission’s Staff Conference on July 25, 2022. The Public Staff recommended that: the matter be scheduled for a customer witness hearing for the sole purpose of receiving testimony from customers; the matter also be scheduled for an expert witness hearing for the sole purpose of receiving expert witness testimony from CWSNC, the Public Staff, and intervenors, if any; and CWSNC be required to provide notice to all affected customers of the Transfer Application, including the applied for rates and the scheduled hearings.

¹ Per single family equivalent (SFE) or residential equivalent unit (REU).

² CWSNC stated that, assuming the size of each installed meter will be less than one inch and the average monthly usage is 3,837 gallons, the proposed monthly metered water bill will be \$69.46 including a base facility charge of \$24.53 and a usage charge of \$11.71 per 1,000 gallons of treated water.

On September 2, 2022, the Commission entered an *Order Scheduling Hearings, Establishing Discovery Guidelines, and Requiring Customer Notice* (Scheduling Order) in this docket.

On September 14, 2022, CWSNC filed a Certificate of Service of Customer Notice, which the Company was required to file by Ordering Paragraph No. 12 of the Commission's Scheduling Order. As part of that filing, CWSNC notified the Commission that, regrettably, the Company missed by one day the 10-day deadline for mailing the customer notice; the Commission's Order would have required a filing on September 12th. CWSNC stated that its filing attested to the fact that the notice was mailed on the afternoon of September 13th and was sent by United States mail, in envelopes, first class postage pre-paid. The Company apologized to the Commission for the delay and requested that the Commission accept the filing of the Company's Certificate of Service *nunc pro tunc*.

On October 10, 2022, CWSNC filed the Direct Testimony and Exhibit of Donald H. Denton III. Mr. Denton is Senior Vice President, East Operations for Corix Regulated Utilities (CRU). In that capacity, Mr. Denton oversees the operations of CWSNC, Blue Granite Water Company (BGWC) in South Carolina, and Sunshine Water Services in Florida, all of which are subsidiaries of CRU. In addition, Mr. Denton serves as President of both CWSNC and BGWC.

On October 14, 2022, and October 17, 2022, Edward B. Winn, Jr., and James D. Moore, III, respectively, individual customers of WRM served by the Seven Devils wastewater utility system, filed petitions with the Commission seeking to intervene in the above-captioned dockets. On October 26, 2022, The

Lakes Community Property Owners' Association, Inc. (Association or POA), filed a petition to substitute the interventions of Mr. Winn and Mr. Moore with the intervention of the Association (Petition). In support of its Petition, the Association stated, among other things, that it is an association of homeowners in the Lakes Community subdivision in Watauga County, North Carolina, and that the Association's members use the wastewater treatment services that have been provided by WRM at the Seven Devils wastewater utility system. Further, the Petition stated that the individual interests of Mr. Winn, as Treasurer of the Association, and Mr. Moore, as President of the Association, are aligned and the same as the interest of the Association and thus the intervention of the POA will not prejudice the interest of any party. Finally, the Petition requested that the petitions of intervention of Mr. Winn and Mr. Moore be withdrawn if the Commission grants the Petition of the Association.

By Order entered in these dockets on October 26, 2022, the Commission found good cause to grant the requested late intervention by the Association and allow the withdrawal of the petitions to intervene filed by Mr. Winn and Mr. Moore.

On October 31, 2022, the Association filed the Direct Testimony of Edward B. Winn, Jr. and James D. Moore III.

On October 31, 2022, the Public Staff filed the Direct Testimony and Exhibit D. Michael Franklin, Public Utilities Engineer, Water, Sewer, and Telephone Division; and the Direct Testimony of Lynn Feasel, Financial Analyst III, Accounting Division. On that same day, the Association filed the Direct Testimony of Edward B. Winn, Jr. and James D. Moore III.

On November 14, 2022, WRM filed its Response to Customer Concerns expressed by customers at the November 1, 2022 customer hearing in Boone. On November 18, 2022, CWSNC filed its Response to Customer Concerns.

On November 18, 2022, CWSNC filed the Rebuttal Testimony of Donald H. Denton III.

On December 5, 2022, the Public Staff filed Verified Responses to the Responses to Customer Concerns filed by CWSNC and WRM regarding the November 1, 2022 public hearing held at the Watauga County Courthouse in Boone.

The evidentiary hearing was convened as scheduled at 10:00 a.m. on Thursday, December 8, 2022, in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina. The hearing concluded the same day.

SUMMARY OF TESTIMONY

Direct Testimony of CWSNC Witness Donald H. Denton III

Mr. Denton is Senior Vice President, East Operations for Corix Regulated Utilities (CRU). He oversees the operations of CWSNC, Blue Granite Water Company (BGWC) in South Carolina, and Sunshine Water Services in Florida, all of which are subsidiaries of CRU. In addition, Mr. Denton serves as President of CWSNC and BGWC. In that capacity, he is responsible for the Company's regulated water and sewer operations in North Carolina, including facility operations, finance, business development, safety, compliance, regulatory affairs, and customer service.

Witness Denton generally described the Company's water and sewer operations and its customer base in North Carolina. He testified that CWSNC is proud of the quality of service which it consistently provides to its water and sewer customers in this State. He stated that in CWSNC's most recently decided rate case in Docket No. W-354, Sub 384, the Commission, consistent with G.S. 62-131(b), described the overall quality of service provided by the Company as "...adequate, reliable, and economical."³

Witness Denton stated that another significant indicium of the quality of water and sewer service provided by CWSNC in North Carolina is the fact that, upon recommendation by the Public Staff, the Company has been appointed to serve on multiple occasions as the emergency operator of water and/or sewer systems in this state and that CWSNC is presently serving as the emergency operator of four troubled or defunct public utilities in North Carolina. Furthermore, after serving as the Commission-appointed emergency operator of two additional troubled utility systems in North Carolina, CWSNC acquired those systems in system transfer cases approved by the Commission. Witness Denton testified that CWSNC has a strong history of willingness to assist and acquire troubled water and sewer utility systems in North Carolina.

Witness Denton's testimony explained the object and purposes of the Company's Transfer Application and addressed how the public interest is served by CWSNC's acquisition of the water and sewer utility systems owned by WRM. He also described WRM water and sewer utility systems which CWSNC seeks to

³ See the April 8, 2022 Sub 384 Rate Case Order at pages 6 and 16.

acquire and the substance of the Asset Purchase Agreement entered by CWSNC and WRM.

Mr. Denton also described the rates currently being charged by WRM for water and sewer utility service to its customers in Watauga County and the rates which CWSNC proposes to charge if this transfer application is approved by the Commission. More specifically, witness Denton testified that, based upon a review of the Commission's electronic docket system, Water Resource does not appear to have ever filed a general rate case. He stated that, upon acquisition of the WRM water and sewer systems, 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. According to witness Denton, 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

Witness Denton testified that, at present, the Echota service area customers are not metered. Upon acquisition, CWSNC plans to install digital water meters and provide metered service within the Echota water utility system. Once meters are installed, CWSNC proposes to charge the metered water customers the Company's Sub 384 Uniform Rates for monthly metered water service (residential and commercial).

Witness Denton testified as to how the public interest and public convenience and necessity will be served by Commission approval of the Transfer

Application. Mr. Denton stated that the purpose of the Transfer Application is to facilitate the transfer of the water and sewer systems owned by Water Resource to CWSNC at a price which is fair and reasonable to both the seller and the buyer and on terms which are beneficial and certainly not detrimental to the current customers of CWSNC or those of WRM. In this instance, the water and sewer systems currently owned by Water Resource, while not yet operationally troubled to the extent that there is a need for appointment of an emergency operator, is in financial and operational difficulty. Witness Denton stated that the WRM water and sewer systems will unquestionably benefit from the significant financial and local operational resources and expertise which CWSNC will provide upon approval of the transfer application.

In addition, witness Denton testified that CWSNC was retained by Water Resource beginning on September 16, 2021, to serve as the contract operator of the water and sewer systems which the Company now seeks to purchase. He further stated that, based upon the Company's current operational oversight and expertise, the customers served by Water Resource have already benefitted from CWSNC's involvement in their service. He also described two significant operational problems which Water Resource experienced with its water and sewer systems in the recent past, including, a significant leak in one of WRM's major supply lines that had apparently been leaking for years and a sewer manhole that was overflowing (which was discovered by CWSNC since it became contract operator) and which appeared to have been overflowing for some time.

Witness Denton testified that since the Transfer Application was filed, CWSNC has identified additional capital needs at both the Echota water system and the Seven Devils sewer system. He stated that CWSNC plans to install Advanced Metering Infrastructure (AMI) water meters and that the current cost estimate is approximately \$400,000 - \$500,000. Witness Denton stated that the Company also intends to invest approximately \$175,000 in sewer system improvements, including fence replacement (\$20,000); installation of safety rails/steps (\$50,000); painting (\$20,000); replacement of blowers (\$50,000); installation of bar screen influent line supports (\$15,000); installation of mission units on lift stations (\$10,000); and installation of shed/eye wash station for the safety of operators working at the treatment plant (\$10,000).

Witness Denton testified that the above-described water and sewer system capital investments and improvements to be made by CWSNC will provide clear benefits to the current Water Resource customers in terms of system reliability, safety, and environmental impact once they are complete and in service.

Witness Denton also described the impacts that the water and sewer rates currently being charged by Water Resource and the new rates proposed by CWSNC will have on customers as they pertain to the public interest issue. He stated that the water and sewer rates currently being charged by Water Resource to its customers are exceptionally low and do not generate sufficient revenue to ensure adequate and timely capital investments in the systems or to support essential operational and maintenance activities. Witness Denton described

significant operating losses which were incurred by WRM for calendar years 2019, 2020, and 2021 (based on the Annual Reports filed with the Commission).

Witness Denton testified that, although the water and sewer customers currently being served at the Water Resource rates will incur significant rate increases under CWSNC's currently-approved rates, it is fair and imperative to consider the fact that the existing rates being charged by WRM have historically been and continue to be very low, and that the resulting low utility revenues are logically to be considered as reasons for the declining operational structure, the financial instability that obviously has beset this company, and the impact on and the need for the incumbent owner to exit the business.

