

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Thursday, November 3, 2022
DOCKET NO.: W-354, Sub 398
TIME: 1:00 p.m. - 5:02 p.m.
BEFORE: Commissioner Jeffrey A. Hughes, Presiding
Chair Charlotte A. Mitchell
Commissioner ToNola D. Brown-Bland
Commissioner Daniel G. Clodfelter
Commissioner Kimberly W. Duffley
Commissioner Floyd B. McKissick, Jr.
Commissioner Karen M. Kemerait

IN THE MATTER OF:

Carolina Water Service, Inc. Of North Carolina,
5821 Fairview Road, Suite 401,
Charlotte, North Carolina 28209,
for Determination of Fair Value of Utility Assets
Pursuant to N.C. Gen. Stat. § 62-133.1A and
Establishing Rate Base for Acquisition of the
Carteret County Water System

Volume 2

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7
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12
13 FOR CARTERET COUNTY:
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17
18 FOR THE USING AND CONSUMING PUBLIC:
19 William E.H. Creech, Esq.
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E X H I B I T S

IDENTIFIED/ADMITTED

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P R O C E E D I N G S

COMMISSIONER HUGHES: Good afternoon.
Let's come to order and go on the record. I am
Commissioner Jeff Hughes, presiding Commissioner
for this hearing. With me today are
Charlotte Mitchell, chair of the Utilities
Commission, and Commissioners
ToNola D. Brown-Bland, Daniel G. Clodfelter,
Kimberly W. Duffley, Floyd B. McKissick, and
Karen Kemerait.

The Commission now calls for hearing
Docket Number W-354, Sub 398, In the Matter of
Application of Carolina Water Service of
North Carolina, or the Company, to Establish the
Rate Base for the Carteret County Water System
Under the Fair Value Methodology Authorized by
North Carolina General Statute §62-133.1A, Fair
Value Application.

On July 26, 2022, the Company filed an
application to determine the rate base value upon
acquisition of the Carteret County Water System.
Included in the application was a completed version
of the Commission's fair value application form, an
appraisal report by Hartman Consultants retained by

1 the Company, an appraisal report from Gannett
2 Flemming retained by Carteret County, an appraisal
3 report by NewGen Strategies and Solutions retained
4 by the Public Staff, and an engineering assessment
5 prepared by Draper Aden Associates.

6 The Company also filed the testimony of
7 Donald H. Denton on July 26, 2022.

8 On August 5, 2022, the Public Staff
9 filed a letter stating that the application was
10 incomplete.

11 On August 11, 2022, the Commission
12 issued an order finding the fair value application
13 incomplete. The Company filed revised exhibits
14 that same date.

15 On August 16, 2022, the Public Staff
16 filed a letter stating that it deemed the Company's
17 fair value application complete.

18 On September 13, 2022, the Commission
19 issued an order establishing discovery guidelines,
20 requiring customer notice, and scheduling hearings,
21 in both this fair value application docket as well
22 as in the related docket in which the Company seeks
23 a certificate of convenience and necessity to
24 operate the Carteret County Water System. That

1 docket is Docket Number W-354, Sub 399.

2 On October 17, 2022, the Public Staff
3 filed a notice of affidavit, the affidavit of
4 Lynne Feasel, direct testimony of Michael G. Lane,
5 and direct testimony of Charles Junis.

6 On October 18, 2022, a public witness
7 hearing for the purpose of receiving the testimony
8 of customers regarding this proceeding, as well as
9 Docket Number W-354, Sub 399, was held in Carteret
10 County.

11 On October 24, 2022, Carteret County
12 filed the rebuttal testimony of Eugene Foxworth.

13 On October 25, 2022, the Company filed
14 rebuttal testimony of Donald H. Denton, III and
15 Gerald C. Hartman.

16 On October 28, 2022, the Company
17 filed -- excuse me -- the County filed a petition
18 to intervene in this matter.

19 That brings us to today. Pursuant to
20 North Carolina General Statutes §138A-15(e), I
21 remind members of the Commission of our duty to
22 avoid conflicts of interest, and inquire at this
23 time as to whether any Commissioner has any known
24 conflict of interest with respect to this docket.

1 (No response.)

2 COMMISSIONER HUGHES: Let the record
3 reflect that I have no such conflict and that my
4 fellow Commissioners have not identified any such
5 conflict.

6 We will now move forward with the
7 proceeding and call on counsel to announce their
8 appearances, beginning with the Company.

9 MS. SANFORD: Thank you, Commissioner
10 Hughes. Excuse me. I am Jo Anne Sanford with the
11 Sanford Law Office representing Carolina Water
12 Service, Inc. of North Carolina today. With me is
13 David Drooz of the Fox Rothschild firm, and present
14 at counsel table is Mr. Donald H. Denton, who is
15 the state president of Carolina Water. With that,
16 I'll turn the mic to Mr. Wheatly.

17 MR. WHEATLY: My name is Claud Wheatly.
18 I'm the county attorney for Carteret County. And
19 sitting next to me is Mr. Gene Foxworth. In the
20 audience we have the county manager,
21 Mr. Tommy Burns, and our financial officer,
22 Ms. Dee Meshaw, who will be available to answer any
23 questions and present any testimony as required by
24 this assembly. Thank you.

1 COMMISSIONER HUGHES: Thank you-all.
2 Public Staff.

3 MR. CREECH: Presiding Commissioner
4 Hughes, my name is William Creech -- C. Creech.
5 I'm joined here at the table with Bill Grantmyre --
6 William Grantmyre. And seated to my left is
7 Charles Junis of the Public Staff's water, sewer,
8 and telecom division. Also in the room here with
9 us is Gina Holt, who is an attorney of counsel -- I
10 mean, and attorney with the Public Staff, and, of
11 course, our appraiser, Mike Lane, is also present
12 today. Thank you.

13 COMMISSIONER HUGHES: Great to see
14 everyone, especially Mr. Grantmyre.

15 MR. GRANTMYRE: Thank you.

16 COMMISSIONER HUGHES: Before we get
17 started with the witnesses, do the parties have any
18 preliminary matters that need to be addressed?

19 MS. SANFORD: I do, Commissioner Hughes,
20 thank you. And thank you for indulging us for just
21 a few minutes while I address some procedural
22 matters just to, kind of, square up with where we
23 are and what we have proposed to do. We have our
24 direct witness this morning, who filed direct

1 testimony for the Company, and that's Mr. Denton.
2 We understand that the Commission would like to
3 hear from the appraisers during the direct phase of
4 this proceeding.

5 So after Mr. Denton, we propose to put
6 up Mr. Hartman. He did not file direct testimony,
7 but we are putting him up because we understand
8 that's what's requested, and he would be available
9 to the Commission, and ultimately to the parties
10 for questions. And I'm saying this in terms of our
11 intention, but I'm also saying it with a question
12 mark at the end to be sure that what we're doing is
13 what you have requested.

14 COMMISSIONER HUGHES: So far so good.

15 MS. SANFORD: So far so good. Okay.
16 I'll keep going. Yesterday -- as an aside -- a
17 quick aside, this is a case of first impression,
18 and it's exciting for that reason, but it's also
19 different. It's different, in terms of figuring
20 out the procedure and the statute and the positions
21 on it. Yesterday, the Commission asked a series of
22 questions and asked the Company, through
23 Mr. Denton, to respond to those questions.

24 So we scrambled. Mr. Schellinger, who

1 I've required to sit close by us here, worked
2 diligently on this under Mr. Denton's direction,
3 and they worked together, and so they have
4 attempted to answer the Commission's questions, as
5 many as are possible in the time frame.

6 Mr. Schellinger is here from Colombia,
7 South Carolina, and is -- we have indicated this to
8 all parties -- is available -- we're not sure what
9 your wish is, but he is available if the Commission
10 wishes to speak to him. He has done an exhibit,
11 which Mr. Denton is prepared to introduce. We've
12 given it to the Commission and to the Public Staff,
13 if the Commission would like to go in that
14 direction.

15 We're unclear and we are not trying to
16 slip anything under the rug, it's just we've done
17 what we thought was required. It is available if
18 the Commission wishes to see it, and if not, then
19 Mr. Denton is prepared to get on that stand and
20 answer the questions to the best of his ability.
21 If consideration of late-filed exhibits, whatever
22 the Commission would wish to do with respect to
23 following its interest in answers to questions. We
24 are perfectly prepared to be cooperative with that,

1 of course.

2 And I think that, kind of, sums it up
3 for where we see for the next few steps.

4 COMMISSIONER HUGHES: Okay. I
5 appreciate that. Regarding the questions. We've
6 reviewed some of the questions ourselves and
7 realized that some of the questions might have been
8 looking for specifics beyond Mr. Denton's
9 knowledge. So we've actually revised the questions
10 so that we think they're more appropriate for what
11 we believe Mr. Denton has information regarding.
12 So let's see how the questions go and --

13 MS. SANFORD: That sounds great.

14 COMMISSIONER HUGHES: -- we'll take it
15 that way.

16 MS. SANFORD: And he may be able -- he
17 may be able to answer all the ones you originally
18 asked, but we just -- I wanted to put it in the
19 context of what we had attempted to do to try to
20 come armed with responses, so thank you for that.

21 COMMISSIONER HUGHES: Okay. I should
22 have let -- please, Mr. Grantmyre.

23 MR. GRANTMYRE: Bill Grantmyre, Public
24 Staff. The Public Staff would vigorously oppose

1 them trying to enter into evidence, at this late
2 date, anything that was not in the Commissioner's
3 questions. You know, to answer the Commissioner's
4 questions, that is fine. But I've been told there
5 is one part of an exhibit that should have been
6 part of their rebuttal testimony, has nothing to do
7 with their Commissioner's questions, and they
8 should have filed it in their rebuttal.

9 Now, the Company and the County put
10 their attorney on to testify at the customer-only
11 hearing, and he wasn't a customer. So they should
12 not be allowed, again, to slip in something that
13 was not part of your questions. Anything they have
14 that was answered to your questions is fully
15 acceptable, obviously. I think Mr. Junis has some
16 answers, I hope, do you? He nodded his head yes.

17 To clarify my health situation, my
18 neurosurgeon, who I saw Tuesday, said I need to
19 stop falling on my head. And just clarify also,
20 when I took my three-hour cognitive test with a
21 wonderful psychologist, she said I was above
22 average for someone my age and education. Now, my
23 wife will tell you I'm only 85 percent now.

24 Anyway --

1 COMMISSIONER HUGHES: Ms. Sanford, do
2 you have a response? Not about the falling on the
3 head.

4 MS. SANFORD: I will not go there. And
5 thank you, I will be very brief, but to say one or
6 two things that I think are important here. First
7 of all, this has been done hurriedly, and we
8 presented this exhibit to the Public Staff and to
9 the Commission. It hasn't been there with them
10 long, because we hadn't been done with it long, and
11 could have still been working.

12 So if there is a need for a motion to
13 strike or simply to say the whole thing won't be
14 in, that is fine. But there's been no effort to do
15 anything, other than to be responsive and to be
16 transparent with our opposing counsel.

17 And with respect to an insinuation --
18 and I will speak on his behalf whether he wishes
19 for me to or not -- but with respect to an
20 insinuation that there was anything amiss about
21 Mr. Wheatly, the form in which Mr. Wheatly's
22 comments took at Beaufort, I would object to that.
23 I think that's inaccurate.

24 MR. CREECH: Thank you for that. All I

1 would -- this is William Creech, again, with the
2 Public Staff. All we would say is just to
3 reiterate what Mr. Grantmyre indicated, that
4 anything beyond the Commission's question in the
5 exhibit, we would move to strike that. And,
6 obviously, we have not had the opportunity to
7 review what was submitted today, and certainly
8 would want Mr. Denton to be the witness for the
9 Company, given the testimony filed in this docket.
10 Thank you.

11 COMMISSIONER HUGHES: Okay. As of now,
12 I think we've agreed that we are gonna see how
13 Mr. Denton does with the questions, and we will
14 address the question of the exhibit if it comes up
15 during questions.

16 Any other preliminary matters? Okay.
17 Well, there are two pending motions that I will now
18 address. First, as noted, Carteret County filed a
19 petition to intervene on October 28, 2022; hearing
20 no objection, the petition is granted.

21 Second, on October 14, 2022, the Public
22 Staff filed a notice of affidavit giving notice
23 that the affidavit of Lynne Feasel, financial
24 manager of the accounting division of the Public

1 Staff, would be used in evidence in this proceeding
2 pursuant to General Statutes §62-68 in lieu of her
3 oral testimony, unless an opposing party or the
4 Commission sought the right to examine her in this
5 hearing.

6 I understand that no party has sought to
7 cross-examine Ms. Feasel, and the Commission has no
8 questions for her. Therefore, hearing no
9 objection, the Public Staff's motion to have
10 Ms. Feasel's October 14, 2022, affidavit moved into
11 evidence is granted. Okay.

12 So now we can move on to the witnesses.
13 Ms. Sanford, please call your first witness.

14 MS. SANFORD: Thank you, Commissioner
15 Hughes. I call Donald H. Denton, please.

16 Whereupon,

17 DONALD H. DENTON, III,

18 having first been duly sworn, was examined

19 and testified as follows:

20 DIRECT EXAMINATION BY MS. SANFORD:

21 Q. I started to say good morning, but I guess
22 it's afternoon, Mr. Denton.

23 Would you state your name and address for the
24 record, please?

1 A. My name is Donald Hemphill Denton, III.
2 Address is 5821 Fairview Road, Charlotte,
3 North Carolina 28209.

4 Q. And what is your position with Carolina
5 Water?

6 A. President.

7 Q. Did you prepare and cause to be filed on
8 July 26th, direct testimony consisting of nine pages?

9 A. I did.

10 Q. Do you have any changes or corrections to
11 make to that testimony?

12 A. We struck one word, and that was in the
13 direct. One word, which was -- I'm trying to think of
14 the one word.

15 Q. Page 3.

16 A. Page 3.

17 Q. "Insurmountable."

18 A. "Insurmountable." Thank you.

19 Q. I'll prompt the witness here.

20 A. "Insurmountable." Line 6, page 3.

21 Q. Page 3, line 6, the word "insurmountable,"
22 correct?

23 A. Correct.

24 Q. Okay. Do you have any other changes or

1 corrections to your testimony?

2 A. I do not.

3 Q. Did you prepare a summary of your testimony?

4 A. Yes.

5 Q. Would you read that into the record, please?

6 A. Okay. I am senior vice president, east
7 operations for Corix, and I oversee the operations of
8 Carolina Water Service, Inc. of North Carolina; Blue
9 Granite Water Company in South Carolina; and Sunshine
10 Water Service in Florida, all of which are subsidiaries
11 of Corix Regulated Utilities. In addition, I serve as
12 president of Carolina Water Service, North Carolina and
13 Blue Granite Water Company.

14 I hold a bachelor of aerospace engineering
15 from the Georgia Institute of Technology, as well as an
16 executive master's in business administration from
17 Queens University in Charlotte, North Carolina.

18 I've worked in the utility sector for over 24
19 years in multiple capacities, ranging from engineering
20 to strategic planning and major project execution.

21 My testimony explains the object and purposes
22 of this application and addresses how multiple aspects
23 of the public interest are served by Carolina Water
24 Service's acquisition of the Carteret County water

1 system. The purpose of the filing is to comply with
2 the statutory and rule-based requirements for
3 determining the rate base value of a governmental
4 utility when it is being acquired by a regulated public
5 utility by use of the fair value based methodology
6 rather than use of the original cost method.

7 I specifically address the nature of Carolina
8 Water Service's and Carteret County's compliance with
9 and reliance on the provisions of General Statute
10 §62-133-1A [sic] to determine rate base in instances in
11 which a regulated utility purchases a qualifying
12 governmental utility. In addressing our compliance
13 with the statute, I emphasize the extent to which the
14 General Assembly has made certain policy decision as it
15 purposefully and clearly authorized a market-based
16 alternative to the historical original cost
17 determination of rate base.

18 Finally, I'll also discuss customer
19 safeguards and operational benefits.

20 MS. SANFORD: Commissioner Hughes, I'll
21 ask that this -- that his testimony be identified
22 and entered into the record as if given orally from
23 the stand.

24 COMMISSIONER HUGHES: Hearing no

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objection, the motion is allowed.

(Whereupon, the prefiled direct testimony of Donald H. Denton, III was copied into the record as if given orally from the stand.)

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Nov 17 2022

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 398

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service,) DIRECT TESTIMONY OF
Inc. of North Carolina For Election to) DONALD H. DENTON III ON
Establish Rate Base for Carteret County) BEHALF OF CAROLINA WATER
Water System Under Fair Value) SERVICE, INC. OF NORTH
Methodology Authorized by N.C.G.S. §) CAROLINA
62-133.1A)

July 25, 2022

Direct Testimony of Donald H. Denton III

1 **INTRODUCTION**

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

3 A. My name is Donald H. Denton III, and my business address is 4944
4 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

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

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

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

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

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

1 A. I am responsible for the Company's regulated water and sewer operations
2 in North Carolina, including facility operations, finance, business
3 development, safety, compliance, regulatory affairs, and customer service.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. My testimony explains the object and purpose of this Application and
7 addresses how the public interest is served by the acquisition by CWSNC
8 of the Carteret County Water System. This is specifically responsive to
9 Commission Rule R7-41(d), which reads in pertinent part:

10 In addition to providing the information required pursuant to
11 G.S. 62-133.1A in the completed application form, the
12 application shall contain a narrative explanation of the object
13 and purposes desired by the application and how the public
14 interest is served by the acquisition, along with any other
15 information required by the Commission. The application shall
16 be accompanied by the testimony of the acquiring utility's
17 president or another person employed by the utility who is
18 personally familiar with the contents thereof and who verifies
19 that the contents of the application are true and accurate.
20

21 **Q. PLEASE DESCRIBE THE OBJECT AND PURPOSE OF THIS**
22 **APPLICATION.**

23 A. The purpose of the filing is to comply with the statutory and rule-based
24 requirements for determining the rate base value of a governmental utility,
25 when it is being acquired by a regulated public utility, by use of a "fair value"
26 based methodology, rather than by use of the "original cost" method.
27 Specifically, CWSNC wishes to purchase the Carteret County Water

1 System. In order to make the transaction feasible, the “fair value”
2 methodology must be employed in order to capture the reasonable, realistic
3 value of this system as it migrates from ownership by a governmental entity
4 to ownership by a utility regulated by the North Carolina Utilities
5 Commission (“NCUC” or “Commission”). Absent the ability to establish a
6 realistic level of “market” value of such assets, there is an insurmountable
7 obstacle to purchases of governmental systems by utilities that are
8 regulated under Chapter 62 of the General Statutes. If limited, for rate base
9 purposes, to recognition only of the original cost of the Carteret County
10 Water System, CWSNC could not justify as prudent a purchase price that
11 would reflect a fair, reasonable, or realistic value for the asset. CWSNC is
12 eager to effectively use this new statutory tool to enter municipal, county,
13 and other governmental markets, and is pleased to bring this case of first
14 impression in the use of N.C.G.S. § 62-133.1A.

15 **Q. HOW IS THE PUBLIC INTEREST SERVED BY THE USE OF N.C.G.S. §**
16 **62-133.1A TO FACILITATE TRANSFERS OF OWNERSHIP BETWEEN**
17 **GOVERNMENTAL UTILITY PROVIDERS AND REGULATED PUBLIC**
18 **UTILITIES?**

19 A. The “Fair Value” Statute (N.C.G.S. § 62-133.1A) was carefully developed
20 by the legislature and was thoughtfully implemented in the subsequent
21 regulatory rulemaking proceeding before the Commission (NCUC Docket

1 No. W-100 Sub 60). The statute established a mechanism by which willing
2 sellers of governmental water and wastewater systems and willing buyers
3 in the regulated public utility sector could overcome a primary barrier to sale
4 that has historically hindered transfers that could be squarely in the public
5 interest. This historical barrier has consisted of an inability to correlate fair
6 purchase prices with the rate base values of the asset to the regulated
7 utility. This method, referred to herein as the "Fair Value" mechanism,
8 combines independent business evaluations by the governmental
9 providers, prudent decisions by the regulated public utilities, participation
10 on behalf of customers by the Public Staff, valuations by qualified
11 appraisers, and comprehensive regulatory oversight by the Commission.

12 In the event that a governmental unit determines that its water (or
13 wastewater) service can be provided in a more reliable, economical,
14 efficient, and/or compliant way by a regulated public utility, it can be in the
15 public interest of its customers and community to sell the system. Similarly,
16 if a regulated public utility can increase its economies of scale, allocate its
17 overhead more efficiently, grow its systems and revenues, and/or
18 strengthen its internal capacities by purchasing a governmental utility at
19 reasonable cost, then that too can serve the public interest. More specific
20 discussion of the application of those principles to the facts of this case
21 follows.

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Q. HOW IS THE PUBLIC INTEREST SERVED BY THIS ACQUISITION?

A. The purpose of this Application is to facilitate the transfer of Carteret County's water system assets to CWSNC at fair value, and to reflect that value in the calculation of rate base. The purpose of this testimony is to explain how this transfer of ownership is in the public interest of the customers of both Carteret County and CWSNC. N.C.G.S. § 62-133.1A provides a path through which the interests of all customers can be advanced and safeguarded, the benefits of expanded rate base and economies of scale on the CWSNC system can be realized, and the expertise contained in CWSNC's multi-state, professional, experienced organization can be extended to the various governmental systems to support the provision of safe and reliable service to customers.

