

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Tuesday, June 20, 2023
DOCKET NO.: W-354, Sub 399
TIME: 10:00 a.m. - 1:03 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:

Application by

Carolina Water Service, Inc. of North Carolina,
5821 Fairview Road, Suite 401,
Charlotte, North Carolina 28209,

for a Certificate of Public Convenience
and Necessity to Provide Water Utility Service
to the Carteret County Water System, and for
Approval of Rates

VOLUME: 2

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7
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12
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MATTHEW P. SCHELLINGER II PAGE

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E X H I B I T S

IDENTIFIED/ADMITTED

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Public Staff CWSNC Application.....	14/37
Cross Exhibit 1	
Feasel Exhibit 1 - Updated.....	40/-
Schedules 1-4	
Public Staff Junis.....	40/-
Exhibits 1-2	
Public Staff Panel Carteret County....	91/-
Cross Exhibit 1	
Public Staff Panel Carteret County....	93/-
Cross Exhibit 2	
Public Staff Panel Redirect.....	140/-
Exhibit 1	
Public Staff Panel Redirect.....	140/-
Exhibit 2	

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P R O C E E D I N G S

1
2 COMMISSIONER HUGHES: Good morning. Let
3 us come to order and go on the record. I am
4 Commissioner Jeff Hughes, presiding Commissioner
5 for this hearing. With me today are
6 Charlotte Mitchell, Chair of the Utilities
7 Commission, and Commissioners
8 ToNola D. Brown-Bland, Daniel G. Clodfelter,
9 Kimberly W. Duffley, Floyd B. McKissick, Jr., and
10 Karen Kemerait.

11 The Commission now calls for hearing
12 Docket Number W-354, Sub 399, In The Matter of the
13 Application of Carolina Water Service Inc., of
14 North Carolina for a Certificate of Public
15 Convenience and Necessity to Provide Water Utility
16 Service to the Carteret County Water System and for
17 the Approval of Rates.

18 On August 2, 2022, Carolina Water
19 Service of North Carolina, or the Company, filed an
20 Application seeking a Certificate of Public
21 Convenience and Necessity to be allowed to provide
22 water utility service to the Carteret County water
23 system in Carteret County and for approval of
24 initial rates.

1 On August 26, 2022, Carolina Water filed
2 a revised CPCN Application and filed further
3 supplemental materials on September 2, 2022.

4 On September 13, 2022, the Commission
5 issued an Order Establishing Discovery Guidelines,
6 Requiring Customer Notice, and Scheduling Hearings.

7 On October 18, 2022, a public witness
8 hearing for the purpose of receiving the testimony
9 of customers regarding this proceeding was held in
10 Carteret County.

11 On March 10, 2023, Public Staff filed
12 the direct testimony of Charles Junis and Lynn
13 Feasel.

14 On March 27, 2023, Carteret County filed
15 a Petition to Intervene, a Motion to Extend Date of
16 Hearing, and the rebuttal testimony of Tommy Burns
17 and Dee Meshaw.

18 On March 29, 2023, Carolina Water filed
19 rebuttal testimony of Donald H. Denton III, and
20 Matthew P. Schellinger, II.

21 On April 4, 2023, the Commission entered
22 its Order Granting Carteret County's Petition to
23 Intervene and Denying Motion to Extend Date of
24 Hearing.

1 On April 10, 2023, the Commission issued
2 an Order Postponing the Expert Witness Hearing.

3 On May 1, 2023, the Commission issued an
4 Order Rescheduling the Expert Witness Hearing to
5 June 20, 2023, which brings us to today.

6 Pursuant to North Carolina General
7 Statute § 138A-15(e), I remind members of the
8 Commission of our duty to avoid conflicts of interest
9 and inquire at this time as to whether any Commissioner
10 has any known conflict of interest with respect to this
11 docket.

12 (No response.)

13 Let the record reflect that I have no
14 such conflict and that my fellow Commissioners have
15 not identified any such conflict.

16 We will now move forward with the
17 proceeding, and I call on counsel to announce their
18 appearances, beginning with the Company.

19 MS. SANFORD: Thank you, Commissioner
20 Hughes and other Commissioners. I am Jo Anne
21 Sanford with the Sanford Law Office representing
22 Carolina Water Service of North Carolina. With me
23 at the table are State President Donald Denton and
24

1 Matthew Schellinger. Present in the room are Tony
2 Konsul and Gary Peacock. We are to be joined by
3 Dana Hill. The latter three are available, should
4 it be necessary and agreeable, if there are any
5 additional questions about operational matters that
6 we have not addressed. Thank you.

7 COMMISSIONER HUGHES: Thank you.

8 MR. WHEATLY: Mr. Chairman, I'm Claud
9 Wheatly from Beaufort. I represent in Carteret
10 County. With me is Tommy Burns and Dee Meshaw.

11 And I want to thank the Commission for
12 the postponement over the tragedy that happened to
13 one of our staff, and I appreciate your compassion
14 and your consideration. Thank you.

15 COMMISSIONER HUGHES: Thank you. And
16 our hearts go out to you.

17 MR. WHEATLY: Thank you.

18 MR. CREECH: Thank you. Good morning,
19 Presiding Commissioner Hughes, William Creech, Zeke
20 Creech with the Public Staff. I'm joined by James
21 Bernier, also an attorney with the Public Staff.
22 Our witnesses are Lynn Feasel of the Public Staff
23 Accounting Division and Charles Junis of the Public
24 Staff Water Division. Also in the room is Michelle

1 Boswell, who leads the Accounting Division. Thank
2 you.

3 COMMISSIONER HUGHES: Very good. Before
4 we get started with the witnesses, do the parties
5 have any preliminary matters that needs to be
6 addressed?

7 MS. SANFORD: No, sir. We don't. At
8 the Public Staff's request, we will be putting
9 Mr. Denton and Mr. Schellinger on the stand for a
10 few questions that they had concerning the
11 Application. As a reminder, we filed the
12 Application, but we did not file direct testimony.
13 We filed rebuttal, so -- at any rate, we have
14 acquiesced that we understand it's a brief
15 examination just focusing on a few items from the
16 originally filed Application, correct?

17 MR. CREECH: I'd say there's a slight
18 caveat there, only to say that we had
19 originally reserved about 20 minutes, so more than
20 a few questions. I think what we would like to
21 do is approximately 30 minutes and then lessen
22 our -- substantially our cross on the back end. My
23 sense, and I think the Company -- we've had
24 communication with staff, is that the time that

1 we've put forward for cross will be less today than
2 originally filed.

3 COMMISSIONER HUGHES: Okay. Good to
4 hear.

5 So, from our perspective, the Commission
6 is inclined to take judicial notice of the entire
7 record of the proceedings on the Company's
8 Application for Fair Value of the Carteret County
9 System, Docket Number W-354, Sub 398, including the
10 evidentiary record. My expectation is that this
11 would allow the parties to present their case more
12 efficiently today. Do any of the parties object?

13 MS. SANFORD: We do not.

14 MR. WHEATLY: We do not.

15 MR. CREECH: No objection. Thank you.

16 COMMISSIONER HUGHES: Okay. All right.
17 Please call your first witness.

18 MS. SANFORD: Thank you. I call
19 Donald Denton and Matthew Schellinger.

20 COMMISSIONER HUGHES: Okay.

21 Whereupon,

22 PANEL OF DONALD DENTON III AND

23 MATTHEW P. SCHELLINGER II

24 HAVING FIRST BEEN DULY SWORN, WAS EXAMINED

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AND TESTIFIED AS FOLLOWS:

DIRECT EXAMINATION BY MS. SANFORD:

Q. Beginning with Mr. Denton, would you state your name, business address, and the position with the company, please.

A. Donald Denton III. The address is 5821 Fairview Road, and I'm president of Carolina Water.

Q. Mr. Schellinger.

A. My name is Matthew Schellinger, II regional director of financial planning and analysis. My business address is 5821 Fairview Road, Suite 401, Charlotte, North Carolina.

MS. SANFORD: Thank you.

The witnesses are available for examination.

MR. CREECH: Thank you.

CROSS EXAMINATION BY MR. CREECH:

Q. Thank you. Good morning.

A. Morning.

Q. Mr. Schellinger and Mr. Denton, I did want to say -- just when we have one moment here to say that the Public Staff also sends its condolences to the community of Carteret County, the staff down there,

1 everybody involved, and I appreciate the Commission's
2 consideration of that matter as we proceeded. Thank
3 you, again.

4 All right. So do you have a copy of your
5 Application in front of you?

6 A. (Mr. Schellinger) I do.

7 Q. Perfect. So we'll just kind of go through
8 it. Not repetitive, but there's a rationale for it.
9 So if you will, just on page one, the owner is Corix
10 Regulated Utilities, correct? The Applicant. You go
11 by a trade name, but your owner is Corix, correct?

12 A. Yes.

13 Q. And that's a privately held company; is it
14 not?

15 A. Yes.

16 Q. So you cannot buy stock in that company; is
17 that correct?

18 A. No, I'm sorry. No.

19 Q. And it says on your website that it's a
20 private company owned by British Columbia Investment
21 Management Corporation with head offices in Vancouver
22 and in Chicago; is that correct?

23 A. That's correct.

24 Q. All right. Now, if you go to -- still on

1 that first page, it says, "Proposed Utility Service
2 Areas," we have North River and Merrimon, those are two
3 separate systems as part of this Carteret County
4 transaction; is that correct?

5 A. Yes.

6 Q. And then right below, it says, "Proposed
7 Rates," it has water rates -- base rates \$40.25 for
8 North River, and Merrimon \$23.40; do you see that?