Witness Denton stated that, if the requested transfer is approved, the Water Resource 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 CWSNC; and, secondly, from the financial integrity offered by the Company as a well-run and well capitalized public utility able to provide consistently safe, reliable, and compliant service. According to witness Denton, it is not reasonable, efficient, prudent, or good business practice to expect either CWSNC's shareholders or its current customers to subsidize the Water Resource customers.

Mr. Denton also described how, if rates are properly set and rate base is correctly determined for the Echota and Seven Devils systems, customer growth and the resulting economies of scale will benefit the Company as well as its existing customer base and the acquired WRM customer base.

In describing why the move to the Sub 384 uniform rates is reasonable and fair to WRM customers, witness Denton testified that the Company recognized that this transfer, if approved, will result in significant rate increases to the Echota and Seven Devils customers. That said, witness Denton asserted that the reality of this situation supports immediate inclusion of these customers at the Sub 384 uniform rates for the following reasons. First, the fact that the current Echota and Seven Devils rates are low does not mean the associated costs are low. One could logically assume that there is a relationship between these low rates, the growing operational concerns for these systems, and the current owner's financial distress with respect to this enterprise. Rates that are inadequate, over time, have inevitable consequences in terms of system decline and/or unwarranted subsidization by utility owners or other customers.

Second, witness Denton asserted that significant warning signals have been emanating from the WRM system, as demonstrated by way of: the evident operational and financial problems being experienced by Water Resource; Mr. Harrill's increasingly urgent efforts to place the system into the hands of a professional, experienced utilities provider; and by even a cursory review of the Annual Reports heretofore filed by Water Resource. According to witness Denton, the Water Resource operational financial losses have not been a secret and, unsurprisingly, CWSNC continues to discover and evaluate additional system needs as it has conducted its due diligence and as it has served as contract operator.

Third, according to witness Denton, the very existence of the disparity between existing rates and the CWSNC Commission-approved uniform rates is some measure of the sharp inadequacy of Water Resource's current water and sewer rates. Uniform rates by their nature include many benefits to customers, including lower administrative costs for the utility, justification of capital investment, and improved service quality for smaller systems.

Witness Denton concluded his Direct Testimony by stating that clearly, the public interest will be served by approval of the pending Transfer Application. Furthermore, even recognizing the necessary significant realignment of the unsupportable current rates, no compelling detriment to CWSNC's customers (existing or those to be acquired) is evident or reasonably expected to result from approval of the transfer. 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 Water Resource service area.

Witness Denton requested that, consistent with G.S. 62-111(a), the Commission conclude that approval of the pending transfer application is justified by the public convenience and necessity and is in the public interest. He also requested that the Commission approve the Company's proposed rates and determine the Company's rate base request consistent with his Direct Testimony.

**Direct Testimony of POA Witnesses Edward B. Winn, Jr.
and James D. Moore III**

Mr. Winn is a sewer customer of WRM who currently serves as Treasurer of the Board of The Lakes Community POA. Mr. Moore is also a sewer customer

of WRM and currently serves as President of the Board of The Lakes Community POA. On October 31, 2022, the POA prefiled the joint Direct Testimony of Messrs. Winn and Moore.

POA witnesses Winn and Moore provided testimony regarding their educational backgrounds and work experiences for the record. The POA witnesses testified that, as customers of WRM, they receive a coupon book on an annual basis which provides for quarterly payments for sewer utility service of \$84.60. Neither witness believes that the rates proposed by CWSNC for sewer service in this proceeding are reasonable.

The POA witnesses testified that their opinion as to the unreasonableness of CWSNC's proposed sewer rate is based upon the fact that the rate in question is from a 2022 CWSNC state-wide rate case: Docket No. W-354, Sub 384. The POA witnesses stated that the Seven Devils system was not part of the CWSNC system at that time and none of those operations were included in this case. The CWSNC uniform wastewater flat rate for customers using 4000 gallons per month increased from \$74.36 to \$85.12, the rate which CWSNC has requested for the Seven Devils system. They stated that, if approved, Seven Devils customers would begin paying over three times as much as the current WRM rate of \$28.20 per month.

The POA witnesses testified that on Page 6 of his testimony, Mr. Denton stated that the transfer of the water and sewer systems are being made at a price that is fair and reasonable to both the seller and buyer and that he went on to say that, in his opinion, the terms are beneficial and not detrimental to the current

customers of Water Resources. In response, the POA witnesses stated that it was hard for them to conclude that an immediate increase in rates of approximately 200% is not detrimental to customers.

POA witnesses Winn and Moore testified that the current WRM wastewater rate was decreased from \$30 per month to \$28.20 per month in 2015 and has remained at that level up to the present and that this has apparently been sufficient to maintain and operate the wastewater collection and treatment system in an environmentally responsible manner.

The POA witnesses stated that the Town of Seven Devils provides metered water service for the Lakes Community. They testified that in 2004, the base rate was \$30 per month and today the rate is \$40 per month and that the \$40 per month includes \$5 per month for a capital reserve. The witnesses stated that while their water rate had increased by a third in 18 years, CWSNC is requesting a shocking and immediate three-fold increase in their wastewater rate.

The witnesses emphasizes that all wastewater collection and treatment systems are not the same, and stated that they strongly disagreed that a uniform rate from a previous case be applied to the Seven Devils system.

To support their position, the POA witnesses pointed 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 stated that the individual system nearest in customer base size to the Seven Devils system is Kings Grant-Charlotte with 177 customers and that the monthly rate for this system decreased from \$57.65 to \$46.28. According to the witnesses, the fact that ten individual rates were

approved demonstrates that both the North Carolina Utilities Commission and CWSNC recognize that a uniform rate is neither mandatory nor applicable across the CWSNC system. They further stated that, although individual circumstances may differ, the Commission clearly has the authority to provide for different rates when conditions require it.

The POA witnesses testified that they had the opportunity to review the financial information filed by CWSNC in this docket. They testified that the "Statement of Cash Flows - Sewer Operations" on the Addendum to Application for Transfer of Public Utility Franchise and for Approval of Rates indicates a purchase price of \$69,720 for the system with no assumption of any debt. According to the Application to Transfer, no capital expenditures are forecasted by CWSNC in years 0-5 for major improvements/additions or replacements. They stated that, in this context it is important to note that the current treatment system is in material compliance with the NCDENR wastewater discharge permit.

According to the POA witnesses, based on the proposed rates, the cash flows show that CWSNC will realize a 1-year payback of their investment; that this rate of return and complete recovery of the purchase price in one year is clearly excessive; and that there are few businesses cases that contemplate a complete recovery of an investment within one year.

The POA witnesses stated that, if the rates that are proposed by CWSNC in the upcoming 3-year rate case under Docket No. W-354, Sub 400 are approved and the incremental increases are applied to the Seven Devils Wastewater Utility System, the Seven Devils monthly wastewater bill will exceed \$110 per month in

3 years. They stated that this nearly four-fold increase from the current rate would occur even though CWSNC, according to its application, does not plan to invest in any capital improvements in the Seven Devils system for the next 5 years.

The POA witnesses also testified that the requested rate increase comes at a particularly challenging time for customers who are senior citizens living on fixed incomes. They stated that the Watauga County and Seven Devils tax bills that their community recently received are of the order of 30% more than last year and that all are having to navigate inflation rates that have not been seen in a generation. A three-fold increase and perhaps ultimately a four-fold increase in wastewater treatment rates would compound the financial burdens POA members are already bearing.

The POA witnesses stated that Mr. Denton did not identify any service issues associated with wastewater services to the Lakes community area. They testified that Mr. Denton indicated that CWSNC became a contract operator for the water and sewer systems of Water Resources on September 16, 2021. During that time, he identified only two operational problems. One of these involved the Echota water system and the other involved a single sewer manhole in Seven Devils that was overflowing. He cited no service issues in the Lakes Community area. The witnesses stated that they are not aware of any service issues in their area, so the system seems to be operating effectively with its existing level of revenues.

Regarding the two service issues, the POA witnesses testified that Mr. Denton seemed to place a lot of the blame on what he contended are

exceptionally low rates. However, they noted that even with what Mr. Denton contended are unusually low rates, the sewer system still produced a small profit. Mr. Denton attributed the bulk of the alleged losses to water system operations. His testimony also stated that the low rates result because Water Resources chose not to file for a general rate case. The POA witnesses testified that decision was made by Water Resources and not its captive customers. Water Resources could have pursued rate relief if it had chosen to do so. The witnesses stated that, contrary to the statements made by CWSNC in its original application, Mr. Denton has modified the Company's position and now says that CWSNC intends to invest approximately \$175,000 in sewer system improvements. According to the witnesses, nearly a quarter of this amount appears to relate to what they claimed could be termed cosmetic investments, which might increase the investment base for the company but not improve service for customers. Even if such investments are necessary, the POA witnesses asserted that exorbitant rate increases proposed for the Lakes Community customers would still result in an unreasonably short payback period.

The POA witnesses testified that the previous rates paid by Lakes Community wastewater customers are unrelated to the operations of CWSNC and do not justify exorbitant increases proposed by CWSNC. Although uniform rates may be justifiable over time, the witnesses testified that such rates should not be imposed in a vacuum without a thorough analysis in a CWSNC general rate case if and after the transfer is approved. They stated that this ratemaking approach is not in the best interest of customers and simply provides an unjustified windfall to

CWSNC. The witnesses stated that their review of the rates charged by CWSNC indicate that many of the areas it serves do not pay the “uniform” rates that it proposes to impose upon customers in the Lakes Community area. According to the witnesses, in the past the Commission has been mindful of customer rate shock, and if the transfer is approved, the rate increases, if justified, should be phased-in over a period of time. The witnesses again stated that, under the CWSNC proposal, the Company will recover its purchase price from wastewater customers in approximately one year and that is a payback period that is excessive under any rational economic or business case analysis. According to the POA witnesses, Mr. Denton espouses the benefits of economies of scale, but yet, the economics of scale that he discusses appear to provide no synergies or economic benefits to the customers of the Lakes Community.

The POA witnesses concluded their prefiled Direct Testimony by stating that, If the transfer is approved, the Commission should phase-in any rate increase over an extended period to avoid the possibility of customer rate shock. At some point in the future, they stated that the cost of service of the Lakes Community system should be rolled into the overall cost of service of CWSNC. Even when that occurs, the witnesses testified that the Commission should continue the roll in of rates for the Lakes Community to assure that customer rate shock can be minimized.

