

**NORTH CAROLINA UTILITIES COMMISSION  
RALEIGH**

Docket No. W-354, Sub 361  
Docket No. W-1046, Sub 5

Exceptions Due on or Before August 14, 2019

**NOTICE TO PARTIES**

Parties to the above proceeding may file exceptions to the report and Recommended Order hereto attached on or before the day above shown as provided in G.S. 62-78. Exceptions, if any, must be filed (original and thirty (30) copies) with the North Carolina Utilities Commission, Raleigh, North Carolina, and a copy thereof mailed or delivered to each party of record, or to the attorney for such party, as shown by appearances noted. Each exception must be numbered and clearly and specifically stated in one paragraph without argument. The grounds for each exception must be stated in one or more paragraphs, immediately following the statement of the exception, and may include any argument, explanation, or citations the party filing same desires to make. In the event exceptions are filed, as herein provided, a time will be fixed for oral argument before the Commission upon the exceptions so filed, and due notice given to all parties of the time so fixed; provided, oral argument will be deemed waived unless written request is made therefor at the time exceptions are filed. If exceptions are not filed, as herein provided, the attached report and recommended decision will become effective and final on August 15, 2019 unless the Commission, upon its own initiative, with notice to parties of record modifies or changes said Order or decision or postpones the effective date thereof.

The report and Recommended Order attached shall be construed as tentative only until the same becomes final in the manner hereinabove set out.

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 361  
DOCKET NO. W-1046, SUB 5

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Carolina Water	)
Service, Inc. of North Carolina,	)
P.O. Box 240908, Charlotte, North	)
Carolina 28244, for Authority to	)
Acquire the Water and Sewer	)
Utility System in Silverton	)
Subdivision in Cabarrus County,	)
North Carolina from Pace Utilities	)
Group, Inc., 6719-C Fairview	)
Road, Charlotte, North Carolina	)
28210, and Approval of Rates	)
	RECOMMENDED ORDER
	APPROVING TRANSFER,
	GRANTING FRANCHISE,
	APPROVING ACQUISITION
	ADJUSTMENT, APPROVING
	RATES, AND REQUIRING
	CUSTOMER NOTICE

HEARD: Wednesday, May 29, 2019, at 7:00 p.m., Cabarrus County Courthouse,  
Courtroom # 1, 77 Union Street South, Concord, North Carolina

BEFORE: Freda H. Hilburn, Commission Hearing Examiner

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

Jo Anne Sanford, Sanford Law Office, PLLC, Post Office Box 28085,  
Raleigh, North Carolina 27611-8085

For Pace Utilities Group, Inc.:

Russell S. Woodward, Woodward & Woodward, PLLC, 200 South College  
Street, Suite 200, Charlotte, North Carolina 28202

For the Using and Consuming Public:

Gina C. Holt, Staff Attorney, Public Staff – North Carolina Utilities  
Commission, 4326 Mail Service Center, Raleigh, North Carolina  
27699-4300

HILBURN, HEARING EXAMINER: On September 13, 2018, in the above captioned dockets, Carolina Water Service, Inc. of North Carolina (CWSNC or Company) filed an Application (Transfer Application) seeking authority to acquire the franchise for providing water and sewer utility service in Silverton Subdivision in Cabarrus County, North Carolina from Pace Utilities Group, Inc. (Pace Utilities), and for approval of rates.

A Utility Asset Purchase Agreement (APA), dated August 6, 2018, between CWSNC and Pace Utilities was attached to the Transfer Application. On November 21, 2018, CWSNC filed an amended APA, with an effective date of November 19, 2018. On February 6, 2019, CWSNC filed a Revised Transfer Application, which reflected a change in the purchase price and revisions to the proposed rates. The filing also included a second amended APA, with an effective date of January 24, 2019, which included the revised purchase price of \$43,000 for the water and sewer system.

The water system consists of two wells, two hydro-pneumatic storage tanks, and a distribution system. Pace Utilities purchases bulk sewer treatment from CWSNC, which is treated at CWSNC's Bradfield Farms' wastewater treatment facility. According to the Transfer Application, the Silverton Subdivision water and sewer systems currently serve 61 residential customers. The current rates for water and sewer utility service were approved by Commission Order dated April 29, 2015, in Docket Nos. W-1046, Subs 2 and 3 and M-100, Sub 138. In the April 29, 2015 Order, the original rates for water utility service approved in Docket No. W-1046, Sub 0, per Commission Order dated October 6, 1994, were adjusted to reflect House Bill 998. The April 29, 2015 Order also adjusted the rates for sewer utility service to reflect House Bill 998 and reflected Pace Utilities' last pass through rate increase effective April 29, 2015. The Public Staff and CWSNC have agreed that the proposed rates should reflect the rates of CWSNC's water rate division for Bradfield Farms/Fairfield Harbour/Treasure Cove and CWSNC's sewer rate division for Bradfield Farms/Fairfield Harbour.

On March 21, 2019, CWSNC filed an amendment to its Transfer Application to update its proposed rates for providing water and sewer utility service in the Silverton Subdivision to reflect the rates set forth on Appendix A-3, of the Commission's Order issued on February 21, 2019, in Docket No. W-354, Sub 360, the Company's most recent general rate case proceeding.