9 A. Yes, I see that.

10 Q. All right. Now, and so is -- there's one
11 rate for North River and then there's another rate for
12 Merrimon -- and we'll talk maybe more here later on the
13 addenda but, briefly for the moment, your analysis uses
14 an ERC and equivalent residential customer analysis; is
15 that correct, and it doesn't differentiate between the
16 two different sets of customers -- the two systems; is
17 that right?

18 A. (Mr. Schellinger) That's correct.

19 Q. And, in other words, have you all separately
20 calculated impact on a per-customer basis for the North
21 River customers and for the Merrimon?

22 A. I have not.

23 Q. Okay. Let's go to page 2, your billing
24 statement. Number 6. And I am going to have an

1 exhibit. We can go ahead and hand this out while
2 we're -- while we're doing it.

3 MR. CREECH: May I approach?

4 Q. All right. So the application, it says,
5 "Show how the following will appear on the billing
6 statement". It says mailing address and it's a PO box
7 of Philadelphia; is that correct?

8 COMMISSIONER HUGHES: Excuse me. Will
9 you go ahead and mark that exhibit.

10 MR. CREECH: My sincere apologies. This
11 will be Public Staff Application Cross Exhibit
12 1 -- excuse me -- Public Staff CWSNC Application.

13 COMMISSIONER HUGHES: That be so marked.
14 (Public Staff CWSNC Application Cross
15 Exhibit 1 was marked for
16 identification.)

17 MR. CREECH: Thank you.

18 Q. So again, on page 2, number 6 mailing address
19 in Philadelphia and then -- a P.O. Box -- and then it
20 says: Address where a bill can be paid in person. It
21 says "Not applicable" and it gives a customer service
22 number, an 800 number; is that correct?

23 A. (Mr. Denton) That's correct.

24 Q. Now, this is a rudimentary kind of cross

1 exhibit here. It's in two parts. The first part
2 is -- and I realize that folks get text messages and
3 they get emails and all that kind of stuff now -- but
4 this is your website and so these are just screenshots.
5 I took it. First is of your website, and then at the
6 very end, it's a rudimentary kind of Google Maps,
7 trying to figure out where that -- where that is in
8 Philadelphia. And then we do the same for Carteret.
9 The rationale for the questions here just goes to
10 public convenience. This is an Application for Public
11 Convenience and Necessity. And so that's the rationale
12 for the questions here. So just on the first part
13 here, you'll see that -- if you flip through -- we go
14 to the Corix website, then we go by the United States
15 and Canada. Then we go by state and we go to figure
16 out what state you're going to and it's North Carolina.
17 And then -- and then you click on customer service, how
18 do you get in contact with folks.

19 And then, finally, on page 6 there of 17, it
20 says, "Customer Contact; Phone; Emergencies. Mailing
21 Address" that's a Philadelphia P.O. box. The next
22 page, on page 7 and 8, one is just, you know, I googled
23 the P.O. Box and then the next page is, well, what do
24 you get but, more importantly I think are the next

1 pages. Let's go to page 10, Carteret County. And on
2 Carteret County -- there is a point to this -- you go
3 to their website. You select the department that
4 you're going to. On there you see your water
5 utilities. And once you're there, in the upper
6 right -- again page 12 of 17 -- it says, "Contact us".
7 It says, "Jennie Beaman, Administrative Assistant." It
8 gives you a physical address in Morehead City. It gives
9 you a local telephone number and ours.

10 You go to the next page, actually, page 13
11 there at the very bottom it even gives you another
12 physical address, 210 Turner Street, North Carolina,
13 21586, and then the next page is Google, kind of, maps.
14 It shows you, kind of, where it's located in the
15 terrain of the County. The next page is the physical
16 building. I guess it's a 5231 Business Drive. That's
17 the -- that's Carteret County facilities.

18 And then it also -- the other address was
19 office for the county office. Now, I guess the
20 question I have is -- is if -- if customers -- how is
21 it convenient for customers to -- who presently have
22 two physical addresses, they got the name, they got a
23 local telephone number, and what your Application is
24 going to do is switch them up to the 800 number and --

1 with a private company, you know, their sole -- they
2 cannot protest to their -- or interact with their local
3 government officials, but for y'all, they can't even
4 buy stock in your company. Their one option really is
5 to move. And so how is that a convenient option for
6 customers?

7 A. (Mr. Schellinger) If I may, just for a
8 couple point of clarification, the Philadelphia P.O.
9 Box is a lockbox for, as it says on page 6 of 7, bill
10 payments only. On page 1, you'll see a business
11 mailing address as well as a business street address
12 for non-bill-related interactions.

13 Q. All right.

14 A. (Mr. Denton) And just to follow up on that,
15 I know that we have actually had problems with the
16 USPS, as a lot of people have, and we're adding
17 additional lockboxes is my understanding with our chief
18 administrative officer. One will be in Charlotte.

19 Q. All right. Thank you. Let's -- let's move
20 on then, if we can. Let's go on to page 3, if we can.
21 Back to North River and Merrimon, if I can. Just a
22 couple quick questions.

23 Now, with respect to these two different
24 systems, North River and Merrimon, are these customers

1 served by the same wells?

2 A. No.

3 Q. And what about the same treatment systems?

4 A. No.

5 Q. But you do treat the customers the same and
6 assign them the same average monthly billing in your
7 analysis; is that correct?

8 A. (Mr. Schellinger) If you're referring to
9 addendum, than more specifically to, say, years four or
10 five of the addendum with the assumption that they're
11 treated the same through some sort of uniform rate
12 process, the answer would be yes.

13 Q. Okay. All right. Let's go on, if we can,
14 page 5. It's going to be page 4. Page 4, it says,
15 "Revenue Expenses". It says, "For 12 months ended
16 June 30, 2021". This is for the existing utility, and
17 down at the bottom, it had net income of a loss of
18 \$336,000; is that correct?

19 A. (Mr. Schellinger) That's what it shows.

20 Q. Right. And, but you are aware that -- and
21 there have been subsequent testimony but, for the
22 fiscal -- the most recent fiscal year ending
23 June 30, 2022, the water fund did have a profit; are
24 you aware of that?

1 A. I'm not specifically aware of that, no.

2 A. (Mr. Denton) I think that would be probably
3 more appropriate for county personnel.

4 Q. That's fine. All right. Let's keep moving,
5 if we can. Next is the cost of the utility system.

6 Page 5. You have 1 and 2. It says that y'all are
7 going to pay \$9.5 million for it; is that correct?

8 A. Correct.

9 Q. And, of course, you realize, and the
10 Commission has -- we just came out of the Sub 398
11 docket; you're aware of the Commission's Order in
12 that -- in that proceeding?

13 A. We are.

14 Q. Okay. And that value gave a fair value of
15 \$8.4 million in reasonable transaction fees, about
16 \$312,000; is that correct?

17 A. That's correct.

18 Q. All right. So about \$8.7 million rate base?

19 A. Correct.

20 Q. All right. So just -- in a broad sense, in
21 terms of what this transaction cost means to the
22 customers, is, you know, of -- of -- of that \$312,000
23 in transaction costs, have y'all looked at the
24 calculation how much it'll cost per Carteret County

1 customer and how much it's going to cost per existing
2 customer and, if not, would you accept, subject to
3 check, that it's about \$250 per Carteret County
4 customer -- about \$10 per customer of Carolina Water
5 across the state if you had 38,000 customers?

6 A. (Mr. Schellinger) I would accept that,
7 subject to check.

8 A. (Mr. Denton) Subject to check.

9 Q. All right. And if -- and again I know this
10 would be amortized and baked in and etc., etc., but, if
11 the current rates are, you know -- if it's \$250 per
12 Carteret County customer in transaction fees alone,
13 that's about -- that's several months -- that would
14 equate to several months payments by themselves. I
15 believe about 4 months' payments, which about a third
16 of the year, kind of like taxes. You know, people work
17 an "X" amount of year to pay their taxes. How -- in the
18 transaction cost, in this type of transaction, how do
19 you justify the transaction costs to -- even to the
20 Carteret County customers, not to mention your existing
21 customers?

22 A. (Mr. Schellinger) I start with the idea that
23 the transaction costs are going to be amortized over,
24 say, 50 years, which is what I believe I have in my

1 rebuttal testimony. So that individual impact on a
2 monthly basis is nowhere near the numbers
3 you're -- you're talking about.

4 Q. Certainly. Certainly. But, of course,
5 amortizing it, of course, makes the cost even greater
6 over time; does it not?

7 A. Sure.

8 Q. Okay. All right. Let's keep moving on, if
9 we can. Page 7. Capital -- you've got your capital
10 structure 50/50 debt-equity. Is that -- y'all intend
11 to -- do y'all intend to purchase this system at
12 50 percent debt, 50 percent equity; is that correct?

13 A. The intention is --

14 Q. Or how are you going to finance it?

15 A. The financing will be probably based on
16 whatever our debt-to-equity ratio is at that point but,
17 as we've discussed in prior rate cases, we kind of aim
18 for that 50/50.

19 Q. All right. And with respect to that,
20 obviously, y'all bid in on this. Y'all got the winning
21 bid in April, 2021, and since that time, you know,
22 interest rates have skyrocketed. They've gone up. The
23 fed's fund rates have gone up 4 1/2 percent is my
24 understanding since then, and the treasury has gone up

1 not 2 percent, but it's gone up 2 percentage points;
2 about 1.84 percent -- I mean points; would you accept
3 that, subject to check?

4 A. (Mr. Schellinger) Subject to check.

5 Q. And so, I guess the question is -- y'all are
6 still in this deal notwithstanding the higher debt
7 cost; is that correct? Or will your debt costs be
8 greater for this transaction due to rise in interest
9 rates?