This purchase, the first undertaken under N.C.G.S. § 62-133.1A, is a watershed launch of the supervised development of deliberate convergence between portions of the public and private provider markets in North Carolina. The statutory and regulatory safeguards in place will ensure protection for consumers in both markets.

Q. ARE THERE SPECIFIC PROTECTIONS FOR CUSTOMERS OF THE COMBINED SYSTEMS?

A. Yes. CWSNC emphasizes, in support of this filing, that the "Fair Value" statute is replete with tools whereby the Commission can

1 protect ratepayers and maintain the public interest. The NCUC retains the
2 authority to set rates for the acquired system in future rate cases, has the
3 discretion to classify the acquired system as a separate rate entity in future
4 rate cases, and has the authority to adjust the “fair value” as the
5 Commission deems appropriate and in the public interest.

6 **Q. CAN YOU DESCRIBE SOME SPECIFIC OPERATIONAL BENEFITS**
7 **THAT FLOW FROM THIS ACQUISITION?**

8 A. Yes. CWSNC contends that allowing a “fair value” method as a component
9 of the determination of rate base for property purchased by a public utility
10 from a governmental-owned system will realize many operational benefits.
11 The transfer of ownership facilitated by N.C.G.S. § 62--133.1A will provide
12 an opportunity for Carteret County and its existing customers to benefit from
13 CWSNC’s operational service expertise. Given the size and scope of the
14 CWSNC organization, it is equipped to consistently achieve a high degree
15 of compliance with health and environmental standards, is able to achieve
16 efficiencies in procedures due to the advantages in economies of scale, can
17 shift resources among systems as needed, and has a proven record as a
18 reliable service provider. CWSNC specializes in water industry operations
19 with a primary focus on small and medium-sized communities and is able
20 to perform support functions such as management, billing, collections, and
21 customer service through existing, consolidated resources.

1 CWSNC has a strong local presence in the Carteret County area,
2 with a highly qualified work force to provide an optimal level of service
3 through enhanced efficiency and depth of experience. We plan on
4 operational continuity by looking to maintain existing operational support.
5 Carteret County and its customers will benefit from CWSNC's access to
6 financial capital, which is used to ensure that necessary and prudent
7 investments are made on a timely basis, in order to provide safe, reliable,
8 and compliant service.

9 CWSNC's ability to attract capital to fund investment in infrastructure
10 will benefit the operation of the Carteret County system in other ways. The
11 County's operating expenses have exceeded water service revenues in
12 recent years and the deficits have been subsidized by tax revenues
13 generated from supplemental taxes. CWSNC's ownership will provide the
14 financial and operational resources needed to manage Carteret County's
15 water system efficiently and safely.

16 **Q. PLEASE DESCRIBE HOW THE ACQUISITION BENEFITS CWSNC'S**
17 **EXISTING CUSTOMERS.**

18 A. CWSNC's existing customers will also realize benefits from the acquisition
19 of Carteret County's utility system. The additional customers gained by this
20 transfer will provide economies of scale by spreading existing fixed costs
21 over a larger customer base. Carteret County and CWSNC's customers

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1 will also experience the advantages of operating within a uniform group of
2 ratepayers which includes smoother rate adjustments, regulatory and
3 operational cost efficiencies, and shared access to support for vital capital
4 needs.

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

6 **A. Yes.**

1 MR. GRANTMYRE: I would ask for
2 clarification. Are you introducing his direct
3 testimony and rebuttal or just direct?

4 MS. SANFORD: No, his direct.

5 MR. GRANTMYRE: Okay. So rebuttal will
6 come the later.

7 MS. SANFORD: Correct.

8 MR. GRANTMYRE: So I could save my good
9 questions for later.

10 MS. SANFORD: Please do.

11 MR. GRANTMYRE: Okay.

12 CROSS EXAMINATION BY MR. GRANTMYRE:

13 Q. Mr. Denton, if I offend you in any way today,
14 I'm sorry, because I really like you and I think you're
15 doing a good job.

16 A. Thank you, Mr. Grantmyre, I appreciate that.

17 Q. We'll clarify that.

18 Now, isn't it true that Carolina Water and
19 Aqua North Carolina joined together to hire a lobbyist
20 to seek North Carolina representatives in the General
21 Assembly to introduce a fair market value bill? Is
22 that correct?

23 A. Can you clarify "together," because, quite
24 frankly, Mr. Grantmyre, I was not a party to the

1 Company. I was not with the Company at that time.

2 Q. Okay.

3 MS. SANFORD: I'm gonna object. I'm
4 gonna go ahead and roll out a relevance objection
5 here. I'm not sure that I understand what that has
6 to do with the proceeding before the Commission,
7 which concerns an adopted statute.

8 MR. GRANTMYRE: If she would hear the
9 next couple of questions, then she would see the
10 relevance.

11 COMMISSIONER HUGHES: Okay. Objection
12 overruled.

13 MR. GRANTMYRE: Chair Hughes, I would
14 ask that Public Staff Denton Direct Cross Exhibit 1
15 be identified. This is the one that has the
16 General Assembly, and the numbers may be wrong.
17 When I got my copy, it said 2, but it's supposed to
18 be 1. It's the one that has the history of the
19 General Assembly, and then it has the two copies of
20 the draft bill -- that is a draft bill -- and then
21 the final. But I ask that be identified as Cross
22 Examination Exhibit 1.

23 COMMISSIONER HUGHES: The way they were
24 given to us is they were collated and stapled. So

1 do you want us to -- is it the entire document that
2 you're requesting?

3 MR. GRANTMYRE: It's this thing
4 (indicating).

5 COMMISSIONER HUGHES: Okay. And --
6 (Discussion off record.)

7 MR. DROOZ: Commissioners, just for the
8 benefit of the court reporter and the other
9 parties, could we maybe clarify on the record
10 exactly what's here?

11 MR. GRANTMYRE: I would clarify that
12 it's the exhibit that has on the top House Bill
13 351, and the first page or last page, it was
14 supposed to be first, has the legislative history.

15 MR. DROOZ: And how many pages, in
16 total?

17 MR. GRANTMYRE: I think it's eight.

18 MR. CREECH: Correct.

19 MR. GRANTMYRE: That's pretty high math.

20 MR. DROOZ: Thank you.

21 COMMISSIONER HUGHES: Mr. Drooz, is that
22 sufficient? You're okay?

23 MR. DROOZ: Yes, thank you. I'm on
24 board now.

1 COMMISSIONER HUGHES: Okay. It shall be
2 so marked.

3 (Public Staff Denton Cross Examination
4 Exhibit 1 was marked for
5 identification.)

6 Q. Now, you -- in your testimony, you said you
7 were aeronautical engineering at Georgia Tech?

8 A. Yes, sir.

9 Q. And very good school.

10 You didn't take legislative courses there,
11 did you?

12 A. I did not.

13 Q. Okay. Now, on page 3 of this exhibit --

14 COMMISSIONER HUGHES: Just to be clear,
15 could you clarify it rather than use page numbers.

16 Q. I'm sorry. It's the one that has on the top
17 HB 351 on the top right-hand corner, March 14, 2017, in
18 the little box.

19 Now, I show you this page, I think it's the
20 third page on the exhibit, and will you accept, subject
21 to check, that this is the copy of the bill originally
22 introduced in the House by the two sponsors?

23 A. Subject to check.

24 Q. And if you go to the third page back, and

1 again, it says Session 219 -- 217 at the top, in
2 paragraph E, Commission's authority to set rates, could
3 you read that into the record.

4 A. "Commission's authority to set rates. The
5 Commission shall retain its authority, under
6 Chapter 62 of the General Statutes, to set
7 rates for the acquired system in future rate
8 cases consistent with the public interest."

9 Q. Now, I go -- if you would go to the next
10 page, and it has at the top Session Law 2018-51 House
11 Bill 51 -- I'm sorry, 351.

12 A. Okay.

13 MS. SANFORD: May I ask what page we're
14 on? I'm losing track.

15 MR. GRANTMYRE: I'm sorry it wasn't --
16 all the pages weren't numbered. It would be
17 page 6.

18 MS. SANFORD: 6. Okay. Thank you.

19 MR. GRANTMYRE: Unnumbered.

20 MS. SANFORD: Okay.

21 MR. GRANTMYRE: Next time it will be
22 numbered.

23 COMMISSIONER DUFFLEY: Mr. Grantmyre,
24 just for clarification, the exhibit that everyone

1 else has received has the statute, the House Bill
2 351 is the first page. And so what you're
3 referring to page 6 is actually page 4 of our
4 exhibit, and it's --

5 MR. GRANTMYRE: I'm sorry. This is the
6 first two pages.

7 MR. CREECH: What we would like to do,
8 if we may, the document that was distributed had
9 the bill history at the back of it. And what we'd
10 like to do is place that in the front. And so the
11 bill history would be the first two pages, and then
12 we've got the bill as introduced, and then the bill
13 as passed. And those are the three things that
14 make up this document.

15 So again, the first two pages are the
16 bill summary, the next three pages is the bill as
17 introduced, and then the final three pages are the
18 bill as passed. If that helps. I don't know if it
19 helps.

20 COMMISSIONER HUGHES: It helps.

21 MR. CREECH: And thank you.

22 COMMISSIONER HUGHES: Thank you for
23 that.

24 Q. Now, will you accept subject to check, on the

1 last page, it says that the same is hereby declared to
2 become law on June of 25, 2018.

3 Do you see that right above Karen Jenkins,
4 enrolling clerk's name?

5 A. I see that.

6 Q. Now, going back to paragraph -- throughout
7 your testimony and your rebuttal, you talk about how
8 thoroughly the legislature studied this bill and how
9 they approved it; isn't that correct?

10 A. Well, I talk about the efforts that were put
11 forth by the Companies and that the legislature passed
12 the bill.

13 Q. Well, you also talk about how thoroughly
14 they -- carefully they studied the bill and passed it;
15 is that correct?

16 A. Can I ask the question of counsel, as you
17 were saying thoroughly, can you define thoroughly?

18 Q. Okay. Carefully. I'll use the word
19 carefully.

20 MS. SANFORD: Excuse me, objection, if I
21 might, to ask Mr. Grantmyre if he could refer us to
22 the page of the testimony, that might help.

23 MR. GRANTMYRE: My work copy got lost,
24 and all I have is a clean copy. But I would

1 contend he says that several times in his direct
2 testimony and at least once or twice in his
3 rebuttal testimony.

4 MR. CREECH: If I may -- Mr. Denton, I
5 could -- if I may, page 5 of the direct testimony.

6 Q. Okay. It's on page 3, line 19:

7 "The fair value statute was carefully
8 developed by the legislature and was
9 thoughtfully implemented in the supplement
10 regulatory proceeding before the Commission."
11 That relates to the setting rules.

12 A. Okay.

13 Q. Now, going back to this Exhibit 1, on the
14 very last page, you see subparagraph (e), Commission's
15 authority. The name of the paragraph has been changed.
16 But if you would read into the record -- and do you
17 agree that last sentence was not in the original bill
18 as introduced? If you could read the last sentence
19 into the record, please.

20 A. The last sentence of (e)?

21 Q. Yeah, where it begins with "if the Commission
22 finds."

23 A. "If the Commission finds that the average of
24 the appraisals will not result in a

1 reasonable fair value, the Commission may
2 adjust the fair value as it deems appropriate
3 and in the public interest."

4 Q. Now, could we agree that the legislature's
5 careful study of this bill, by them inserting that
6 sentence into the bill, that they wanted the Commission
7 to have discretion if they feel the appraisers --
8 appraisals are not a reasonable fair value?

9 A. The language was added to the legislation.
10 I'm not sure --

11 Q. That was added by the legislature.
12 So could we agree that, if they did not want
13 it in the statute, that they would not have inserted
14 that sentence?

15 A. I can agree to that.

16 Q. Now, is it Carolina Water's position that the
17 Commission should not have that discretion?

18 A. No.

19 Q. I'm sorry, they made me write out my
20 questions.

21 A. That's quite all right.

22 Q. Forty-five years, I've never written out a
23 question. By the way, that was the relevancy. Now, on
24 page 3, line 6 of your direct testimony, you make a

1 statement, and you've taken out "insurmountable"; but
2 still the way it reads now, there is an obstacle to
3 purchases of government systems by utilities that are
4 regulated under Chapter 62 of the General Statutes.

5 Are you aware that the Commission has
6 approved acquisition adjustments for the acquisitions
7 of water and/or sewer utility systems?

8 A. I'm aware.

9 Q. And are you aware that, at one time,
10 Utilities, Inc. was the parent Company of Carolina
11 Water?

12 A. I'm aware.

13 Q. And have you had the opportunity, since you
14 came to Carolina Water -- I know it's just recently --
15 to read the Commission's order approving transfer and
16 denying acquisition adjustment in the transfer of the
17 sewer utility system for North Topsail Island, which
18 was transferred to Utilities, Inc., being Docket Number
19 W-1000, Sub 5, order dated January 6, 2000?

20 A. I haven't read the entire order, but I've
21 read some summaries of it.

22 Q. Did you read the portions that dealt with
23 acquisition adjustment, whereby -- did you read that
24 part?

1 A. I read parts of it.

2 Q. And you realize that was the full Commission
3 hearing the case, except one very able Commissioner by
4 the name of Sanford recused herself, and one other
5 Commissioner. So it was five of the seven.

6 A. (No response.)

7 Q. Now, in that case, the Commission changed the
8 requirements for approval of acquisition adjustments;
9 are you aware of that?

10 A. I'm aware of that.

11 Q. And in that case, on page 22, in the middle
12 of the page, there's a headline or heading that says:

13 "The benefits of Utility, Inc.'s ownership do
14 not outweigh the costs of including the
15 purchase price in rate base."

16 You've read that?

17 A. It's in the summary. Not word-for-word,
18 but --

19 Q. Okay. And you're aware that Utilities, Inc.
20 appealed the decision to the North Carolina Court of
21 Appeals and they were unsuccessful in the Court of
22 Appeals; are you aware of that?

23 A. I was not aware of that, but you've now told
24 me.

1 Q. Okay. Now, I'm gonna read a section -- your
2 attorney could help you know who wrote this opinion,
3 but this has Jimmy Irvin written all over it, in my
4 opinion, anyway. It states:

5 "After examining the relevant policy
6 considerations and prior decisions of the
7 Commission, the Commission concludes that the
8 outcome in an acquisition adjustment case
9 should hinge upon whether the parties seeking
10 rate base treatment for an acquisition
11 adjustment has established by the greater
12 weight of the evidence that the purchase
13 price the purchaser has agreed to is prudent,
14 and the benefits of including the acquisition
15 in rate base outweigh any resulting burden to
16 ratepayers?"

17 Now, why couldn't, instead of going on to
18 this statute, Carolina Water simply apply for an
19 acquisition adjustment?

20 A. Well, the statute's been made available. The
21 Commission created a rule based on the statute. So we
22 made the choice to pursue the statute for fair value.

23 Q. How does a 9.5 purchase price in your
24 contract benefit the customers on the system and

1 outweigh the increased cost to the customers to pay for
2 the \$9.5 million plus the closing costs in rate base?

3 A. Well, I would argue the fact that it actually
4 costs more to the customer base. I don't agree with
5 that premise.

6 Q. Excuse me, could you repeat that?

7 A. I don't agree with the premise that it costs
8 more for the customer base, based on how we set up the
9 structure of the contract, that -- and the County can
10 talk to the current customers of the county and the
11 residents within the county more effectively than I
12 can. But if the County had to cover the cost of that
13 system today, they would have to raise rates.

14 Q. Yeah. The Public Staff does not deny that,
15 and you'll see that in Mr. Junis' exhibit.

16 So your answer is, the statute was available
17 and you didn't think it was necessary to prove that the
18 benefits to the customers outweigh the increased cost?

19 A. The statute's available, right? And so we've
20 chosen to use this statute. It was created along with
21 other legislation that's recently been passed in
22 North Carolina, which, quite frankly, has enabled the
23 opportunity for future consolidation and the ability
24 for us to move forward with acquisitions of this type.

1 Q. Now, this will not be a consolidation, as far
2 as interconnecting the system; is that right?

3 A. That's correct.

4 Q. And your closest system is Brandywine Bay,
5 which is water and wastewater, and is three or four
6 miles away; isn't that correct?

7 A. We have Brandywine Bay, Hestron Park,
8 Spooners Creek, Fairfield Harbor, Carolina Pines are
9 all in the same region and would be run from the same
10 area manager.

11 Q. Okay. But as far as -- as far as the
12 interconnection, Fairfield Harbor is across the river
13 from New Bern, isn't it?

14 A. Yes.

15 Q. Okay. Okay. We're gonna move on from that
16 to another thing. I know you hope I'm running out of
17 questions, but I got a few more.

18 A. I figured you might.

19 Q. Do you agree, as shown in Mr. Junis'
20 testimony, that there are 1,277 customers on this water
21 system and 55 miles of water main?

22 A. Approximate, subject to check, but yes.

23 Q. Okay. Do you agree that the density of
24 customers on this Carteret system, the density of

1 customers to water mains is extremely low?

2 A. I would agree with that.

3 Q. Do you agree that Carolina Water is
4 responsible -- if they had closed the transaction,
5 would be responsible for the repair or replacement of
6 the water mains in areas where there are no customers?

7 A. I understand that.

8 MR. GRANTMYRE: Chair Hughes, I would
9 request that Public Staff Denton Direct Cross
10 Exhibit Number 2, which is a map and is two pages,
11 be identified.

12 COMMISSIONER HUGHES: It shall be so
13 marked Public Staff Denton Direct Cross Exhibit
14 Number 2.

15 (Public Staff Denton Cross Examination
16 Exhibit Number 2 was marked for
17 identification.)

18 Q. Mr. Denton, I assume you've seen these two
19 maps before?

20 A. I have.

21 Q. And I assume you rode the system at one time
22 or another?

23 A. I have driven the system.

24 Q. And do you agree that there are much -- I'll

1 tell you, magnetic north is to the top, and the line or
2 water mains on the east side of the bay right at the
3 bottom, I'd call that a main running north.

4 Now, do you agree that there are much fewer
5 customers on that side of the main -- that portion of
6 the main, than there are on the bay side or the west
7 side?

8 A. Well, the map as shown doesn't actually show
9 customers.

10 Q. I know that. But you may not have been
11 counting as you were riding around, but the Public
12 Staff did ride around looking for customers. Okay.

13 Now, we -- at the top of the map, there is a
14 line running east/west or straight across; do you see
15 that?

16 A. I do.

17 Q. And would you agree that, on that portion of
18 the mine -- main, there are very, very few customers,
19 and to the north side and east side of that portion, it
20 is primarily open fields?

21 A. Mr. Grantmyre, I apologize, I don't know -- I
22 wasn't counting houses when I was driving around.

23 Q. Okay. Now, would it help if we showed one of
24 Chuck video -- Chuck Junis' videos for you? I'm just

1 teasing. Okay.

2 Now, as you turn north, as you see at the
3 very left-hand side of this, or the west side, you see
4 a line going up, a main going up which you and I could
5 agree runs to Craven County; is that correct?

6 A. In that direction.

7 Q. Now, isn't it your recollection that there
8 were no -- almost no customers on that section of main?

9 A. Again, Mr. Grantmyre, I don't know exactly
10 which roads I was going up and down. I don't even know
11 that I went up this road where this line is buried.

12 Q. Okay. Now, isn't it -- and I understand one
13 purpose of that line is so that you could get purchased
14 water from Craven County, or the County can?

15 A. That's my understanding as well. It's
16 emergency backup.

17 Q. Do you know whether they have ever gotten
18 water from Craven County?

19 A. I do not know.

20 Q. Now, is it your understanding that they also
21 have an emergency backup from the Town of Beaufort?

22 A. That's my understanding.

23 Q. And it is interconnected?

24 A. That's my understanding.

1 Q. Now, recently you filed something with the
2 Public Staff whereby you're gonna install a 12-inch
3 water main to get purchased water from the Town of
4 Mooresville, and the estimated construction cost was --
5 and it was a mile in length -- was over \$3 million; do
6 you remember that?

7 A. Subject to check on the numbers. We are
8 installing a line for the interconnect at Mooresville,
9 yes.

10 Q. Okay. And at the bottom left, it has a
11 scale, and I can't tell from the scale how long that
12 main going to Craven County is, but would you agree
13 it's approximately a mile?

14 A. Approximately.

15 Q. And would it be reasonable and prudent for a
16 main to be constructed where there are very, very few
17 customers in the future and you've already got a second
18 water source?

19 A. It depends on the system and design. I have
20 not studied the engineer report on distribution in this
21 system, but I would assume that that would play into
22 the hydraulics within the system.

23 Q. But the system has three booster stations,
24 doesn't it?

1 A. It does.

2 Q. And it has three elevated storage tanks?

3 A. That's my understanding.

4 Q. And pressure on the system comes from the
5 elevated storage tanks and the booster stations,
6 correct?

7 A. Correct.

8 Q. I do a lot better without written questions.
9 Wouldn't the water in that north mile or whatever it is
10 going to Craven County, if there are no customers or
11 hardly any customers with little or no flow, wouldn't
12 that create issues with the Safe Drinking Water Act and
13 the public water supply, PWSS, rules on trihalomethanes
14 and haloacetic acids?