Pace Utilities' current rates and CWSNC's proposed rates are as follows:

<u>Monthly Metered Water Service</u>	<u>Pace Utilities Current Rates</u>	<u>CWSNC's Proposed Rates</u>
Base Charge, Zero Usage	\$6.72	\$16.74
Usage Charge/1,000 Gallons	\$1.85	\$ 3.75
<u>Monthly Flat Rate Sewer Service</u>	\$39.53	\$50.46

Under CWSNC's proposed rates, the monthly water bill for a Silverton Subdivision customer will increase from \$16.45 to \$36.47, based on an average monthly usage of 5,262 gallons. The monthly sewer bill will increase from \$39.53 to \$50.46.

On March 25, 2019, the Commission issued an Order Scheduling Hearing and Requiring Customer Notice in which the Commission scheduled a public hearing for May 29, 2019, at 7:00 p.m., in Courtroom #1 of the Cabarrus County Courthouse in Concord, North Carolina. The hearing was scheduled subject to cancellation if no significant protests were received by May 14, 2019.

On March 27, 2019, CWSNC filed its certificate of service indicating that all of the affected customers had been served with notice of its Transfer Application to acquire the franchise of Pace Utilities and the hearing.

Several customers of Pace Utilities, within the time specified in the Commission's March 25, 2019 Order, filed protests to the transfer of the franchise from Pace Utilities to CWSNC and the proposed increase in rates and also expressed quality of service concerns.

On May 9, 2019, the Public Staff – North Carolina Utilities Commission (Public Staff) filed the Affidavit of Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Communications Division, and the Affidavit and Exhibit of Windley E. Henry, Manager, Water, Sewer, and Communications Section, Accounting Division.

On May 24, 2019, CWSNC filed with the Commission a copy of a letter from Catherine E. Heigel, President of CWSNC, to Pace Utilities' customers which, according to the cover letter to the filing, was hand-delivered to customers by CWSNC's field operators on Wednesday, May 22, 2019. The purpose of the letter was to introduce CWSNC to the residents of Silverton Subdivision and to offer information about CWSNC and its services, including the contact information for its Communications Manager, Deborah Clark.

Also on May 24, 2019, Russell S. Woodward, an attorney with Woodward & Woodward, PLLC, filed with the Commission his notice of appearance in these dockets and a letter from Brian S. Pace, President of Pace Utilities, to the customers in Silverton Subdivision. The purpose of the letter was to provide additional information concerning the circumstances that resulted in the proposed sale of the water and sewer systems to CWSNC and to offer an explanation of the planned changes and improvements to the system by CWSNC to improve service and reliability for customers.

Further, on May 24, 2019, the Public Staff filed a Motion for Order Excusing Witness from Hearing (Motion to Excuse Witness) requesting that the Commission enter an Order excusing Windley E. Henry from attending the May 29, 2019 hearing in Concord, North Carolina and that his affidavit and exhibit be copied into the record and received into evidence. The Public Staff noted that the purpose of witness Henry's affidavit and exhibit was to present the results of his investigation of the levels of net plant

in service and acquisition adjustment for ratemaking purposes with respect to the Transfer Application filed by CWSNC. The Public Staff acknowledged that its request was contingent upon the Commission having no questions for witness Henry. The Public Staff represented that no party to the proceeding objected to its Motion.

On May 28, 2019, the Commission entered an Order in these dockets excusing witness Henry from appearing at the May 29, 2019 hearing in Concord, North Carolina and admitting his affidavit and exhibit filed on May 9, 2019, in the above-referenced dockets, into the record as if given orally from the stand.

The public and evidentiary hearing was convened as scheduled on Wednesday, May 29, 2019, at 7:00 p.m., in the Cabarrus County Courthouse. CWSNC, Pace Utilities, and the Public Staff were present and represented by counsel. The following three customers testified: Judy Sapielak, Tiffany Woods, and Katie McCormick. Brian S. Pace testified on behalf of Pace Utilities in support of the Transfer Application. Jonathan Bryce Mendenhall, CWSNC's Vice President of Operations, testified for the Company. The Public Staff presented the testimony of Gina Y. Castleberry, Utilities Engineer with the Public Staff Water, Sewer, and Communications Division. The Public Staff also introduced in evidence the affidavit and exhibit of Windley E. Henry, the Manager of the Public Staff's Water, Sewer, and Communications Section, Accounting Division.

On July 3, 2019, a Joint Proposed Recommended Order was filed by CWSNC, Pace Utilities, and the Public Staff.

On the basis of the verified Transfer Application, the evidence presented at the hearing on May 29, 2019, the various filings by CWSNC and the Public Staff, and the entire record in this proceeding, the Hearing Examiner makes the following

#### FINDINGS OF FACT

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 which provides water and/or sewer utility service to more than 50,000 customers in 38 counties in North Carolina. CWSNC has been providing water and sewer utility service in North Carolina for more than 50 years. The Company is a wholly-owned subsidiary of Utilities, Inc. (UI).<sup>1</sup>

2. On September 13, 2018, CWSNC filed a Transfer Application with the Commission seeking authority to acquire the franchise for providing water and sewer utility service in the Silverton Subdivision in Cabarrus County, North Carolina from Pace Utilities, and for approval of rates. CWSNC presently serves other service areas near Silverton Subdivision, including Bradfield Farms, Larkhaven, Lemond Acres, and Country Hills. CWSNC also currently provides the wastewater treatment for the Silverton Subdivision.

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<sup>1</sup> Utilities, Inc. owns regulated utilities in 16 states, including CWSNC in North Carolina.