10 A. I think it's fair to say that if rates
11 increase, costs change.

12 Q. Okay. And that would be embedded -- that
13 would be in your embedded cost of debt in a future rate
14 case; is that correct or?

15 A. Possibly. It would depend on when the debt
16 was taken out and when you need to acquire more debt.

17 Q. And are y'all intending to issue more debt to
18 facilitate this transaction?

19 A. (Mr. Denton) Not to my knowledge.

20 Q. All right. Let's see here. But at some
21 point in time, someone is going to pay for that
22 increase cost of debt; are they not? And it's going to
23 be the customers?

24 A. Only if additional debt is needed. And at

1 this point in time, to my knowledge, that's not
2 required.

3 Q. You will, however -- that debt, the existing
4 debt that you have, will not, I mean, it's got to be
5 replaced at some point in time; does it not?

6 A. It does.

7 Q. Okay. Very good. All right. Now, we're
8 aware that there have been some discussion of
9 renegotiating -- or discussion of changing the purchase
10 price in light of the Sub 398 decision -- and I don't
11 know about interest rates. I don't know anything about
12 that. Have y'all had any -- have you had discussions
13 about changing your purchase price in light of the Sub
14 398 hearing?

15 A. The purchase price is \$9.5 million.

16 Q. It's set. Okay. All right. All right.

17 Let's move on, if we can. Well, one final debt-related
18 question: If you acquire the system, will you be
19 applying for SRF and other low interest rate financing
20 at some point in time in the future?

21 A. If it's -- well, we currently have a plan for
22 SRF for other systems. We're going to be doing it
23 again in the Fall. Obviously, it depends on this
24 particular system. If you're saying for this

1 particular system, right now, this particular system's
2 in really good shape.

3 Q. Right.

4 A. And so if the need arose, yes, we would.

5 Q. All right. Well, let's go to page 8, if we
6 can. And that goes to your last point. In really good
7 shape. You say in Number 1 there, it says, "No major
8 improvements/additions planned"; is that correct?

9 A. That's correct.

10 Q. And on the next one, it says, "No major
11 replacements planned"; is that correct?

12 A. That's correct.

13 Q. All right. So we just talked about the
14 finances of this system. Loss money, according to your
15 Application in 2021, we know it -- we'll talk
16 later -- we know it made money in fiscal year 2022
17 and/or break even. And then now, you know, if the
18 county had done, in part, what y'all are going to do
19 ultimately which is depreciate a little differently, of
20 course, their -- if they change their savings
21 rate -- their savings deposit rate, their water fund
22 deposit and/or -- and/or ultimately raise rates, not
23 only would this be not a system that doesn't need any
24 major improvements, but it might do better than just

1 kind of break even and/or lose a little bit of money;
2 would it not?

3 A. I think you'd have to ask the County that.

4 Q. All right. We'll do that. Let's move on
5 then. Page 9. And this has to do with your purchase
6 agreement. I think in particular Number 7 down there.
7 It's an exhibit to your contract, your APA. And I
8 guess, one initial question is, have there been any
9 additional amendments to your contract? I am aware of
10 just one amendment that I think was filed -- certainly
11 shared -- that says that the closing would occur after
12 this is all done, but have there been any subsequent
13 amendments to your contract and/or schedules? I'm
14 thinking, for example, I saw something potentially
15 relating to a new cell tower lease or anything like
16 that -- or and I'll talk with county about that.

17 A. I'm not sure. I don't believe there's been
18 any amendments other than the extension of the time.

19 Q. Okay. No problem. All right. Let's go to
20 your Exhibit O, which is your rate freeze. Exhibit O,
21 it says, "Rates and Fees of your APA". Let me give you
22 my copy if I can.

23 A. (Mr. Schellinger) I believe this is a copy
24 of the fee schedule.

1 Q. It is. And at the bottom -- this line of
2 questioning relates to your rate freeze that's in your
3 Application or at least this portion. At the bottom of
4 that page, that's where y'all kind of point to where
5 you've got a rate freeze in your contract; is that
6 correct?

7 A. (Mr. Denton) Yes.

8 Q. It says, *CWSNC would retain your current*
9 *rates at the APA -- at the time of the APA execution*
10 *until next approved rate case.*

11 A. Yes.

12 Q. And then y'all have -- in the last
13 proceeding, y'all said on the record that you
14 would -- y'all are set for a 4-year rate freeze; is
15 that correct?

16 A. That's correct.

17 Q. But that four years is technically not in this
18 contract?

19 A. That's correct.

20 Q. Okay.

21 A. That was in discussions, and in the last
22 hearing, I committed that we would honor that
23 commitment.

24 Q. Yes, sir. And then the last sentence there,

1 it says, "Rates are subject to final legal review as
2 well as regulatory and Corix board approval".

3 Have y'all received final legal review; do
4 you know?

5 A. As part of the APA, we've gone through our
6 external legal review, and obviously the regulatory
7 approval is pending.

8 Q. Okay. And what about your Corix board
9 approval? Have you received Corix board approval?

10 A. Yes, we have.

11 Q. Okay. Very good. And thank you. All right.
12 Relating to your rate freeze, just one more moment, if
13 we can. And you're saying that the rate freeze really
14 is set in stone regardless of what the Commission here
15 decides; is that correct?

16 A. Well, that's what we've committed to.
17 Obviously, it's at the decision of the Commission as to
18 what they want, but we've agreed to the County that we
19 would honor that for four years.

20 Q. Okay. And this may be an odd, kind of,
21 scenario here, but y'all would honor that rate freeze
22 even if the Commission ordered systems-specific rates;
23 is that correct?

24 A. We've committed that to the County.

1 Q. Okay. Yeah. Okay. All right. Thank you.
2 Let me see if I have anything else.

3 MR. CREECH: I think that's it for a
4 moment.

5 Thank you so much.

6 COMMISSIONER HUGHES: I don't think the
7 county has any cross.

8 MR. WHEATLY: No, sir. No questions.

9 COMMISSIONER HUGHES: Okay.
10 Redirect?

11 MS. SANFORD: I have no questions. No
12 questions.

13 Thank you.

14 COMMISSIONER HUGHES: Okay. Are
15 there -- Commission -- Commissioner questions?

16 EXAMINATION BY COMMISSIONER CLODFELTER:

17 Q. Gentlemen, if -- if I were a customer of
18 Carolina Water Service of North Carolina Inc., and I
19 entered Carolina Water Service of North Carolina Inc.,
20 into my search engine into my browser, this is not
21 website that would come up, is it?

22 A. (Mr. Denton) No, it's not.

23 Q. Cross Examination Exhibit 1 is not the
24 website that I would be taken to; is it?

1 A. No, it's not.

2 Q. I'd be taken to your own Carolina Water
3 Service of North Carolina Inc., website, wouldn't I?

4 A. That's correct.

5 Q. You have your own separate website and it
6 explains North Carolina operations and contact
7 information for folks in North Carolina; does it not?

8 A. Yes, sir.

9 Q. Thank you. And only if I wanted to see the
10 Corix website would I go to Exhibit 1?

11 A. That's correct.

12 Q. Is that right?

13 A. That's correct.

14 Q. Mr. Denton, I want to ask you some questions
15 about something you said in your prefiled testimony in
16 the prior proceeding, and I didn't ask you about it
17 there because it was really pertinent to this
18 proceeding not to the fair value proceeding. You don't
19 need your testimony there, I'm going to read you the
20 piece I want to ask you about, but it's taken from
21 page 7 of your prefiled testimony in the Sub 398
22 proceeding, and in the beginning of the top of that
23 page, you say, Carolina Water Service of North
24 Carolina, "CWSNC has a strong local presence in the

1 Carteret County Area, with a highly qualified work force
2 to provide an optimal level of service through enhanced
3 efficiency and depth of experience". What I'd like to
4 have you tell me about is give me a little more detail
5 about your local presence in Carteret County.

6 A. We've got -- so we do have operations in and
7 around Carteret. We have the closest system is the
8 Brandywine Bay System.

9 Q. Say it again, sorry.

10 A. Brandywine Bay --

11 Q. All right.

12 A. -- System, which is the closest. One of the
13 things that we've had trouble with, I think as the
14 County has in the past as well, is obtaining qualified
15 operators in the coastal regions has been very
16 difficult. We continue to search for good operators.
17 We are always on the search but we have a depth of
18 (indiscernible) that we've been able to expand and
19 whether it's, you know, getting down to Kinnakeet or
20 anywhere else out on the coast. We've been able to
21 bring in people as needed. We think that's a value, a
22 significant value. We obviously also have the Storm
23 Response Teams that come in, whether it's from Florida
24 or South Carolina, whenever a storm comes in. We're

1 able to augment staff as needed. We do the same in a
2 reverse for them. We send people down in the last
3 storm that hit Tampa. We had teams from North Carolina
4 going down to Tampa so. We do have that depth of
5 experience and capability that is, we believe a
6 significant strength for our team.

7 Q. How far away is your closest system to these
8 two Carteret systems?

9 A. I believe it's 12 miles, I think it's in the
10 Application actually.

11 Q. And again, what county is it in?

12 A. I believe it's Carteret but I'd have to
13 confirm that. 17 miles.

14 Q. 17 miles. And you think it's in Carteret
15 County?

16 A. I believe it's Carteret but I could be wrong
17 with that.

18 Q. Do you have onsite, an onsite operator
19 full-time at that system?

20 A. It's not particularly that particular system.
21 We have a number of systems right there, south of
22 Morehead, and so that is an area that we have
23 significant number of operators.

24 Q. And would you be using the same operators

1 that you use at those nearby systems, existing systems
2 to service and maintain operations at these two
3 Carteret systems?