Finally, in their prefiled Direct Testimony, the POA witnesses recommended that to avoid rate shock, if the transfer application is approved, any increase in the rate should be phased-in over several years.

Direct Testimony of Public Staff Witness D. Michael Franklin

Public Staff witness D. Michael Franklin testified that he is a Public Utilities Engineer with the Water, Sewer, and Telephone Division of the Public Staff of the North Carolina Utilities Commission. His prefiled Direct Testimony was filed in this docket on October 31, 2022.

Witness Franklin testified that the purpose of his testimony was to provide the Commission with the results of his investigation of specific areas of the application filed on April 22, 2022, by CWSNC in Docket No. W-354, Sub 396 and Water Resource in Docket No. W-1073, Sub 7, for transfer of public utility franchise and for approval of rates and whether the transfer is in the best interest of the using and consuming public. He stated that the specific areas of his investigation included customer complaints, Notices of Violation and Notices of Deficiency issued by the North Carolina Department of Environmental Quality (NCDEQ) and assisting the Public Staff Accounting Division in reviewing expenses and plant in service.

Witness Franklin testified that in the Sub 400 rate case application, CWSNC proposed both the Echota water system and Seven Devils wastewater system be incorporated into uniform rates. However, since the evidentiary hearing in the Sub 396 transfer proceeding was scheduled after the evidentiary hearing in the rate case proceeding, witness Franklin testified that the Public Staff determined that the Echota and Seven Devils service areas could not be included in the rate case proceeding since CWSNC would not have ownership of the Echota water and

Seven Devils wastewater systems. The witness stated that this decision was communicated to CWSNC.

Witness Franklin testified that the WRM service area is located in Watauga County and is comprised of the Echota water system serving approximately 613 water customers and the Seven Devils wastewater system serving approximately 149 wastewater customers. The Echota water system is comprised of nine active wells with three water treatment locations. Each water treatment location serves three wells. The first water treatment location serves wells 1 through 3, the second location serves wells 4 through 6, and the third location serves wells 7 through 9. The Echota water utility system also has four ground storage tanks with two having a capacity of 30,000 gallons each, one with a capacity of 75,000 gallons and another with a capacity of 83,000 gallons. The Echota water system is currently unmetered.

According to witness Franklin, the Seven Devils wastewater system is comprised of three lift stations and a 20,000 gallons per day wastewater treatment plant that discharges to a Watauga River tributary.

Witness Franklin stated that, as of the date his testimony was filed, he had not inspected either utility system, but a site visit of both utility systems was scheduled to occur on the date of the Public Witness Hearing, November 1, 2022. He stated that the Public Staff may file supplemental testimony based on observations from the site visit.

Witness Franklin described the results of his investigation of North Carolina Department of Environmental Quality Notices of Violation and Civil Penalties as

follows. He stated that since January 1, 2019, the Echota water system (System No. NC3095002) has received seven Notices of Violation (NOVs). One NOV was issued on October 27, 2020, for failure to submit a Consumer Confidence Report. According to witness Franklin, that report provides information on local drinking water quality and the Environmental Protection Agency requires water providers to deliver the report to customers by July 1 of each year.

Witness Franklin further testified that two of the six remaining NOVs were due to test results from samples collected from two sample points on July 30, 2021. The samples from each sample point exceeded the arsenic maximum contaminant level (MCL) with one NOV issued for the MCL exceedance for each sample point. According to witness Franklin, the arsenic MCL exceedance from the samples collected on July 30, 2012⁴ resulted in four additional NOVs for continuing violations of arsenic MCL based on a running annual average. He further testified that the annual running average for arsenic MCL continued to be exceeded although the samples collected since July 30, 2021, were non-detect for arsenic. Witness Franklin testified that in the April 11, 2022 NOV on the continuing violation of arsenic MCL, NCDEQ stated that, "In the most recent quarterly report, Carolina Water Service, Inc. of NC expressed the samples from July 30, 2021 were erroneous due to sampling or laboratory error and because the results from fourth

⁴ This appears to be a typo; 2012 should be 2021.

quarter 2021 and first quarter 2022 were below the detection limit.” Witness Franklin testified that no penalties were assessed for any of the seven NOVs.⁵

According to witness Franklin, the last inspection of the Echota water system was performed on March 16, 2022 with no deficiencies identified.

Mr. Franklin stated that the Seven Devils wastewater utility system (Permit No. NC0035149) has received two NOVs since January 1, 2019, and that both violations were for fecal daily maximum exceedances with the first occurring on March 9, 2021 and the second on January 1, 2022. He testified that no penalties were assessed for either NOV and that the last Compliance Evaluation Inspection of the Seven Devils wastewater treatment plant was performed on October 30, 2019, with the results reported as satisfactory.

Regarding notice to customers, witness Franklin stated that on September 2, 2022, the Commission issued the Order Scheduling Hearing, Establishing Discovery Guidelines, and Requiring Customer Notice. The Order directed CWSNC to provide the Notice to Customers no later than 10 days after the date of the Order and submit a signed and notarized certificate of service not later than 20 days after the date of the Order. Witness Franklin stated that on September 14, 2022, CWSNC filed a Certificate of Service stating the Notice to Customers was mailed or hand delivered one day after the date specified in the

⁵ The Commission notes that although counsel for the POA conducted extensive cross-examination of CWSNC witness Denton regarding arsenic exceedances, there was no mention or recognition of Public Staff witness Franklin’s testimony that: “...In the April 11, 2022 NOV on the continuing violation of arsenic MCL, NCDEQ stated that, ‘In the most recent quarterly report, Carolina Water Service, Inc. of NC expressed the samples from July 30, 2021 were erroneous due to sampling or laboratory error and because the results from fourth quarter 2021 and first quarter 2022 were below the detection limit....’” Nor was there any recognition by the POA that no penalties were assessed by NCDEQ for any of the seven NOVs, particularly those related to arsenic.

Order. The Certificate of Service was accompanied by the Company's request that the Commission accept the filing *nunc pro tunc*.

Witness Franklin stated that on October 4, 2022, the Public Staff was contacted by the property manager of the Villas at Hawks Peak, an eight-unit condominium building in Seven Devils. The property manager stated that while the condominiums receive wastewater utility service from Water Resource, the residents did not receive the Notice to Customers. As a result, witness Franklin testified that the Public Staff contacted Water Resource and confirmed the Villas at Hawks Peak was included in the customer address list provided to CWSNC. The witness stated that, upon notification of the non-receipt of the Notice to Customers, CWSNC confirmed the Notice to Customers was sent to the Villas at Hawks Peak based on the address list provided by Water Resource, but out of extreme caution sent an individual to the condominiums to attach the Notice to Customers on the door of each condominium unit.

According to witness Franklin, the Public Staff found that, while the delay in receipt of the Notice to Customers is unfortunate, due to the small number of condominium units affected and the prompt response by CWSNC, the overall impact was minor and did not adversely affect this proceeding's schedule.

Witness Franklin further testified that from July 1, 2019 through August 31, 2022, the Public Staff Consumer Services Division did not receive any customer complaints on the Echota water utility or Seven Devils wastewater utility systems. The witness stated that as of October 31, 2022, 35 customers filed consumer statements in these dockets. All consumer statements objected to the rates

proposed by CWSNC. None of the consumer statements identified concerns or complaints with the water or wastewater utility services provided by Water Resource.

Witness Franklin testified that WRM is providing safe and reliable service. Based on review of NOVs and penalties issued by NCDEQ and the lack of significant customer complaints on water quality and customer service issues, witness Franklin stated that he had determined that Water Resource is providing safe and reliable service to its customers of the Echota water system and the Seven Devils wastewater system.

Witness Franklin described the existing water and sewer rates charged by WRM and CWSNC's proposed water and sewer utility rates as follows:

<u>Monthly Flat Rate Service</u>	<u>Present</u>	<u>Proposed</u>
Water	\$20.00	\$68.71
Wastewater	\$28.20	\$85.12
<u>Tap-on Fees</u>		
Water	\$300	\$0 ⁶
Wastewater	\$200	\$100
<u>Reconnection Charge</u>		
If water service cut off by utility for good cause	Actual Cost	Actual Cost ⁷
If water service is discontinued at customer's request	Actual Cost	\$42.00
If sewer service cut off by utility for good cause	Not identified ⁸	Actual Cost

⁶ In response to Public Staff Data Request No. 4, CWSNC provided that the proposed tap on fees for the Echota service area is \$0.

⁷ This reconnection charge amount is for flat-rate water customers. Once metered, this reconnection charge is \$42.00.

⁸ The present wastewater utility rates for the Seven Devils service area approved in Docket Nos. W-1073, Sub 5 and M-100, Sub 138 does not identify a reconnection charge for wastewater service.

Witness Franklin stated that presently the Echota service area customers are not metered and that, upon acquisition, CWSNC plans to install water meters and provide metered service to the 613 Echota water utility system customers. He further testified that, once meters are installed, CWSNC intends to charge the metered water customers the Sub 384 CWSNC Uniform Rates for monthly metered water service (residential and commercial). Assuming the size of each installed meter will be less than one inch and the average monthly usage is 3,837 gallons, witness Franklin stated that the proposed monthly metered water bill will be \$69.46, based on a base facility charge of \$24.53 and a usage charge of \$11.71 per 1,000 gallons of treated water.

Witness Franklin described the Public Staff's Revenue Calculations as follows. For water utility service, the resulting calculated service revenue requirement is \$247,709. For wastewater utility service, the calculated service revenue requirement is \$66,261. He stated that the service revenue requirements were calculated by Public Staff witness Feasel.

Witness Franklin testified that the Public Staff recommended that in this transfer and rate increase proceeding, the Echota and Seven Devils service areas should not be charged CWSNC's Uniform Rates and should instead be subject to a standalone rate schedule. He stated that the basis for standalone rates is that the expected revenues to be collected by CWSNC's proposed rates would significantly exceed the recommended revenue requirements.

Witness Franklin testified as follows regarding recommended rates for the service areas. The Echota service area is currently unmetered with CWSNC

planning to install Advanced Metering Infrastructure meters in the two years following approval of the acquisition. As a result, flat rates are appropriate for the Echota service area until meters are installed, at which time metered rates are appropriate. Witness Franklin stated that the Public Staff's recommended rates are designed to meet witness Feasel's recommended service revenue requirements with the intent of equitably bridging the gap between the present and proposed rates.