3. The Silverton Subdivision water system consists of two wells, two hydro-pneumatic storage tanks, and a distribution system. Pace Utilities purchases bulk sewer treatment from CWSNC, which is treated at CWSNC's Bradfield Farms' wastewater treatment facility. The Silverton Subdivision water and sewer systems currently serve 61 residential customers.

4. Pace Utilities' current rates for water service reflect the original rates approved in Docket W-1046, Sub 0, dated October 6, 1994, adjusted per Commission Order issued on April 29, 2015, in Docket Nos. W-1046, Subs 2 and 3, and M-100, Sub 138, to reflect House Bill 998. The current rates for sewer service were also approved by the Commission's April 29, 2015 Order and reflect adjustments for House Bill 998 and Pace Utilities' last pass through rate increase. The Public Staff and CWSNC have agreed that the proposed rates should reflect the rates of CWSNC's water rate division for Bradfield Farms/Fairfield Harbour/Treasure Cove and CWSNC's sewer rate division for Bradfield Farms/Fairfield Harbour.

5. Based on its Transfer Application and testimony, CWSNC indicated that it intends to invest approximately \$162,500 - \$240,000 in capital improvements within the next two years, as listed below:

#### Water System

Year 1: Replace the two well houses and two hydro-pneumatic storage tanks.

Year 2: Replace the conduit in the well and repair the Supervisory Control and Data Acquisition (SCADA) system.

#### Sewer System

Year 1: Replace the totalization meter.

6. Installing new hydro-pneumatic storage tanks and repairing the SCADA system should improve the operation of the two wells, increase water pressure, and reduce the occurrence of discolored water, which can be caused by build-up sedimentation at the bottom of older tanks. In addition, CWSNC utilizes a flushing program which should also improve build-up sedimentation in water mains. In the event CWSNC determines that other treatment is necessary to improve the quality of the water, the Company has the necessary capital to make those improvements.

7. There are deficiencies affecting Pace Utilities' water system. The Silverton Subdivision customers will benefit from the investment of approximately \$162,500 - \$240,000 in system improvements which CWSNC intends to make in the next two years to the well houses, hydro-pneumatic storage tanks, replacement of a conduit in the well, repairs to the SCADA system, and replacement of the sewer totalization meter.

8. There is no evidence of record confirming that the Town of Harrisburg is available to or interested in providing service to the customers of Pace Utilities' water or sewer systems.

9. Sewage treatment services for the Silverton Subdivision are currently provided by CWSNC at the wastewater treatment plant located at the Company's Bradfield Farms sewer system. That arrangement will continue to be the case after approval of the Transfer Application. The three customers who testified at the public hearing registered no complaints regarding the sewer service they receive from Pace Utilities.<sup>2</sup> The Public Staff did not report any concerns with the sewer service currently being provided to customers at the Silverton Subdivision.

10. CWSNC and Pace Utilities entered into an APA dated August 6, 2018. On November 21, 2018, CWSNC filed an amended APA, with an effective date of November 19, 2018. On February 6, 2019, CWSNC filed a revised Transfer Application, which reflected a change in the purchase price and revisions to the proposed rates. The filing also included a second amended APA, with an effective date of January 24, 2019, which included the revised purchase price of \$43,000 for the water and sewer systems.

11. The assets being acquired by CWSNC represent a combined net plant in service balance of \$17,209 as of March 31, 2019, as shown on Schedule 1-2 of Henry Exhibit I. CWSNC will pay \$43,000 for all assets owned by Pace Utilities that are used, useful, or reasonably necessary in the operation of the utility system, resulting in a debit acquisition adjustment of \$25,791.

12. CWSNC's acquisition of Pace Utilities' water and sewer systems meets the Commission's criteria for debit acquisition adjustments, because the purchase price is prudent and the result of arm's length bargaining; there are present deficiencies in Pace Utilities' water system that CWSNC intends to address after the acquisition; and the benefits accruing to the customers in the Silverton Subdivision and CWSNC's Bradfield Farms/Fairfield Harbour/Treasure Cove rate customers outweigh the costs of inclusion in rate base of the excess purchase price.

13. Although CWSNC is proposing rate increases for both the water and sewer operations of Pace Utilities, the current rates were approved by Commission Order dated April 29, 2015, in Docket Nos. W-1046, Subs 2 and 3, and M-100, Sub 138, and the Silverton Subdivision customers will be expected to receive improved water service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations.

14. The purchase price to be paid by CWSNC for Pace Utilities' water and sewer systems is prudent. Further, the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of

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<sup>2</sup> In response to questions from Hearing Examiner Hilburn, witness Sapielak responded that she had experienced no problems with the Pace Utilities' sewer service and witness Woods stated that the sewer service was fine.

costs under a unified rate structure. It is fair and reasonable for CWSNC to receive rate base treatment of the acquisition adjustment of \$25,791.

15. The Public Staff recommended that the \$43,000 purchase price be included in CWSNC's rate base divided equally between the water and sewer systems. It is reasonable and prudent to include the \$43,000 purchase price in CWSNC's rate base as recommended by the Public Staff, allocated between CWSNC's Bradfield Farms/Fairfield Harbour/Treasure Cove water rate division and the Company's Bradfield Farms/Fairfield Harbour sewer rate division.