15 A. Not necessarily, depending on how the system
16 was operated.

17 Q. Well, part of the operations -- you're not a
18 licensed water operator, are you?

19 A. I am not.

20 Q. Would you be surprised to learn that I am or
21 was?

22 A. I know you were.

23 Q. And every time I go to continuing education,
24 which was required, the speakers would say that one way

1 you deal with trihalomethanes and haloacetic acid is to
2 make sure you flush the mains prior to taking the
3 samples. Are you aware of that?

4 A. I've heard that.

5 Q. And is that Carolina Water's policy?

6 A. Well, we prefer to have a loop system.

7 Q. I know, but here you got a dead end.

8 A. That's right.

9 Q. And for better or worse, you got a dead end
10 at the south end -- well, not necessarily. Somewhere
11 you connect to the Town of Beaufort at the south -- at
12 the southeast portion of the map.

13 A. The map.

14 Q. Now, if you were flushing water, a lot of
15 water, because that -- that main looks to be a fairly
16 large main.

17 It's certainly not a 2-inch main; could we
18 agree with that?

19 A. I would agree with that.

20 Q. Now, do you agree that the water used to
21 flush would be treated potable water, which is
22 basically flushed to waste?

23 A. Yes.

24 Q. And do you agree that Carolina Water would

1 have to pay to treat and pump that wasted water,
2 thereby increasing operating costs?

3 A. Yes.

4 Q. Now, wouldn't you agree that, with large
5 stretches of mains in lower, without customers, that
6 you have to do flushing -- that that lowers the value
7 of a system, because you're increasing your operating
8 expenses and it's going to waste?

9 A. Well, I don't know that it would lower the
10 value of the system. I'd say that it's an increased
11 cost.

12 Q. Well, systems that increase your costs that
13 don't provide benefits for the increased cost, or
14 wasted expenses, you're saying that doesn't lower the
15 value of the system?

16 A. It may not.

17 Q. Okay. Does Carolina Water have water systems
18 in North Carolina -- I won't go to South Carolina, I
19 used to practice down there -- have such low density of
20 customers to water mains as this system?

21 A. We have varied density systems. I don't know
22 if we have any that are as low as this, but we have
23 low -- fairly low density in a number of systems.

24 Q. On those that you have low density, isn't it

1 true that the developer installed, at his cost, the
2 water mains, and Carolina Water was not paying to
3 install the mains in the low-density areas?

4 A. Well, some systems were acquired, and when --
5 we didn't work directly with developers on some
6 systems.

7 Q. But is it your testimony that Carolina Water
8 would not extend water mains, particularly of
9 large-diameter water mains, where there would be a very
10 low density of customers?

11 A. Not necessarily. I'm not saying that. I'm
12 saying that it's based on design premise and need.

13 Q. But these are dead-end mains.

14 Would you extend large dead-end mains where
15 there's gonna be a low density?

16 A. I'm not the engineer of record.

17 Q. Okay. We're gonna switch to elevated storage
18 now.

19 A. Okay.

20 Q. Do you agree there are three elevated water
21 storage tanks on the Carteret County system, each
22 200,000 gallons, for a total of 600,000 gallons of
23 elevated storage?

24 A. Yes.

1 Q. Does Carolina Water have any North Carolina
2 water systems with 600-gallon -- 600,000 gallons of
3 elevated storage and only 1,277 customers?

4 A. I'd have to check.

5 Q. Okay. I realize you've only been here a
6 couple of years, and in my opinion, you're doing a
7 great job, so.

8 A. Thank you.

9 Q. Do you agree that each of these three
10 elevated water storage tanks must be maintained by the
11 owner, including periodic recoating of the interiors
12 and exteriors, which would include extensive surface
13 preparation?

14 A. Yes.

15 Q. And the County had a contract with, I
16 believe, Southern Corrosion, and that contract called
17 for the interiors to be recoated every 15 years; is
18 that correct?

19 A. Subject to check.

20 Q. Okay. Now, do you agree that the cost to
21 recoat the interior and exterior of one of these
22 elevated water storage tanks will appreciably exceed
23 \$100,000?

24 A. I would anticipate it would.

1 Q. And when we say recoat, and particularly on
2 the inside, will you agree that they must do a --
3 sandblast the inside to remove all rust, and then
4 recoat it with a coating such as epoxy?

5 A. (No response.)

6 Q. If you haven't --

7 A. I haven't dealt specifically with that, but
8 if -- I could see that as a possibility. I don't know
9 for sure.

10 Q. And if they were inside the tank doing the
11 sandblasting and the recoating with epoxy or whatever
12 coating, would you agree, being inside the tank, that
13 would be a confined space?

14 A. Yes.

15 Q. And there would be an additional cost in the
16 inside to comply with the confined space rules. Would
17 you agree with that?

18 A. I would.

19 Q. So does the fact there were three water
20 storage tanks rather than only two tanks of
21 300,000 gallons each, doesn't that increase the cost of
22 maintenance of these tanks in operating the water
23 system?

24 A. For the entire system, I would say based on

1 the premise, the hypothetical, yes.

2 Q. And again, you would not agree that that
3 lowers the value of the system because you've got
4 increased costs because of what may have been
5 engineering design that --

6 A. Can you repeat the question? I'm not sure I
7 understand the question.

8 Q. I made that question up and it's not my
9 notes, so we'll skip that. Okay?

10 A. Okay.

11 Q. Would you be surprised in the future, in a
12 future rate case, if the Public Staff were to recommend
13 an adjustment to the Commission for overbuilt plant as
14 far as the water mains and the elevated storage tanks?
15 I didn't ask did you agree, I'm asking would you be
16 surprised.

17 A. No. And I want to qualify that. I think
18 that we would want to and would need to make sure
19 that -- and the engineer of record designed this
20 facility, these facilities, right? These are designed
21 by an engineer. And so I would go by the engineer's --

22 Q. Okay. But you have -- Carolina Water has
23 been dealing in the water business in North Carolina
24 with utilities since the 1960s or '70s, haven't you?

1 A. Carolina Water as other companies, previous
2 companies to Carolina Water, yes.

3 Q. Yeah. Actually the name was Carolina Water,
4 I think, in the '70s.

5 And, now, if three tanks were put in,
6 elevated tanks, and extended water mains where there
7 are very few customers, isn't that a growth assumption?
8 And in the cases before this Commission, the risk on
9 extensions of systems based on future growth has been
10 put on the Company if the Company pays those costs.

11 Are you aware of those decisions?

12 A. I don't accept the premise, no.

13 Q. Okay. So -- okay. We're gonna move to the
14 Merrimon system now, which is page 2 of this exhibit.

15 Have you visited this system?

16 A. I did not visit this system.

17 Q. Okay. It comes to my next question.

18 Is the reason you didn't visit the system
19 because it's 20 miles away from the other system?

20 A. No. It wouldn't have been the reason.

21 Q. But would you agree it is 19 or 20 miles? I
22 think one of the reports said it was 19 miles.

23 A. Approximately.

24 Q. And that it is over a country -- small

1 country road?

2 A. Yes.

3 Q. And -- and would you agree that, you know,
4 you have the well over there and the pump house to the
5 east side of the system; do you see that?

6 A. I do.

7 Q. And then most of the customers are on the
8 line, the main that runs in a southwest -- assuming
9 north is at the top of this, in a southwest direction?

10 A. Yes.

11 Q. And that is another dead end; isn't that
12 true?

13 A. It appears to be on the map.

14 Q. And would you accept, subject to check, that
15 this was the map given to us by Carolina Water or the
16 County or both?

17 A. Subject to check.

18 Q. And again, isn't it necessary to flush
19 dead-end lines before water sampling in order to get
20 fresh water in there?

21 A. Yes.

22 Q. And isn't it true that a -- and there's only
23 about 20 customers on this system; is that correct?

24 A. I think it's a little more than 20, but.

1 Q. Okay. Isn't it -- if it was only 20, isn't
2 it true that a water system with only 20 customers
3 that -- that is remote 20 miles away is not a very
4 attractive purchase option?

5 A. I would not agree with that, necessarily.

6 Q. So the next time the Public Staff has a
7 remote system with only 20 customers, we should call
8 y'all and lead you to jump on it?

9 A. We would evaluate it.

10 Q. Okay. Very good. Now, isn't it true that
11 this system -- isn't it true that Carolina Water's
12 operator, whether it be the operator in responsible
13 charge or another employee, would need to visit this
14 system in the well house at least once -- weekly in
15 order to check on the water treatment?

16 A. We would -- we would need to do the well
17 checks, yes.

18 Q. And isn't it weekly you check, or how often
19 do you check? You don't have equipment in the --
20 you're not gonna put equipment in this well house or
21 treatment house that designates to Carolina Water, by
22 radio or whatever means, water quality day in day out?

23 A. We actually -- I do not know what SCADA or if
24 there is SCADA in this particular well house, but we

1 are currently implementing a statewide plan that is --
2 we're working with DEQ on to minimize the number of
3 daily well checks and maximize operator time for other
4 things.

5 Q. And you agree, for him to drive that 20 miles
6 to visit the well house, that that would be an expense
7 borne by the Company, wear and tear on the truck,
8 mileage, him having this windshield time?

9 A. Absolutely not unlike any of the other
10 systems we have statewide. We are very remote and we
11 have a lot of windshield time.

12 Q. Okay. But isn't it true that it's not
13 economical to operate a water system that is remote for
14 only 20 customers, if that's the number?

15 A. Somebody has to do it.

16 Q. Well, isn't it true that you have to perform
17 all the Safe Drinking Water Act water tests on this
18 system that you would perform on a system with 2- or
19 300 customers?

20 A. Same standard.

21 Q. So the cost per customers for water testing
22 would be much higher?

23 A. Well, the testing, itself, on a per test is
24 the same.

1 Q. Well, divided by the number of customers?

2 A. Customers, yeah.

3 Q. Okay. On page 3 of your testimony -- direct
4 testimony, lines 5 -- I think we already covered that.
5 Okay. Okay.

6 On page 3, line 8, or somewhere on that page,
7 you say that Carolina must justify a purchase price as
8 prudent; isn't that correct?

9 A. That's what it says, yes, we could not
10 justify it as prudent.

11 Q. And if the Commission was looking at the --
12 whether or not to approve rate base, shouldn't they
13 look at whether a purchase price is prudent?

14 A. From what perspective?

15 Q. In the Commissioner's discretion.

16 A. That is the prerogative of the Commission.

17 Q. Now, wasn't -- isn't it true, or do you agree
18 that Carolina Water's original offer of the system was
19 \$4.9 million, don't you agree that that was a prudent
20 purchase price?

21 A. The \$4.9 million was an initial bid in an
22 upset bid process.

23 Q. But if, in fact, 4 point -- why did you make
24 the bid of 4.9 if it wasn't prudent?

1 A. I wanted to know what Aqua was gonna bid.

2 Q. So the competition of one better than Aqua
3 got involved in this?

4 A. We were one -- we knew we were gonna be below
5 Aqua.

6 Q. Now, assuming for the sake of argument that
7 \$4.9 million offer was prudent, certainly you wouldn't
8 make an offer to the County that was not prudent, would
9 you?

10 A. I don't understand the question.

11 Q. Okay. I'll back up.

12 Assuming \$4.9 million offer, your first
13 offer, was prudent, how does \$9.5 million, which is
14 more than double, or almost double, how is that
15 prudent, other than beating out Aqua?

16 A. Well, the -- we knew what the initial
17 valuation was by the engineer of the system -- systems,
18 plural. And the 4.9 was an initial volley. We knew
19 that was not gonna be the end point of the upset bid
20 process.

21 Q. Now, when you say the valuation by -- the
22 initial valuation by the engineer, is that the same
23 engineer who designed the system to run all the way to
24 Craven County where no customers on the way and install

1 three elevated storage tanks, whereby probably two
2 would be sufficient?

3 A. I have no idea who the initial engineer of
4 record was.

5 Q. Okay. Now, you're aware that Carteret County
6 offered the water system to Beaufort in March of 2020,
7 are you not?

8 A. I am aware.

9 Q. And the offer, I'll get you the exact amount,
10 was a little bit over \$2 million assumption of debt,
11 much of which had an interest rate of 2.205 percent;
12 you're aware of that?

13 A. Yes.

14 Q. And you're aware that Beaufort, the Town of
15 Beaufort, as we said earlier, is already interconnected
16 and is right next door to this system, correct?

17 A. Yes.

18 Q. And you're aware that Beaufort declined to
19 purchase it?

20 A. Yes.

21 Q. And if they -- if it was turned down at a
22 little over \$2 million, how is a \$9.5 million purchase
23 price prudent?

24 A. I can't speak to the reasons why Beaufort

1 decided not to pursue this.

2 Q. But you would agree that Beaufort should have
3 knowledge of the system being next door?

4 A. I have no idea of what Beaufort knows and
5 what they don't know.

6 Q. Now, your water operators talk to neighboring
7 water operators of other utilities and cities or
8 counties, do they not?

9 A. I would expect they do. I don't know.

10 Q. Okay. So there is a possibility that the
11 Carteret County water operators periodically have
12 discussions with the Beaufort operators?

13 A. Hypothetically, it's possible.

14 Q. Now, on page 4, lines 13 and 14 of your
15 testimony, you discuss that Carolina Water would be
16 more reliable, economical, efficient, and/or compliant,
17 have more compliant water service, would be provided by
18 a regulated public utility; do you remember that?

19 A. Yes.

20 Q. What evidence is there that Carteret County
21 operations were not reliable?

22 A. I would say that it's not that it's not
23 reliable, but we have -- this is core to our business.
24 This is our business. We do it 100 percent within the

1 regulated business of Corix. Carolina Water Service is
2 water and wastewater statewide. And so to say that
3 it's more reliable doesn't mean that what they're doing
4 is not reliable. It means that we have more reliable,
5 more opportunity from the standpoint of efficiency, and
6 again, the compliance work that we do nationwide.

7 And we're able to pull in resources from
8 other jurisdictions, other areas. Great example was
9 the freeze in Texas. We had people from Alaska fly
10 down to Texas to help out during the freeze. And so
11 we've got depth of resources, very diverse depth of
12 resources.

13 Q. Now, will Alaska be part of the transfer or
14 merger with Southwest Water? Or you're not sure? If
15 you're not sure --

16 A. No, I'm sure. I just don't understand the
17 relevancy of the question.

18 Q. Okay. Because you're not gonna have
19 Alaska --

20 A. We will. Alaska will be a part of the
21 merger.

22 Q. Okay. Now, you say it would be more
23 economical.

24 Isn't it true that the Carteret County cost

1 of debt is much lower -- and we'll get to this later --
2 than Carolina Water's imbedded debt cost in your
3 current rate case is 4.64 percent imbedded cost rate?

4 A. The -- Carteret County's is lower.

5 Q. Okay. And as far as being efficient,
6 Carteret County has its operators living right there,
7 just as utilities -- Carolina Water would have
8 operators living nearby. So it's not more efficient
9 because an operator going to the treatment house is
10 basically the same, assuming the same quality of
11 operators.

12 Would you agree with that?

13 A. I would agree with that.

14 Q. And you would agree that Carteret County has
15 been fully compliant with the DENR rules and the Safe
16 Drinking Water Act, and they've had no notices of
17 violation?

18 A. Was that a question? I'm sorry, you're
19 asking if I know that?

20 Q. Yes. Are you aware of that?

21 A. Yes, I'm aware of that.

22 Q. And do you agree?

23 A. That's my understanding.

24 Q. Okay. And on your direct testimony, on

1 page 5, line 9, you talk about the benefits of expanded
2 rate base and economies of scale.

3 How does an expanded rate base benefit the
4 customers on the system?

5 A. Well, it's the entire system, so you're
6 looking at all of Carolina Water Service uniform rate
7 customers. We're looking at spreading fixed costs over
8 a larger base. And so that's a 4.5 percent -- if you
9 look at the uniform base, 4.5 percent additional water
10 customers.

11 Q. But you would agree that the \$9.5 million
12 purchase price plus closing costs divided by the 1,273
13 customers would yield a substantially higher original
14 cost of rate base per customer than is on the Carolina
15 Water uniform rates in North Carolina, would you not?

16 A. That calculation is higher.

17 Q. It's higher?

18 So that would put upward pressure on or
19 increase -- tend to increase the rates of the other
20 Carolina Water customers if it ever goes into uniform
21 rates?

22 A. I disagree with that premise.

23 Q. Okay. Just the return on rate base factor.

24 Do you agree that on a return on rate base,

1 you get your imbedded debt cost, which would be
2 6.4 percent; is that correct?

3 A. Subject to check.

4 Q. And your current Utility Commission decisions
5 have your capital structure at about 50/50; is that
6 correct?

7 A. Yes.

8 Q. And in your last rate case, your approved ROE
9 was 9.4 percent?

10 A. That's correct.

11 Q. And, of course, the ROE must be grossed up
12 for income taxes, correct? So the revenue requirement
13 piece would be higher than the 9.4, as far as that
14 50 percent that's dedicated to equity or supplied by
15 equity; is that correct?

16 A. That's my understanding.

17 Q. Now, in your testimony, on page 5, line 10 of
18 your direct testimony, you discuss the benefits of
19 economies of scale. But Carolina Water never
20 quantifies those so-called economies of scale.

21 Now, if Carolina Water can file a multiyear
22 three-year rate case, why couldn't Carolina Water
23 quantify the benefits of the economies of scale?

24 A. Well, there would be plenty of assumptions

1 that went into it, but we didn't do it in this case.

2 Q. Now, Public Staff accounting supervisor,
3 Lynn Feasel filed an affidavit in October, the same
4 date Chuck Junis' testimony was filed, where she
5 quantified the revenue requirement impact for the
6 \$9.5 million purchase price in rate base and the
7 increase in the revenue requirement for the return on
8 rate base, including debt and equity and depreciation.
9 And in that first year, her number was \$1.18 million.

10 Do you agree that she filed that?

11 A. Subject to check on the numbers.

12 Q. Do you agree that Carolina Water never
13 contested in its rebuttal testimony that calculation of
14 \$1.18 million revenue requirement increase? Do you
15 agree with that?

16 A. Subject to check. But I agree that I don't
17 believe we did.

18 Q. Now, earlier I asked you about nearby water
19 systems.

20 Do you agree the only large water system
21 Carolina Water has in Carteret County is Brandywine
22 Bay, which is that one 3 or 4 miles away?

23 A. That's the largest, yeah, I believe.

24 Q. And you agree that the application at this

1 time, Carolina Water has no plans to interconnect
2 Brandywine water system with the soon -- with the to be
3 acquired Carteret County water system?

4 A. As of right now, we do not.

5 Q. Now, on page 7, line 6 of your direct
6 testimony, you state that the customers on the system
7 will benefit from Carolina Water's financial capital;
8 is that correct?

9 A. That is correct.

10 Q. And as I asked you earlier, you agree, in
11 Carolina Water's pending rate case, the imbedded cost
12 of debt for Carolina Water is 4.64 percent?

13 A. I believe that's correct, subject to check.

14 MR. GRANTMYRE: Chair Hughes, I now ask
15 that Public Staff Denton Direct Cross Examination
16 Exhibit Number 3 be identified, and it's the one
17 that near the top says Public Staff Data Request
18 number 10, originally dominated by Public Staff as
19 number 11. So this one -- this one has a bunch of
20 pages, I don't know how many. In the future, the
21 Public Staff needs to number all the pages, and we
22 will do so.

23 COMMISSIONER HUGHES: It shall be so
24 marked.

1 (Public Staff Denton Cross Examination
2 Exhibit Number 3 was marked for
3 identification.)

4 Q. Now, would you agree that this was a response
5 of a data request provided to the Public Staff by
6 Carteret County and also by Carolina Water, some of the
7 questions towards the end?

8 A. It looks as if it is, yes.

9 Q. Now, I refer you to page 2 of this exhibit,
10 and question number 2. Could you please read into the
11 record the question, the second part that says, "Please
12 provide the current amount and interest rates on the
13 County's existing debt for the water system."

14 A. Okay.

15 "Please provide the current amount and
16 interest rates on the County's existing debt
17 for the water system. The County response:
18 State revolving fund held by NCDENR, balance
19 10/26/22 is \$31,032, interest rate of
20 5.75 percent. State revolving fund held by
21 NCDENR, balance 10/26/22 of \$560,000,
22 interest rate of 2.205 percent. And the USDA
23 water revenue bond held by USDA, balance on
24 10/26/22 of \$906,000, interest rate of 2.75

1 percent."

2 Q. Now, you will admit the bottom two interest
3 rates are materially below the 4.64 imbedded debt cost
4 of Carolina Water; is that correct?

5 A. They are below, yes.

6 Q. Now, I know you haven't done the
7 calculations, but will you accept, subject to check --
8 and I could assure you the Commission's accountants
9 will check on any math that Bill Grantmyre does --
10 Freda Hilburn's really tough -- that the imbedded debt
11 cost -- the weighted and imbedded debt cost of these
12 three outstanding loans is 2.61 percent?

13 Will you accept, subject to check, and you
14 could put in your proposed order, that Grantmyre can't
15 multiply and divide?

16 A. Subject to check.

17 Q. Now, I refer you to the next page of this
18 exhibit. And under number 4, could you please read
19 that question into the record.

20 A. "What are the County's current bond ratings
21 with S&P, Moody's, and Fitch." The County
22 response: The water fund, Carteret County has
23 not issued publicly traded debt for the water
24 fund, therefore, Carteret County does not

1 have a bond rating for the water fund. All
2 of Carteret County's water debt is unrated.
3 The general fund, general obligation rating,
4 S&P is AA plus, Fitch ratings, AA plus, and
5 Moody's, Aa1."