Witness Franklin stated that in determining the appropriate monthly metered water utility service rates, the Public Staff used a revenue split of 40% provided by the base charge and 60% provided by the usage rate. He testified that this is consistent with CWSNC's most recent approved rates in Docket No. W-354, Sub 384. Witness Franklin further stated that, since the Echota service area is unmetered, the monthly usage amount upon which the usage rate is based is an average monthly usage, rounded to the nearest hundred, for three service areas considered similar to the Echota Service Area with a combination of seasonal and full-time residents. According to the witness, two of the service areas are Mountain Air Country Club (W-1148, Sub 9) and Springdale Estates (Docket No. W-1324, Sub 1). The third is the Lake Royale Subdivision with monthly usage determined by the Public Staff as part of the transfer proceeding in Docket No. W-1146, Sub 13; although a proposed Order providing Notice to Customers has not been filed with the Commission. Witness Franklin testified that this resulted in an average monthly water usage of 2,600 gallons.

As the Seven Devils wastewater usage will remain unmetered and as a result, witness Franklin stated that flat rates are appropriate.

Witness Franklin testified that the Public Staff's recommended water and wastewater service rates are as follows:

	<u>Recommended</u>
Monthly Flat Rate Utility Service:	
Water	\$33.67
Wastewater	\$37.06
Monthly Metered Water Utility Service	
Base Charge, zero usage	\$13.50
Usage Charge, per 1,000 gallons	\$ 7.80
Reconnection Charges	
If water service cut off by utility for good cause	\$42.00
If water service is discontinued at customer's request	\$42.00
If sewer service cut off by utility for good cause	Actual Cost

Witness Franklin testified as follows regarding his recommendation concerning the purchase price. On October 12, 2021, Water Resource and CWSNC entered into a Utility Asset Purchase Agreement (APA) for the Echota water system and the Seven Devils wastewater system. Section 2.04. of the APA provides that the purchase price for purchase assets is \$70,000 subject to prorations and adjustments set forth in the APA. In response to Public Staff Data Request No. 3, witness Franklin testified that the Company stated the \$70,000 purchase price is comprised of \$57,599 for the Echota water utility system and \$12,401 for the Seven Devils wastewater utility system. He asserted that, as stated in Public Staff Financial Manager Lynn Feasel's direct testimony (page 5,

line 7), the original cost net investment of the Echota water utility system is \$53,651 and \$13,549 for the Seven Devils wastewater utility system or a total of \$67,200. As a result, witness Franklin stated that the purchase price amount that can be included in rate base is \$67,200.

According to witness Franklin, the APA also stipulates that in addition to the purchase price of \$70,000, additional payments will be paid for lots in a future Phase IV development at a rate of \$706 per new customer connection up to 184 connections as an “Incentive Payment” following transfer closing and that review of Exhibit A to the APA indicates the incentive payment applies to additional lots located in the proposed Echota Phase IV development.

Witness Franklin testified that in response to Public Staff Data Request No. 3, CWSNC provided additional information related to the incentive payment stating the developer will be installing all infrastructure for new development. According to witness Franklin, the incentive payment allows the developer to recoup some costs associated with installing infrastructure for new customers while providing CWSNC additional customers. He stated that the additional CWSNC customers provide a benefit to existing customers by spreading expense and water utility costs among more customers and that the rate base per customer in the transfer and new customers subject to the incentive payments are below the rate base per customer of the CWSNC Uniform Rate divisions. Witness Franklin testified that the Public Staff agreed with CWSNC’s position; however, since the incentive payment is for future connections, it should not be included in the rate base until the connections to Echota Phase IV are implemented.

Witness Franklin described CWSNC's plans for capital improvements as follows. On page 10, lines 3 through 6 of Company witness Denton's direct testimony, Mr. Denton stated that CWSNC assumed operational responsibility of the Echota water and Seven Devils wastewater systems in September 2021. According to witness Franklin, in the Joint Application, the only capital improvement the Company identified was \$300,000 for AMI water meters for the Echota service area and that no capital improvements were identified in the Joint Application for the Seven Devils wastewater system.

Witness Franklin stated that, after more than a year of operating the Echota and Seven Devils utility systems and approximately six months after filing the transfer application with the Commission, CWSNC determined that additional capital expenses were required. The witness noted that, on page 10, lines 7 through 17 of Company witness Denton's direct testimony, Mr. Denton stated that "Over the six months since the transfer application was filed, CWSNC has identified capital needs at both the Echota water system and Seven Devils sewer system." He further states that CWSNC plans to install AMI water meters at Echota with a current estimate of "approximately \$400,000 - \$500,000." The witness further noted that Mr. Denton stated on page 10, line 18 through page 11, line 3 of his Direct Testimony that "The Company also intends to invest approximately \$175,000 in sewer system improvements, including fence replacement (\$20,000); installation of safety rails/steps (\$50,000); painting (\$20,000); replacement of blowers (\$50,000); installation of bar screen influent line supports (\$15,000); installation of mission units on lift stations (\$10,000); and installation of shed/eye

wash station for the safety of operators working at the treatment plant (\$10,000).” Witness Franklin testified that he was unclear why, after more than six months of operating the Seven Devils wastewater utility system, that these capital improvements were not identified at the time the Joint Application was filed.

Witness Franklin recommended a bond of \$50,000 for the Echota service area and the Seven Devils wastewater service area, consistent with the considerations identified in G.S. 62-110.3. He stated that these considerations included the number of water and wastewater franchises CWSNC holds in North Carolina, CWSNC’s record of operation, the number of customers CWSNC serves in North Carolina and the condition of the Echota water utility and Seven Devils wastewater utility systems. Currently CWSNC has \$190,000 in unassigned bond filed with the Commission.

Witness Franklin concluded by stating that the Public Staff recommended the Commission approve the transfer of the Water Resource public utility franchise to CWSNC at the rates recommended by the Staff and not the Uniform Rates proposed by CWSNC. He further testified that the Public Staff also recommended that CWSNC install water meters in the Echota service area within one year of taking ownership of the Echota water system.

Direct Testimony of Public Staff Witness Lynn L. Feasel

Lynn L. Feasel testified that she is a Financial Manager with the Water, Sewer, and Telecommunication Section within the Accounting Division of the Public Staff. Her prefiled Direct Testimony was filed in this docket on October 31, 2022.

Witness Feasel testified that the purpose of her testimony was to provide the Commission with the results of her investigation of specific areas of the application filed on April 22, 2022, by CWSNC and WRM for transfer of public utility franchise and for approval of rates and whether the transfer is in the best interest of the using and consuming public.

Witness Feasel testified that she reviewed the Transfer Application and associated documents and sent out data requests asking for: the calculation supporting documentation of the data, clarification of items that attracted her attention, amount of due diligent fees paid, justification and calculation of the proposed uniform rates, correcting and updating the capitalized costs, etc. Based on the responses to the Public Staff's data requests, the witness testified that she identified the amount of capitalized costs and expenses she used to calculate the reasonable level of revenue requirements.

Witness Feasel described how she determined and calculated the revenue requirements for the two systems as follows. She considered three factors to calculate revenue requirements: 1) Rate of return, including debt and equity structures, debt rate, and equity rate. She stated that the Company should recover reasonable forecasted or incurred expenses plus return on rate bases based on a fair rate of return; 2) Expenses, including operating and maintenance expenses (O&M expenses), general expenses, depreciation and amortization expenses, property taxes, and payroll taxes; and 3) Rate base, including plant in service, accumulated depreciation, and due diligence closing costs.

Witness Feasel testified that she used the rate of return from CWSNC's most recent rate case (W-354, Sub 384) to calculate the return for rate base items. She stated that she used the estimated expenses provided by CWSNC and adjusted the depreciation expenses and amortization expenses to reflect the Public Staff recommended level of plant in service cost and the purchase acquisition adjustments.

Witness Feasel described how she determined rate bases as follows. She stated that in response to one of the Public Staff's data requests, CWSNC indicated that the reason why the maintenance and repair expense and the purchased water/sewer treatment expense was significantly high was that many of the expenses were for repair and replacement of wells, which should have been capitalized instead of expensed. Based on the Company's responses, the witness stated that she sent out another two data requests, requiring CWSNC to reclassify the wrongly classed O&M expenses to capitalized cost. According to the witness the Company provided the reclassification documentation with the capitalized cost, accumulated depreciation, and depreciation expenses by system in response to data request eight and an updated version in response to data request nine. After reviewing the responses to these two data requests, witness Feasel stated that she determined that the purchase price for these two systems was reasonable. Therefore, she used the purchase price as the plant in service costs. She testified that she calculated the accumulated depreciation and net book value under the WRM depreciation rates. She testified that she also included the due diligence fee

paid by the Company under the purchase acquisition adjustment (PAA) item and amortized it over composite rate of 2.73% for Echota Water.

Witness Feasel testified that the original cost net investment of the Echota water utility system and the Seven Devil wastewater utility system are as follows:

Echota Water: \$53,651; Seven Devils: \$13,549

Regarding the issue of purchase acquisition adjustments, witness Feasel testified that for Echota Water, she included transaction due diligence costs in the amount of \$8,229.39 in purchase acquisition adjustments and amortized it over 2.73% approved in the last rate case. In response to Public Staff data request four, she stated that the Company provided the calculation of estimated revenue requirement and that in the calculation, CWSNC included \$70,000 purchase price, \$130,000 incentive payments, \$21,194 Fusion allocation, and \$300,000 AMI meter fees in the rate base.

With the exception of the \$70,000 purchase price, witness Feasel testified that the rest of the expenses are estimated or will not incur until a later date. She stated that per Public Staff witness Franklin, the Public Staff accepted the Company pay incentive payments to the developer for installing infrastructure for future development. However, the witness asserted that CWSNC should only recover the costs paid when the infrastructure is put in service. The incentive payment will be paid in future Phase IV, which means the new infrastructure is not in service. Therefore, witness Feasel testified that the incentive payment should not be included in the rate base until it occurs.