16. On March 21, 2019, CWSNC filed an amendment to its Transfer Application to update its proposed rates for providing water and sewer utility service in the Silverton Subdivision to reflect the rates set forth on Appendix A-3, of the Commission's Order issued on February 21, 2019, in Docket No. W-354, Sub 360, the Company's most recent general rate case proceeding.

Pace Utilities' current rates and CWSNC's proposed rates are as follows:

	Pace Utilities <u>Current Rates</u>	CWSNC's <u>Proposed Rates</u>
<u>Monthly Metered Water Service</u>		
Base Charge, Zero Usage	\$6.72	\$16.74
Usage Charge/1,000 Gallons	\$1.85	\$ 3.75
 <u>Monthly Flat Rate Sewer Service</u>	 \$39.53	 \$50.46

Under CWSNC's proposed rates the monthly water bill for a Silverton Subdivision customer will increase from \$16.45 to \$36.47, based on an average monthly usage of 5,262 gallons. The monthly sewer bill will increase from \$39.53 to \$50.46.

17. CWSNC requested Commission approval, effective on the water and sewer system transfer closing date, of the proposed rates set forth above in Finding of Fact No. 16. The Public Staff recommended approval of the Company's proposed rates, which are CWSNC's current water rates for its Bradfield Farms/Fairfield Harbour/Treasure Cove rate division and current sewer rate for its Bradfield Farms/Fairfield Harbour rate division. The proposed new rates are just and reasonable and should be approved.

18. The Public Staff recommended that \$20,000 of CWSNC's \$70,000 of unassigned surety bond<sup>3</sup> should be assigned to Silverton Subdivision for water and sewer service. This recommendation is just, reasonable, and appropriate and should be approved.

19. CWSNC has the technical, managerial, operational, and financial capacity to provide adequate, efficient, and reasonable water and sewer utility service on an ongoing basis to customers in Silverton Subdivision.

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<sup>3</sup> On May 17, 2019, in Docket No. W-354, Sub 360, the Commission issued an Order increasing CWSNC's unallocated surety bond from \$30,000 to \$70,000.



**WHEREUPON**, the Hearing Examiner reaches the following

## CONCLUSIONS

The evidence for the foregoing findings of fact is contained in the Transfer Application; the Commission's records; the testimony of the public witnesses; the testimony of Pace Utilities witness Brian Pace; the testimony of CWSNC witness Mendenhall; and the affidavit and exhibit of Public Staff witnesses Casselberry and Henry.

### Summary of Customer Testimony

The following three customers testified at the hearing: Judy Sapielak, Tiffany Woods, and Katie McCormick. Witness Sapielak testified that she has been a customer of Pace Utilities at Silverton since 1992; that she is not happy with the water and has experienced brown water, rusty water, and outages; has experienced difficulty contacting the utility; has heard loud noises from the well system; that her water has been cut off, without any notice, so that Pace Utilities could flush the system; that she is retired and on a fixed income and cannot afford for her utility rates to increase; that the quality of the water she receives is not worth a price increase; that she would like to have a choice of who will be her utility provider and wants service from the Town of Harrisburg; that there have been problems with some of the utility workers who had a "big attitude" if customers complained; and that she has experienced no problems with her sewer service.

Witness Woods testified that she has been a customer of Pace Utilities since 2017; that, based on her conversations with neighbors, Silverton Subdivision customers have been having issues with low water pressure, poor drinking water quality, and colored water for years (she has not experienced brown water; her personal concerns are related to low water pressure and hard water); that if this Transfer Application is approved, water rates will more than double; that these increases are really outlandish considering the poor water services, and that there is no indication that this new water company [CWSNC] will fix customer concerns; that the new monthly rates would be potentially two to three times the water rates even in nearby counties and Silverton Subdivision customers consider that to be unacceptable; that for Silverton Subdivision customers to potentially pay more for water than electricity is absurd; that this acquisition is not in the best interest of customers; that customers are concerned about negative reviews of CWSNC, which they discovered on social media; that Silverton Subdivision customers would like for other entities, including Harrisburg and Cabarrus County, to be considered as options to be their new utility provider; and that the sewer service provided by Pace Utilities is fine.

Witness McCormick testified that she has been a Silverton Subdivision customer of Pace Utilities since 2001; that many of the things testified to by customer witnesses Sapielak and Woods have been longstanding issues; that there have been, numerous times, issues with smells (soapy smells, sewage smell), low water pressure, or issues where the response from Pace Utilities, when called, is simply that there is a little bit of air in the lines and it will settle down within the next day or so; that the water is very hard and there are numerous appliances that have to be repaired or replaced frequently; that

it is very difficult to keep things like toilets and kitchen faucets in good repair because of the build-up; that the utility's annual water quality report states that everything is within bounds (the qualities of the sulfates, the heavy metals, and electronic waste materials within the water), but are at the highest end of those values (the very upper limits on those reports); that has led to a personal decision for her to have a water service for the drinking water and to exclusively use the water at the house for dishes, laundry, showering, etc.; that customers have concerns about the transfer, based on information obtained from social media, as to whether there will be improvements in water quality and infrastructure; and that her concern is [water] quality and the cost of service – she wants those things to be the most optimal.