4 A. We're operating those two systems now for
5 Carteret so we'd use the same personnel.

6 Q. You would use the same personnel and that
7 would continue into the future?

8 A. That's correct.

9 Q. So that cost is already, a cost that you're
10 carrying in your existing system?

11 A. That's correct.

12 Q. System. Right.

13 COMMISSIONER CLODFELTER: Thank you,
14 Sir. That's all I had.

15 THE WITNESS: Okay.

16 COMMISSIONER HUGHES: Any questions?

17 EXAMINATION BY COMMISSIONER HUGHES:

18 Q. Okay. A few questions for you. The Company
19 and the County have agreed to a rate freeze, which is
20 often described as a 4-year rate freeze. Do you
21 anticipate that rates will be frozen for a full four
22 years given the timing of the transaction closing and the
23 Company's next rate case?

24 A. Well, originally the thought was that the

1 timing of the four years -- and that's why it's worded
2 in the APA the way it is -- is that the timing of the
3 four years would align with the next rate case. It no
4 longer does. So that we -- and this is where we said
5 we would honor the four years with the County because
6 that's with what we committed to versus the way it's
7 written in the APA.

8 Q. Okay.

9 A. I'm not sure that answers your question.

10 Q. No. I think so. I mean so -- so the, it's
11 going to be four years no matter what?

12 A. That's what we've committed to.

13 Q. And that's four years from the sale date?

14 A. Yes.

15 Q. Section 605 of the asset purchase agreement
16 states that the Company must receive government
17 authorization satisfactory to the Company and its sole
18 discretion. Government authorizations include an Order
19 from the Commission authorizing the transfer of the
20 assets. Authorizing CWS to provide the service and
21 authorizing the seller to abandon the service area.
22 Does the Commission have authority to authorize
23 Carteret County to abandon the service area?

24 A. (Mr. Denton) That's actually a good -- I

1 don't know the answer to that.

2 A. (Mr. Schellinger) I think that would be a
3 good question to brief, if that's a fair statement. I
4 don't believe so though.

5 Q. We'd like the answer to that. And then just
6 following up on that, what would the Commission's Order
7 need to say in order to satisfy that condition of the
8 asset purchase agreement?

9 A. (Mr. Denton) The abandonment condition or
10 all of the above?

11 Q. All of it, but particularly, the abandonment
12 one.

13 A. We would need to clarify on the abandonment,
14 which we will get clarification but, we have committed
15 to move forward based on the fair market value
16 determination of rate base and then obviously the CPCN.

17 Q. Okay. I understand -- I understand you'll
18 get the answer to us, and I think you're coming back
19 up, so if you can get it before then, that would be
20 great.

21 A. I'll see if we can find it.

22 COMMISSIONER HUGHES: All right. Any
23 other questions? Questions on questions?

24 MR. CREECH: Yes. Just one follow-up.

1 EXAMINATION BY MR. CREECH:

2 Q. First, on the very important point that
3 Commissioner Clodfelter made on this exhibit, if you'll
4 turn to page 4 of that. Y'all's website is -- and I
5 didn't -- it's myutility.us/carolinawater; is it not?
6 That was intended to be your home page, so is that
7 your -- I believe that's your home page.

8 A. (Mr. Denton) That is the home page; that is
9 correct.

10 Q. Okay.

11 A. It is my utility -- well, they just changed
12 the name of it. It's no longer myutilityconnect, it's
13 myutility --

14 A. (Mr. Schellinger) -- account.

15 A. (Mr. Denton) -- account.

16 Q. Okay.

17 A. Is the service.

18 Q. Okay. Okay. All right. Very good. And
19 just a follow-up on the -- on the other questions --
20 the staff questions -- the questions that Commissioner
21 Hughes asked. With respect to abandonment, you
22 know -- you know what or -- who -- I mean, who's
23 going -- will anybody be abandoned here?

24 A. That's not -- no. That's not the intent. It

1 is -- this is an acquisition; it's not abandoning any
2 customer or anything along those lines. I think it's a
3 question of -- and obviously, this is a case of first
4 impression. We've, you know, not acquired a county
5 asset. So it's just a question of what's that
6 terminology. We will make sure we get that
7 determination for you and the Commission.

8 Q. All right. And without getting hung up in
9 any terminology, just as a lay-person, if any portion
10 of what you're intending to buy, whatever that may be,
11 is not bought, then what will the impact be on the
12 purchase price and what will the impact be on
13 customers, do you know that? You don't?

14 A. I'm not sure I understand the question.
15 We're intending to buy both systems and hold.

16 MR. CREECH: Perfect. Very good. Thank
17 you.

18 COMMISSIONER HUGHES: Do the parties
19 have any motions at this time?

20 MS. SANFORD: I have one follow-up
21 question.

22 EXAMINATION BY MS. SANFORD:

23 Q. Might the County be a source of information
24 at some point in this proceeding, or afterwards, about

1 what requirements exist with respect to abandonment of
2 their system?

3 A. (Mr. Denton) Most definitely.

4 MS. SANFORD: Thank you.

5 No more questions.

6 COMMISSIONER HUGHES: Thank you for
7 that. Sorry. Now, did --

8 MR. CREECH: Yes, please. I'd like to
9 move into the record Public Staff Carolina Water
10 Service NC Cross -- Application Cross Exhibit
11 Number 1, please.

12 COMMISSIONER HUGHES: That will be
13 moved.

14 (Public Staff CWSNC Application Cross
15 Exhibit 1 was admitted into evidence.)

16 MS. SANFORD: No objection.

17 COMMISSIONER HUGHES: Okay. You may
18 step down, and we will see you hopefully, shortly.

19 All right. Mr. Creech, please call your
20 witnesses.

21 MR. CREECH: I'd like to call Lynn
22 Feasel and Charles Junis.

23 COMMISSIONER HUGHES: Okay. Let's get
24 you sworn in.

1 Whereupon,

2 LYNN FEASEL AND CHARLES JUNIS,

3 HAVING FIRST BEEN DULY SWORN, WERE EXAMINED

4 AND TESTIFIED AS FOLLOWS:

5 DIRECT EXAMINATION BY MR. CREECH:

6 Q. We'll start with Ms. Feasel, if we can.
7 Ms. Feasel, would you please state your name, business
8 address, and position for the record, please.

9 A. Yes. My name is Lynn Feasel. Business
10 address is 430 North Salisbury Street, Raleigh,
11 North Carolina. My position is the Accounting Manager
12 for the water, sewer, telephone section of the
13 Accounting Division.

14 Q. Thank you, Ms. Feasel. And on March 10,
15 2023, and updated on June 13, 2023, did you prepare and
16 cause to be filed in this docket testimony consisting
17 of 6 pages and Appendix A and one exhibit, schedules
18 1-4 marked Feasel Exhibit 1?

19 A. Yes.

20 Q. Okay. Do you have any changes or corrections
21 to your testimony?

22 A. No.

23 Q. If I were to ask you those same questions
24 today, would your answers be the same as in your

1 prefiled testimony?

2 A. Yes.

3 Q. Okay. Now, Mr. Junis, can you please state
4 your name, position, and business address for the
5 record.

6 A. Yes. My name is Charles Junis. I am
7 Director of Public Staff Water, Sewer, and Telephone
8 Division. My business address is 430 North Salisbury
9 Street, Raleigh, North Carolina.

10 Q. And, Mr. Junis, on March 10, 2023, and
11 updated on June 13, 2023, did you prepare and cause to
12 be filed in this docket testimony consisting of 40
13 pages, an Appendix A, and two exhibits marked Public
14 Staff Junis Exhibits 1 and 2?

15 A. Yes, sir.

16 Q. All right. Do you have any changes or
17 corrections to your testimony?

18 A. I do not.

19 Q. If I were to ask you those same questions
20 today, would your answers be the same as in your
21 prefiled testimony?

22 A. No, sir.

23 Q. Okay.

24 A. I'm sorry. They would be the same. My bad.

1 Just keeping everybody awake here.

2 MR. CREECH: Presiding Commissioner
3 Hughes, I move that Ms. Feasel's direct testimony
4 be copied into the record as if given orally from
5 the stand and Ms. Feasel's Appendix and Exhibit 1
6 be identified as marked when filed and I also move
7 that that Mr. Junis' direct testimony be copied
8 into the record as if given orally from the stand
9 and that Mr. Junis' Appendix and Exhibits 1-2 be
10 identified as marked when filed.

11 COMMISSIONER HUGHES: Motion granted.

12 (Feasel Exhibit 1 - Updated Schedules 1-4
13 and Public Staff Junis Exhibits 1 and 2
14 were marked for identification.)

15 (Whereupon, the Updated Testimony and
16 Appendix A of Lynn Feasel and the
17 Updated Testimony and Appendix A
18 of Charles Junis were copied into
19 the record as if given orally from
20 the stand.)

21
22
23
24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of)	
Application by Carolina Water Service, Inc.)	
of North Carolina, 5821 Fairview Road,)	TESTIMONY OF
Suite 401, Charlotte, North Carolina 28209,)	LYNN FEASEL
for a Certificate of Public Convenience and)	PUBLIC STAFF –
Necessity to Provide Water Utility Service)	NORTH CAROLINA
to the Carteret County Water System, and)	UTILITIES COMMISSION
for Approval of Rates)	

MARCH 10, 2023, UPDATED JUNE 13, 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Lynn Feasel. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Financial Manager of the Water, Sewer, and Telecommunications
6 Sections with the Accounting Division of the Public Staff – North
7 Carolina Utilities Commission (Public Staff).