For the same reason, witness Feasel testified that estimated AMI meter fees should be not included in the rate base at this time. She further stated that the Fusion allocation was overstated by the Company and that if the Fusion costs are to be amortized through March 31, 2023, the estimated Fusion allocation per ERC should be \$22.28 calculated based on Fusion cost approved in the last rate case and the Company's estimated ERC counts. Witness Feasel stated that the unamortized portion of the Fusion cost included in rate base will be phased out in the future when Fusion costs are fully amortized and that the ERC counts will change in the future, so the estimated Fusion cost allocated per ERC is not necessary representative. According to witness Feasel, the estimated return related to Fusion is only about \$974 for Echota Water and \$240 for Seven Devils, which is immaterial. Based on the reasons listed above, witness Feasel recommended not including Fusion allocation in the rate base.

Witness Feasel testified that the rate base for Echota Water under WRM rates is \$61,656 and that the rate base for Seven Devils under the WRM rates is \$13,549. The witness stated that the recommended revenue requirements for the Echota water utility system and the Seven Devil wastewater utility system are as follows:

Echota Water: \$247,709; Seven Devils: \$66,261

Rebuttal Testimony of CWSNC Witness Donald H. Denton III

Witness Denton testified that the purpose of his Rebuttal Testimony was to respond to written testimony filed in this proceeding by POA customer witnesses

Edward B. Winn, Jr. and James D. Moore III and Public Staff witnesses D. Michael Franklin and Lynn L. Feasel.

According to witness Denton, POA customer witnesses Winn and Moore contended, in their prefiled testimony, 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 currently being charged by CWSNC. Witness Denton testified that POA witnesses Winn and Moore concluded their prefiled 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."

Witness Denton stated that POA witnesses Winn and Moore also pointed 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. According to witness Denton, the POA witnesses asserted 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.

Witness Denton testified that Public Staff witnesses Franklin and Feasel recommended 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. He asserted that the Public Staff's stated basis for standalone rates is that the expected revenues to be collected by CWSNC's proposed rates would significantly exceed the revenue requirements recommended by the Staff in this case.

Witness Denton stated that 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.

According to witness Denton, the Public Staff, through witness Franklin's testimony, recommended 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. He stated that the Public Staff also recommended that CWSNC install water meters in the Echota service area within one year of taking ownership of the Echota water system

Witness Denton responded to the testimony of the POA and Public Staff witnesses by stating that CWSNC continued to believe that it would be reasonable and appropriate for the Commission to approve the Company's Transfer Application subject to immediate implementation of the CWSNC Uniform Water and Sewer Rates in the Echota and Seven Devils service areas for the reasons previously stated in his prefiled direct testimony.

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

First, witness Denton stated that CWSNC would 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 current Sub 384 uniform rates. Mr. Denton stated that CWSNC offered 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 certain specific concerns.

Second, witness Denton stated that the Company asserted 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 water meters. Additionally, witness Denton testified that there are savings both in money and time for the Company, the Public Staff, and the Commission should the Company not be required to file standalone rate cases for the Echota and Seven Devils communities. Finally, the witness testified that the proposed phase-in addresses customer concerns regarding rate shock and that, absent consistent incremental change to the Echota

and Seven Devils rates, the concerns of future rate shock will remain unaddressed. Witness Denton testified that if the phased-in rates recommended by the Company are approved, the WRM water and sewer systems will still be at the current Sub 384 rates after 36 months from Commission Order, and thus still below the Company's proposed Sub 400 rates. Witness Denton pledged that CWSNC would 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, witness Denton testified that 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, Mr. Denton stated that this phased-in approach toward implementation of the Sub 384 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. According to witness Denton, 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. The witness asserted that 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.

Witness Denton then addressed specific concerns that CWSNC has with respect to the standalone water and sewer revenue requirements proposed by the Public Staff. He began by stating that the Company 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 for the Echota water and Seven Devils sewer systems is reasonable for inclusion in rate base and determining cost of service upon approval of the transfer. Notwithstanding that appreciation, witness Denton stated 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. He stated that, 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.

According to witness Denton, witness Feasel testified that for Echota Water she included transaction due diligence costs in the amount of \$8,229.39⁹ in purchase acquisition adjustments as part of her standalone cost of service recommendation. Thus, according to witness Denton, although the Public Staff's water and sewer rate base determinations and proposed rates are understated, CWSNC offered a concession made in the spirit of compromise designed to move this case forward without further controversy, but with no future prejudicial precedent to the Company. In addition, Mr. Denton noted that Public Staff witness Feasel calculated her proposed standalone rate base and accumulated depreciation numbers using WRM depreciation rates instead of CWSNC depreciation rates. Witness Denton asserted that 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.

Witness Denton addressed 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 as follows. He stated that 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

⁹ In his prefiled Direct Testimony, witness Denton 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."

until the connections to Echota Phase IV are implemented.” According to witness Denton, there is no difference of opinion with the Public Staff here.

Witness Denton requested that 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 for the following reasons. According to the witness, it is not likely that CWSNC will be able to install the water meters in the first year of operation as recommended by the Public Staff. He testified that the current lead time for water meters is eight to twelve months and that the construction and utility markets have experienced delivery challenges regarding equipment and supplies over the last three years, driven by raw material delivery and labor shortages. In addition, witness Denton testified that Echota customers are currently directly connected into the water distribution system. He stated that adding meter infrastructure where line location will be required typically adds complexity, schedule delays, and potentially increased cost to the installation. According to witness Denton, CWSNC is investigating alternatives including installing meters under the multifamily units (in the crawlspaces) as an alternative, this will not, however, address the long supply chain timeline.

Witness Denton also responded as follows to the implied criticism offered by Public Staff witness Franklin that “after more than a year of operating the Echota and Seven Devils utility systems and approximately six months after filing the transfer application with the Commission, CWSNC determined additional capital expenses were required.” Witness Denton stated that CWSNC was retained by

WRM beginning on September 16, 2021, to serve as the contract operator of the water and sewer systems which the Company now seeks to purchase. Mr. Denton noted that in his prefiled Direct Testimony (at Page 10, Lines 7 – 9), he stated that: “Over the six months since the transfer application was filed [April 22, 2022], CWSNC has identified additional capital needs at both the Echota water system and Seven Devils sewer system.” Thus, he asserted that it should not be surprising to the Public Staff and, for that matter, to the current customers of WRM, that CWSNC, in its role as contract operator of the water and sewer systems in question, gained (and continues to gain) greater insight as to the capital needs and operational issues which must be addressed at Echota and Seven Devils once the transfer of ownership is approved.

Witness Denton further stated that the implied criticism from the Public Staff was misplaced and that, more importantly, the Public Staff had not taken issue with or questioned, at least up to that point in time, the need for any of the capital improvements discussed in his Direct Testimony.

Regarding the testimony offered by POA witnesses Winn and Moore that ten individual service area wastewater rates were approved by the Commission in the Sub 384 rate case, witness Denton stated that the testimony was inapt in that it did 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 POA witnesses Winn and Moore are part of the Company's Uniform Sewer Rate Division. Of those nine sewer systems, six¹⁰ are purchased sewer systems, which means that CWSNC does not itself treat their wastewater, but, instead, purchases bulk treatment services from another utility. Witness Denton testified that the rates for purchased sewer systems are set differently by the Commission than those systems where CWSNC provides the treatment services. For this reason, the comparison of the rates charged by CWSNC to customers in purchased sewer systems by POA witnesses Wynn and Moore was also inappropriate.

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

Consistent with his prefiled Direct Testimony, witness Denton continued to maintain on rebuttal that the public interest and public convenience and necessity

¹⁰ College Park, Kings Grant – Charlotte, White Oak Plantation/Winston Point/Lee Forest, Mt. Carmel, Ridges at Mountain Harbour, and Fairfield Mountain/Apple Valley.

will be served by approval of the CWSNC/WRM Transfer Application. He again reiterated that, in this instance, the water and sewer systems currently owned by WRM, while not yet operationally troubled to the extent that there is a need for appointment of an emergency operator, are in financial and operational difficulty. He stated that the water and sewer systems at issue will unquestionably benefit from the significant financial and local operational resources and expertise which CWSNC will provide upon approval of the Transfer Application. Witness Denton asserted that it is prudent to do reasonable things to support avoidance of a descent into “officially” troubled status, which this transfer will do.

In addition, consistent with his Direct Testimony, witness Denton reiterated that significant warning signals have been emanating from these water and sewer systems, as demonstrated by even a cursory review of the Annual Reports heretofore filed by WRM. He stated that the WRM operational financial losses have not been a secret and, unsurprisingly, CWSNC continues to discover and evaluate additional system needs as it has conducted its due diligence and as it has served as contract operator.

Witness Denton also reaffirmed his Direct Testimony where he 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.

Witness Denton concluded his Rebuttal Testimony by stating that the public interest will be served by approval of this pending transfer application; and that 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. Witness Denton further requested that the Commission conclude that (1) consistent with G.S. 62-111(a), approval of the pending transfer application is justified by the public convenience and necessity and is in the public interest; (2) the Company's proposed phased-in rate implementation proposal should be approved; (3) the Company's rate base request should be approved consistent with his testimony; and (4) 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 should be denied.

WHEREUPON, based upon the foregoing, including the verified Transfer Application, the testimony and exhibits of the customers appearing at the hearings, the testimony and exhibits of the expert witnesses received into evidence, and the entire record herein, the Commission now makes the following:

FINDINGS OF FACT

General Matters

1. CWSNC is a corporation duly organized under the law and is authorized to do business in the State of North Carolina. CWSNC is a franchised public utility providing water and/or sewer utility service to approximately 34,672 water customers and 21,530 sewer customers in North Carolina and

operates approximately 93 water systems and 38 sewer systems in the State. The Company's service territory spans 38 counties in North Carolina, from Corolla in Currituck County to Bear Paw in Cherokee County. CWSNC is a wholly-owned subsidiary of Corix Regulated Utilities, Inc.¹¹

2. WRM is a limited liability corporation duly organized under the law and is authorized to do business in the State of North Carolina. WRM is a franchised public utility providing water and/or sewer utility service to approximately 613 monthly flat rate water utility customers and 149 monthly flat rate wastewater utility customers in its service areas in Watauga County, North Carolina. James Edward Harrill, II is the Executive Manager for WRM.