6 Q. Does Carolina Water have a Fitch, Moody's, or
7 S&P credit rating?

8 A. No.

9 Q. Now, your parent company now is Corix
10 Regulated Utilities; is that correct?

11 A. The parent of Carolina Water Service is what
12 Corix -- yeah, CRU, yes.

13 Q. CRU?

14 A. Yes.

15 Q. Okay. And does CRU or Corix Regulated
16 Utilities have a credit rating by Fitch, Moody's, or
17 S&P?

18 A. Not to my knowledge.

19 Q. Do you happen to know if Corix group of
20 companies, who is currently your ultimate parent at
21 this time, do you know if it has a credit rating by
22 Fitch, Moody's, or S&P?

23 A. I do not, no.

24 Q. Now, isn't it true that Carolina Water

1 long-term debt has a long-term loan of approximately
2 6.6 percent interest rate, and it has a make-whole
3 provision whereby Carolina Water can not prepay that
4 debt; is that true?

5 A. I do not know the answer to that. And I do
6 not believe it's held at the Carolina Water level.

7 Q. But if, in fact -- if, in fact, that loan at
8 6.6 percent does not pay out until the year
9 approximately 2035, would not -- would it not be true
10 that that 6.6 percent loan would be part of Carolina
11 Water's imbedded debt cost up until the loan is paid in
12 approximately 2035?

13 A. I would agree with the premise.

14 Q. Mr. Denton, I'm sad to say that's all my
15 direct questions. And the good news is my rebuttal
16 questions are much less.

17 COMMISSIONER HUGHES: Redirect?

18 MR. GRANTMYRE: Oh, one other question,
19 I'm sorry.

20 Q. That same exhibit, number 5, that's that
21 15 percent my wife was talking about.

22 Could you read question number 5?

23 A. Question number 5.

24 Q. On page 3.

1 A. (Witness peruses document.)
2 Back on -- okay. Back on that same exhibit.

3 Q. Yeah.

4 A. "What was the County's outstanding debt and
5 applicable interest rates in March 2020 when
6 the County offered to transfer the system to
7 the Town of Beaufort? County response:
8 State revolving fund held by NCDENR, balance
9 on 3/20 -- or 3/20/20 was 124" -- I assume
10 that's "\$124,128, interest rate of
11 5.7 percent."

12 Q. Can we agree that that period after 124
13 should really be a comma?

14 A. I'd have to confirm with the county. I would
15 assume.

16 Q. Okay. But on the prior page, when we talked
17 about the balance on that loan October 2022, it was
18 \$31,032, so --

19 A. Okay.

20 Q. -- it's certainly not \$124, we know it's
21 incorrect?

22 A. That would seem incorrect.

23 Q. Now, if you could read the next one, state --

24 A. "State revolving fund held by NCDENR, balance

1 3/20/20 of \$980,000, interest rate of
2 2.205 percent. And USDA water revenue bond
3 balance 3/20/20 of \$962,000, interest rate of
4 2.75 percent."

5 Q. Now, would you agree, subject to check, that
6 when you add those three principals up using \$124,000,
7 that the total number of assumed debt would have been
8 \$2.066 million, and again, that's subject to check?

9 A. Subject to check.

10 Q. Freda will get me, don't worry.

11 MR. GRANTMYRE: That is the end of my
12 direct.

13 MR. WHEATLY: May I ask him a few
14 questions, sir?

15 COMMISSIONER HUGHES: Sure. Cross, yes,
16 please.

17 MR. GRANTMYRE: We would object to any
18 sweetheart cross, and, you know, the redirect comes
19 from the Companies' attorneys. So when sweetheart
20 cross comes, I'm gonna object to that.

21 COMMISSIONER HUGHES: Please, overruled.
22 Continue. After you hear it.

23 MR. WHEATLY: Thank you, sweetheart.

24 CROSS EXAMINATION BY MR. WHEATLY:

1 Q. Mr. Denton, in looking at this system, you
2 were aware of the dead-end lines Mr. Grantmyre just
3 asked you about, are you not?

4 A. Yes.

5 Q. And if you don't buy the system, those
6 dead-end lines are still gonna be there, aren't they?

7 A. They are.

8 Q. And the flushing they require would still be
9 there?

10 A. Correct.

11 Q. And it would be a burden on the existing
12 customers that are there now determining their rates
13 for the County?

14 A. Yes.

15 Q. Now, in the agreement that you have with
16 Carteret County, you have agreed to keep the water
17 cost, the rates, the same for the next four years, have
18 you not?

19 A. That was the agreement with the County.

20 Q. And on the fifth year, any increase would be
21 controlled by this Commission?

22 A. That's correct.

23 Q. Now, with regard to the system, itself, when
24 you were interested in buying this system and you made

1 an initial offer to purchase it, you were aware that
2 the county can only sell property by various statutory
3 process, were you not?

4 A. Correct.

5 Q. And that statutory process that was utilized
6 by the County was the upset bid process, was it not?

7 A. It was.

8 Q. And that is the process that the County has
9 to go through to determine its fair market value; is
10 that right?

11 A. That's my understanding.

12 Q. And in going through that process, you and
13 Aqua upset this property a total of five times, did you
14 not?

15 A. Yes.

16 Q. And the last and highest offer fair market
17 value to purchase the Company from the County was
18 \$9,500,000?

19 A. That's correct.

20 Q. And we entered into a contract along those
21 basis, did we not?

22 A. We did.

23 Q. Now, with regard to the system, itself, the
24 operator of our current system is not a County

1 employee, is it not?

2 A. That's correct.

3 Q. And the County has no operator and little or
4 no staff to run this system?

5 A. That's my understanding.

6 Q. And right now, Carolina Water has been
7 running this system from February of this year to
8 present?

9 A. Correct.

10 Q. And up until the public hearing we had in
11 Beaufort a few weeks ago, there had never been any
12 reports of any problems with the water or the system,
13 have there?

14 A. That's my understanding.

15 Q. Now, you understand also that, based upon
16 your review of the records, that the number of
17 customers that we have online is 1,254; is that your
18 understanding?

19 A. Yeah, that's my understanding, subject to
20 check.

21 Q. And you understand the County, in order to
22 subsidize this water system, created a water district?

23 A. Yes.

24 Q. And that there were approximately 3,800

1 parcels within that district?

2 A. That's my understanding.

3 Q. And within that district, 2,600 of the people
4 living there are paying taxes but are not utilizing any
5 of the water?

6 A. That's my understanding.

7 Q. Now, you're also aware that the County had --
8 prior to entering into our agreement, had raised the
9 taxes by 95 percent for the customers; are you aware of
10 that?

11 MR. GRANTMYRE: I would object to that.
12 I think you raised the rates 95 percent, not the
13 taxes.

14 MR. WHEATLY: I'm sorry. You're right,
15 you're right. Thank you, sir. I will ask him
16 another sweetheart question.

17 Q. Mr. Denton, you were aware that the rates
18 were increased 95 percent?

19 A. Yes, I am.

20 Q. And for reasons satisfactory to the County,
21 after the hewing cry from the poor customers, the
22 County reduced those rates by 25 percent?

23 A. That's my understanding.

24 Q. Now, you're currently aware that, without the

1 operation of the system by Carolina Water, the County
2 would have to provide its own staff, its own qualified,
3 certified water operators; technicians; meter readers;
4 and everybody else?

5 A. Yes, you would.

6 Q. Are you also aware that that cost would be
7 somewhere around \$350,000?

8 A. Subject to check, within that range is what
9 the County is estimating.

10 Q. But now you're able to operate that system
11 using your existing operators that are in the area, and
12 that that cost to operate the system is not as great as
13 the County would incur had we not had the benefit of
14 your help?

15 A. There is some incremental cost, but not as
16 much as the County's.

17 Q. And basically you're able to operate this
18 system much cheaper than we are?

19 A. Yes.

20 Q. Now, are you also aware, in looking at the
21 various rates, sustainable rate that would have to be
22 increased by the County Commissioners, in order to set
23 a rate that would pay for the operation of the system,
24 if we had to provide our own operator and own

1 technicians, would be somewhere around \$98.70 --

2 MR. GRANTMYRE: I'd object. This is not
3 cross examination, he's testifying. Mr. Wheatly's
4 testifying. And he has his own witness if he's
5 gonna ask this about what the County's gonna do, so
6 I would object to it.

7 MR. WHEATLY: Mr. Chairman, this
8 company, the acquiring company, has made a careful
9 study of where they're gonna be. No company is
10 going to want to buy a company they don't fully
11 understand the cost and the associated cost of what
12 the charges would have to be for them to break even
13 and even make a profit. So I think these questions
14 are germane so that the Commission can get a full
15 understanding of the financial situation we are.
16 And why it's in the best interest of the public to
17 go through with this deal. There's less than
18 2 percent of the people on this system in our
19 county.

20 MR. GRANTMYRE: Again, I would object.
21 This is not cross examination. This is basically
22 him trying to enter direct testimony. He has his
23 own witness and he could ask the question. His own
24 witness, I believe, is the assistant county manager

1 could answer questions, and he has filed rebuttal
2 testimony.

3 MR. DROOZ: Presiding Chair, one other
4 thought on this objection. Normally, cross
5 examination is allowed on a topic where the other
6 party has opened the door on the subject, and I
7 believe the Public Staff did ask a lot of questions
8 about the cost involved relative to the County.
9 And I believe that Mr. Wheatly's cross is going
10 into that topic that was opened up by the Public
11 Staff.

12 MR. GRANTMYRE: Well, my argument is the
13 Company should be asking the questions on redirect,
14 and instead, Mr. Wheatly is doing redirect, and
15 it's not his witness.

16 COMMISSIONER HUGHES: Okay. Let's
17 continue. Keep in mind you aren't doing redirect,
18 so keep in mind it is cross. And please try to ask
19 your questions in a way that -- you did open up the
20 topic, so continue with this line of questions, but
21 just keep in mind you are cross.

22 MR. WHEATLY: I'll be brief, sir.

23 MR. CREECH: Mr. Chair, if I can, just
24 from a clarifying standpoint, in terms of how

1 things will go forward, will the County be crossing
2 on each of these witnesses before the Company on
3 this, or how will this -- how will this occur?

4 COMMISSIONER HUGHES: Ms. Sanford,
5 what --

6 MS. SANFORD: I am perfectly happy with
7 this arrangement. And please -- well, foolishly
8 pleased to go after Mr. Wheatly. I'm not sure
9 that's -- so I don't know if that answers your
10 question, because I'm not sure I understand your
11 question.

12 MR. CREECH: Well, I'll -- go ahead.

13 MR. DROOZ: Excuse me. We're not
14 crossing our own witness. We would do redirect.

15 MR. CREECH: Well, that's certainly
16 true. But I think I'm just trying to understand.
17 I am probably a little newer to this process at
18 times, but this does seem a newer scenario, perhaps
19 to us all, but defer to the Commission.

20 MR. WHEATLY: Mr. Chairman, I would
21 apologize. This is my first time I've ever been
22 before the Utilities Commission, and I'm stumbling
23 along the best I can. If you just steer me the
24 right way, I'll try to stay within the rules. I

1 apologize if I have strayed somewhat.

2 COMMISSIONER HUGHES: Well, if I heard
3 you correctly, you said you were almost finished.

4 MR. WHEATLY: The most important thing.

5 COMMISSIONER HUGHES: Let's wrap it up.
6 And as far as the questions for cross, do you
7 intend to cross the other witnesses?

8 MR. WHEATLY: I don't know. Probably
9 not, but I don't know. I hadn't intended to ask
10 Mr. Denton any questions until Mr. Grantmyre opened
11 all these doors and got my curiosity piqued.

12 COMMISSIONER HUGHES: Okay. Let's
13 continue with this witness, and we'll -- before we
14 start the next witness, we'll have a little
15 discussion about what we're gonna allow. So
16 continue wrapping up the cross for this witness.

17 MR. WHEATLY: I just have one more.

18 COMMISSIONER HUGHES: Please.

19 Q. Mr. Denton, in looking at the sustainable
20 rate that would have to be imposed for this Company or
21 the system to operate and break even, have your office
22 done any accounting or checking or figuring as to how
23 much that would be?

24 A. The County's rate or?

1 Q. Your rate?

2 A. Yes.

3 Q. What your rate would be.

4 A. Yeah.

5 Q. And, of course, you're aware of what the
6 County rate is?

7 A. Yes.

8 Q. And that would be around \$98.77?

9 A. Correct.

10 Q. And what was your rate; do you remember?

11 A. Based on the analysis, post-multiyear rate
12 plan, after the rate freeze that we had proposed and
13 agreed upon with the County, our rate was, in bringing
14 into the uniform rate, less than the \$98. And, of
15 course, we're making assumptions of what the Commission
16 would allow for rates that case post multiyear, but it
17 was in the 90 -- around 90 range.

18 MR. WHEATLY: That's all the questions I
19 have, sir.

20 COMMISSIONER HUGHES: Okay. Redirect?

21 MS. SANFORD: Redirect. Thank you.

22 REDIRECT EXAMINATION BY MS. SANFORD:

23 Q. Mr. Denton, I'm gonna try to move briskly
24 through some questions which will allow you to respond

1 to some of Mr. Grantmyre's cross examination. You were
2 asked about, generally speaking, why you weren't -- why
3 you didn't pursue an acquisition adjustment -- a deal
4 that had an acquisition adjustment, and my question is
5 whether you considered that or not?

6 A. We did not. The thought process was this new
7 mechanism was put in place just for this purpose. And
8 so we followed the new mechanism, the fair value
9 mechanism.

10 Q. And the case to which Mr. Grantmyre referred
11 that was the North Topsail water and sewer case, well
12 before your time here, but I'm gonna explore your
13 understanding of it. The one in which he mentioned now
14 Justice Irvin, then Commissioner Irvin, was, I believe,
15 the author of the opinion. Was certainly on the panel.

16 Have you looked at that case? Have you had
17 any discussions about that case with respect to the
18 examination of troubled systems and acquisition
19 adjustments?

20 A. A little bit, yes.

21 Q. And so you knew about that and you knew about
22 the opportunity to do acquisition adjustments, right?

23 A. Yes.

24 Q. But you elected to use the relatively newly

1 adopted G.S. §62-133.1A, correct?

2 A. Correct.

3 Q. Do you have that before you? I think that
4 was the first part of Mr. Grantmyre's cross examination
5 exhibit.

6 A. I have it right here.

7 Q. On the first page of that -- I hesitate to
8 say other page numbers, but the first page of the copy
9 of the bill, would you read the caption of the bill
10 that begins with "a bill to be entitled"?

11 A. Yeah. I actually have the wrong one.

12 Q. Oh, I'm sorry. Those pages were confusing.

13 A. Multiple copies.

14 "A bill to be entitled, an act authorizing
15 water and sewer -- water and wastewater
16 public utilities to elect to use a fair value
17 determination for ratemaking purposes when
18 acquiring utilities owned by counties,
19 municipalities, or other government
20 entities."

21 Q. And this act was passed well after that North
22 Topsail case; is that correct?

23 A. That's my understanding.

24 Q. And it says that the authorizing water and

1 wastewater public utility can elect to use fair value
2 determination?

3 A. Correct.

4 Q. It doesn't say the Public Staff can elect?

5 A. It does not.

6 Q. And so you made that election in this case as
7 you approached the deal with Carteret County; is that
8 correct?

9 A. Correct.

10 Q. And you believe this to be a preferable path
11 for expansion for acquisition to the alternative of
12 using original cost evaluations and acquisition
13 adjustments; is that correct?

14 A. That is correct.

15 Q. Do you -- with respect to questions -- and
16 I'll go in order of the questions. They -- I probably
17 could organize a little differently, but I won't. I'll
18 try to go in accordance with my notes here.

19 With respect to questions about intention to
20 install lines and boosters and to make various kinds --
21 and I'm not being dismissive of these things, they
22 sound very important and they would be costly
23 determinations -- as you would examine going forward
24 what you need to do, lines, booster pumps, et cetera,

1 would you do that as you currently evaluate your
2 construction and operation and repair decisions with
3 Carolina Water?

4 A. Absolutely.

5 Q. Would you do that with an understanding that
6 you needed to have a reasonable and prudent outcome?

7 A. Yes.

8 Q. And that you would be judged by this
9 Commission on that?

10 A. Very much so.

11 Q. That the setting of your rates would be
12 dependent upon whether you showed that?

13 A. Absolutely.

14 Q. And you would be subject to the continuing
15 examination of the Public Staff?

16 A. Yes.

17 Q. So those decisions, should you be allowed to
18 purchase -- should these transactions ensue and you be
19 allowed to purchase it, you would continue to make your
20 decisions with respect to this new system the same way
21 you make them to your current systems; is that correct?

22 A. That is correct.

23 Q. This is -- is this true with respect to
24 cleaning tanks, the whole -- the whole gamut of

1 operational and construction necessities?

2 A. Yes.

3 Q. All right.

4 A. Good asset management practices.

5 Q. Okay. With respect to your opening price as
6 you began the bid process for Carteret County -- and I
7 think you've addressed this, I will go quickly here.

8 But your initial price was 4.9 -- or offer
9 was \$4.9 million?

10 A. That's correct.

11 Q. And you said you basically put in plain terms
12 knew you weren't gonna get it for \$4.9 million?

13 A. That is correct.

14 Q. Is this akin to the process people would
15 employ when they make offers on cars or houses or
16 anything of significance?

17 A. That's how we approached it.

18 Q. And you were engaged in a process that was
19 public, that had open -- open bids and employed the
20 upset bid process that you talked to Mr. Wheatly about,
21 right?

22 A. That is correct.

23 Q. And the outcome, as we talk about value, and
24 there were questions about value and how you determined

1 value and how anybody should accept your -- why anybody
2 should accept your determination of value, in this open
3 process with upset bids, which is, if not -- as I
4 understand, and I'm knitting together a little bit, but
5 my understanding is certainly a way that the County can
6 sell if not the only way that they can sell an asset
7 like this.

8 As you participated in that, did you
9 understand it to be a process with a willing buyer,
10 willing seller?

11 A. Yes.

12 Q. Did you understand that, under the statute
13 that we're talking about, the fair value statute, that
14 the purpose as drafted and, as indicated in the
15 legislation, was to use a market-based valuation?

16 A. Yes.

17 Q. Market-based, willing buyer, willing seller,
18 five upset bids; that's what you experienced?

19 A. That is what we experienced.

20 Q. And you also have participated in -- have you
21 participated in what you believe to be the instructions
22 from the statute as to how this fair value
23 determination is made?

24 A. Yes.

1 Q. And that fair value determination, do you
2 understand it to be one that then leads to a conclusion
3 about rate base?

4 A. That was our approach, yes.

5 Q. And did you rely on the plain language of the
6 statute and of your ability to elect this option as you
7 approached and participated in this deal?

8 A. We did. The two statutes are very
9 complimentary from that perspective.

10 Q. And, in fact, the result of the fair value
11 process, which we -- which I believe your position
12 would then translate into a rate base decision, but the
13 averaging of the three appraisals, can you tell us how
14 that compared with the price of the deal you actually
15 struck through the bidding process?

16 A. The average of the three appraisals was
17 higher than the final offer in the upset bid process
18 with the County.

19 Q. As you make reports and recommendations
20 within your corporation -- will you have to do that, to
21 authorize that, to be given authority to make
22 significant business decisions; is that right?

23 A. We do. We have a governance process.

24 Q. Was -- internally to the Company, are

1 decisions about or verifications of actual value, is
2 that part of your decision-making process?

3 A. Yes.

4 Q. And in this case, did your corporation depend
5 upon -- in your opinion, did your corporation depend
6 upon the plain language of this statute?

7 A. They did.

8 Q. And you were authorized to make an election
9 to use this statute?

10 A. That's correct.

11 Q. Do you believe you've complied with the
12 formula that's set forth in this statute?

13 A. Yes.

14 Q. With respect to the conversation about
15 economies of scale -- and this goes more generally to
16 what Mr. Grantmyre was discussing as benefits to --
17 benefits, generally, but I want to talk about benefits
18 to existing customers.

19 Has Carolina Water pursued a policy of
20 expansion and consolidation in North Carolina?

21 A. Yes.

22 Q. Is that important to Carolina Water?

23 A. Very much so.

24 Q. You have sometimes done that with respect to

1 being willing to be an emergency operator when there's
2 a terribly distressed system; is that right?

3 A. We have.

4 Q. You're the only one that's done that for the
5 past several emergency operator cases, aren't you?

6 A. That I'm aware of.

7 Q. And you have otherwise pursued a policy of
8 expansion; is that correct?

9 A. That is correct.

10 Q. And does the Company -- is that a policy for
11 the corporation in North Carolina, is that a goal?

12 A. It's a goal and a strategy, yes.

13 Q. A goal and a strategy. Okay.

14 And this is very subjective question and you
15 may not be able to answer it, but have you felt
16 encouraged in the regulatory process to expand, to
17 consolidate? I mean, do you feel like North Carolina
18 has been a state that is encouraging of that?

19 A. Between -- not only -- I mean the latest two
20 legislative and regulatory rulings, the -- not only the
21 fair market value, but also the multiyear rate plan
22 legislation that was pushed through is something that
23 our company and parent are very excited about the
24 future of North Carolina and the opportunity to

1 consolidate and acquire systems and grow and invest in
2 North Carolina, yes.

3 Q. With apologies, I want to circle back to
4 where we started, and we're gonna finish up there.
5 Would you pull that bill again, please.