8 **Q. Briefly state your qualifications and experience.**

9 A. My qualifications and experience are included in Appendix A.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony in this proceeding is to present the
12 results of my investigation of the Carolina Water Service Inc. of North
13 Carolina's (CWSNC) application in this docket. Specifically, I discuss
14 my calculations of the revenue requirement impact from the Public
15 Staff's estimated operating and maintenance (O&M) expenses to
16 operate the Carteret County Water System after acquisition, and the
17 revenue requirement impact from the Commission's February 10,
18 2023 Order in Docket No. W-354, Sub 398 (Sub 398 Order)
19 approving a fair value of the Carteret County Water System,
20 including transaction and closing costs, as well as \$125,000 tank
21 investment in the first year recommended by witness Junis. The

1 revenue requirement is calculated to reflect the rate impact after the
2 existing Carteret County rates are in place for four years after the
3 acquisition.

4 **Q. Please explain the Public Staff's calculation of original cost rate**
5 **base.**

6 A. The Public Staff's calculation of original cost rate base includes the
7 following components: 1) plant in service; and 2) accumulated
8 depreciation of plant in service.

9 **Plant in Service**

10 Per the Commission's Sub 398 Order, the approved reasonable and
11 appropriate fair value of the Carteret County Water System was
12 determined to be \$8,728,039, to include \$8,416,000 for the fair value
13 of the system and \$312,039 for transaction and closing costs.
14 Additionally, Public Staff witness Junis also recommends an
15 additional \$125,000 tank investment to be included for 2023. I have
16 calculated the plant in service to include all the above items.

17 **Accumulated Depreciation**

18 I calculated accumulated depreciation of the approved fair value of
19 the Carteret County Water System and tank investment through
20 December 31, 2026, as CWSNC proposes to keep the current

1 County rates in effect for four years, assuming the first year starts at
2 the beginning of 2023. (Tr. vol. 3, 171-195. from docket W-354, Sub
3 398).

4 **Q. Please explain the Public Staff's calculation of O&M expense**
5 **and other estimated expenses.**

6 A. The Public Staff calculated projected O&M expenses specifically
7 related to the Carteret County Water System based on two factors:
8 1) total estimated O&M expenses and other expenses in 2027; and
9 2) estimated County customer counts in 2027. Since the new County
10 rates are estimated to take effect at the beginning of 2027, the Rate
11 Year 3 O&M expenses in CWSNC's most recent rate case in Docket
12 No. W-354, Sub 400 reflect the most representative ongoing level
13 O&M expenses, since Rate Year 3 ends March 31, 2026, which is
14 close to the date the new County rates will take effect. For most of
15 the O&M expense items, I utilized the total Rate Year 3 O&M
16 expenses divided by the equivalent residential customer (ERC)
17 count of 29,426 to calculate the average O&M expense per
18 customer, then applied the average O&M expense per customer to
19 the projected 1,366 County customers to calculate the estimated

1 O&M expenses for County customers.¹ In addition, I calculated
2 depreciation expense based on the depreciation rates recommended
3 by Public Staff witness Junis.

4 **Q. Please explain the Public Staff's calculation of return on rate**
5 **base.**

6 A. The Public Staff utilized 7.22% overall return on rate base with 50/50
7 debt equity capital structure, 4.64% debt rate, and 9.8% return on
8 equity rate to calculate the overall return for rate base. The capital
9 structure, debt rate, and equity rate are identical to the rates
10 approved by the Commission in CWSNC's most recent rate case in
11 Docket No. W-354, Sub 400.

12 **Q. What is the Public Staff's proposed revenue requirement?**

13 A. The Public Staff's recommended revenue requirement based upon
14 the calculations detailed above is \$1,625,189. This amount
15 represents the revenue requirement for the first year, i.e., 2027, after
16 the existing rates last for four years starting from 2023.

17 **Q. How does the recommended revenue requirement impact utility**
18 **rates per customer?**

¹ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The average monthly rate per customer will be \$99.15 in 2027 for the
2 projected 1,366 Carteret County customers. The existing County
3 monthly rate per customer is \$40.25. The testimony of Public Staff
4 witness Junis further discusses the rate impact of the revenue
5 requirements.

6 **Q. Do you have an updated Exhibit?**

7 A. Yes. Feasel Exhibit 1 with updated Schedules is attached hereto.

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

9 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas companies, filed testimony and affidavits in various general rate cases, calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc., calculated quarterly earnings for various natural gas companies, calculated refunds to consumers from AH4R and Progress Residential and reviewed franchise and contiguous filings for multiple water and sewer companies.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for a Certificate of Public Convenience and)
Necessity to Provide Water Utility Service)
to the Carteret County Water System, and)
for Approval of Rates)

**TESTIMONY OF
CHARLES JUNIS
ON BEHALF OF
THE PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

MARCH 10, 2023, UPDATED JUNE 13, 2023

OFFICIAL COPY

JUL 03 2023

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Charles Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Director of the Water, Sewer, and Telephone Division of the Public
6 Staff – North Carolina Utilities Commission.

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. What is the nature of the application in this proceeding?**

10 A. On August 2, 2022, Carolina Water Service, Inc. of North Carolina
11 (CWSNC) filed an application with the Commission requesting a
12 Certificate of Public Convenience and Necessity to provide water
13 utility service to the Carteret County (County) Water System (CPCN
14 Application). On August 26, 2022, CWSNC filed revisions to the
15 CPCN Application and a response to the Public Staff's deficiency
16 letter, which was filed on August 25, 2022. On September 2, 2022,
17 CWSNC filed supplemental documents, including plan and
18 specification approval letters from the Department of Environmental
19 Quality and its predecessor agencies.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to present to the Commission the
22 results of my investigation and the Public Staff's recommendations

1 regarding the CPCN Application. Specifically, I discuss the
2 implications of the Commission's decision in Docket No. W-354, Sub
3 398 (Sub 398), testimony and statements of customers, analysis of
4 the billing data, and potential benefits and harms to customers of
5 granting a CPCN to CWSNC and transferring ownership from the
6 County.

7 **Q. What is the scope of your investigation?**

8 A. I have reviewed the application and exhibits filed in the docket and
9 the filings in Sub 398. I have conducted discovery of CWSNC and
10 the County. I have worked with Public Staff witness Lynn Feasel,
11 Financial Manager of the Water, Sewer, and Telecommunications
12 Sections with the Accounting Division of the Public Staff, to evaluate
13 the fair value, fees, and rate impacts.

14 **Q. How has N.C. Gen. Stat. § 62-133.1A impacted this CPCN
15 proceeding?**

16 A. Session Law 2018-51 (House Bill 351), incorporated as N.C.G.S. §
17 62-133.1A (Fair Value Statute), became effective June 25, 2018. The
18 Fair Value Statute allows a water or wastewater public utility to elect
19 to establish rate base using the fair value of the utility property
20 instead of original cost when acquiring an existing water or
21 wastewater system owned by a municipality or county or an authority
22 or district established under Chapter 162A of the General Statutes.

1 If the utility elects to proceed under the Fair Value Statute, the buyer,
 2 seller, and Public Staff each obtain an appraisal, which are averaged.
 3 N.C.G.S. § 62-113.1A(b)(1)(c). If the Commission finds that the
 4 average of the three appraisals will not result in a reasonable fair
 5 value, the Commission may adjust the fair value as it deems
 6 appropriate and in the public interest. N.C.G.S. § 62-113.1A(e). The
 7 rate base value of the acquired system, which shall be reflected in
 8 the acquiring public utility's next general rate case for rate-making
 9 purposes, shall be the lesser of the purchase price negotiated
 10 between the parties to the sale or the fair value plus the reasonable
 11 fees and costs. N.C.G.S. § 62-113.1A(b)(4). On July 26, 2022, and
 12 revised on August 11, 2022, CWSNC filed an application requesting
 13 determination of fair value of utility assets pursuant to N.C. Gen. Stat.
 14 § 62-133.1A and establishment of rate base for acquisition of the
 15 County Water System in Sub 398.

16 **Q. What safeguards are included in the statutory provisions of**
 17 **N.C.G.S. § 62-113.1A?**

18 A. The North Carolina Attorney General's Office (AGO) succinctly
 19 highlighted key statutory provisions on page 4 of its reply comments
 20 filed on June 1, 2020, in Docket No. W-100, Sub 60, as follows:

21 The Commission has been provided three significant
 22 tools in the new statute in order to protect North
 23 Carolina consumers from unreasonable rate increases.
 24 First, the Commission is authorized to adjust the fair
 25 value determined by the three appraisals if it finds that

1 the average will not result in a reasonable fair value
2 that is appropriate and in the public interest. N.C. Gen.
3 Stat. § 62-113.1A(e). *Second, it may classify the*
4 *acquired system as a separate entity for ratemaking*
5 *purposes. Id. Treating the acquired system as a*
6 *separate rate class for ratemaking purposes serves to*
7 *protect the public utility's existing customers from*
8 *upward pressure on their rates due to the acquisition,*
9 *but could result in very high rates for the customers in*
10 *the acquired system, depending on the particular*
11 *circumstances. Id. Third, the Commission may deny*
12 *the application. N.C. Gen. Stat. § 62- 133.1A(d).*

13 (Emphasis added).

14 **Q. Please summarize the key takeaways from the Commission's**
15 **decision in Sub 398.**

16 A. The following findings of fact are particularly important to highlight as
17 part of this proceeding:

18 19. In the public interest, it is appropriate for
19 the Commission to adjust the fair value to \$8,416,000.

20 20. Acquisition of the System will spread
21 certain of CWSNC's costs over a larger customer base,
22 although it is not possible on the present record to
23 quantify the extent to which this will benefit CWSNC's
24 existing customers or affect CWSNC's future rates.