3. On October 12, 2021, WRM and CWSNC entered into a utility asset purchase agreement whereby CWSNC agreed to purchase Water Resource's water and wastewater utility system assets for a purchase price of \$70,000. In addition to the purchase price of \$70,000, CWSNC agreed to make additional payments of \$706 per new customer connection up to 184 connections as an "incentive payment" for future Echota Phase IV lots, for which CWSNC requests rate base treatment as those payments are made and new customers are added to the water system. No WRM water or wastewater utility system assets were excluded from the utility asset purchase agreement.

4. CWSNC and WRM are properly before the Commission pursuant to Chapter 62 of the North Carolina General Statutes seeking approval of an

¹¹ Corix Regulated Utilities, Inc. owns regulated utilities in 17 states, with primary service areas in Florida, North Carolina, South Carolina, Louisiana, and Nevada, which provide water and sewer utility service to approximately 190,000 customers.

Application for Transfer of Public Utility Franchise and for Approval of Rates. That Transfer Application was filed jointly in this docket by CWSNC and WRM on April 22, 2022, 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 WRM to CWSNC and for approval of rates.

5. In addition to the purchase price, CWSNC is incurring due diligence costs in conjunction with this Transfer 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 \$70,000.¹²

6. The WRM water service areas include Echota Subdivision, Echota on the Ridge Subdivision, Echota East Ridge Subdivision and Phase 4 of Echota Subdivision (collectively, Echota). The WRM wastewater service areas include the Top of Seven Condominiums, the City Hall for Seven Devils, the Seven Devils Lake Resort Club, one residential customer, the Lakes Community, Hawks Peak Condominiums, and Hawks Peak South Condominiums (collectively, Seven Devils).

7. The Echota water system is comprised of nine active wells with three water treatment locations. Each water treatment location serves three wells with

¹² Denton Direct Exhibit 1 provides support for WRM's net investment in its water and sewer systems, which CWSNC calculates to be approximately \$120,000. The Company reviewed Water Resource's books over the last several years and noted several items that appear to have been incorrectly coded as expenses on WRM's books instead of being recorded as plant in service. In addition, CWSNC recalculated the net book value at CWSNC's current depreciation rates.

the first water treatment location serving wells 1 through 3, the second serving wells 4 through 6, and the third serving wells 7 through 9. The Echota water utility system also has four ground storage tanks with two having a capacity of 30,000 gallons each, one with a capacity of 75,000 gallons and another with a capacity of 83,000 gallons. The Echota water system is currently unmetered.

8. The Seven Devil wastewater system is comprised of three lift stations and a 20,000 gallons per day wastewater treatment plant that discharges to a Watauga River tributary.

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

CWSNC's Rate Proposals Applicable to WRM Customers

10. In the Transfer Application and CWSNC witness Denton's Direct Testimony, the Company initially proposed that, upon acquisition of the WRM water and sewer systems, CWSNC should be authorized by the Commission to charge the Company's Sub 384 Commission-approved Uniform Rates for flat rate residential service for both water and wastewater utility service provided to the acquired WRM customers. The Sub 384 rates were approved by

the Commission on April 8, 2022. The present and CWSNC's proposed rates for Echota and Seven Devils were set forth by the Company 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

11. In their testimony, POA witnesses Winn and Moore contended 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 currently being charged by CWSNC. Customers Winn and Moore concluded their prefiled 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."

12. Public Staff witnesses Franklin and Feasel recommended 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 by CWSNC's proposed rates would significantly exceed the revenue requirements recommended by the Staff in this case.

13. 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 recommended the following monthly flat rates for water and sewer utility service: Echota Water - \$33.67 and Seven Devil's Wastewater - \$37.06.

14. In addition, the Public Staff, through witness Franklin's testimony, recommended 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 recommended that CWSNC install water meters in the Echota service area within one year of taking ownership of the Echota water system.

15. CWSNC witness Denton testified on rebuttal that the Company continued 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 Sewer Rates in the Echota and Seven Devils service areas for the reasons previously stated in his Direct Testimony.

16. However, in the spirit of reasonable compromise and in response to customer concerns, witness Denton testified on rebuttal that CWSNC, in good faith, offered the following alternative compromise rate design implementation proposal for consideration and approval by the Commission.

17. First, CWSNC stated that the Company would 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 offered 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.

18. Second, the Company asserted 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 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 related 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 the date of issuance of the Commission's Transfer Order, and still below the Company proposed Sub 400 rates. The Company also stated that it would 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.

19. Third, CWSNC proposed 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	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	

20. Fourth, CWSNC pointed out that this phased-in approach toward implementation of the Sub 384 Uniform Water and Sewer Rates is consistent with the joint testimony initially 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.

Customer Concerns and Quality of Service

21. Eight WRM customers testified at the public hearing held on November 1, 2022, in the Watauga County Courthouse. None of the witnesses

opposed the transfer and no witnesses brought forward evidence of service or service quality deficiencies. In fact, several witnesses spoke to the high quality of the service provided by WRM. However, all witnesses were opposed to the rate structure then being proposed by CWSNC and/or the proposed amount of the resulting rate increase.

22. POA witnesses Winn and Moore, who are both also customers of WRM, testified at the evidentiary hearing held in Raleigh on December 8, 2022. They do not oppose the transfer, but raised concerns consistent with the testimony expressed by the other eight public witnesses.

23. G.S. 62-131(b) requires that every public utility in North Carolina shall provide service to its customers which is "...adequate, efficient, and reasonable..." In CWSNC's most recently-decided rate case in Docket No. W-354, Sub 384, the Commission, consistent with G.S. 62-131(b), described the overall quality of service provided by the Company as "...adequate, reliable, and economical." (See the April 8, 2022 Sub 384 Rate Case Order at pages 6 and 16).

24. Another significant indicium of the quality of water and sewer service provided by CWSNC in North Carolina is the fact that, upon recommendation by the Public Staff, the Company has been appointed by the Commission to serve on multiple occasions as the emergency operator of water and/or sewer systems in this state.¹³ Furthermore, subsequent to serving as the Commission-appointed

¹³ CWSNC is presently serving as the emergency operator of four troubled or defunct public utilities in North Carolina: Harrco Utility Corporation (Docket No. W-796, Sub 12); Cross-State Development Company (Docket No. W 408, Sub 9); Mountain Air Utilities Corporation (Docket No. W-1148, Sub 20); and Outer Banks/Kinnakeet Associates, LLC (Docket Nos. W 1125, Subs 9 and 10).

emergency operator of two additional troubled utility systems in North Carolina (the Riverbend Estates water system in Macon County [Docket Nos. W-390, Subs 13 and 14 and W-354, Sub 358] and the Silverton water and sewer system in Cabarrus County [Docket Nos. W-354, Sub 361 and W-1046, Sub 5]), CWSNC acquired those systems in system transfer cases by Orders entered on May 16, 2019, and August 6, 2019, respectively.

25. CWSNC has a strong history of willingness to assist with and acquire troubled water and sewer utility systems in North Carolina.

Public Interest Issues

26. The purpose of this Transfer Application is to facilitate the transfer of the water and sewer systems owned by Water Resource to CWSNC at a price which is fair and reasonable to both the seller and the buyer and on terms which are beneficial and certainly not detrimental to the current customers of CWSNC or those of Water Resource. In this instance, the water and sewer systems currently owned by WRM, while not yet operationally troubled to the extent that there is a need for appointment of an emergency operator, are in financial and operational difficulty. Mr. Harrell, a developer and not a professional utility operator, has made it clear to CWSNC and to the Public Staff that Water Resource needs to sell this system and CWSNC indicated that the Company will continue to identify infrastructure matters that must be addressed, at costs to be calculated. The WRM water and sewer systems will unquestionably benefit from the significant financial and local operational resources and expertise which CWSNC will provide upon approval of the transfer application.

27. CWSNC was retained by WRM beginning on September 16, 2021, to serve as the contract operator of the water and sewer systems which the Company now seeks to purchase. Based upon the Company's current operational oversight and expertise, the customers served by Water Resource have already benefitted from CWSNC's involvement in their service.¹⁴ There have been no major operational issues affecting the Water Resource water and sewer systems since CWSNC assumed operational responsibility in September 2021.

28. Since the Transfer Application was filed, CWSNC identified additional capital needs at both the Echota water system and Seven Devils sewer system. Following approval of the acquisition, CWSNC plans to install Advanced Metering Infrastructure (AMI) water meters. Currently the Echota water system does not have meter boxes or risers installed. Rather, the residents' service lines are straight-piped from the water mains to the premises. The implications of this are that additional costs beyond a standard meter change will be incurred in getting

¹⁴ CWSNC witness Denton testified on direct as follows:

Although the subject water and sewer systems are not under an emergency operatorship, CWSNC is aware of the following two significant operational problems which Water Resource experienced with its water and sewer systems in the recent past. First, in early-2021, the Echota water system was under duress and was unable to keep up with customer demand. Water Resource discovered a significant leak in one of its major supply lines that had apparently been leaking for years. The utility had to truck in water to meet system demand at a cost of approximately \$230,000. This situation also caused the wells in the system to over-pump and draw air.

Second, after CWSNC became the contract operator, its Geographic System Information Mapping ("GIS") personnel created a map of the Seven Devils sewer system, since no maps existed prior to the Company taking over operations. Upon mapping, CWSNC found a sewer manhole that was overflowing, and which appeared to have been overflowing for some time. This situation was also corrected. (Denton Prefiled Direct Testimony at Page 9, Lines 7 – 20, and Page 10, Lines 1 - 2)

the Echota customers to metered rates. The Company is assessing the costs for installing meters and the current estimate is approximately \$400,000 - \$500,000.

CWSNC also intends to invest approximately \$175,000 in sewer system improvements, including fence replacement (\$20,000); installation of safety rails/steps (\$50,000); painting (\$20,000); replacement of blowers (\$50,000); installation of bar screen influent line supports (\$15,000); installation of mission units on lift stations (\$10,000); and installation of shed/eye wash station for the safety of operators working at the treatment plant (\$10,000).

These water and sewer system capital investments and improvements by CWSNC will provide clear benefits to the current Water Resource customers in terms of system reliability, safety, and environmental impact once they are complete and in service.