6 A. Sure.

7 Q. Copy of the statute. And I'm on what I have
8 as page 1. It's page 1 of the statute, I think.

9 A. Okay.

10 Q. At the top caption with the little block that
11 says HB 351, March 14, 2017.

12 A. Got it.

13 Q. I want to look at the language on the front
14 of that first page. 62-133, how rates are -- "how
15 rates fixed" is the caption.

16 A. Yes.

17 Q. Under subsection (b)(1), would you read --
18 would you start with "in fixing such rates" and read
19 down to the words "test period"?

20 A. "In fixing" -- sorry.

21 "In fixing such rates, the Commission shall,
22 one, ascertain the reasonable original cost
23 or the fair value under G.S. §62-133.1A of
24 the public utilities property used and

1 useful, or to be used and useful within a
2 reasonable time after the test period."

3 Q. And so do you understand that to mean that
4 the Commission can either ascertain regional --
5 reasonable, I'm sorry, original cost, or it can
6 ascertain fair value, and that they are different?

7 A. Yes.

8 Q. I want to invite your attention to subsection
9 (c), the sentence that's underlined which is the new,
10 the new language.

11 A. Okay.

12 "If the public utility elects to establish
13 rate base using fair value, the fair value
14 determination of the public utilities
15 property shall be made as provided in G.S.
16 §62-133.1A, and the probable future revenues
17 and expenses shall be based on the plant and
18 equipment in operation at the end of the test
19 period."

20 Q. And this applies to you in this case because
21 you have elected to use the fair value methodology,
22 correct?

23 A. Correct.

24 Q. And have you understood that you -- that this

1 determination was made as strictly specified in the
2 statute?

3 A. Yes.

4 Q. And are you familiar with the Commission's
5 rule?

6 A. Yes.

7 Q. R7-41, I think it is.

8 A. Yes.

9 Q. And you have -- have you structured your
10 efforts in this case towards compliance with the rule?

11 A. Yes.

12 Q. Which sets forth the way in which you can
13 make the election.

14 I have one last question, and this has to do
15 with the rates. There's been some conversation about
16 the rates that would be charged ultimately to the
17 County under the APA and the arrangement that you have
18 with the County. And I forget where it is, I apologize
19 for not knowing which document it's in right this
20 minute.

21 But there was conversation about it earlier,
22 that your rates would be the County's rates for the
23 following fixed for a three- to four-year period?

24 A. That is correct. We intend to honor the

1 agreement that we put in place with the County to hold
2 rates at the current County rates for four years.

3 Q. And then filed in this docket -- again, I
4 apologize I don't have the piece of paper in front of
5 me -- but filed in this docket is a table, I believe,
6 in which the rates are shown to be frozen for a period
7 of time. And then at year four, year five there is
8 additional rate, a rate.

9 And that you were requested to provide, or
10 directed to provide, I forget which way it was, because
11 that's what you estimate rates might go to at that
12 period of time; is that correct?

13 A. That's correct.

14 Q. And that is, if you got the multiyear rate
15 plan decision, and if all sorts of variables about
16 costs went your way?

17 A. Correct.

18 Q. So that number should be understood by
19 everyone to be a very speculative number about events
20 that would -- will not be known about for a number of
21 years; is that correct?

22 A. That's correct.

23 MR. GRANTMYRE: I'd object. Number one,
24 I don't remember asking any questions about

1 Carolina Water's going-forward rates, you know,
2 specific, like Ms. Sanford's going now after a rate
3 case or going forward. It was just in general, I
4 was talking about things increase the rates.

5 MS. SANFORD: I have no more questions,
6 which is not the answer to Mr. Grantmyre's
7 objection, but I have no more questions.

8 COMMISSIONER HUGHES: Overruled. We are
9 gonna take a break now before Commissioner's
10 questions. Don't go away. We will be back here on
11 the record at 3:10.

12 (At this time, a recess was taken from
13 2:54 p.m. to 3:10 p.m.)

14 COMMISSIONER HUGHES: Okay. Let's go
15 back on the record. Hanging in there, Mr. Denton?

16 THE WITNESS: I am, yup.

17 COMMISSIONER HUGHES: All right. We do
18 have a number of staff questions, so I'm gonna go
19 through some of those. I realize that you might
20 have had elements of these already, but do your
21 best to answer them.

22 EXAMINATION BY COMMISSIONER HUGHES:

23 Q. In your direct testimony on pages 3 to 6, you
24 discuss the public interest and the benefits both to

1 the existing Carolina Water customers and the acquired
2 customers. In particular, on page 7, beginning on line
3 18, you state that:

4 "Carolina Water's existing customers will
5 also realize benefits from the acquisition of
6 the Carteret County utility system. The
7 additional customers gained by this transfer
8 will provide economies of scale by spreading
9 existing fixed cost over a large customer
10 base."

11 Could you just briefly describe what you mean
12 by specific existing fixed costs?

13 A. Sure. So as we look at our call center, the
14 back-office systems, the -- some of the overhead
15 associated with my costs, the office, those kinds of
16 things, right, that is spread across -- fixed costs,
17 those are spread across a much larger base. This
18 acquisition will add roughly to the -- if we get to the
19 point of uniform but the uniform group of customers,
20 it's an additional 4.5 percent in addition to those.
21 And it's roughly 27,000 water customers in that group.
22 So this addition is roughly about 4.5 percent.

23 Q. Thank you for that. Looking at the other --
24 on the other perspective, would the acquisition of the

1 Carteret County utilities system also involve the
2 addition of new fixed costs that will be allocated to
3 Carolina Water's existing customers?

4 A. Well, there are costs associated with the
5 system, itself, but the way that we've calculated it,
6 that there's -- in year five, and we're making lots of
7 assumptions with regards to rulings by the Commission
8 between now and then -- that we don't see an impact to
9 other customers.

10 Q. Okay. Is there any limit to the principle
11 that existing Carolina Water customers benefit from
12 economies of scale created by new acquisitions? In
13 other words, is there a fair value so high that the
14 economies of scale do not provide a benefit to Carolina
15 Water's existing customers?

16 A. Yes, I would agree with that premise. There
17 is some threshold where it doesn't work.

18 Q. Okay. Do you have the secret number yet?

19 A. No, I don't.

20 Q. Public Staff witness Junis has calculated
21 that, if the Carteret County system were brought into
22 the Carolina Water uniform rates today, it would raise
23 the rates of Carolina monthly metered customers using
24 4,000 gallons a month by approximately 4.5 percent.

1 Mr. Junis' direct testimony, page 28.

2 Do you agree with that calculation? And if
3 not, has the Company performed its own calculation?

4 A. I don't agree with that calculation, and yes,
5 the Company has performed its own calculation.

6 Q. Is there a percentage increase in rates that
7 would be too high for existing customers to realize net
8 benefits from economies of scale?

9 A. Yes. I would agree with that, and we have
10 not calculated what that looks like.

11 Q. Okay. And the first number that you
12 calculated, can you share that or is that -- if you
13 have and you're comfortable. If we're getting into the
14 area where you're not comfortable yourself presenting
15 that number, then we can skip it.

16 A. Yeah. What we've assumed, and I'll turn to
17 it, is that post freeze, which is encompassing Sub 400,
18 and a 5 percent increase in the following rate case,
19 which is when Carteret rates would -- we would propose
20 roll into a uniform basis, would be at \$92.94.

21 And again, this is making lots of assumptions
22 between now and then. So it's giving you a very
23 accurate number based on a lot of assumptions, which is
24 less than the Sub 400 rates and a 5 percent increase

1 without Carteret.

2 Q. Okay. And I realize this is not apples to
3 oranges. I think the Public Staff's number is
4 calculated for today.

5 A. Yeah.

6 Q. And you've moved it forward?

7 A. Assuming --

8 Q. I understand it's not -- we have two
9 different numbers that we're looking at.

10 A. Correct.

11 Q. Is Carolina Water contemplating additional
12 fair value acquisitions?

13 A. We would like to see some, yes.

14 Q. Can you state any limiting principle on how
15 many fair value acquisitions, in terms of aggregate
16 additions to rate base or additions to rate base per
17 customer?

18 A. I'm not sure I understand the question.
19 Limiting?

20 Q. So is there -- is there -- is there an amount
21 that -- well, let me read the full question again.

22 Is Carolina Water contemplating additional
23 fair value acquisitions? You said yes.

24 A. Yes.

1 Q. Can you state any limiting principle on how
2 many fair value acquisitions -- the amount of fair
3 value acquisitions, in terms of rate base or rate base
4 per customer would, in your view, exceed the benefits
5 existing customers get from economies of scale? So I
6 think it's a question similar to the first question,
7 honestly.

8 A. And I would say that we haven't done that
9 math, to my knowledge.

10 Q. Okay. On pages 5 and 6 of your direct
11 testimony, you discuss tools that the Commission has to
12 protect ratepayers and maintain the public interest.
13 And you specifically mention adjusting the fair value
14 rate and establishing a separate rate class for the
15 acquired system. North Carolina General Statute
16 §62-133.1A states that:

17 "If the application meets all the
18 requirements of Subsection (c) of this
19 section, the Commission shall issue its final
20 order approving or denying the application
21 within six months of the date on which the
22 application was filed."

23 Hearing that, do you agree that the one tool
24 the Commission -- that one additional tool the

1 Commission has to protect customers is to simply
2 dismiss a fair value application and deny it?

3 A. No. I don't necessarily agree with that. I
4 do look at Section (e), which is the one that
5 Mr. Grantmyre had me read, which is under the
6 Commission's authority. And that specifically says
7 that the Commission may adjust the fair value as it
8 deems appropriate in the interest -- in the public
9 interest at a reasonable fair value.

10 Q. So your answer is that we don't have the
11 authority to deny an application?

12 A. No, I'm not saying that. I'm saying you've
13 got this as well.

14 Q. Okay. Okay. So that is a tool that we would
15 have?

16 A. Yes.

17 Q. Okay. As you noted in your testimony, the
18 Commission has the authority to classify the acquired
19 system as a separate rate entity in future rate cases.

20 Here, the Company proposes to bring Carteret
21 County system into its standard system rates in its
22 next rate case, correct?

23 A. After the multiyear, correct.

24 Q. Okay.

1 A. And after the -- what we would intend is to
2 honor the agreement that we put in place with the
3 County is the -- establish current rates for the next
4 four years.

5 Q. Okay. So why is the Company not planning on
6 asking for system-specific rates at this time?

7 A. Well, we've -- we actually have been working
8 towards getting to uniform across the state, and so we
9 want to continue that. We'd rather not have multiple
10 rate structures if we can avoid it.

11 Q. Okay. All right. Is there some factors that
12 would occur that you might ask for that in the future,
13 an acquisition to be system-specific?

14 A. I can see that there is a possibility that
15 there would be a different acquisition where that might
16 be necessary.

17 Q. You state on page 7 of your direct testimony
18 that:

19 "We plan on operational continuity by looking
20 to maintain existing operational support."

21 Does Carolina Water plan to hire the existing
22 field personnel to operate the -- Carteret County's
23 utility system, or will part of the operations be
24 provided by Carolina Water's existing field personnel

1 that presently operate Carolina Water's existing
2 systems in the Carteret County area?

3 A. Yeah, we're actually operating the system
4 today. And so the personnel that are there would be
5 the personnel that would continue.

6 Q. Okay. Exhibit -- thank you for that.

7 Exhibit 5C of the application, it's a
8 document titled "Update to Present Value of Water
9 System Draft."

10 A. Okay.

11 Q. It's dated December 2021 and was prepared by
12 Draper Aden Associates.

13 A. (Witness peruses document.)

14 Okay.

15 Q. Is this the primary document that you present
16 in the application to comply with North Carolina
17 General Statute §62-133.1A and Commission rules that
18 set the requirement to conduct an, in quotes,
19 assessment of the tangible assets of the system to be
20 acquired?

21 A. Subject to check, I do believe that's what we
22 used, yes.

23 Q. Okay. And then who retained Draper Aden
24 Associates to prepare that report?

1 A. I believe that report was done for the
2 County.

3 Q. So were you -- was the Company involved in
4 preparing the scope of work or directing?

5 A. No.

6 Q. Okay. All right. So the County statement of
7 fund net position, proprietary fund as of
8 June 30, 2021, was attached to the application?

9 A. Okay.

10 Q. If you look under the current -- I'm not sure
11 you need this, but if you can find it -- I don't
12 actually have the exhibit number.

13 COMMISSIONER HUGHES: The net position,
14 the statement of fund. Proprietary fund as of
15 June 30th.

16 (Pause.)

17 Q. I apologize, I'm with you. There's several
18 attachments and different ways of numbering things.
19 Let me see.

20 (Pause.)

21 MR. DROOZ: Mr. Hughes, if those are not
22 easily available, we can always put him back up
23 after the appraisers or something at a point when
24 everybody's had a chance to make copies or get

1 those.

2 COMMISSIONER HUGHES: Let's do that. I
3 apologize. We have rebuttal, so let's skip over
4 that.

5 Q. Well, maybe I could ask the essence of the
6 question and we might not have to go to that. At the
7 last -- at the last -- the last county statement
8 there's listed cash and equivalents at \$1.9 million.
9 So just there's listed cash and equivalent.

10 Are any cash and equivalent assets part of
11 the transaction?

12 A. I'd have to check. I don't know.

13 Q. Okay. Okay. We'll get everything for you.

14 A. I do not think so, but I would have to check.

15 Q. Okay. We'll put that on the burner.

16 Pursuant to North Carolina General Statute §62-133.A(e)
17 [sic]:

18 "If the Commission finds that the average of
19 appraisals will not result in a reasonable
20 fair value, the Commission may adjust the
21 fair value as it deems appropriate and in the
22 public interest."

23 In this proceeding, if the Commission were to
24 determine a fair value less than \$9.5 million, the

1 agreed-upon purchase price, and the Company continued
2 with the purchase, the Company would record an
3 acquisition premium on its books for the difference
4 between the purchase price and the fair value; is that
5 your assumption?

6 A. That's -- yes, that is my assumption, if we
7 were to proceed.

8 Q. Okay. In the past, the Commission has
9 allowed a public utility to establish an acquisition
10 incentive account for all or a portion of an
11 acquisition premium that could be converted to rate
12 base when the utility purchases a nonviable water
13 system. I'm sure you're familiar with that tool?

14 A. Yes.

15 Q. So a nonviable water system, a system that
16 would be considered to be a water system whose
17 currently owner does not have the financial, technical,
18 and managerial capacity to provide advocate service to
19 customers.

20 If this transfer results in an acquisition
21 premium for Carolina Water, would Carolina Water
22 request an acquisition incentive account similar to
23 what has been done in the past as an option? Do you
24 think an account like that would provide added public

1 interest benefits?

2 A. It's hard to forecast what we would do, but I
3 can see the benefit if that were to come about in the
4 way you described. So we would have to evaluate it.

5 Q. Okay. Thank you for that. This next series
6 of questions is concerning depreciation of the fair
7 value rate base of the Carteret County system on the
8 Company's books.

9 North Carolina General Statute
10 §62-133.1A(b)(5) states that:

11 "The normal rules of depreciation shall apply
12 against the rate base value upon purchase of
13 the system by the acquiring public utility."

14 Are you familiar with that --

15 A. Yes.

16 Q. -- requirement?

17 If the fair value rate base is determined to
18 be \$9.5 million, will the Company depreciate the
19 \$9.5 million on its books and records at a composite
20 depreciation rate, or will the Company allocate the
21 \$9.5 million to various asset categories based upon the
22 engineering assessment prepared by Draper Aden or the
23 County's audited financial statements where different
24 asset categories will have different depreciation

1 rates?

2 A. It would be to different asset categories.
3 But, in general, that is roughly about 2 percent.

4 Q. Okay. When would Carolina Water begin
5 depreciating the fair value of the assets on its books
6 and records?

7 A. At transfer. At the time of transfer.

8 Q. Okay. The Company has stated in its
9 application that it does not plan to change rates for
10 the acquired customers in the next four years.

11 Has the Company calculated the undepreciated
12 value of the fair value rate base of \$9.5 million at
13 the time the Company proposes to increase rates for the
14 acquired customers?

15 A. We have created -- calculated a rough
16 calculation based on the 2 percent assumption.

17 Q. Okay. So that's how?

18 A. Yeah, yes.

19 Q. And then for that assumption, I think you
20 said it a few minutes ago, but what would be your rate
21 test year that you would be using for the next rate?

22 A. It would be the fourth year of the freeze.

23 Q. Okay. So that would be the -- that would be
24 when you would be looking at --

1 A. That's correct. And the remaining rate base
2 is roughly about \$8.7 million.

3 Q. 8.7. Okay.

4 Will Carolina Water shareholders absorb the
5 depreciation expense that is taken on the books and the
6 foregone rate base return on the undepreciated value to
7 Carolina Water between now and when the rates are
8 adjusted?

9 A. Assuming that current revenues -- or current
10 rates are used to first cover the incremental O&M
11 that's reflected in the budgets and estimates, that we
12 would forego about -- and yes, they would cover the
13 roughly \$880,000. That's roughly what the number is.

14 Q. Okay. Can the Company confirm that it does
15 not plan to request any special deferral accounting
16 treatment related to any foregone depreciation or
17 return?

18 A. We do not.

19 Q. Okay. You do not confirm or --

20 A. We do not plan on --

21 Q. Okay. So you can confirm?

22 A. Correct. I can confirm that we will not --
23 do not plan on it.

24 Q. Okay. That -- those are my questions for

1 you. Let me see if my colleagues have any customers --
2 questions.

3 COMMISSIONER HUGHES: Chair Mitchell.

4 EXAMINATION BY CHAIR MITCHELL:

5 Q. Good afternoon, Mr. Denton. A few questions
6 for you. I'm gonna start with an easy one. The packet
7 that the Public Staff handed out, I'm not gonna -- I
8 won't ask you to find a page there, but it involves
9 some responses to data requests.

10 A. Yes.

11 Q. And there is a response that identifies three
12 funds, three public -- sources of public funding,
13 basically, the state revolving fund -- well, it
14 actually identifies two, I guess, the state revolving
15 fund and the USDA water revenue bond.

16 Is Carolina Water eligible to pursue funding
17 from either of those sources?

18 A. The state revolving funds, we are, but it's
19 very limited for water and wastewater companies, unlike
20 some of the other utilities that have a broader
21 spectrum. And we -- we are eager to further the
22 conversation with the legislature with regards to
23 access to -- equal access that government agencies
24 actually have to level the playing field for, quite

1 frankly, the same monies that all taxpayers are paying
2 into. So yes, we want to further that conversation.

3 Q. So is that the only source of public funding
4 that is available to water and wastewater systems that
5 investor-owned utilities can access in North Carolina
6 at this time?

7 A. That's the only one I'm aware of.

8 Q. Okay. And when you say the IOU's ability to
9 access funding is limited, what does that mean?

10 A. Well, it's specifically to, for instance, on
11 the water side, right, and it's usually larger
12 projects.

13 Q. So it's only water?

14 A. Yeah, well, right now --

15 Q. -- so you can't get it from wastewater?

16 A. -- it's -- wastewater is limited. There are
17 some things that are in there that -- my understanding
18 that we could potentially get access to on the
19 wastewater side, but it's not as broad as it is on the
20 water side. And so we want to be able to open that up
21 and get more access to both water and wastewater
22 funding.

23 The size of projects that could be funded in
24 a lot of cases are so small that the cost of the actual

1 doing the paperwork for the grants, it over --
2 outweighs the benefit of the grant, itself. And so --

3 Q. Can you -- can you help me understand a
4 little bit more about the fund? Are those appropriated
5 dollars or are those federal dollars that have come
6 into the state?

7 A. My understanding -- and my understanding is
8 limited at this point, we're just getting into this,
9 but it's -- my understanding is it's coming from --
10 it's federal money coming into the state. And I don't
11 know if that's correct or not, but that was my
12 understanding.

13 Q. Okay. But what I do hear you saying is that
14 the Company is interested in accessing those funds and
15 working with the legislature to --

16 A. Absolutely.

17 Q. -- to facilitate access by the IOUs?

18 A. We would like to get as -- we want to expand
19 into grants that are -- whether it's federal- or
20 state-based and level the playing field. We understand
21 that there is a -- starting to be a disparity in rates
22 between the IOUs and government agencies.

23 And so we want to change the model, if you
24 will, a bit, wherein the model has specifically been

1 funding through our investors. That we would like to
2 get grant monies for capital projects. Now, obviously,
3 this is not O&M, because it's not -- that's not an
4 ongoing fund. These are capital project offsets. And
5 that we would want to obtain those monies similar to
6 government agencies.

7 Q. Okay. All right. Well, we will continue
8 this conversation at a later time. The -- can you --
9 sort of changing gears on you now.

10 A. Sure.

11 Q. Can you tell me some about these two systems?
12 I mean, Mr. Grantmyre walked you through the maps and,
13 sort of, gave us a good visual, but the -- I'm
14 specifically interested in whether there is room for
15 growth on these systems. Because what I've read in the
16 testimony and what I believe I've heard today is that
17 there are not quite 4,000 people or parcels in the tax
18 district, and only a -- you know, half or a third of
19 those parcels take service from the systems at this
20 time.

21 A. Right.

22 Q. So make sure I understand that correctly, and
23 then elaborate further on potential opportunity for
24 growth.

1 A. Absolutely. I think -- and the County can,
2 obviously, weigh on this later as well, but my
3 understanding is there is opportunity for growth.
4 There are a lot of customers that are there that are
5 right -- for instance, right on the water system, but
6 they have their own wells. And at any point they can
7 interconnect, but they've chosen not to, right? And so
8 there is that component of it.