25 21. The System assets will not be added to
26 rate base for rate setting purposes until CWSNC's next
27 rate case, which is anticipated to be in four years. As a
28 result, it is difficult to predict the impact of granting the
29 Application on future rates. However, if the rate base
30 were to be set at \$9.5 million plus reasonable
31 transaction fees and costs, the future rate impacts on
32 the System customers, if the Commission set System-
33 specific rates, or on CWSNC's existing customers, if
34 the Commission allowed CWSNC to put the System
35 into uniform rates, will be material.

36 22. At the fair value, as adjusted by the
37 Commission in its discretion, utilization of the Fair
38 Value Statute is in the public interest.

1 23. CWSNC's Revised Form Application
2 Exhibit 8, filed on August 11, 2022, provided a list of
3 the actual costs and fees incurred through August 9,
4 2022, and the estimated costs and fees through closing
5 totaling \$174,439.74. The Update to Revised Form
6 Application Exhibit 8 documents reasonable fees paid
7 to the utility valuation experts in addition to reasonable
8 transaction and estimated closing costs incurred by
9 CWSNC of \$312,039.

10 24. The water rates reflected in CWSNC's
11 Revised Form Application Exhibit 12 are the existing
12 Carteret County rates. CWSNC has agreed with
13 Carteret County that the customers of the System will
14 remain at Carteret County's current water rates for the
15 next four years. The agreed-upon rate freeze is
16 appropriate and beneficial to the System customers.

17 See Order Establishing Rate Base of Water System Acquired from
18 Carteret County, *Application by Carolina Water Service, Inc. of North*
19 *Carolina for Determination of Fair Value of Utility Assets Pursuant to*
20 *N.C. Gen. Stat. § 62-133.1A and Establishing Rate Base for*
21 *Acquisition of the Carteret County Water System*, Docket No. W-354,
22 Sub 398 (N.C.U.C. February 10, 2023) (Sub 398 Order).

23 Furthermore, the Public Staff gives significant weight to footnote 4
24 that states as follows:

25 The parties have not sought any deduction in the fair
26 value of the System for property that is not used and
27 useful. The Fair Value Statute allows a utility to
28 establish rate base using fair value instead of original
29 cost, N.C.G.S. § 62-133.1A(a), and it does not alter the
30 Commission's authority to set rates under Chapter 62.
31 N.C.G.S. § 62-133.1A(e). The determination about
32 whether utility property is used and useful is made at
33 the time of a rate case, in relation to the applicable test
34 period. N.C.G.S. § 62-133(b)(1). Therefore, the

1 Commission can exclude property for which a fair value
2 was determined in accordance with the Fair Value
3 Statute but at the time of the rate case is found not to
4 be used and useful.

5 *Id.* at 26. The Public Staff agrees with this conclusion and will provide
6 evidence regarding whether the utility property is used and useful in
7 the next general rate case if the CPCN is granted.

8 **Q. Please briefly summarize the CPCN Application.**

9 A. In its CPCN Application, CWSNC requests authority to serve the
10 territory currently served by the County Water System. The proposed
11 rates are the rates presently charged by the County to customers in
12 the North River/Mill Creek (PWSID NC0416197) and Merrimon
13 (PWSID NC0416198) water systems. On page 3 of the CPCN
14 Application, the service area is described, including that the systems
15 served a total of 1,254 customers at the end of the test year and the
16 mains and storage tank capacity can serve a total of 1,849
17 customers. On page 4 of the CPCN Application, the revenues and
18 expenses are presented for the 12 months ended June 30, 2021.

19 In its response on March 3, 2023, to Public Staff Data Request No.
20 6, CWSNC provided an updated addendum to its application for
21 transfer of public utility franchise and for approval of rates (Updated
22 Addendum). On May 25, 2023, CWSNC provided a modified version
23 of the Updated Addendum incorporating the Commission decisions
24 in the Sub 400 general rate case.

1 **Q. Do you have concerns about the Updated Addendum?**

2 A. Yes. The Updated Addendum utilizes expenses per equivalent
3 residential customer (ERC) from the Company's most recent rate
4 case in Docket No. W-354, Sub 384 (Sub 384); however, CWSNC
5 has requested recovery of materially higher expenses in the pending
6 rate case in Docket No. W-354, Sub 400 (Sub 400), especially as
7 part of the Water and Sewer Investment Plan (WSIP). The rate base
8 calculations do not include contributions in aid of construction
9 (CIAC), which would reduce the original cost plant and increase the
10 amount of the purchase acquisition adjustment. The depreciation
11 rates are modified to CWSNC's lower rates, which result in longer
12 estimated lives and reduce the benefit of the four-year rate freeze.

13 **Q. Has CWSNC or the County filed testimony in Sub 399?**

14 A. No.

15 **Q. Have any consumer statements of position been filed in the
16 subject docket?**

17 A. Yes. As of March 8, 2023, six customers had filed consumer
18 statements in this docket. All the consumer statements objected to
19 the increased cost of water and the projected future rate increases.

20 **Q. Please briefly summarize the consumer statements.**

21 A. All the consumer statements mention their disapproval of the
22 increase in rates associated with the sale. Ms. Lynda Phillips

1 emphasized that many of the customers on the system are low-
2 income and cannot afford additional price increases. Beverly
3 Tompkins expressed concerns over the high water bills impacting the
4 property values of the neighborhood.

5 Several consumers described their frustration with the County
6 Commissioners' management of the water system. Mr. Fred Harvey
7 stated that, due to the mismanagement of the County Water System,
8 customers should not be forced to pay for that incompetency. Mr.
9 Harvey also stated that this sets a poor standard for governmental
10 accountability in general. Ms. Phillips stated that the customers
11 asked the County Commissioners to explore other options, such as
12 a co-op with West Carteret Water. Mr. Lexan Blanchard also
13 mentioned his frustration at the lack of efforts made towards
14 investigating other alternatives. Ms. Lisa Camp stated that the
15 County Commissioners voted to deny a request to allow a committee
16 of customers to explore options, including grants, adding customers,
17 or increasing rates.

18 Ms. Camp stated that when she chose to connect to the County
19 Water System, her decision was based on the good quality of water
20 and reasonable price of buying water. She stated that when she
21 joined, she intentionally chose to buy a government-provided service
22 and has been a satisfied customer for years. Ms. Camp further stated

1 that since Carolina Water began operating the system in February
2 2022, the customers have noticed a decline in the quality of water,
3 including tinged water, sediment in standing water, and less water
4 pressure.

5 Ms. Beth Thompson also described recent water quality issues,
6 stating that she has seen a difference in clarity and taste. Ms. Phillips
7 also described her dishware feeling chalky due to the water quality.

8 **Q. Has a public hearing been held?**

9 A. Yes. On October 18, 2022, a public hearing for the purpose of
10 receiving testimony of customers regarding this matter was held at
11 the Carteret County Courthouse in Beaufort, North Carolina (Public
12 Hearing). Of the seven customers who testified at the Public Hearing,
13 six were in opposition to CWSNC acquiring the County Water
14 System.

15 **Q. Please briefly summarize the Company's response to the**
16 **testimony of customers at the Public Hearing.**

17 A. The Company filed its "Response to Customer Concerns – Beaufort
18 NC Public Hearing October 18, 2022" (Customer Report) on
19 November 22, 2022. The Customer Report described the service
20 water quality complaints described in the testimony of four
21 witnesses.

1 In addition to witness Patrick Kelly's complaint regarding a decrease
2 in water pressure, he later described to CWSNC staff that he had
3 pink rings in the toilet and sink and sediment in the water. CWSNC
4 staff performed a field test on the system's water and did not see any
5 staining or sediment. The results of the field test showed results in
6 the acceptable range except for the Secondary MCL standard for
7 manganese.

8 In response to witness Lisa Camp, who described the water
9 becoming yellow, CWSNC staff performed a visual inspection of the
10 water and analyzed the water pH, chlorine, phosphate, iron, free
11 ammonia, and monochloramines, and the results were found to be
12 in the normal ranges. CWSNC stated that no yellow water was
13 visible.

14 Witness Jennifer Day testified of low pressure, yellow water, and a
15 strong smell on an intermittent basis. CWSNC tested a water sample
16 on an outside spigot at her home. CWSNC reported that water
17 pressure and flow rate were both in a normal range and that no
18 yellow water was visible. CWSNC stated that to address the issue of
19 the intermittent smell of chlorine that she was experiencing, since her
20 home is on a dead-end line, CWSNC will increase flushing
21 frequency.

1 Witness Liz Ponder also testified of low pressure, yellow water, and
2 additionally, a chalky finish on her dishes. The Company did not
3 receive a response from her after its contact attempts and did not
4 find any outside spigots to collect a water sample for testing.

5 The Company investigated the complaints about intermittent drops
6 in pressure in the evening hours but did not provide an explanation
7 for this issue described by customers. CWSNC stated that the
8 County had received no complaints about this issue and therefore
9 did not have any insight into the problem. CWSNC checked the water
10 tower levels for anomalies and found little fluctuation, which would
11 indicate maintained consistent pressure. CWSNC plans to install a
12 pressure recorder at one customer's house and arrange a
13 communication system with the customer regarding his observation
14 of a low-pressure event. In addition to the County not receiving
15 pressure issue complaints, CWSNC reported that the County stated
16 that it had not received any yellow water complaints.