29. The water and sewer rates currently being charged by WRM to its customers are exceptionally low and do not generate sufficient revenue to ensure adequate and timely capital investments in the systems or to support essential operational and maintenance activities. The Transfer Application at page 4 shows that for calendar year 2021 (based on the Annual Report filed with the Commission), Water Resource's water system operations incurred a loss of approximately \$450,000 and its sewer system operations showed only a slight profit of approximately \$9,500. This significant loss followed a loss of \$264,997 by Water Resource from operations of its water and sewer systems during calendar year 2020, and a loss of \$81,569 in calendar year 2019 (based on the Annual Reports filed with the Commission).

30. Although the water and sewer customers currently being served at the Water Resource rates will incur significant rate increases under CWSNC's currently-approved rates, it is fair and imperative to consider the fact that the existing rates being charged by Water Resource have historically been and continue to be very low, and that the resulting low utility revenues are logically to be considered as reasons for the declining operational structure, the financial instability that obviously has beset WRM, and the impact on and the need for the incumbent owner to exit the business.

31. 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 CWSNC 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. It is not reasonable, efficient, prudent, or good business practice to expect either CWSNC's shareholders or its current customers to subsidize the Water Resource customers. This is true under existing legacy ratemaking principles, and it would particularly be true over the span of a multi-year rate plan, should the Company's proposed rate plan (currently under consideration in Docket No. W-354, Sub 400) be approved.

32. If rates are properly set and rate base is correctly determined for the Echota and Seven Devils systems, then CWSNC's existing customer base will also benefit from the Company's customer growth as a result of this proposed acquisition and the resulting economies of scale. The additional customers gained

by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base. Both sets of customers will also experience the advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs. There is no obvious detriment to CWSNC's current customer base which will result from approval of the pending Transfer Application. To the contrary, customer growth is demonstrably good for the Company and its customers.

33. The public interest is 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.

34. Consistent with G.S. 62-111(a), approval of the pending Transfer Application is justified by the public convenience and necessity and is in the public interest. CWSNC also requested that the Commission approve the Company's proposed phased-in rate implementation proposal and determine the Company's rate base request consistent with witness Denton's testimony and the Commission hereby finds good cause to do so.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 9
(General Matters)

The evidence supporting these findings of fact is found in the Transfer Application, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings are generally informational, procedural, and

jurisdictional in nature and are primarily supported by the testimony offered by CWSNC witness Denton during his direct and rebuttal testimony.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 10 – 20
(CWSNC’s Rate Proposals Applicable to WRM Customers)

The evidence supporting these findings of fact is found in the Transfer Application; in the testimony and exhibits of the eight public witnesses appearing at the hearings; in the rebuttal testimony of CWSNC witness Denton; in the direct testimony of Public Staff witnesses Franklin and Feasel; and in the direct testimony of POA witnesses Winn and Moore.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 21 – 25
(Customer Concerns and Quality of Service)

The evidence supporting these findings of fact is found in the Transfer Application; in the testimony and exhibits of the eight public witnesses appearing at the hearings; in the direct and rebuttal testimony and exhibits of CWSNC witness Denton; in the direct testimony of Public Staff witnesses Franklin and Feasel; in the direct testimony of Association witnesses Winn and Moore; and in the two verified Reports filed by CWSNC in response to the concerns expressed by the customer witnesses who testified at the public hearings and the Public Staff’s Responses thereto.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 26 - 34
(Public Interest Issues)

The evidence supporting these findings of fact is primarily supported by the testimony offered by CWSNC witness Denton during his direct and rebuttal testimony, as well as in the Transfer Application; in the testimony and exhibits of the eight public witnesses appearing at the hearings; in the direct testimony of

Public Staff witnesses Franklin and Feasel; in the direct testimony of Association witnesses Winn and Moore; in the two verified Reports filed by CWSNC and WRM in response to the concerns expressed by the customer witnesses who testified at the public hearings and the Public Staff's Responses thereto; and the record as a whole.

WHEREUPON, the Commission now reached the following

CONCLUSIONS

First, good cause exists to approve the Transfer Application filed in this docket by CWSNC and WRM. No witness or party to this case expressed opposition to approval of the transfer.

Second, good cause exists to approve CWSNC's alternative compromise rate design implementation proposal in its entirety. The compromise phased-in rate design proposal was developed by the Company as a good faith response to the rate design and concerns regarding financial impact collectively expressed by the Public Staff, WRM's existing customers who testified at the public and evidentiary hearings, and the Intervenor POA. CWSNC, through the testimony of witness Denton, made a compelling case in support of the Company's alternative phased-in rate design proposal. In addition, the Commission concludes that the Public Staff's standalone rate proposal, if adopted, would serve as a disincentive to regulated public utilities such as CWSNC to pursue acquisitions of financially and/or operationally troubled utility systems or systems with low rates.

The Commission recognizes and appreciates the fact that CWSNC's alternative compromise rate design proposal was made in the spirit of reasonable

compromise and in response to customer concerns. However, that proposal was also made contingent on and subject to a Commission-authorized phase-in of the Company's Sub 384 uniform rates. Absent such approval, witness Denton testified on rebuttal that the Company continued to believe that it would be reasonable and appropriate for the Commission to approve the Transfer Application subject to immediate implementation of the Company's Sub 384 Uniform Water and Sewer Rates.

The Commission recognizes that there is no stipulation by either the Public Staff or the POA to accede to and accept the Company's compromise rate design proposal. Notwithstanding that fact, the Commission finds good cause to rule in favor of the Company on this issue and state on the record that, in the absence of the alternative proposal offered by the Company, immediate implementation of the Sub 384 Uniform Water and Sewer Rates would have been ordered upon approval of the transfer.

Furthermore, the Public Staff's rate design, if adopted, would likely place CWSNC in the position of having to file standalone general rate cases, as necessary, for the Echota water and Seven Devils sewer systems, as well as semi-annual standalone WSIC/SSIC system improvement rate adjustment requests. Under the Company's phased-in Sub 384 rate design proposal, it is the Commission's understanding that CWSNC would not attempt to file standalone general rate cases or semi-annual standalone WSIC/SSIC rate adjustments for the Echota and Seven Devils utility systems and that the phased-in Sub 384 rates would not be changed until the Company's next general rate case after the

currently-pending Sub 400 rate case. This result is fair and reasonable to current WRM water and sewer customers.

Third, the Commission agrees with CWSNC's position in this case that the appropriate rates for phased-in implementation by the Company after Commission approval of the Transfer Application are the uniform water and sewer rates which received regulatory approval in the Sub 384 rate case effective for service rendered on and after April 8, 2022. While it must certainly be acknowledged that these rates, when fully implemented *three years* after approval of the transfer, will significantly increase the water and sewer charges currently being paid by the current WRM customers, that is not an unfair or unreasonable result in view of the benefits the acquired customers will receive as a result of CWSNC's ownership and operation of the water and sewer systems providing their utility service.

This phased-in approach toward implementation of the Sub 384 Uniform Water and Sewer Rates is also consistent with the prefiled joint testimony offered by customer and POA 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. The Commission recognizes that, at the evidentiary hearing, the POA witnesses testified that they did not favor CWSNC's compromise proposal, which they termed an "automatic short-term phase-in." (Tr. Vol. 2, Page 95, Lines 20 – 22). The Commission disagrees with the POA witnesses on this point

and concludes that a three-year phase-in period to full implementation of the Sub 384 water and sewer rates is fair and reasonable under the facts of this case.

Absent consistent incremental change to the Echota and Seven Devils rates, the concerns of future rate shock will remain unaddressed. This alternative, compromise approach is, therefore, fair and reasonable to both the Echota water and Seven Devils sewer customers as well as to the Company's existing customer base. It is not reasonable, efficient, prudent, or good business practice to expect either CWSNC's shareholders or its current customers to unduly subsidize the WRM customers, as would be the case under the Public Staff's standalone rate design proposal. Even with the phase-in, the rate shock issue is only "kicked down the road," as at the end of the phase-in, these customers will still lag behind the rates imposed by a ruling in the Sub 400 rate case, assuming that rate relief will be granted therein.

The Commission further concludes that a clear avenue to inclusion of the current WRM customers in CWSNC's Uniform Water and Sewer Rate groups will, over time, help reduce rate pressures for all customers in the Uniform Rate groups. The inclusion of newly-acquired water and sewer systems in the Company's Uniform Rate groups, if ordered only at such time as the associated revenue requirements exceed the current Uniform Water and Sewer Rates, only serves to put upward rate pressure on Uniform Rates.

CWSNC's Uniform Water and Sewer Rates are derived using an average of revenue requirements for a range of systems, some with revenue requirements below the average, and some with requirements above the average. The Uniform

Rate category contains an aggregation of systems, and is one of the extensions of the benefits of consolidation of regulated utility companies, as it is a manifestation of consolidation of rates. Preference for inclusion of newly-acquired utility systems in the Uniform Rate category supports efficiency in ratemaking and a sharing of risks and benefits across systems. It also acknowledges the inherent advantages that inure to newly-acquired utility systems simply from being included in the operational and management expertise of a large, well-managed, professionally run water and wastewater company such as CWSNC.

Fourth, the Commission also agrees with CWSNC that the testimony offered by POA witnesses Winn and Moore that ten individual service area wastewater rates were approved by the Commission in the Sub 384 rate case is inapt in that it does not recognize or discuss the significant differences between customers on CWSNC's Uniform Wastewater Rates and the ten cited sewer systems. The Commission will not recite here the arguments made by CWSNC in support of its position on this issue, but hereby affirms the validity of the Company's rationale in support of its position.

The Commission further notes that, in making a rate design decision in this case, it is inappropriate and unfair to compare the rates of investor-owned, Commission-regulated public utilities like CWSNC to the rates charged by governmental entities, such as municipalities or county systems, due to significant differences in cost attributes, service territories, regulatory oversight, methods of rate setting, and application of taxation responsibilities.

Fifth, the Commission understands, appreciates, and finds validity with respect to the concerns expressed by CWSNC witness Denton regarding the standalone water and sewer revenue requirements recommended by the Public Staff. Witness Denton asserted that the Public Staff's water and sewer rate base determinations and proposed rates are understated for the reasons set forth in his rebuttal testimony and the Commission agrees with and finds validity to that assertion.¹⁵ 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 Company. The Commission determines that CWSNC's position is warranted on this issue and that the Company's compromise rate design proposal in this case may not be cited as precedent in future transfer proceedings.