9 However, you know, as you think about
10 emerging issues -- I'll throw it out there, PFOS,
11 right -- that we would have to at some point
12 potentially, we're gonna monitor, we're gonna check.
13 We've done that throughout the state for every well
14 that we have. We've done PFOS testing. We would do
15 the same here. And if we, you know, saw that there was
16 something that was above whatever threshold the EPA
17 decides to put in place next year, that we would comply
18 and treat the water appropriately.

19 At that point, the question then becomes,
20 those individuals with wells, would they want to
21 interconnect, and we would obviously make that offer.

22 Q. Okay. What can you tell me about why there
23 are so many parcels that are not interconnected at this
24 time?

1 A. I don't know.

2 Q. Okay.

3 A. I don't know.

4 Q. Have you reviewed the appraisal that was
5 prepared for the Public Staff?

6 A. Yes.

7 Q. And are you aware that one of the valuation
8 methods used was the income method?

9 A. That's my understanding, yes.

10 Q. One of the assumptions, as I understand it,
11 is -- has to do with an increase in customer
12 connections.

13 Do you recall the assumption utilized for
14 increasing customer connections?

15 A. Not off the top of my head. But I
16 remember --

17 Q. Okay.

18 A. I remember reading it.

19 Q. Okay. Well, just accept subject to check, if
20 you will --

21 A. Okay.

22 Q. -- that the -- let's see, I've got it. I'm
23 looking at page 24 of the -- of the appraisal, and it
24 was -- it's an attachment to Mr. Lane's testimony,

1 but -- so the assumption is that NewGen assumed that
2 January 2021 connection counts escalated by one year of
3 growth for the system are an accurate representation of
4 total number. NewGen escalated active connection count
5 annually by 1.13 percent.

6 Is that -- what -- what can you -- is that --
7 is that -- is that assumption a valid assumption? Is
8 it accurate? Do you think that growth in customer
9 connections might be greater than that? I just asked
10 you three questions. I recognize that. But just do
11 your best to answer all of them.

12 A. That was the blank face, right? No. I think
13 I don't have any information to challenge that number
14 off the top of my head. I would say, obviously, it's
15 coastal community. It's -- you've got a lot
16 established, but it's also been a community that -- and
17 a county that's one of the higher growing in the state.

18 And so to me, that number, just gut reaction,
19 is a little low. But I would have to validate that
20 with technical information.

21 Q. Okay. And how many -- how many of the
22 parcels that are -- that could be served by the system
23 but are currently not, how many of those are developed?

24 A. Again, I don't have that information.

1 Q. Okay. I mean, are we talking about a bunch
2 of undeveloped lots out there versus homes that are
3 there that are served by wells? I want to get a sense
4 of the potential for growth?

5 A. Right. I understand what you're asking, I
6 just don't have that information.

7 Q. Okay. All right. Bear with me. All right.
8 One last question, then I'll turn it over.

9 A. Okay.

10 Q. The application filed in this docket --

11 A. Yes.

12 Q. -- by the Company included a proposed
13 schedule of rates for these systems. I just want you
14 to confirm for me, for purposes of the record, that the
15 proposed schedule of rates, I think it's -- it says
16 Form Application Exhibit 12, but I want you to confirm
17 for me that those are Carteret County's existing rates.

18 A. Let's see.

19 (Witness peruses document.)

20 I don't have the attachment. Can you --

21 Q. It's 12, Form Application Exhibit 12 is what
22 it says on the top of the document.

23 A. (Witness peruses document.)

24 Q. Why don't we do this --

1 A. Yeah, I may not have the application.

2 Q. I'll ask you the question on rebuttal.

3 A. Okay. That's fine. I will pull that up.

4 Q. Okay. Nothing further.

5 EXAMINATION BY COMMISSIONER CLODFELTER:

6 Q. Mr. Denton, I've got a couple of clean-ups.
7 They're just really clean-ups on things you've been
8 asked about that I need to nail down in my head.

9 Do you have the Application there?

10 A. I thought I did. I do not have the
11 Application. That's what I was looking for and I do
12 not.

13 Q. It will go a lot quicker if your counsel can
14 help you get the Application in front of you. It will
15 go a lot quicker.

16 MS. SANFORD: I apologize, we don't --
17 I'm looking at it on the computer and that's no
18 help.

19 COMMISSIONER CLODFELTER: I see.

20 CHAIR MITCHELL: Here.

21 COMMISSIONER CLODFELTER: If he's got it
22 on computer, that's fine too, because I can direct
23 him on the computer too.

24 Q. What I want to be sure you can find is

1 Exhibit 6 to the Application.

2 A. (Witness peruses document.)

3 Q. And I hope they're tabbed.

4 A. It is.

5 Q. Oh, great. And if it is what I think it is,
6 if it is what it is in my book, it's the asset purchase
7 agreement.

8 A. It is.

9 Q. Success. Okay. So I'm gonna try to see if
10 we can clean up here this afternoon so it doesn't have
11 to get cleaned up later, a question that
12 Commissioner Hughes asked you about, and what is what
13 happens to cash in the transaction.

14 A. Yes.

15 Q. As I look at the asset purchase agreement,
16 there is a section, and it is on page -- sorry, it
17 is -- the title of it is "Accounts Receivable."

18 A. Yes.

19 Q. And I think it's section -- in the 3 section,
20 but now I'm the one that can't find anything.

21 A. (Witness peruses document.)

22 Section 903.

23 Q. 903. So it's all the accounts receivable
24 prior to closing remain with the County.

1 So anything they collect between the purchase
2 price date and closing is, essentially, a receivable
3 converted to cash?

4 A. Correct.

5 Q. Would I be correct in understanding that
6 stays with the County?

7 A. That's my understanding, yeah.

8 Q. Okay. And there is a Schedule C or Exhibit C
9 to the asset purchase agreement that talks about
10 excluded assets, and it says there are no excluded
11 assets. That's on page 41.

12 A. Okay.

13 Q. It's on page 41.

14 A. My page 41 is -- or this page 41 is the
15 schedule list.

16 Q. The schedule, it says Exhibit C, excluded
17 assets --

18 A. Right.

19 Q. No excluded assets?

20 A. Yup.

21 Q. And Section 2.02 is a description of the
22 property being purchased?

23 A. Yes.

24 Q. And you can take a chance to read through

1 that, or take a minute to read through that. As I've
2 read it, I'll represent to you that Section 2.02, when
3 I read through that, it doesn't describe cash as being
4 one of the purchased assets anywhere.

5 Is that consistent with your understanding of
6 the agreement?

7 A. That is.

8 Q. So if I read the agreement, I read it to say
9 that all cash as of the closing date stays with the
10 County; is that correct?

11 A. That would be my understanding based on this,
12 yes.

13 Q. Okay. You don't have any different
14 understanding of what we just went through from those
15 provisions of the agreement?

16 A. (Witness peruses document.)

17 Not to my knowledge, no.

18 Q. Okay. You would remember that, wouldn't you,
19 probably?

20 A. I would.

21 Q. I would suspect so. Let me ask you to look
22 at Exhibit 3 to the Application.

23 A. Okay.

24 Q. You've been asked some questions about this

1 topic by Ms. Sanford and by Presiding Commissioner
2 Hughes, but frankly, when I'm dealing with numbers, I
3 need to have paper in front of me or else I'm not gonna
4 keep them in my head. So I'm gonna ask you some
5 questions about Exhibit 3 and that will just help me
6 nail down some things that I think you've been talking
7 to Ms. Sanford and Commissioner Hughes about.

8 A. Yes.

9 Q. So that is -- as required by the statute,
10 that's the schedule of proposed rates for the next five
11 years. That's one of the things you have to file. And
12 so I want to ask you some questions about the year
13 2027 --

14 A. Uh-huh.

15 Q. -- and the number that's there that is a
16 projected average monthly bill at 4,000 gallons a month
17 of \$98.24. So here are my questions, and we'll go
18 through them as quickly as we can.

19 A. Okay.

20 Q. Was that \$98.24 calculated on an assumption
21 that, in that year, 2027, that this system becomes part
22 of the uniform water rate division?

23 A. It is.

24 Q. Okay. It's not calculated as if this is a

1 standalone system?

2 A. Correct.

3 Q. Got it.

4 A. That's my understanding.

5 Q. Got it. Thank you. Second for that is, does
6 that \$98.24 assume the projected uniform water rates as
7 of 2027 are the rates as they are today for Carolina
8 Water system uniform rate?

9 A. 2027 assumes the -- basically, we move
10 through the multiyear, and then I believe the 2027 case
11 is a -- right now is -- in this, is estimated at
12 10 percent. And where I was mentioning the right at
13 \$90 earlier today, that number assumes a 5 percent case
14 in 2027. So again, these are all assumptions that
15 we're -- we -- right? So.

16 Q. I get it, I'm just trying to understand what
17 I have in front of me.

18 A. Okay.

19 Q. I'm not gonna go beyond that.

20 A. Okay.

21 Q. So -- all right. Let me ask you again. So
22 this assumes that you've got your pending general rate
23 case in which you're asking for a multiyear rate plan.
24 And so when you calculate the \$98.24, do you assume

1 that the rates as requested in the pending general rate
2 case are granted as requested?

3 A. Yes.

4 Q. Okay. Got it. And that's true for each year
5 of the multiyear --

6 A. That's correct.

7 Q. Okay. And then you, sort of, bump them
8 10 percent for 2027?

9 A. Correct.

10 Q. Because your multiyear rate plan is ended at
11 that point?

12 A. That's correct.

13 Q. Okay. Now I will ask you a question about
14 your assumptions, because that 10 percent is a little
15 different than I heard a 5 percent assumption in an
16 earlier answer. Why the difference?

17 A. Well, based on where we are now in our
18 analysis -- now, forecasting 2027 obviously uncertainty
19 gets a lot higher. And so as we were looking at it, we
20 said that might be -- 10 percent might be aggressive in
21 that year, so we reran the numbers for 5 percent.

22 Q. And when you reran the numbers for 5 percent,
23 I wrote them down at -- again, I have to write the
24 numbers down, they have to be on paper for me -- \$92.94

1 is the 5 percent number, right?

2 A. That is the -- \$92.94 assuming with 5 percent
3 with Carteret, yes.

4 Q. With Carteret, okay. Now, again, just
5 hypothetical, and don't take anything from the
6 questions, they're just designed to get numbers and
7 then I go off and stew about what to do about the
8 numbers. Suppose I ask you to calculate 2027 without
9 regard to the pending general rate case, assume it
10 didn't even exist.

11 A. Right.

12 Q. And your current general rate extended out
13 into 2027.

14 Do you know what that number would be?

15 A. No.

16 Q. Could you calculate it?

17 A. We could.

18 Q. Again, I'm looking for apples and apples and
19 then I'll think about oranges separately. I'd like
20 that as a late-filed exhibit, please.

21 A. Okay. Just so I'm clear so we get you
22 exactly what you need --

23 Q. Yeah.

24 A. So is --

1 Q. Take your current general rates that are
2 currently in force from your last general rate case,
3 project them out five years, put the Carteret system
4 into the uniform rate division, and say what would the
5 Carteret customer using 4,000 gallons a month see on an
6 average monthly bill. And that's in effect under your
7 current rates. Okay?

8 A. Okay.

9 Q. Got it. Did I get it? We got it nailed.
10 Okay. Thank you.

11 A. Just making sure I get the head nod over here
12 from them.

13 MS. SANFORD: We're looking back.

14 Q. If I need to clarify any further, I'll wait
15 until I get there.

16 A. Okay.

17 Q. Okay. Thank you, sir. In your experience --
18 and I won't ask beyond your experience -- have you been
19 involved in situations where the Company has purchased
20 a water or a wastewater system, for that matter, or a
21 combined system using an upset bid process --
22 negotiated bid followed upset bids?

23 A. I have not.

24 Q. This is the first one you've done?

1 A. It's the first one.

2 Q. Have you ever, in your experience, been
3 involved in a process of buying a water, wastewater, or
4 combined system using a sealed bid process?

5 A. I have not.

6 Q. You understand what a sealed bid process is?

7 A. Absolutely.

8 Q. Do you have different bidding strategies on a
9 sealed bid process from an upset bid process?

10 A. We might, it's possible.

11 Q. You might?

12 A. Yes.

13 Q. Probably would, wouldn't you?

14 A. Yes.

15 Q. Yeah. Okay. Just so I know I wrote the
16 number down right, when you were responding to
17 presiding Commissioner Hughes about your projections or
18 your estimates of what the depreciated -- composite
19 depreciated value of the assets would be at the time
20 that you got to the fifth year, I wrote down -- you
21 said using a 2 percent as the composite depreciation
22 figure, it would be about \$8.7 million. Did I write it
23 down correctly?

24 A. 2 percent for four years is roughly 8.74.

1 Q. All right. Thank you, Mr. Denton.

2 A. Thank you.

3 EXAMINATION BY COMMISSIONER DUFFLEY:

4 Q. So I'd like to follow up on that last line of
5 questions.

6 Do you know whether the County had other
7 options besides the upset bid process? Did they have
8 the option to conduct a -- you know, a two-envelope
9 sealed bid process where you have the qualifications
10 and then you open up the second bid that has the actual
11 bid? Do you have knowledge of that?

12 A. I don't. I just know about the statute for
13 the upset bid process.

14 Q. Okay. And a follow-up to Commissioner
15 Hughes' question, he asked you a question about whether
16 or not dismissal of the application was the only
17 remedy, and you responded no, there is Subsection (e)
18 where the Commission could adjust the fair value.

19 COMMISSIONER DUFFLEY: So this is a new
20 process, and please, counsel, let me know if I'm
21 headed into rebuttal.

22 Q. But just this is a hypothetical. Let's say
23 that the Commission decided to adjust -- have a
24 downward adjustment.

1 What are your options pursuant to the asset
2 purchase agreement?

3 A. So our options are to either go through with
4 the purchase with the County or have the provision to
5 walk away from the deal.

6 Q. And those are your only two options?

7 A. Right now that's my understanding.

8 Q. All right. Thank you. And then another
9 follow-up about -- well, actually, I'm not gonna ask
10 that question. Thank you.

11 A. Okay.

12 COMMISSIONER HUGHES: Kemerait?

13 EXAMINATION BY COMMISSIONER KEMERAIT:

14 Q. Good afternoon, Mr. Denton, I just have a
15 couple of clarification questions from a -- one
16 clarification question from a response that you
17 provided to presiding Commissioner Hughes, and it
18 relates to the statute, and specifically related to
19 §62-133.1A --

20 A. Okay.

21 Q. -- (b)(2). And I'll just read Subsection
22 (b)(2).

23 A. Yes.

24 Q. It states that:

1 "The acquiring public utility and selling
2 utility shall jointly retain a licensed
3 engineer to conduct an assessment of the
4 tangible assets of the system to be acquired,
5 and the assessment shall be used by both
6 appraisers in determining fair value."

7 A. Yes.

8 Q. And I think I heard your response to
9 presiding Commissioner Hughes' question was that the
10 report prepared by Draper Aden Associates was prepared
11 at the direction of the County. And I'd like to give
12 you an opportunity to provide your response about how
13 that engineering report complies with that section of
14 the statute.

15 A. Well, there are actually -- so Draper was
16 originally brought in by the County. Did an original
17 report, which I thought was the question, and
18 apparently, I may have misunderstood. But they did the
19 original report for the County long before we were even
20 involved. And then that same engineer was used for the
21 fair value process.

22 Q. And so for the second report -- the first
23 report was the December 2019 --

24 A. Correct.

1 Q. -- feasibility study for water system merger
2 report.

3 A. Right.

4 Q. And then the second one was the December 2021
5 report; is that your understanding?

6 A. Correct, yes.

7 Q. And for the second, the update, the
8 December 2021, it -- can you describe who requested
9 that the update be -- what direction was given for the
10 update?

11 A. We'd been working collaboratively with the
12 County, but the County went ahead and -- jointly, we
13 said we'd go ahead and use them, because it would be a
14 least cost scenario, because they had already done a
15 lot of the work to re-engage that same company. So the
16 County re-engaged with them.

17 Q. Okay. With collaboration --

18 A. Yes.

19 Q. -- from Carolina Water? Okay. Thank you.
20 That's helpful clarification.

21 And then my second question relates to that
22 same subsection as well. I just want to -- it related
23 to the engineering report. And it states that it is to
24 be an assessment of the tangible assets. And both of

1 the reports seem to be more about the present value of
2 the asset.

3 So can you describe your understanding of how
4 that also complies with the statute? The two reports,
5 the December 2019 and then the December 2021 update.

6 A. Right. So -- well, in order to achieve the
7 value, the engineering company went through and
8 basically identified the assets, right, as part of
9 their engineering report and condition assessment. And
10 so I'm not sure if that answers your question or not.

11 Q. It does. I think that hearing your position
12 about that is helpful, so thank you. That's all the
13 questions I have.

14 COMMISSIONER HUGHES: Commissioner
15 McKissick?

16 EXAMINATION BY COMMISSIONER MCKISSICK:

17 Q. Just a couple follow-up questions on what
18 Commissioner Kemerait was asking you. The statutory
19 condition to prepare an assessment -- an engineering
20 assessment, in your mind, in looking at the language in
21 the statute -- and, of course, it's pretty clear in
22 terms of what it says, you know, the acquiring public
23 utility is telling you to jointly retain a licensed
24 engineer to conduct an assessment of the tangible

1 assets of the system be acquired, and the assessment
2 shall be used by both appraisers in determining fair
3 value.

4 Does it say anything in there about the
5 engineer establishing fair value?

6 A. No, it does not.

7 Q. And in the form that was attached with your
8 application, and I think that form was 5A, that title,
9 you know, "Fair Value Engineering Assessment Form" --
10 do you want to take a minute to find it?

11 A. I know where it is.

12 Q. If you look at that form and go through all
13 the pages that are part of this form, does it ever
14 raise a question about the fair value of the system?

15 A. What page are you referring to?

16 Q. Well, if you go to Appendix F, it's a
17 five-page -- excuse me, nine-page document.

18 A. (Witness peruses document.)

19 Q. Which is titled "Before the North Carolina
20 Utilities Commission Fair Value Engineering Assessment
21 Form."

22 A. Yup, got that.

23 Q. You got that?

24 A. Yup. And you're asking on the form if there

1 is, for the engineering assessment, a value?

2 Q. Yeah. Does it ever say anything in here
3 about the engineering establish a fair value?

4 A. No, I don't think it does.

5 Q. So wouldn't you be going beyond the scope of
6 what was requested by the engineer statutorily and by
7 the requirements of this form to go out and have the
8 engineer establish a fair value as Gartin did?

9 A. Well, the engineer established a fair value
10 in the initial report that they did for the County in
11 the 20- -- I can't remember which year it was. 2019
12 version of the report. And then as part of the effort,
13 they just updated it. But it wasn't, to your point, a
14 requirement for this.

15 Q. Would it not, in effect, have been outside
16 the scope of an engineering assessment?

17 A. It would.

18 Q. Did you give thought or consideration to
19 employing an engineer other than Gartin to go out and
20 do an actual assessment of the system?

21 A. Not to my knowledge.

22 Q. Okay. And in this same form, if we flip
23 over, I guess, to page 3, it talks about customer
24 growth.

1 A. Uh-huh.

2 Q. Do you see that?

3 A. I do.

4 Q. And in terms of residential customers, does
5 it provide a number as well as for commercial customers
6 and for industrial?

7 A. Yes.

8 Q. And it looks like a residential over a
9 three-year period, there were a total of 63 customers
10 added; is that correct?

11 A. Yes, that's correct.

12 Q. And for commercial, 17 were lost?

13 A. Correct.

14 Q. And in terms of industrial, 17 were added?

15 A. Correct.

16 Q. In your evaluation of the value of the
17 system, did you contemplate or study the growth rate,
18 or lack thereof, of the system?

19 A. We had a -- some assumptions.

20 Q. Can you state what those assumptions were?

21 A. Not off the top of my head. I would have to
22 go back and look through our files.

23 Q. And as I recall, the system went in around
24 2012, the larger system with the 1,200-odd customers;

1 is that correct?

2 A. That's my understanding.

3 Q. Did you look at the historical growth rate of
4 the system since 2012 to present in determining your
5 value?

6 A. I'm not sure that we did.

7 Q. Would that not have been a critical component
8 of --

9 A. Probably would've.

10 Q. -- establishing value?

11 A. I don't know if we did or did not.

12 Q. But it would have been a critical --

13 A. It would have been -- it would have been
14 something we should have looked at, yes.

15 Q. And if it had a very slow growth rate, would
16 that not have been a serious concern?

17 A. It would have impacted the evaluation, yes.

18 Q. And as I recall from public comment that was
19 received during the public hearing, there was certainly
20 information provided as to the reasons people did not
21 tap onto that system; is that correct?

22 A. That is correct.

23 Q. And will you not agree that it was because
24 most people had wells and did not need the water?

1 A. That is correct.

2 Q. Has your company contemplated any actions
3 that they would take to increase the number of
4 households which actually use the system?

5 A. We've not had formal discussions around that
6 about encouraging customers to hook onto the system.
7 Is that the question?