17 **Q. Please briefly summarize the Public Staff's response to**
18 **CWSNC's Customer Report.**

19 A. On December 16, 2022, the Public Staff filed its verified response
20 (PS Response) to CWSNC's Customer Report. The PS Response
21 included the Public Staff's review of the Customer Report, including
22 the Company's response to Public Staff's data requests. The Public

1 Staff noted that the Company's attempts to follow up with customers
2 occurred without notice in the late morning on a weekday, which is a
3 timeframe that would be unlikely to produce operating conditions
4 similar to the evening and nighttime when customers had reported
5 having pressure issues.

6 In reference to the pressure issues, the Public Staff described the
7 review of the Company's operations of the three elevated storage
8 tanks and booster pump stations. Although the Company had stated
9 in the Customer Report that the water tower levels had little
10 fluctuation, which indicates consistent pressure maintained, the
11 Public Staff reviewed the tank level data and observed that the
12 minimum and maximum tank level measurements were noticeably
13 higher after the customer hearing on October 18, 2022, than they
14 had been leading up to the Public Hearing and prior fall seasons. The
15 PS Response described that starting on October 25, 2022, the
16 minimum and maximum tank level measurements much more
17 closely matched the set points provided by the Company in the data
18 request response.

19 The PS Response stated that CWSNC started operating the system
20 in February of 2022 and implemented operational changes to the
21 greensand filtration system and the softener system. The Company
22 provided response to the Public Staff's data request stating that the

1 Company, in October of 2022, decreased the number of days
2 between backwash cycles of the greensand filtration system by 30%
3 and, in November of 2022, decreased the quantity of water treated
4 by the softener system between regeneration cycles by over 17%.
5 The Public Staff noted that these changes should improve the
6 effectiveness of the systems and therefore the water quality.

7 The PS Response concluded by stating that the Company has
8 inadequately addressed the content of the Public Hearing, the
9 Company's report does not fully address customers' concerns, and
10 CWSNC has not been forthright with operational changes it has
11 made. The Public Staff recommended that the Commission require
12 CWSNC to address its concerns in a follow-up report.

13 **Q. Please briefly summarize the Company's supplemental**
14 **response to the Public Hearing.**

15 A. The Company filed a "Supplemental Response to Customer
16 Concerns from Beaufort, NC Public Hearing" (Supplemental
17 Response) on January 17, 2023, to further address and follow-up on
18 customer concerns from the Public Hearing, specific questions
19 posed by the Commission in its Order filed on December 22, 2022,
20 and concerns expressed by the Public Staff in the PS Response, filed
21 December 16, 2022.

1 To respond to the Commission's question concerning water levels in
2 elevated storage tanks changing on October 18, 2022, and again on
3 October 25, 2022, the Company stated that it did not increase water
4 tank levels in an attempt to address the evening pressure drops.
5 After the public hearing, the Company began collecting data to
6 determine the cause of evening pressure drops, including analyzing
7 and adjusting automatic flushers, and then the Company adjusted
8 elevated tank setpoints on December 21, 2022.

9 In response to the Commission's question of whether water pressure
10 issues could have a cause other than tank levels, the Company
11 confirmed that the pressure concerns were corrected after the
12 adjustment of automatic flusher times and elevated tank setpoints.
13 The Company clarified that the collection and analysis of the data
14 extended beyond the date of the filing of the Customer Report.

15 The Commission asked if the Company increased the frequency of
16 the filter backwash cycle for the greensand filter to address
17 complaints of yellow water and if the desired results had been
18 produced. The Company stated that it changed the backwash
19 frequency from every 10 days to every 7 days in October 2022 but
20 did not state the reason for this change or if the desired outcome
21 resulting from the change was achieved. The Company stated that

1 the iron level, which has a secondary drinking water standard of 0.3
2 mg/L, is 0.04 mg/L after the change from 10 to 7 days.

3 In response to the Commission's question asking if the Company
4 increased the frequency of regenerating the water softening media
5 system to address complaints of chalky water and if the change
6 produced the desired result, the Company answered that it changed
7 the softener system brine draw setpoint from 35 minutes to 50
8 minutes. In November 2022, CWSNC changed the setpoint to
9 regenerate the facility softener system to every 190,000 gallons due
10 to the high hardness results. In December 2022, CWSNC changed
11 the setpoint to 185,000 gallons. CWSNC states that it has not
12 received chalky water complaints since the softener setpoints have
13 been adjusted.

14 The Company addresses points made by the Public Staff in the PS
15 Response in its Supplemental Response. The Company states that
16 it did not deliberately schedule and conduct site visits to avoid
17 customer contact or engagement. The Company also states that it
18 was in the process of continuing its investigation addressing the
19 issues beyond the November 7, 2022, deadline of its initial response.
20 The Company states that its ongoing findings or responses were not
21 omitted from the Customer Report in an attempt to withhold
22 information. The Company reiterates that it stated in the Customer

1 Report that the efforts to identify and resolve the issues were
2 ongoing. The Company concludes that, in addition to the measures
3 described in the Supplemental Response, the Company continues
4 to understand the system better and continues to improve the quality
5 of service.

6 **Q. Please briefly summarize the engineering assessment.**

7 A. The Fair Value Statute requires that, “[t]he acquiring public utility and
8 selling utility shall jointly retain a licensed engineer to conduct an
9 assessment of the tangible assets of the system to be acquired, and
10 the assessment shall be used by the three appraisers in determining
11 fair value.”¹ In Sub 398, the starting point for the engineering
12 assessment was a document prepared by Draper Aden Associates
13 (Draper Aden) entitled “Feasibility Study for Water System Merger”
14 dated December 2019.² For the use of the appraisers, CWSNC and
15 Carteret County retained Draper Aden “to conduct an assessment of
16 the tangible assets of the system to be acquired” and Draper Aden
17 produced “Update to Present Value of Water System” dated
18 December 2021.³

¹ N.C.G.S. § 62-133.1A(b)(2).

² Form Application Exhibit 5B filed in Sub 398.

³ Form Application Exhibit 5C filed in Sub 398.

1 **Q. Is there anything else in the Feasibility Study for Water System**
 2 **Merger that is relevant to this proceeding?**

3 A. Yes. Regarding the County's capital improvement plan, Draper Aden
 4 states⁴:

5 In 2013, the County completed a \$3.51 million water
 6 system improvement project. Since 2013, there has
 7 been little need for significant capital projects; there
 8 were no capital projects scheduled in FY2019 and the
 9 FY2020 budget does not include any. The County
 10 continues to fund "pay as you go" capital projects, as
 11 needed.

12

13 Overall, the water system is in good condition and the
 14 County is not expecting any major capital investment
 15 in the near future.

16 **Q. Were any deficiencies identified in the engineering**
 17 **assessment?**

18 A. Form Application Exhibit 2 filed in Sub 398 summarizes, "[n]o
 19 deficiencies noted."

20 **Q. Did CWSNC include in its application a five-year plan for**
 21 **prudent and necessary infrastructure improvements as**
 22 **required by Commission Form FV1?**

23 A. No. Form Application Exhibit 2 states in pertinent part, "CWSNC
 24 plans no significant improvement above routine O&M, such as tank

⁴ Form Application Exhibit 5B, at 6, filed in Sub 398.

1 coatings which are covered in the current maintenance contract and
2 chlorine conversion from gas to liquid due to safety concerns.”

3 **Q. Does CWSNC anticipate making any improvements/additions in**
4 **the first year?**

5 A. Yes. On page 7 of its CPCN Application, CWSNC briefly describes
6 “Tank investments \$125,000.”

7 **Q. Does CWSNC anticipate the need for any major**
8 **improvements/additions in the next five to ten years?**

9 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
10 improvements / additions planned.”

11 **Q. Does CWSNC anticipate the need for any major replacements in**
12 **the next five to ten years?**

13 A. No. On page 8 of its CPCN Application, CWSNC states, “No major
14 replacements planned.”

15 **Q. Have you visited the Carteret County Water System?**

16 A. Yes. On April 29, 2022, I, along with Public Staff Public Utilities
17 Engineer Mike Franklin and Attorney Zeke Creech and NewGen
18 Strategies and Solutions Consultant Mike Lane, traveled to Beaufort
19 to meet with Carteret County staff, including Eugene Foxworth, Tony
20 Cahoon, and Arrington Moore, and visually inspected the North
21 River/Mill Creek (PWSID NC0416197) and Merrimon (PWSID
22 NC0416198) water systems.

- 1 **Q. Please briefly summarize your observations from the site visit.**
- 2 A. The wellhouses were well maintained and clean. The elevated
3 storage tanks were in various states of acceptable to good condition
4 based on staggered recoating schedules and are regularly
5 inspected, maintained, and recoated pursuant to a water tank
6 management agreement with Southern Corrosion Incorporated. The
7 water treatment plant, including greensand filters, water softeners,
8 ortho-polyphosphate feed system, chloramines disinfection, and
9 onsite backup generator, was in good condition. The North River/Mill
10 Creek distribution system is sprawling, including over 55 miles of
11 water lines, nearly 600 valves, 175 hydrants, and interconnections
12 with the Town of Beaufort and Craven County. The Merrimon system
13 is approximately 18 miles away and serves about 20 customers.
- 14 **Q. What is your expert opinion of the condition of the utility**
15 **assets?**
- 16 A. Overall, it is my professional opinion that the utility assets are in good
17 condition and have been well maintained.
- 18 **Q. How would you describe the technical operations of Carteret**
19 **County?**
- 20 A. According to Public Water Supply Section records available on
21 Drinking Water Watch system, neither of the water systems has had
22 any violations issued or enforcement actions taken for over the last

1 six years. To my knowledge, the County provides safe, reliable, and
2 compliant service to the North River/Mill Creek and Merrimon water
3 systems.

4 **Q. Has the Commission addressed the evidence regarding the
5 condition of and service provided by the County Water System?**

6 A. Yes, the Commission found that, “[t]he System is well-maintained
7 and provides safe, reliable, and compliant service to customers.” Sub
8 398 Order at 6.