#### Summary of Testimony of Pace Utilities Witness Brian S. Pace

Pace Utilities presented the testimony and exhibit of its President, Brian S. Pace. Witness Pace presented a brief history of the ownership and operation of Pace Utilities under the leadership of his deceased father and discussed his reasons for wanting to transfer the Silverton Subdivision water and sewer systems to CWSNC. Pace Utilities offered in evidence a two-page letter dated May 14, 2019, which was sent to all of the Silverton customers to explain its decision and need to transfer the water and sewer systems to CWSNC. The contents of that letter will not be repeated here, but are incorporated herein by reference as support for the testimony offered by witness Pace in support of the Transfer Application.

#### Summary of Testimony of CWSNC Witness Jonathan Bryce Mendenhall

CWSNC witness Mendenhall, the Company's Vice President of Operations, testified as to the apparent deficiencies of the current water utility plant serving the Silverton Subdivision, including noticeable deterioration of the pump houses and hydro-pneumatic storage tanks and indications of a lack of preventative maintenance. Witness Mendenhall noted that one of the two hydro-pneumatic storage tanks has the year 1989 stamped on it, indicating that the tank is 30 years old. Witness Mendenhall further testified that CWSNC intends, if the transfer is approved, to make improvements to the water and sewer utility plant during the first two years of the Company's ownership at an estimated cost of approximately \$162,500. The water system improvements will consist of replacement of the two well houses, including a conduit in the well and the SCADA system (which is the supervisory control that monitors and operates the wells themselves) and the two hydro-pneumatic storage tanks. The sewer system improvement will consist of replacement of the totalization meter.

Witness Mendenhall testified that the improvements proposed by CWSNC, including the new SCADA system, the supervisory control, the new electronics, and the replacement of the two hydro-pneumatic storage tanks, are expected to give some assurance and reliability regarding some of the problems that have been seen with the water system and that, in his opinion, the quality of service to be provided to Silverton Subdivision customers will be improved under CWSNC operations. Witness Mendenhall further testified that current estimates for the cost of the planned water and sewer system

improvements have increased from the initial estimate of \$162,500 to approximately \$240,000.

In response to questions from counsel for the Public Staff, witness Mendenhall described the Company's procedures for responding to customer complaints, including introduction of CWSNC's Communications Director for the State of North Carolina, the Company's Regional Director, and its Area Manager. Witness Mendenhall also provided a description of the willingness of CWSNC through its endeavors, including social media and electronic means, to communicate with customers.

#### Summary of Testimony of Public Staff Witness Gina Y. Casselberry

Public Staff witness Casselberry testified that, as of May 8, 2019, the Public Staff had received one individual customer complaint objecting to the magnitude of the rates and a Silverton Subdivision Petition, signed by approximately 34 residential households, opposing the transfer and objecting to the magnitude of the rates compared to nearby communities. Witness Casselberry further stated that the petition also stated that residents of Silverton Subdivision have had persistent issues with low water pressure, poor drinking water quality, and discolored water. The three customers who testified at the hearing registered similar water quality complaints. No customers testified as to the existence of problems related to the sewer system. Both Company witness Mendenhall and Public Staff witness Casselberry noted that CWSNC plans to invest approximately \$162,500 (and as much as \$240,000) in capital improvements to the Silverton Subdivision water and sewer systems within the next two years as detailed in Finding of Fact No. 5 above. These capital improvements are, in particular, intended to remedy, to the maximum extent possible, the water quality service problems being experienced by Silverton Subdivision water customers.

Witness Casselberry further testified that installation of the two new hydro-pneumatic storage tanks and replacing the SCADA system should improve the operation of the two wells, increase water pressure, and reduce the occurrence of discolored water, which can be caused by build-up sedimentation at the bottom of older tanks. Witness Casselberry further noted that CWSNC utilizes a flushing program, which should also improve build-up sedimentation in water mains. In addition, in the event that CWSNC determines that other treatment is necessary to improve the quality of the water, witness Casselberry commented that CWSNC has the capital to make those improvements.

In response to questions from CWSNC attorney Sanford regarding the quality of service provided by CWSNC, witness Casselberry testified that, based on her investigations of the Company in multiple rate cases:

Carolina Water Service has a pretty good record when it comes to service. There's a few isolated situations where they might have had some quality issue problems that they've corrected, and there's other places where they put in capital improvements to help out with those systems. So, overall, I

would say they have good service and provide a good product, based on water coming from a well system.

Witness Casselberry concluded her testimony by stating that the Public Staff is of the opinion that CWSNC has the technical, managerial, and financial capability to provide water and sewer utility service in Silverton Subdivision and the transfer from Pace Utilities would be in the best interest of the Silverton Subdivision customers. The Public Staff, therefore, recommended that CWSNC's Transfer Application to acquire the franchise of Pace Utilities be approved.

#### Summary of Affidavit Testimony of Public Staff Witness Windley E. Henry

Based upon an accounting investigation of the Transfer Application, Public Staff witness Henry signed an Affidavit wherein he concluded that the \$43,000 purchase price to be paid by CWSNC for the Pace Utility systems is prudent and that the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of costs under a unified rate structure. Witness Henry set forth the following testimony in support of his conclusions.

First, witness Henry noted that the assets being acquired by CWSNC represent a combined net plant in service balance of \$17,209 as of March 31, 2019, as shown on Schedule 1-2 of Public Staff Henry Exhibit I. Specifically, he stated that CWSNC is paying \$43,000 for all assets owned by Pace Utilities that are used, useful or reasonably necessary in the operation of the utility system, resulting in a debit acquisition adjustment of \$25,791.