8 Q. And is the average hookup cost around \$3,600
9 or so?

10 A. I don't know, but I think that's close, yes.

11 Q. So would you --

12 A. Subject to check, yes.

13 Q. Would you consider waiving the hookup cost if
14 it required people to hook up to the system?

15 A. Potentially.

16 Q. Have you ever done that in any other
17 jurisdiction?

18 A. I would have to check. I don't know if we
19 have. I'm sure that that's possible that we have done
20 that.

21 Q. And the original Gartin report was prepared
22 when they were contemplating a merger; is that correct?

23 A. That is correct.

24 Q. With the Town of Beaufort?

1 A. Yes.

2 Q. And when that was done, was it not
3 contemplated that the system would be transferred for a
4 nominal consideration of approximately \$1?

5 A. That's my understanding.

6 Q. And that \$1 was what the County thought was a
7 fair and reasonable cost to merge with the Town of
8 Beaufort at that time?

9 A. I can't speak for the County and what they
10 thought at that point.

11 Q. Did you have any conversations with the Town
12 as to what discussions had been previously, in terms of
13 working with the Town?

14 A. I have not.

15 Q. Okay. Thank you. I don't have any further
16 questions at this time.

17 COMMISSIONER HUGHES: Commissioner
18 Clodfelter has another question.

19 EXAMINATION BY COMMISSIONER CLODFELTER:

20 Q. Mr. Denton, apologies to you and to my
21 colleagues. I completely forgot one question I wanted
22 to ask you. It's back to Exhibit 3 of the Application.

23 A. Okay.

24 Q. So the statute says that the rates -- if you

1 buy the system, that the County's rates will be the
2 rates for these customers until the next general rate
3 case. It says "unless otherwise ordered by the
4 Commissioner for good cause shown."

5 So you don't have to answer this question,
6 but if you've got an answer or a thought or an opinion,
7 I'd be interested in it. You've been in probably more
8 general rate cases than you want to be, and so you've
9 heard the talk in general rate cases about rate shock
10 and gradualism and all that sort of stuff. And I look
11 at Exhibit 3, and I'm trucking along here for four
12 years at \$70.55 a month, and then I go up 40 percent to
13 over \$90 a month, and that, sort of, begins to start
14 feeling like less than gradualism. I don't want to
15 necessarily say it's rate shock, but it's surely not
16 gradualism.

17 So suppose the Commission, hypothetically,
18 were to say we'll set the value the way you want the
19 value set, but we think, to avoid rate shock and to
20 avoid -- and to be consistent with gradualism, we think
21 that really the interim rates for the -- until your
22 next general rate case ought to be stepped up some
23 amount each year. You got any reaction to that? Any
24 comment on that?

1 A. And just to clarify, between the --

2 Q. Between \$70.55 and \$92.94.

3 A. Yeah, but over the '23 to '26 period --

4 Q. Over the '23 --

5 A. -- or after '26?

6 Q. -- to '26 period.

7 A. Okay. We would obviously have a conversation
8 with the County, if that was the ruling of the
9 Commission. We had intended to honor the agreement
10 that we had put in place with the County, but we would
11 obviously follow the ruling of the Commission.

12 Q. I don't -- tell me this. I don't find that
13 agreement anywhere in the asset purchase agreement. Is
14 it in a separate document?

15 A. It's not a document. We actually -- this
16 is --

17 Q. It's a handshake deal?

18 A. It's a hand -- that is something that we
19 agreed to.

20 Q. I understand that. Okay. Thank you. I just
21 wanted to be sure I wasn't overlooking it somewhere in
22 the paperwork, because I hadn't found it in the
23 paperwork.

24 A. Actually, in Exhibit O --

1 Q. Exhibit O?

2 A. Exhibit O actually has language in the bottom
3 of Exhibit O that says "in our next rate case." But
4 this has taken a significant amount of time and
5 multiyear has now come forth, but the language in
6 Exhibit O doesn't mirror the agreement that we put in
7 place -- the verbal agreement we put in place with the
8 County. And that, actually, is a little bit longer
9 than what's in Exhibit O of holding those rates lower.

10 And that's why I'm phrasing it as we intend
11 to honor the agreement that we put in place with the
12 County, and that was an agreement.

13 Q. That's a very helpful comment, and I thank
14 you for the reference to -- I had probably flipped past
15 that page when I shouldn't have. But again, I just
16 want to explore the topic, because when we look at
17 this, again, we manage a lot of ratemaking issues that
18 we have to manage, and one of those is avoiding sudden
19 jumps in rates.

20 A. Understood.

21 Q. Okay. Thank you for answering the additional
22 question.

23 COMMISSIONER HUGHES: Any further
24 questions from the Commission?

1 (No response.)

2 COMMISSIONER HUGHES: Let's go to
3 questions on the Commission questions.

4 MR. GRANTMYRE: I go first?

5 COMMISSIONER HUGHES: Yes. And please,
6 to the best you can, refer to the actual question
7 that you're following up on.

8 EXAMINATION BY MR. GRANTMYRE:

9 Q. Commissioner Clodfelter, at the end, was
10 asking about your agreement with the County, and -- as
11 to rates, and you said there was a handshake deal.

12 Isn't it true that Carolina Water influenced
13 the County to increase rates prior to executing the
14 asset purchase agreement?

15 A. I'm not sure I understand. When you say that
16 we influence the County? The County made the decision
17 on their own.

18 Q. Yeah. Didn't you ask the County to increase
19 the rates?

20 A. Not to my knowledge. We didn't ask the
21 County to do -- I'm not sure I understand the question.
22 Ask them to raise their rates?

23 Q. Yes, so that when you acquired the system,
24 you would have higher rates.

1 A. No.

2 Q. Okay.

3 MR. GRANTMYRE: That's all the questions
4 I have.

5 MR. WHEATLY: I have none.

6 MR. DROOZ: I do have a few.

7 COMMISSIONER HUGHES: Mr. Drooz? Yes,
8 please.

9 EXAMINATION BY MR. DROOZ:

10 Q. I would like to start with the question from
11 Commissioner Mitchell about undeveloped lots and growth
12 potential, and I understand your answer is you hadn't
13 quantified that; is that right?

14 A. That's right. That's correct.

15 Q. To the extent there are undeveloped areas and
16 a developer came in and wanted water, would that result
17 in contributions and aided construction coming into the
18 Company?

19 A. It would.

20 Q. Okay. You were asked questions by a couple
21 Commissioners about the Draper Aden role as an
22 engineering evaluation. And I don't know if you have a
23 copy of that. It's attached to Mr. Lane's testimony as
24 MGL-2. I wanted to refer you to that exhibit if you

1 had that available. If not, I'll just read out --

2 A. Go ahead, I've got it.

3 Q. Okay. First of all, does that indicate that
4 the Draper Aden report was revised for an update
5 through March of 2022?

6 A. I'm looking for it.

7 Q. That would be the first page. It's page 46
8 of 97 in attachment MGL-2.

9 A. (Witness peruses document.)

10 Q. I'm sorry to catch you cold with this. It's
11 the very first page, really, of Exhibit 3, Draper Aden
12 Associates engineer report.

13 A. I've got it in a different -- I don't have it
14 in the --

15 Q. Okay. I'll refer you to section numbers to
16 the extent I can.

17 A. Yeah.

18 Q. Okay. Do you see where it says, "update to
19 present value of water system"?

20 A. What section?

21 Q. This is basically after the cover page.

22 A. That's the 2019. I'm looking at the 2019.

23 Q. Let me bring --

24 A. Yeah.

1 Q. -- an extra copy to you --

2 A. Yeah, I'm looking at the 2019 report, that's
3 why.

4 Q. -- with the Commission's permission.

5 COMMISSIONER HUGHES: Please, that's
6 fine.

7 THE WITNESS: Thank you. Got it. Thank
8 you.

9 Q. Okay.

10 A. (Witness peruses document.)

11 Okay.

12 Q. Do you see where that says it's revised
13 through March of 2022?

14 A. Yes.

15 Q. Okay. If we -- bear with me a second here.
16 If we go to the 2019 report which follows, again, do
17 you have the MGL-2 page numbering or not?

18 A. I don't have that page numbering, but I do
19 have the 2019 report right here.

20 Q. Okay. If you look at paragraph -- or Section
21 2.4, it says "asset maintenance"?

22 A. Right. Okay.

23 Q. Does that address some of the engineering
24 needs or care for the system?

1 A. Yes.

2 Q. And if you look at Section 2.5, does that
3 talk about improvements that will or will not be needed
4 for the system?

5 A. Yes.

6 Q. Okay. And if you look at Table 6, following
7 that immediately, is there a discussion of the
8 condition of those assets in the system?

9 A. Yes. Those are the tank -- that is the tank
10 table. Tank maintenance report.

11 Q. Okay. So looking at that, I mean, we can --
12 without getting into how much detail is needed, does
13 this report, in fact, address some of the engineering
14 conditions of the assets in addition to their
15 consideration of value?

16 A. Yes.

17 Q. Okay. You were asked by Commissioner
18 McKissick about the potential for waiving the
19 connection cost to encourage new customers to come on.

20 Are connection costs set by the Commission in
21 the tariff, if you know?

22 A. I believe they are.

23 Q. Okay. And so to waive cost for certain
24 customers without being undue discrimination, would

1 that require Commission approval?

2 A. My understanding, yes.

3 Q. Okay. And if the Commission is so inclined,
4 would Carolina Water Service be willing to ask
5 permission to do that for this particular system as a
6 way of encouraging growth?

7 A. Yes.

8 Q. Okay. Thank you. There was also a question
9 by Commissioner Clodfelter about the rate freeze and
10 whether that was a handshake deal or if there is
11 anything in writing about it.

12 Do you have a copy of Mr. Junis' testimony
13 with you?

14 A. I do.

15 Q. Okay. Could you turn to pages 25 and 26 of
16 that testimony?

17 A. (Witness complies.)

18 Mine isn't as organized as yours is.

19 COMMISSIONER CLODFELTER: Mr. Drooz, if
20 it helps you, I found Exhibit O. It was out of
21 sequence in my book.

22 MR. DROOZ: Okay. So thank you, that
23 helps. I just wanted to establish this in the
24 record.

1 THE WITNESS: 25 and 26, yes.

2 Q. Okay. Are you there now?

3 A. Yes.

4 Q. And you look at the top of page 26, and does
5 that show the rate freeze proposal?

6 A. Yes.

7 Q. Okay. And that was provided by Mr. Junis as
8 discussion of response to data requests that the
9 Company had provided to the Public Staff?

10 A. Correct.

11 Q. All right. Now, that's not a contractual
12 agreement, is it?

13 A. It is not.

14 Q. But it is a commitment that you made in this
15 case on the record to the Public Staff?

16 A. Yes.

17 Q. Okay.

18 MR. DROOZ: Thank you. That's all my
19 questions.

20 COMMISSIONER HUGHES: Okay. Do parties
21 have any motions at this time?

22 MR. GRANTMYRE: The Public Staff would
23 move that its cross examination exhibits be entered
24 into evidence. I believe it was 1, 2, and 3.

1 COMMISSIONER HUGHES: Granted.
2 (Public Staff Denton Cross Examination
3 Exhibit Numbers 1 through 3 were
4 admitted into evidence.)

5 MS. SANFORD: We would at this point
6 like to move the Application and Mr. Denton's
7 testimony into the record, please.

8 COMMISSIONER HUGHES: Motion is allowed.
9 (CWSNC Fair Value Application was
10 admitted into evidence.)
11 (Donald H. Denton, III's direct
12 testimony was entered into the record
13 earlier in this transcript.)

14 MS. SANFORD: His direct testimony. I'm
15 sorry. Direct. Thank you.

16 COMMISSIONER HUGHES: Okay. You can
17 step down but not be dismissed. I think we have
18 some more questions for you tomorrow.

19 THE WITNESS: Okay. Thank you.

20 COMMISSIONER HUGHES: Okay. And I
21 understand that the next witness will not be
22 crossed, or the intention was not to be crossed,
23 but Commissioners do have questions for
24 Mr. Hartman.

1 MS. SANFORD: Well, that's my
2 understanding of what -- and I'm looking around the
3 room for agreement that you wanted to talk to the
4 appraisers in the direct phase.

5 COMMISSIONER HUGHES: Yeah, I was more
6 confirming.

7 MS. SANFORD: And that we would call
8 them and that you would have questions. And I
9 guess I'm going to say I assume on your questions,
10 we could ask questions, but.

11 COMMISSIONER HUGHES: Yes, that's
12 correct.

13 MS. SANFORD: Okay.

14 COMMISSIONER HUGHES: More confirming
15 that we haven't changed -- no desire to do
16 additional cross.

17 MS. SANFORD: Checking as we go. And so
18 with that, we would call Mr. Jerry Hartman.

19 Whereupon,

20 GERALD C. HARTMAN,
21 having first been duly sworn, was examined
22 and testified as follows:

23 COMMISSIONER HUGHES: Witness is open
24 for questions. Commissioner McKissick?

1 MS. SANFORD: Excuse me, if I might let
2 him identify himself quickly.

3 COMMISSIONER HUGHES: Sorry.

4 DIRECT EXAMINATION BY MS. SANFORD:

5 Q. Mr. Hartman, would you state your name and
6 business address for the record?

7 A. Gerald Charles Hartman, 637 North Park
8 Avenue, Winter Park, Florida.

9 Q. And you have been retained by Carolina Water
10 Service to testify in this proceeding; is that correct?

11 A. To -- yes, one of the appraisals, yes.

12 MS. SANFORD: Okay. He's available for
13 examination. Thank you.

14 EXAMINATION BY COMMISSIONER McKISSICK:

15 Q. Good afternoon, Mr. Hartman. Thank you for
16 being here. I do have some questions here from
17 Commission staff. So I'm gonna kind of go through
18 these with you, and you'll certainly need to have a
19 copy of your testimony before you at various times. So
20 if you have that available, try to go ahead and pull
21 that together. I'll give you a minute.

22 A. (Witness peruses documents.)

23 I have it.

24 Q. Okay. We'll start out with some baseline

1 questions. In applying to be on the list of approved
2 utility valuation experts, this Commission maintains
3 you had tested that a utility valuation expert owes a
4 fiduciary duty to provide a thorough, objective, and
5 fair evaluation.

6 What does that mean to you?

7 A. Exactly what it says. Objective, fair,
8 unbiased, and credible work. And it's enforced even by
9 USPAP, which I'm an ASA, accredited senior appraiser.

10 Q. Okay. Now, for instance, if had you to make
11 a judgment call, how did your fiduciary duty affect
12 your decision?

13 A. My judgment is applied based upon my
14 experience, training, et cetera, and it's just done
15 unbiasedly. It's what the market is and my analysis of
16 the market. I have been doing this for 46 years.

17 Q. You have been a utility evaluation expert for
18 46 years?

19 A. Not with North Carolina, but in my practice,
20 I've been valuing utilities for 46 years. Bound by the
21 Florida appeals court as an appraiser many, many years
22 ago.

23 Q. Okay. Have you provided opinions in other
24 utility fair value proceedings such as this one?

1 A. Yes.

2 Q. And if so, have you ever been retained by a
3 consumer advocate to give a valuation in a proceeding
4 such as this one?

5 A. A consumer advocate to give an --

6 Q. An opinion in this type of fair value
7 proceeding.

8 A. Do the appraisal for -- well, I do
9 appraisals.

10 Q. Yes?

11 A. So appraisal for a consumer advocate? Not
12 in -- not exactly like this. But yes, in Jacksonville,
13 JEA, it's \$11.4 billion situation there. I was
14 retained by the consumers to review and opine relative
15 to that transaction.

16 Q. When you say to review, were you reviewing an
17 appraisal prepared by someone else and to provide
18 critique and analysis, or what precisely were you
19 doing?

20 A. I was reviewing the -- the -- well, the
21 appraisals. And I was reviewing a critique, and said
22 that there -- you know, the assumptions that they had
23 made in them didn't make sense at the time, and the
24 deal did not go through.

1 Q. All right. Has the utility Commission ever
2 not considered your appraisal or applied adjustments to
3 your valuation opinion?

4 A. No.

5 Q. All right.

6 A. Not to my -- my opinion did they do it, not
7 to my knowledge.

8 Q. Not to your knowledge, okay.

9 And you would be aware of that; is that
10 correct?

11 A. Juries have found different outcomes than my
12 appraisal, but not Commissions.

13 Q. All right. Did you consider using the
14 County's books and records to determine the original
15 cost new of assets?

16 A. Well, there would be the book value that they
17 keep, and I did -- I have considered such things. And
18 I've been hired by cities and counties throughout the
19 nation to go through their books to bring them up to
20 the appropriate level. Because many books, such as the
21 County's, have accelerated depreciation, they have many
22 assets that are depreciated over 30 years from their
23 50-year assets.

24 Many assets are not even put on the books.

1 So for several clients, municipal clients throughout
2 the nation, I've worked in 36 states, I have restated
3 their original cost. I have done original cost
4 studies.

5 Q. Did you do that in this particular case in
6 conducting this particular fair value assessment?

7 A. No, I did not. I accepted the Draper Aden
8 report.

9 Q. Why didn't you go back rather than accepting
10 the Draper Aden report?

11 A. Why didn't I go back through all their books
12 to look at all -- it was about a year -- it takes a
13 long time. It's about a year process and it's very
14 expensive to go through, but I've done that same work.

15 Q. Did you feel obligated to use the engineer's
16 report?

17 A. Well, it says in the statute that the two
18 entities would hire an engineer and then provide that
19 report. I am a North Carolina PE, have been for many,
20 many years, and I can accept another PE's report.

21 Q. Now, when you looked at the Gartin report, it
22 did more than provide an engineering assessment; is
23 that correct?

24 A. It did. It did an engineering assessments

1 and a facilities costing, and that's what's expected
2 from an engineer that is local and provides the current
3 and local cost for various facilities. That's
4 standard. That's what's normally done. There are a
5 couple of things in the report, such as the land value
6 and a few other items, that an engineer typically does
7 not opine to.

8 But, generally -- and I adjusted for that. I
9 use a MAI North Carolina appraiser for the land to do
10 the fair market value of the land. The Mashburn Group,
11 Chris Mashburn. And so I adjusted those things out of
12 his report that were not appropriate.

13 Q. And according to the North Carolina statute,
14 it does not state that the engineer provides a fair
15 value, does it?

16 A. No. And I don't think -- his report that I
17 looked at, I didn't consider it a fair value. I
18 considered it a facilities costing --

19 Q. A facilities --

20 A. -- for that portion, and an assessment of the
21 facilities. An evaluation of facilities relative to
22 permits, et cetera, and the condition of the
23 facilities.

24 Q. Now, you made reference to the fact that you

1 had a real estate appraisal done; is that correct?

2 A. Absolutely. I am not licensed to do real
3 estate appraisals in North Carolina.

4 Q. Now, in the real estate appraisal that was
5 conducted, did they assume the value of the real estate
6 owned by the utility as being vacant?

7 A. As vacant, correct.

8 Q. Did you take into consideration the fact that
9 it would be necessary to make the land vacant to remove
10 all of the equipment and structures that might be
11 there, such as water towers?

12 A. Correct. So that was the instruction that I
13 gave them. They worked underneath my charge, and I
14 gave them the instruction to assume as vacant.

15 Q. As vacant?

16 A. As vacant across the fence.

17 Q. But did they also attach a value for removal
18 of the equipment or items that might have been erected
19 upon the sites to make them vacant?

20 A. No. It's not done that way in the industry.
21 How it's done is that you give the tangible personal
22 property that's constructed on the property is then
23 costed out by the engineer and then the fair market
24 value by the appraiser.

1 Q. All right. Now, in conducting your
2 appraisal, did you believe the -- that assessing the
3 value or cost basis of Carteret County's water systems
4 asset was within the scope of the engineer's
5 professional expertise?

6 A. Yes. He's a -- they're registered
7 professional engineers. The firm is an engineering
8 firm. I believe costing facilities is within their
9 expertise. I don't -- I did not accept, you know, fair
10 value from them.

11 Q. Now, is it common for utility valuation
12 experts to use engineers' reports in that type of
13 fashion?

14 A. Absolutely. In fact, it's -- in Virginia,
15 which I just recently testified in, in the fair market
16 value, they prefer to have a separate independent
17 engineer do the costing of the facilities. It's true
18 in many other states. In Illinois I do the -- I
19 actually do the engineers' reports many times in
20 Illinois for other appraisers.

21 So it's fair market value states preferred.
22 Most of them prefer it that way.

23 Q. But that's not required statutorily in
24 North Carolina, is it?

1 A. It's -- I don't know. It doesn't say it's
2 statutorily required, but it says that you follow
3 industry practice, and that is the industry practice.

4 Q. Now, in my reading of the statute, it says
5 the acquiring public utility and selling utility shall
6 jointly retain a licensed engineer to conduct an
7 assessment of the tangible assets of the system to be
8 acquired. And the assessment shall be used by both
9 appraisers in determining the value.

10 I don't see anything in here about them
11 establishing any type of values of the facilities or
12 anything of that nature, even though it may be required
13 in other jurisdictions.

14 A. Thank you for your comment. But as an
15 engineer, I look at that as a facilities costing and
16 not setting a value. So in the work I did, I just
17 looked at their estimates of cost.

18 Q. And did you use and rely upon them in
19 preparing your fair values?

20 A. Yes, and I modified, as I stated, the work to
21 make it fair value.

22 Q. All right. Now, in your Table 3.1 -- you
23 might want to go to 3.1. Let me know when you're
24 there.

1 A. You mean Table 1 of --

2 Q. Table 3.1, yes. Yes, sir.

3 A. (Witness peruses document.)

4 Q. It looks like it's on page 3-5.

5 A. Got it.

6 Q. Okay. Now, you stated the original cost new
7 less depreciation of facilities owned by Carteret
8 County was \$12,334,000; is that correct?