Sixth, the Commission accepts for ratemaking purposes the Public Staff's determination that the Company's aggregate purchase price of \$70,000 for the Echota water and Seven Devils sewer systems is reasonable for inclusion in the Company's rate base and determining cost of service upon approval of the transfer. The Commission further notes that, in a footnote in his prefiled Direct Testimony, CWSNC witness Denton stated 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

¹⁵ For instance, witness Denton testified on rebuttal that Public Staff witness Feasel calculated her proposed standalone rate base and accumulated depreciation numbers using WRM depreciation rates instead of CWSNC depreciation rates. The Commission agrees with witness Denton on this point. This is an issue which can and should be sorted out by proper use of CWSNC's depreciation rates in the Company's next general rate case which includes the Echota water system and the Seven Devils sewer system.

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 Commission concludes that the \$70,000 purchase price to be paid by CWSNC for the WRM rate base assets, when compared to WRM's net investment of \$120,000,¹⁶ 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. This fact adds additional support to the Commission's conclusion that approval of the Transfer Application is in the public interest.

The Commission also determines that CWSNC is entitled to defer and recover in rates all reasonable and appropriate due diligence capital costs incurred by the Company in conjunction with this transfer proceeding. 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. The Commission notes that the revenue requirement calculated by Public Staff witness Feasel included only \$8,229.39¹⁷ of the due diligence costs which the Company estimated may ultimately total \$45,000. In fact, witness Denton stated in his

¹⁶ The Public Staff did not dispute this WRM net investment rate base determination which was calculated and documented by CWSNC as set forth in Exhibit 1 to witness Denton's prefiled Direct Testimony.

¹⁷ The Commission notes that witness Feasel allocated the entire amount of these due diligence costs to the Echota water system and made no allocation of any of those costs to the sewer system. Witness Feasel testified in response to a question from Hearing Examiner Rhodes that the Company did not calculate due diligence cost for Seven Devils. The Commission questions this allocation because due diligence costs in a transfer proceeding would normally be fairly and reasonably allocated and apportioned between water and sewer systems. This is an issue which may represent a misunderstanding between CWSNC and the Public Staff which can and should be sorted out in the Company's next general rate case which includes the Echota water system and the Seven Devils sewer system.

Rebuttal Testimony that such costs then totaled almost \$25,000 and that additional costs would be incurred through conclusion of this transfer case.

CWSNC also requests 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 as those payments are made and new customers are added to the Echota water system. The Commission determines that this ratemaking treatment should be approved as it 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.”

Seventh, CWSNC requests that the Commission reject the Public Staff’s recommendation that the Company be required to install water meters in the Echota service area within one year of taking ownership of the water system. CWSNC witness Denton testified that it is not likely that the Company will be able to install the water meters in the first year of operation as recommended by the Public Staff. Witness Denton stated that the current lead time for water meters is eight to twelve months; that the construction and utility markets have experienced delivery challenges of equipment and supplies over the last three years, driven by raw material delivery and labor shortages; and that Echota customers are currently directly connected into the water distribution system; that adding meter infrastructure where line location will be required typically adds complexity, schedule delays, and potentially increased cost to the installation; and that CWSNC is investigating alternatives including installing meters under the

multifamily units (in the crawlspaces) as an alternative. This will not, however, address the long supply chain timeline.

Based on the testimony offered by CWSNC witness Denton regarding the timing issues and complexities related to meter installation, the Commission concludes that the Public Staff's recommended one-year deadline for meter installation is likely unattainable. Accordingly, CWSNC is hereby ordered to comprehensively research this issue and make a filing setting forth its proposed meter installation schedule based upon the best and most informed and reliable time estimate available. This filing should be made no later than 90 days after the date of entry of this Order.

Eighth, and finally, the Commission concludes that the public interest will be served by approval of the 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. Furthermore, consistent with G.S. 62-111(a), the Commission also concludes that approval of the pending transfer application is justified by the public convenience and necessity and is in the public interest.

The purpose of the pending Transfer Application is to facilitate the transfer of the water and sewer systems owned by WRM to CWSNC at a price which is fair and reasonable to both the seller and the buyer and on terms which are beneficial and not detrimental to the current customers of CWSNC or those of WRM. The Commission agrees with the testimony offered by CWSNC witness Denton that, in

this instance, the water and sewer systems currently owned by WRM, while not yet operationally troubled to the extent that there is a need for appointment of an emergency operator, is in financial and operational difficulty.¹⁸ The water and sewer systems at issue will unquestionably benefit from the significant financial and local operational resources and expertise which CWSNC will provide upon approval of the transfer application. It is prudent to do reasonable things to support avoidance of a descent into “officially” troubled status, which this transfer will do.

In addition, consistent with witness Denton’s testimony, the Commission agrees that significant warning signals have been emanating from the WRM water and sewer systems, as demonstrated by even a cursory review of the Annual Reports heretofore filed by WRM. The WRM operational financial losses have not been a secret and, unsurprisingly, CWSNC continues to discover and evaluate additional system needs as it has conducted its due diligence and as it has served as contract operator.

¹⁸ CWSNC witness Denton, in his Prefiled Direct Testimony at Pages 9 - 10, described the following two significant operational problems which Water Resource experienced with its water and sewer systems in the recent past.

...First, in early-2021, the Echota water system was under duress and was unable to keep up with customer demand. Water Resource discovered a significant leak in one of its major supply lines that had apparently been leaking for years. The utility had to truck in water to meet system demand at a cost of approximately \$230,000. This situation also caused the wells in the system to over-pump and draw air.

Second, after CWSNC became the contract operator, its Geographic System Information Mapping (“GIS”) personnel created a map of the Seven Devils sewer system, since no maps existed prior to the Company taking over operations. Upon mapping, CWSNC found a sewer manhole that was overflowing, and which appeared to have been overflowing for some time. This situation was also corrected.

Furthermore, the fact that the current Echota and Seven Devils rates are low does not mean the associated costs are low. As testified to by CWSNC witness Denton:

...One could logically assume that there is a relationship between these low rates, the growing operational concerns for these systems, and the current owner's financial distress with respect to this enterprise. Rates that are inadequate, over time, have inevitable consequences in terms of system decline and/or unwarranted subsidization by utility owners or other customers. [Footnote removed from quote] (Denton Prefiled Direct Testimony, Page 14, Lines 3 – 6)

Finally, the Commission agrees with CWSNC witness Denton's testimony 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 and fully-regulated public utility able to provide consistently safe, reliable, and compliant service. In fact, based upon the Company's current operational oversight and expertise, the customers served by Water Resource have already benefitted from CWSNC's involvement in their service. More specifically, the Commission agrees with the testimony of CWSNC witness Denton that:

...Due to increasing complexities combined with aging systems, the management of these water and wastewater systems is increasingly shown to be best accomplished by a regulated public utility, such as CWSNC, which specializes in and demonstrates the ability to consistently provide adequate, efficient, and reasonable water and wastewater service. (Denton Prefiled Direct Testimony, Footnote 1, Page 14)

IT IS, THEREFORE, ORDERED as follows:

1. That the Application for Transfer of Public Utility Franchise and for Approval of Rates, jointly filed in this docket on April 22, 2022, by Carolina Water Service, Inc. of North Carolina and Water Resource Management LLC, be, and the same is hereby, approved.

2. That CWSNC is granted a certificate of public convenience and necessity to provide water utility service in the Echota Subdivision, Echota on the Ridge Subdivision, Echota East Ridge Subdivision, and Phase 4 of the Echota Subdivision (collectively Echota) and sewer utility service to Top of the Seven Condominiums, the City Hall for Seven Devils, the Seven Devils Lake Resort Club, one residential customer, the Lakes Community, Hawks Peak Condominiums, and Hawks Peak South Condominiums (collectively, Seven Devils) in Watauga County, North Carolina, effective upon the closing of the transfer of the water and sewer utility system assets to CWSNC.

3. That Appendix A constitutes the Certificate of Public Convenience and Necessity.

4. That the Certificate of Public Convenience and Necessity to provide water and sewer utility service heretofore granted to Water Resource Management LLC is cancelled, effective on the date which CWSNC files with the Commission written notification that the closing of the transfer of the water and sewer systems has been completed.

5. That the Schedule of Rates, attached hereto as Appendix B, is approved for water and sewer utility service in the Echota and Seven Devils service areas, effective for service rendered on and after the date of closing of the transfer

of the water and sewer utility system assets to CWSNC. The Schedule of Rates is deemed filed with the Commission pursuant to G.S. 62-138.¹⁹

6. That CWSNC shall provide written notification to the Commission within three business days after the closing that the transfer has been completed and the date of such closing.

7. That all ratemaking determinations set forth in this Order regarding rate base/ratemaking issues are hereby determined as decided and as set forth hereinabove.

8. That CWSNC shall make a filing setting forth its proposed meter installation schedule for the Echota service area based upon the best and most informed and reliable time estimate available. This filing shall be made no later than ninety days after the date of entry of this Order.

9. That the Notices to Customers, attached hereto as Appendices C-1 and C-2 shall be mailed with sufficient postage or hand delivered to all affected customers in each relevant service area, respectively, in conjunction with the next regularly scheduled billing process.²⁰

10. That CWSNC shall file the attached Certificate of Service, properly signed and notarized, not later than 15 days after the Notices to Customers are mailed or hand delivered to customers.

11. That \$50,000 of CWSNC's \$190,000 unassigned bond shall be assigned to the Echota and Seven Devils service areas. CWSNC's remaining unassigned bond surety shall be \$140,000.

¹⁹ **Note:** A Schedule of Rates is not attached to this Proposed Recommended Order.

²⁰ **Note:** Customer notices are not attached to this Proposed Recommended Order.

ISSUED BY ORDER OF THE COMMISSION.

This the _____ day of _____, 2023.

NORTH CAROLINA UTILITIES COMMISSION

A. Shonta Dunston, Chief Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notices to Customers issued by the North Carolina Utilities Commission in Docket Nos. W-354, Sub 396 and W-1073, Sub 7, and the Notices were mailed or hand delivered by the date specified in the Order.

This the _____ day of _____, 2023.

By: _____

Signature

Name of Utility Company

The above-named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notices to Customers were mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket Nos. W-354, Sub 396 and W- 1073, Sub 7.

Witness my hand and notarial seal, this the _____ day of _____, 2023.

Notary Public

Printed or Typed Name

(SEAL)

My Commission Expires: _____
Date