Regarding the \$43,000 purchase price and the debit acquisition adjustment of \$25,791, witness Henry noted that the Commission established the criteria for approval of acquisition adjustments in its Order Approving Transfer, Acquisition Adjustment, and Maintaining Current Rates, dated April 30, 1997, in Docket No. W-274, Sub 122 (Hardscrabble Order), which concerned the application of Heater Utilities, Inc., to acquire the Hardscrabble water system. Witness Henry stated that the criteria the Commission used in that case to determine whether the debit acquisition adjustment should be allowed in rate base was based on a three-prong test: (1) the benefit to ratepayers should outweigh the cost of inclusion in rate base of the excess purchase price; (2) system deficiencies would go unaddressed if not for the acquisition by the acquiring company; and (3) the acquisition is a result of arm's length bargaining.

Witness Henry further stated that the Commission, by Order dated January 6, 2000, in Docket No. W-1000, Sub 5, which concerned Utilities Inc.'s acquisition of the North Topsail sewer system, affirmed the acquisition adjustment criteria established in the Hardscrabble Order; however, the Commission denied the acquisition adjustment in that case, because the benefits to customers did not outweigh the resulting burdens to customers.

According to witness Henry, it is the opinion of the Public Staff that the Company's acquisition of Pace Utilities' water and sewer systems meets the Commission's criteria for debit acquisition adjustments, because the purchase price is prudent and the result of arm's length bargaining; there are present deficiencies in Pace Utilities' water and sewer systems that CWSNC intends to address after the acquisition; and the benefits accruing to the customers in the Silverton Subdivision and CWSNC's Bradfield Farms/Fairfield Harbour/Treasure Cove rate division customers outweigh the costs of inclusion in rate base of the excess purchase price.

Witness Henry further stated that Silverton Subdivision customers will receive significantly improved water and sewer service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations. Accordingly, witness Henry concluded that the purchase price to be paid by CWSNC for the Pace Utilities systems is prudent; and that the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of costs under a unified rate structure. Therefore, witness Henry recommended that CWSNC should receive rate base treatment of the acquisition adjustment of \$25,791, as calculated on Schedule 1-2 of Public Staff Henry Exhibit I.

#### SUMMARY CONCLUSIONS

Based upon the foregoing, the entire record in this proceeding, and the recommendations of the Public Staff, the Hearing Examiner concludes that the transfer of Pace Utilities' water and sewer systems and franchises to CWSNC should be approved; that the positive acquisition adjustment of \$25,791 should be approved and included in CWSNC's rate base; that the rates for water and sewer utility service proposed by CWSNC, and recommended by the Public Staff, should be approved; and that \$20,000 of CWSNC's unassigned bond should be assigned to Silverton Subdivision's water and sewer systems.

In making this decision, the Hearing Examiner has taken into account the testimony of the public witnesses. The Hearing Examiner acknowledges the undisputed evidence that there are deficiencies affecting Pace Utilities' water system which negatively affect the quality of water utility service currently being provided to the Silverton Subdivision customers. According to the testimony of CWSNC witness Mendenhall and as discussed herein, CWSNC plans to invest in the next two years approximately \$162,500 - \$240,000 in system improvements, including replacing two well houses and hydro-pneumatic storage tanks, replacing a conduit in the well, repairing the SCADA system, and replacing the sewer totalization meter. The Hearing Examiner concludes that the Silverton Subdivision customers will benefit from the improvements to be made by CWSNC after the transfer is completed.

In particular, Public Staff witness Casselberry testified that installation of the two new hydro-pneumatic storage tanks and replacing the SCADA system should improve the operation of the two wells, increase water pressure, and reduce the occurrence of discolored water, which can be caused by build-up sedimentation at the bottom of older

tanks. Witness Casselberry further noted that CWSNC utilizes a flushing program, which should also improve build-up sedimentation in water mains. Moreover, Public Staff witness Henry maintained that the Silverton Subdivision customers will receive significantly improved water and sewer service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations. The Hearing Examiner agrees with Public Staff witnesses Casselberry and Henry that such capital improvements to be made by CWSNC to the Silverton Subdivision water and sewer systems should address the quality of service concerns expressed by customers at the hearing. Furthermore, witness Mendenhall testified that CWSNC has a Communications Director for the State of North Carolina who is available to correspond directly with customers concerning water quality concerns or any other concerns Silverton Subdivision customers may have.

With respect to customer concerns regarding the quality of service provided by CWSNC in its other service areas, the Hearing Examiner notes that witness Casselberry testified that, based on her investigations of the Company in multiple rate cases, "they have good service and provide a good product, based on water coming from a well system". Moreover, the Commission, in the General Rate Case Order (Docket No. W-354, Sub 360) entered in CWSNC's most recent rate case on February 21, 2019 (less than five months ago), found and concluded that the overall quality of service provided by CWSNC is adequate. N.C. Gen. Stat. § 62-131(b) requires all public utilities in North Carolina, including CWSNC, to provide "adequate, efficient and reasonable service" to customers. According to the records of the Commission, the service provided by CWSNC to its customers throughout North Carolina complies with that statutory standard.