9 A. That's correct.

10 Q. It appears that you derived the figure from
11 the document provided by Draper Aden Associates dated
12 December 21 entitled "Update to Present Value for Water
13 System Draft"; is that correct?

14 A. Correct. I took certain elements of that
15 work that I could use in the costing, yes.

16 Q. Now, did you speak to anyone at Draper Aden
17 about the report?

18 A. Yes. I called them, and there's emails back
19 and forth.

20 Q. All right. And what is the basis your
21 understanding that the figures found in Draper Aden's
22 summary tables represent original cost new less
23 depreciation?

24 A. It's based upon their work. It's the

1 original cost, and the only owner is the County.

2 Q. Okay. Now, if you were to look at this, and
3 I think if you flip the page -- or excuse me, let's go
4 down to this next one here.

5 What is the basis of your understanding that
6 the figures found in the Draper Aden summary tables
7 represent original cost new less depreciation?

8 A. Just for the facility assets. That's what it
9 states.

10 Q. So you just relied upon what is stated; you
11 didn't go back and do any further work?

12 A. Well, I tested it. The thing is, to re-cost
13 out everything, I did not do that. I tested the
14 sequence within the normal ranges of what you would
15 expect from original cost, depreciating the costs as I
16 showed in my response to staff with the engineering
17 news record construction cost indices for each year of
18 installation. Yes, I went back and looked at that.

19 Q. Okay. Now, what is your understanding of the
20 difference between Draper Aden Table 1 titled
21 "Estimated Book Value of Carteret County Water System,"
22 and Table 2 titled "Present Book Value Carteret County
23 Water System"?

24 A. They're two different components. One is for

1 the booster pump stations and water tanks, and the
2 other is for the remainder of the systems.

3 Q. All right. Now, why is the estimated book
4 value and the other one titled present book value? I
5 mean, do you think that, in your mind, they needed to
6 have separate titles for representing separate
7 purposes?

8 A. Well, I asked the question because they
9 didn't have good information, so that's why they
10 estimated it versus the present. Engineering aspects.

11 Q. And on Table 2, there's an asterisk next to
12 several entries, and a note at the bottom of the page.
13 And if you can see that there, it says:

14 "Value has been increased by approximately
15 5 percent from 2019 feasibility study."

16 Can you explain why Draper Aden increased the
17 values on this table by this 5 percent? Do you know
18 what they meant or what they assumed?

19 A. That was the --

20 Q. Did you speak to them about that?

21 A. That was the increase in cost between the two
22 time periods.

23 Q. You think it's purely due to inflation?

24 A. That was my understanding, or their new data.

1 Inflation and new data.

2 Q. Did you have any specific discussions about
3 that?

4 A. I said to them that's what I assumed that
5 you're doing, and they said yes.

6 Q. So you relied upon their representations, you
7 did not go back to look further to see if there was any
8 other basis or if that 5 percent was reasonable based
9 upon the circumstances that were present with the
10 Carteret County water system?

11 A. Well, the escalation rate in the ENR CCI
12 approximated that.

13 Q. Now, can you explain your inclusion of an
14 ongoing concern value in the original cost new less
15 depreciation?

16 A. That -- that was for the intent -- that was
17 for the intangible -- the only concern was for the
18 intangible cost.

19 Q. And did you feel it was appropriate to
20 include that ongoing concern value --

21 A. Yes.

22 Q. -- in computing the original cost new less
23 depreciation?

24 A. Well, this is an original cost that has been

1 trended. So it's a method of using original costs not
2 used by the staff. You know, it's a trended situation.

3 Q. Now, do you find that that's accepted
4 practice in your business and industry?

5 A. Yes. As long as the trending is not too far
6 back, yes.

7 Q. Now, have you provided expert valuation
8 services in jurisdictions that have required it to be
9 excluded?

10 A. The going concern?

11 Q. Yeah.

12 A. Yes. Yeah, I have. And there is three types
13 of property. There's real property, which is land; the
14 tangible personal property, which is all the
15 facilities, equipment, et cetera; and the intangible
16 property. All three properties are what you're buying.

17 Q. And since you've done -- you have excluded it
18 in other jurisdictions, why did you include it here?

19 A. I excluded it where it specifically stated
20 that it should be excluded.

21 Q. Okay. How did you arrive at the figure
22 \$247,000?

23 A. That was based upon going concern for similar
24 systems that were not profitable but for the level of

1 assets that this had. So I took two components, the
2 profitability into concern, which would be zero, and
3 then the level of assets into concern.

4 Q. That leads into the other question here. You
5 didn't apply income approach to valuation because you
6 state that as of the year ending June 30, 2021, the
7 system was losing money.

8 Is that consistent with applying an ongoing
9 concern value?

10 A. Well, for the incoming component, you would
11 not and it would be zero. For the asset component, you
12 would, and that's what the \$247,000 is. If you go to
13 Nichols on Eminent Domain, release number 49(1999), the
14 chapter on valuing water and wastewater utilities peer
15 reviewed by the American Bar Association, has my work.
16 But it also has a general section in the front.

17 And the general section in the front
18 basically says typically going concern for water and
19 wastewater utilities runs from about 7.5 percent to
20 15 -- to 25 percent -- excuse me -- of the adjusted
21 cost number. You can see that this is more like
22 2 percent. It's way below the normal going concern
23 allocation for value.

24 Q. And then you employ the income approach to

1 assessment value. If you could explain?

2 A. Why I did not use the income approach? It's
3 become -- it's because a nonprofitable utility, a
4 utility that is owned by government which supposedly
5 works at, you know, not-for-profit situations, there is
6 no net revenue that is not being accounted for to look
7 at future benefits.

8 And the income approach takes future
9 benefits, present views, takes present values back to
10 the present day. So if there are none and it has been
11 operating to contribute to additional gains, then it's
12 speculative on what the income approach would be. What
13 is the growth rate? I looked at, you know, 1,275
14 customers over, you know, 17 years weighted average,
15 whatever, and, you know, you're over 100 customers a
16 year over that long time period. Of course, it didn't
17 all come like that, it's uneven.

18 I looked at other growth rates that are
19 showing, you know, 70 customers in a 2-and-a-half,
20 3-year period, 25 customers a year. Things like that
21 persistent with this size and this extent, the growth
22 rates were all over the map. It just wasn't -- it
23 wasn't well known, you know, to me. I couldn't find
24 the data for it.

1 Secondly, I found some data that it said
2 about 533 provisions for new customers were made but
3 the customers weren't connected. Okay? There is 263
4 of those customers that have been paying minimum
5 charges over time. And it's typical, as a sign-up and
6 save program that many local governments do.

7 You pay the minimum rate and they waive the
8 impact fee, or the connection charge, whatever you want
9 to call it. So that's what -- programs like that are
10 all over the nation. And so that was done here for 263
11 customers. We don't know when they're gonna come in.
12 We know that they're not gonna have to pay impact fees.
13 We also know they're close to the facilities.

14 So when I look at the future growth over
15 time, I could see that possibly 533, because its people
16 went out and actually built stuff for them. I did not
17 include those costs in my appraisal because it's called
18 functional obsolescence because they're not being used.
19 Okay? So that's another \$750,000 or so to \$1 million
20 with meters.

21 I do not know the status of the meters or the
22 condition of the meters, so therefore, I excluded those
23 cost numbers. But for growth over time, there were
24 numbers all over the map. I felt that 533 could be a

1 number discounted for people not connecting by maybe
2 another 200 or something like that, which is typical in
3 those situations.

4 And you might have another 300 or 350
5 customers come in in the next, you know, five to ten
6 years. But I didn't have a good number, so it's
7 speculative. What is the growth rate? Quite
8 speculative. What is the discount factor?
9 Speculative. What is the facilities that you're gonna
10 use to set rates to create income to present value back
11 to today? No one has made that decision.

12 There has been no decision by the Commission
13 relative to rate base. So for you to assume a rate
14 base that the Commission hasn't determined is highly
15 speculative. And so I find that something I could not
16 do. So therefore, I could not do an income approach,
17 it didn't make any sense. I normally do them.

18 Q. Well, let me ask you this, sir. It sounds
19 like there was a great deal of uncertainty that was
20 abundant when you were preparing your fair value
21 appraisal.

22 A. Yes, sir.

23 Q. Did you identify all of those uncertainties
24 and disclose them in your report relating to your

1 inability to determine a growth rate, your inability to
2 know, I guess, the condition of some of these
3 equipments or meters or connections that were out there
4 being paid for that people not yet connected? Did you
5 identify any of those in your report so that that would
6 have all been disclosed as a part of what went into
7 your valuation?

8 A. I only showed the nonprofitable nature of the
9 operation. Not generating an income. So therefore, I
10 thought it was the simplest presentation, if you will.
11 That income approach would be highly speculative, it's
12 not bound.

13 Q. Did you consider income that was coming in --
14 other than simply from connections, that might have
15 been coming into the water service district that would
16 have been used to have been applied toward the
17 operating and ongoing cost of the system?

18 A. The taxation issue for taxes is a County
19 decision on how much and how it's applied over time.
20 And -- because this was a transaction and they were not
21 selling and they can't -- at least to my knowledge, I
22 haven't known an entity that gives up its taxation
23 capabilities to another entity, or dedicates tax
24 revenues that are solely for a purpose to a

1 profitable -- a profit-making. To a non-for-profit,
2 yes, and it's done all the time in mergers.

3 I've done, you know, a bunch of different
4 mergers into utility authorities from cities with
5 another city, et cetera, et cetera, and they typically
6 merge. They typically merge at the debt so no one's
7 harmed, if you will, and a minor incentive for the
8 merger. And that's standard. It's a different market.
9 Government transactions have different rules and
10 regulations.

11 Q. But this was a government system --

12 A. Yes.

13 Q. -- that was functioning and operating and was
14 controlled by Carteret County.

15 A. That's correct.

16 Q. And there was, in fact, a water service
17 district where income was being received --

18 A. Yes.

19 Q. -- that went towards the cost and overhead
20 expenses of this particular system.

21 A. Yes.

22 Q. Would that not have impacted the value that
23 you might have determined based upon the fact that it
24 was a component of revenue just like the revenue coming

1 in from the actual people consuming water?

2 A. It's due to the rights and privileges of the
3 County that they could have that revenue stream. I
4 don't know -- I don't think, at least in my work, that
5 an investor-owned-utility has that right and privilege
6 to get that revenue stream.

7 Q. Okay. Do you know whether other fair value
8 appraisals that were done, other than yours, considered
9 the funds coming into the water service district?

10 A. I don't.

11 Q. You do not?

12 A. I didn't go through them.

13 Q. You didn't go through any of them?

14 A. No. I looked at the NewGen, but I didn't get
15 the other one.

16 Q. All right. Do you believe that your report
17 complies with the statutory requirements found in
18 North Carolina General Statute §62-133.1A(b)(1)(b),
19 which states:

20 "Each appraiser shall determine fair value in
21 compliance with the uniform standards of
22 professional appraisal practice employing
23 costs, market and income approaches to
24 assessment of value"?

1 And I point out it says "income approaches."

2 A. Yes, sir. In fact, I did consider all three
3 approaches, but it doesn't say that you should rely on
4 all three approaches for your fair market value. I
5 believe Mike's work for -- with NewGen, he only relied
6 on the income approach. He did not rely on other costs
7 or market approaches.

8 So what you rely on is the appraiser's
9 opinion and what they believe is the most credible
10 approach to give you a credible opinion of value.

11 Q. Okay. Could you please explain your market
12 approach assessment of value, what is the source of the
13 information found on Exhibit 5.1?

14 A. Exhibit 5.1?

15 Q. Yes. 5.1.

16 A. Exhibit 5.1. I have my comp sales section,
17 is that what you're talking about?

18 Q. Yes.

19 A. Okay. It's our records and our analyses. I
20 am constantly upgrading and keeping files on sales
21 throughout the country. In fact, I've been involved --
22 personally involved in 6- or 700 so transactions in my
23 46-year career in doing this. So it's our files, and
24 then we follow up with the participants, et cetera.

1 Q. Now, in section 5.5 of your report, you state
2 that the subject system was assessed by DA as in good
3 condition; moreover, the subject system was found by DA
4 to be relatively new to adjust for two characteristics,
5 certain sales were dropped from the analysis.

6 A. That's correct.

7 Q. Do you remember that? Okay.

8 A. Many of the sales have regulatory
9 noncompliance or not -- as a reason for sale as well as
10 the systems are not in very good condition, and we had
11 a lot of CapEx.

12 Q. Can you explain exactly why you dropped and
13 decided to include certain ones?

14 A. I wanted to keep in the ones that were in
15 good condition, relatively new, that had the customer
16 base within my range such that I didn't skew to
17 customer base. And I brought them all to the date --
18 the effective date of the appraisal.

19 Q. Now, can you clarify if Table 5.2 represents
20 the list after certain sales were dropped?

21 A. No, it's the -- that's the list with the ones
22 I considered before I dropped them.

23 Q. All right. Now, in Table 5.2, you indicate
24 that you used the top half average from the selected

1 system sales; is that correct?

2 A. That's correct. It ended up to be that way.

3 Q. What was the basis for using the top half
4 average?

5 A. Because the top half average, or the ones
6 that ended up to be that, were in good condition, did
7 not have a lot of regulatory -- did not have regulatory
8 deficiencies, did not have high CapEx, future cap,
9 capital requirements.

10 Q. And did Draper Arden [sic] indicate that
11 Carteret County system was in the top half of
12 comparable systems?

13 A. No, they did not, I did. That was not their
14 opinion, it was my opinion.

15 Q. Now, you rounded the top half average of
16 \$6,598 up to \$7,000 to account for growth opportunities
17 for Carteret County. Is it your conclusion that
18 Carteret County's growth opportunities are superior to
19 those in the regions represented by the seven sales you
20 selected? And can you explain how you reached this
21 conclusion?

22 A. Well, equal to or superior, yes. And based
23 upon my knowledge of those transactions.

24 Q. All right. Now, in turning to section 6 of

1 your report -- if you could turn there, sir.

2 A. Section 6?

3 Q. Yeah.

4 A. Okay. And also in fair market value states,
5 I should say. Section 6. Okay.

6 Q. In arriving at your overall opinion of value,
7 \$10,900,000, you give the cost approach one and a half
8 times the weight of the market approach.

9 Can you explain this decision?

10 A. Yes. The cost approach is specific to this
11 system. You cost out what you're buying and then it's
12 something -- it's a known. It's very hard, in the
13 public utility business, to get comparables -- unless
14 you participated for a long time and had a lot of data,
15 to get comparables that you would have the same level
16 of confidence as the costing of the specific system,
17 itself. So that's the reason.

18 Q. That's the reason.

19 A. And the weighting that I gave it is my own
20 opinion, 60 percent toward the cost approach and
21 40 percent toward the market approach.

22 Q. I see.

23 A. The income approach I did not do, as I
24 previously stated.

1 Q. And, I guess, just like rounding it up 6,598
2 to 7,000, that was your judgment call?

3 A. Yes.

4 Q. Judgment call due to what you perceived to be
5 the growth rate notwithstanding the pretty retarded
6 growth rate the system had experienced?

7 A. Well, I was looking at a growth rate of, you
8 know -- potential growth of as many as 500 customers
9 because of the taps and all that kind of stuff that
10 were built.

11 Q. Over what period of time, sir?

12 A. It's unknown exactly.

13 Q. Unknown.

14 A. It's unknown.

15 Q. So between now and eternity?

16 A. Could be. It could be.

17 Q. All right. Thank you. I don't have any
18 further questions.

19 COMMISSIONER HUGHES: I think we're
20 getting close to the end of the day, but I think I
21 just have a clarification question that I think
22 will go for two or three minutes and then we're
23 gonna have to take a break at 5:00 so we're back
24 here tomorrow. But while everything's fresh on

1 Commissioner McKissick's questions, if you just
2 could entertain just a follow-up on one.

3 EXAMINATION BY COMMISSIONER HUGHES:

4 Q. The income approach. You know, I understand
5 that you had made some decisions that it wasn't
6 appropriate. Just for me understanding, kind of, how
7 our appraiser looks at these things, I thought it was
8 interesting some of the things that you said, and I
9 just want to make sure I got them right.

10 It sounded like you were looking at an income
11 approach from the county's perspective as a
12 governmental entity, and you looked forward and you
13 didn't see income, you just saw -- I mean, maybe I'm
14 simplifying it, but you just saw losses. So that
15 wasn't going to be an approach that made sense. Is
16 that -- am I paraphrasing, kind of, the --

17 A. That's one major consideration, yes. And in
18 fair value, we you can look in the various cases with
19 condemnation cases, you look at the value in the hands
20 of the seller.

21 Q. Okay. So that gets to my other question.
22 That question intrigued me.

23 From fair value, the approach that you would
24 look at, an income approach, is from the seller, not

1 from the buyer?

2 A. Well, you consider what the seller's
3 situation is, and does the buyer have an ability to
4 change that situation markedly. And without any
5 knowledge of what the future changes would be, I did
6 not know what Carolina Water would be doing. I don't
7 know how they're gonna integrate it, and I also don't
8 know what the decisions of this Commission are gonna
9 be. So, you know, it's very hard to put it in the
10 hands of an investor-owned utility without some
11 definition.

12 Q. So -- so -- and I think I'm following you.
13 And you had also said that you at least need to know
14 the rate base, if I understood what you were saying,
15 and you can't know that now.

16 So is it your testimony that you -- if you
17 don't know the rate base, how can you use an income
18 approach?

19 A. You would have -- you would have to look at
20 the system where noncash items can be capitalized, if
21 you will, that are deducted in their accounting regime.
22 You would have to look at various adjustments to the
23 County's operation. And if this was a fairly complex
24 system, I would think that that would be readily

1 capable of doing.

2 But this system is a pretty simple system.
3 It's -- it's a coronation type system. Pump it up out
4 of the ground and put it into storage and booster pump
5 out to it. It's a very simple system. So what
6 optimizations are there that I could do that would
7 generate revenue, net revenue after expenses.

8 COMMISSIONER HUGHES: Okay. I think
9 we'll call it there. Does anyone have a two-minute
10 question follow-up?

11 CHAIR MITCHELL: I do just a really
12 quick.

13 EXAMINATION BY CHAIR MITCHELL:

14 Q. Just could you point me, in your report, to
15 your assumptions about -- I think you indicated a
16 growth of about 500?

17 A. That's in my data -- that's in my files.
18 There's about --

19 Q. So it's underlying your analysis, but I
20 wouldn't see it --

21 A. It's not in the report, itself. It's not --

22 Q. Okay. Can you tell me that specific number
23 again?

24 A. I had some data that said, like, 500 or 533

1 out of the 300 -- out of the 3,000-some-odd -- 3,800
2 parcels had provisions or taps relative for future
3 service. And 263 of those parcels had paid minimum
4 charges such that their impact fees would be waived.
5 That was in my data file.

6 Q. Okay. And just -- again, just so I'm clear
7 on your responses about your view of an income -- of
8 the income valuation in this context, is it -- I mean,
9 in my mind, you'd have to have presumed sales or
10 projected sales over a period of time as well as a rate
11 at which you're going to charge for those sales.

12 A. Absolutely.

13 Q. And so do I understand correctly your
14 testimony today to be that you felt that it was -- that
15 the -- it's too speculative to come up with a rate?

16 A. Well, I -- what I had in my files was a rate
17 that was losing a lot of money, subsidized by taxation,
18 dropping off taxation. A great increase in rates, not
19 like 95 percent, and then reduction in rates. So in
20 the past short period of time, the rate stability
21 aspect of this system, to me as an appraiser going back
22 and looking at it, was highly variable.

23 Q. Okay. All right. Thanks.

24 EXAMINATION BY COMMISSIONER DUFFLEY:

1 Q. Just one quick follow-up on that. So what I
2 heard you testify, and I just want to get it clear in
3 my head, was that the growth rate was all over the
4 place, and then you talked about the 533, maybe another
5 200, maybe another 300 in the next 10 years. And I'm
6 just trying to square that with when you were also
7 asked about growth opportunities and growth rate for
8 using the top half average of those sales and rounding
9 up to \$7,000 per month.

10 Like, how do those two statements square with
11 each other?

12 A. Sure. Most utilities throughout -- just as
13 an overall average, if you will -- are growing in the 2
14 to 2.5 percent, 3 percent, something like that. You
15 know, 500-and-someodd customers would be that over a
16 ten-year period. So you would have a growth
17 capability. The provision of lines available for
18 connection, if you had -- it's an extensive system.
19 And that's stated.

20 You know, it's got a lot of pipelines all
21 over the place. Okay. And it's got -- that extensive
22 system means that developers don't have to go very far
23 or a new customer doesn't have to go very far to
24 connect to the system. The pipelines are there. So it

1 would encourage growth intuitively.

2 And in systems I've seen that did basically
3 build it and they will come, they did get good growth.
4 Not excellent growth maybe, if it's a depressed area,
5 but they get good growth. So that's how I square that
6 away.

7 Q. Okay. Thank you very much.

8 COMMISSIONER HUGHES: We -- now we're
9 gonna stop for the day, and we'll have you back up
10 here first thing. 9:00 a.m. will be when we start.
11 Thank you-all.

12 (Hearing concluded at 5:02 p.m. on
13 November 3, 2022.)

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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing hearing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 16th day of November, 2022.

Joann Bunze



JOANN BUNZE, RPR

Notary Public #200707300112