The Hearing Examiner concludes that the testimony and exhibits of Public Staff witnesses Henry and Casselberry and CWSNC witness Mendenhall responds to and addresses the water quality of service concerns and the transfer of ownership concerns expressed by customers Judy Sapielak, Tiffany Woods, and Katie McCormick at the May 29, 2019 hearing. The Hearing Examiner further concludes that the benefits to the Silverton Subdivision customers of having significantly improved water service from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations outweigh the increased rates resulting from the transfer of the water and sewer systems to CWSNC.

For the reasons stated herein, the Hearing Examiner concludes that the transfer of Pace Utilities' water and sewer systems and franchises to CWSNC is in the public interest and should be approved.

In regard to whether CWSNC should receive rate base treatment of the positive acquisition adjustment of \$25,791, as calculated on Schedule 1-2 of Public Staff Henry Exhibit I, the Hearing Examiner is persuaded by the affidavit of Public Staff witness Henry that the Company's acquisition of Pace Utilities' water and sewer systems meets the Commission's criteria for debit acquisition adjustments, because the purchase price is prudent and the result of arm's length bargaining; there are present deficiencies in Pace Utilities' water and sewer systems that CWSNC intends to address after the acquisition;

and the benefits accruing to the customers in the Silverton Subdivision and CWSNC's Bradfield Farms/Fairfield Harbour/Treasure Cove rate division customers outweigh the costs of inclusion in rate base of the excess purchase price. Therefore, the Hearing Examiner accepts witness Henry's recommendation that CWSNC should receive rate base treatment of the acquisition adjustment of \$25,791, as calculated on Public Staff Henry Exhibit I, Schedule 1-2.

Further, the Hearing Examiner concludes that the rates proposed by CWSNC for Silverton Subdivision, and recommended by the Public Staff, as shown on Appendix B attached hereto, should be approved.

IT IS, THEREFORE, ORDERED as follows:

1. That the Transfer Application filed in these dockets by Carolina Water Service, Inc. of North Carolina and Pace Utilities Group, Inc. is hereby approved.

2. That CWSNC is granted a certificate of public convenience and necessity to provide water and sewer utility service in the Silverton Subdivision in Cabarrus 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 Schedule of Rates, attached hereto as Appendix B, is approved for water and sewer utility service in the Silverton Subdivision, 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 N.C. Gen. Stat. § 62-138.

5. That the Silverton Subdivision water and sewer systems shall not be charged the Water and Sewer System Improvement Charges until being included in CWSNC's next general rate case.

6. That the positive acquisition adjustment of \$25,791 is just and reasonable and is hereby approved. CWSNC shall be allowed rate base treatment of the \$25,791 positive acquisition adjustment.

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

8. That \$20,000 of CWSNC's \$70,000 unassigned bond shall be assigned to the Silverton Subdivision. CWSNC's remaining unassigned bond surety shall be \$50,000.

9. That the Certificate of Public Convenience and Necessity to provide water and sewer utility service granted to Pace Utilities Group, Inc. is cancelled, effective on the date which CWSNC files with the Commission written notification that the closing of the transfer of the system has been completed.

10. That a copy of the Notice to Customers, attached hereto as Appendix C, shall be mailed with sufficient postage or hand delivered by CWSNC to all its affected customers in the Silverton Subdivision within 10 business days after the date of the closing of the transfer of the water and sewer systems to CWSNC.

11. That CWSNC shall submit to the Commission the attached Certificate of Service, properly signed and notarized, not later than 15 days after the closing of the transfer to CWSNC.

ISSUED BY ORDER OF THE COMMISSION.

This is the 29<sup>th</sup> day of July, 2019.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink, appearing to read "Janice H. Fulmore". The signature is written in a cursive style with a large initial "J" and "F".

Janice H. Fulmore, Deputy Clerk



**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 361

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

is granted this

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

to provide water and sewer utility service in

SILVERTON SUBDIVISION

Cabarrus County, North Carolina

subject to any orders, rules, regulations,  
and conditions now or hereafter lawfully made  
by the North Carolina Utilities Commission.

ISSUED BY ORDER OF THE COMMISSION.

This is the 29<sup>th</sup> day of July, 2019.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script, appearing to read "Janice H. Fulmore".

Janice H. Fulmore, Deputy Clerk

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

TREASURE COVE, REGISTER PLACE ESTATES, NORTH HILLS, GLEN ARBOR/NORTH BEND SUBDIVISIONS, FAIRFIELD HARBOUR SERVICE AREA, BRADFIELD FARMS SUBDIVISION, LARKHAVEN SUBDIVISION, WOODLAND FARMS SUBDIVISION, HAWTHORNE AT THE GREEN APARTMENTS, AND SILVERTON SUBDIVISION

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)

< 1" meter	\$ 16.74
1" meter	\$ 41.85
1½" meter	\$ 83.70
2" meter	\$133.92

Usage Charge, per 1,000 gallons \$ 3.75

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area \$ 3.28

Connection Charge:

Silverton Subdivision	\$ 0.00
Treasure Cove Subdivision	\$ 0.00
North Hills Subdivision	\$100.00
Glen Arbor/North Bend Subdivision	\$ 0.00
Register Place Estates	\$500.00

Fairfield Harbor: <sup>1/</sup>

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 335.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$ 650.00
Connection charge per tap	\$ 320.00

Bradfield Farms:

Connection charge per tap	None
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<u>Meter Testing Fee:</u> <sup>2/</sup>	\$ 20.00
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<u>New Water Customer Charge:</u>	\$ 27.00
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Reconnection Charge: <sup>3/</sup>

If water service is cut off by utility for good cause	\$ 27.00
If water service is discontinued at customer's request	\$ 27.00

<u>New Meter Charge:</u>	Actual Cost
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<u>Irrigation Meter Installation:</u>	Actual Cost
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SEWER RATES AND CHARGES

Monthly Sewer Service:

Residential:

Flat Rate, per dwelling unit	\$ 50.46
Bulk Flat Rate, per residential equivalent unit	\$ 50.46

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 50.46
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Monthly Metered Rates  
(based on meter size with zero usage)

<1" meter	\$ 44.58
1" meter	\$111.45
1½" meter	\$222.90
2" meter	\$356.64

Usage Charge, per 1,000 gallons	\$ 1.43
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Bulk Sewer Service for Hawthorne at the Green Apartments: <sup>4/</sup>

Bulk Flat Rate, per REU	\$ 50.46
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(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.65
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Connection Charge:

Fairfield Harbour: <sup>1/</sup>

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 735.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$2,215.00
Connection charge per tap	\$ 310.00

Bradfield Farms and Silverton:

Connection charge per tap	None
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<u>New Sewer Customer Charge:</u> <sup>5/</sup>	\$ 27.00
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Reconnection Charge:<sup>6/</sup>

If sewer service is cut off by utility for good cause

Actual Cost

MISCELLANEOUS UTILITY MATTERS

Charge for Processing NSF Checks:

\$25.00

Bills Due:

On billing date

Bills Past Due:

21 days after billing date

Billing Frequency:

Bills shall be monthly for service in arrears. Availability billings semiannually in advance.

Finance Charge for Late Payment:

1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

<sup>1/</sup> The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

<sup>2/</sup> If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

<sup>3/</sup> Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

<sup>4/</sup> Each apartment building will be considered 92.42% occupied on an ongoing basis for billing purposes as soon as the certificate of occupancy is issued for that apartment building.

<sup>5/</sup> This charge shall be waived if customer is also a water customer within the same service area.

<sup>6/</sup> The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 361  
DOCKET NO. W-1046, SUB 5

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service, Inc. of )  
North Carolina, 4944 Parkway Plaza Boulevard, )  
Suite 375, Charlotte, North Carolina 28217, for )  
Authority to Acquire the Water and Sewer Utility ) **NOTICE TO CUSTOMERS**  
System in Silverton Subdivision in Cabarrus )  
County, North Carolina from Pace Utilities Group, )  
Inc., 6719-C Fairview Road, Charlotte, North )  
Carolina 28210, and Approval of Rates )

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order approving the transfer of the franchise of Pace Utilities Group, Inc. for providing water and sewer utility service in Silverton Subdivision in Cabarrus County, North Carolina, to Carolina Water Service, Inc. of North Carolina (CWSNC).

The North Carolina Utilities Commission has approved the following new water and sewer rates for CWSNC as set forth below. These rates are effective for service rendered on and after the date of the closing of the transfer.

Monthly Metered Water Service (Residential):

Base Facility Charge (With zero usage) \$16.74

Usage Charge:

Per 1,000 Gallons: \$ 3.75

Monthly Sewer Service Residential:

Flat Rate, Per Dwelling Unit \$50.46

Connection Charge, Water and Sewer: None

Meter Testing Fee: <sup>1/</sup> \$20.00

New Water Customer Charge: \$27.00

<u>New Sewer Customer Charge:</u> <sup>2/</sup>	\$ 27.00
<u>Reconnection Charge:</u> <sup>3/</sup>	
If water service is cut off by utility for good cause	\$ 27.00
If water service is discontinued at customer's request	\$ 27.00
<u>Sewer Reconnection Charge:</u> <sup>4/</sup>	
If sewer service is cut off by utility for good cause	Actual Cost
<u>New Meter Charge:</u>	Actual Cost
<u>Irrigation Meter Installation:</u>	Actual Cost

#### MISCELLANEOUS UTILITY MATTERS

<u>Charge for processing NSF Checks:</u>	\$25.00
<u>Bills Due:</u>	On billing date
<u>Bills Past Due:</u>	21 days after billing date
<u>Billing Frequency:</u>	Bills shall be rendered monthly in all service areas
<u>Finance Charge for Late Payment:</u>	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

#### Notes:

<sup>1/</sup> If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

<sup>2/</sup> Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

<sup>3/</sup> This charge shall be waived if customer is also a water customer within the same service area.



<sup>4/</sup> The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

ISSUED BY ORDER OF THE COMMISSION.

This is the 29<sup>th</sup> day of July, 2019.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script, appearing to read "Janice H. Fulmore".

Janice H. Fulmore, Deputy Clerk

**CERTIFICATE OF SERVICE**

I, \_\_\_\_\_, mailed with sufficient postage or hand delivered to all affected customers the attached Notice to Customers issued by the North Carolina Utilities Commission in Docket Nos. W-1046, Sub 5 and W-354, Sub 361, and the Notice was mailed or hand delivered by the date specified in the Order.

This the \_\_\_\_\_ day of \_\_\_\_\_, 2019.

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 Notice to Customers was mailed or hand delivered to all affected customers, as required by the Commission Order dated \_\_\_\_\_ in Docket Nos. W-1046, Sub 5 and W-354, Sub 361.

Witness my hand and notarial seal, this the \_\_\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Printed Name

(SEAL) My Commission Expires:

\_\_\_\_\_  
Date