9 **Q. How would you describe the management of the utility?**

10 A. The County management is capable and has shown the ability to
11 improve its Water Fund financial outlook while also managing a
12 County-wide budget of over \$163 million. The County has effectively
13 sought and been awarded “cost free” capital grants and below
14 market interest rate loans to fund a significant portion of capital
15 needs. Carteret County provided an Excel spreadsheet detailing
16 infrastructure by funding sources, which shows a breakdown as
17 follows: Grants (\$6,491,452 / 54.27%); Loan (\$4,435,608 / 37.08%);
18 Developer Paid (\$305,944 / 2.56%); Other (\$727,732 / 6.08%); and
19 Total (\$11,960,736 / 100.00%).⁵ According to the FY23 Budget, the
20 County’s water fund (Water Fund) is 0.7% of the revenue in FY23.

⁵ Junis Exhibit 4 filed in Sub 398, is the Excel spreadsheet provided by the County.

1 **Q. Are Carteret County's present rates sufficient to cover its**
2 **costs?**

3 A. Based on a greater understanding of the County's financial records
4 and audited financial records since the 398 proceeding, the rates
5 were sufficient to cover the County's costs during the 12 months
6 ended June 30, 2022.

7 On page 24, the audited financial report states as follows:⁶

8 The County's proprietary fund provides the same type
9 of information found in the government-wide
10 statements but in more detail. Total net position was
11 \$5,812,673, a \$419,775 increase from the previous
12 year. Unrestricted net position of the Water Fund at the
13 end of the fiscal year was \$1,907,678, a \$586,930
14 increase. Expenses were less than projected, and
15 combined with the transfer in from the Water Taxing
16 District Special Revenue Fund, net position increased.
17 As in previous years, the Water Fund is not self-
18 supporting and relies on the water taxing district
19 revenues to transfer into the fund. In fiscal year 2022,
20 \$372,670 was transferred from the water taxing district,
21 \$32,330 less than the previous year.

22 The unrestricted net position of the Water Fund increased by
23 \$586,930, or \$214,260 more than the \$372,670 transferred from the
24 water taxing district. The statement that, "[a]s in previous years, the
25 Water Fund is not self-supporting and relies on the water taxing
26 district revenues to transfer into the fund" appears to be in conflict

⁶ Annual Comprehensive Financial Report For the Fiscal Year Ended June 30, 2022. Available at <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1410> (last visited on March 8, 2023).

1 with this data. The income before contributions and transfers was
2 \$47,105. *Id.* at 43.

3 **Q. Does Carteret County have sufficient access to capital?**

4 A. Yes. Carteret County significantly expanded the water system in the
5 2000s. The County budgets for depreciation and interest expenses.
6 Please also see the discussion below of funding programs to which
7 the County has access.

8 **Q. Is the Carteret County Water System designated as distressed?**

9 A. Yes. As of September 27, 2022, Carteret County has been
10 designated as distressed by the State Water Infrastructure Authority
11 and the Local Government Commission. However, the “distressed”
12 designation is administrative in nature and does not reflect the
13 operational and financial challenges as would a system designated
14 by the Commission as “troubled.” The Carteret County system is not
15 a troubled system as that designation is used by the Public Staff and
16 Commission.⁷

17 **Q. Does being designated a distressed unit have benefits?**

18 A. Yes. As a distressed unit, in addition to access to the Drinking Water
19 State Revolving Fund and Drinking Water Reserve Program,
20 Carteret County is eligible to apply for funds from the Viable Utility

⁷ See Q. and A. starting on page 27 regarding Docket No. W-1000, Sub 5 for Commission’s discussion of “troubled” system.

1 Reserve and additional construction grants⁸ funded by allocation
2 from the American Rescue Plan Act (ARPA).

3 **Q. After closing, would CWSNC have access to the benefits**
4 **available to a distressed unit?**

5 A. No. The distressed unit designation is limited to public water or
6 wastewater systems operated by a local government unit, as defined
7 in N.C.G.S. § 159G-20(4a) and (13). CWSNC will not have access
8 to millions of dollars of grants and below market interest rate loans
9 available to distressed systems.

10 **Q. Has CWSNC addressed its future plans for integrating the**
11 **acquired system into an existing rate division?**

12 A. Yes, CWSNC proposes to transfer the customers at existing rates as
13 charged by Carteret County and then integrate them into its uniform
14 water rate division as part of its next general rate case. CWSNC
15 projects the present rates would be charged for the next four years
16 and then increased by 28.19% in the average residential bill in 2027.⁹

17 The Utility Asset Purchase Agreement¹⁰ states as follows:

18 CWSNC would retain your current rates at the time of
19 APA execution until our next approved rate case, at
20 which time Carteret customers would move into our

⁸ Division of Water Infrastructure American Rescue Plan Act (ARPA) Administration Plan-Feb.2022. Available at <https://deq.nc.gov/water-infrastructure/dwi-arpa-administration-plan-feb-2022/download?attachment> (last visited on October 8, 2022).

⁹ Form Application Exhibit 3 in Sub 398.

¹⁰ Exhibit O to Form Application Exhibit 6B filed in Sub 398.

1 then current rate structure. We anticipate the next rate
 2 case filing would occur in July 2022 with new uniform
 3 rates becoming effective 12-18 months after filing.

4 In response to Public Staff Data Request 2, Question 1,¹¹ CWSNC
 5 provided the following response:

6 The original Form Application Exhibit 3 rates were
 7 based on estimates of the expected rate case filing in
 8 the Sub 400 Docket. It was unknown at the time the
 9 specific rate increases that would be requested by rate
 10 group. Subsequent to the Sub 400 rate filing, CWSNC
 11 has more information available as to its rates in 2027
 12 with the subsequent rate case filing that would be
 13 applicable to Carteret customers. The 2027 rates are
 14 still an estimate at an approximate 5% increase in the
 15 filing after the current WSIP period ending. Please see
 16 attached DR#2 – Exhibit 3 Update.xlsx, table included
 17 below.

18

Docket	CWSNC Uniform Water					Carteret Avg. Residential Bill	
	Avg. Us	BFC	Usage/1,	Avg Bil..	Increase	Water	Increase
Sub 384	4000	24.53	11.71	\$ 71.37		\$ 70.55	
Sub 400 WSIP Yr 1	4000	28.78	13.57	\$ 83.06	16.38%	\$ 70.55	0.00%
Sub 400 WSIP Yr 2	4000	29.76	14.03	\$ 85.88	3.40%	\$ 70.55	0.00%
Sub 400 WSIP Yr 3	4000	30.72	14.48	\$ 88.64	3.21%	\$ 70.55	0.00%
New Filing	4000	32.26	15.20	\$ 93.07	5.00%	\$ 93.07	31.92%

19 On page 21, the Commission's Sub 398 Order states as follows:

20 On further questioning from the Commission, witness
 21 Denton stated that CWSNC would not include the
 22 System in its rate base until its next rate case, in
 23 approximately four years, and that in the meantime the
 24 value of the asset would be depreciated at
 25 approximately 2% per year, such that the remaining
 26 rate base at that time would be \$8.7 million. Tr. vol. 2,
 27 110-12. He stated that the shareholders would absorb
 28 the loss and that the Company does not plan to seek

¹¹ Junis Exhibit 7 filed in Sub 398, is CWSNC's response to Public Staff Data Request 2, Question 1.

1 any type of special deferral accounting treatment. Id. at
2 112.

3 **Q. What is the original cost less depreciation of the Carteret**
4 **County Water System?**

5 A. As of June 30, 2022, the County's audited financial records indicate
6 total capital assets less depreciation in the amount of \$5,402,027.

7 **Q. Is the original cost less depreciation net of CIAC or "cost free"**
8 **capital?**

9 A. No. However, 56.83% of the capital funding is CIAC (either in the
10 form of grants or developer contributions). Therefore, the original
11 cost less depreciation and amortization of CIAC would be
12 approximately \$2,332,055.

13 **Q. What is the significance of CIAC or "cost free" capital on**
14 **ratemaking?**

15 A. The significance is that CIAC offsets associated plant in service,
16 thereby reducing the return on rate base and depreciation expense
17 for ratemaking purposes. Customers are not charged for utility plant
18 that has already been paid for by customers, builders, developers, or
19 someone else. CIAC includes grants, connection or tap fees,
20 capacity fees, meter installation fees, cash contributions from
21 developers, utility plant installed or paid for by the contributor and

1 conveyed to the utility, and land conveyed by the contributor to the
2 utility.

3 **Q. Are the acquisition adjustment criteria applicable for evaluation**
4 **of the CPCN application?**

5 A. Yes. As a general proposition, when a public utility buys assets that
6 have previously been dedicated to public service as utility property,
7 the acquiring utility is entitled to include in rate base the lesser of the
8 purchase price or the net original cost of the acquired facilities owned
9 by the seller at the time of the transfer. See Order Approving Transfer
10 and Denying Acquisition Adjustment, *Petition of Utilities, Inc. for*
11 *Transfer of the Certificate of Public Convenience and Necessity for*
12 *Providing Sewer Utility Service on North Topsail Island and Adjacent*
13 *Mainland Areas in Onslow County from North Topsail Water and*
14 *Sewer, Inc. and for Temporary Operating Authority*, Docket No. W-
15 1000, Sub 5 (N.C.U.C. January 6, 2000) (W-1000, Sub 5 Order). The
16 Commission has indicated "a strong general policy against the
17 inclusion of acquisition adjustments in rate base subject to
18 exceptions in appropriate instances." *Id.* at 24.

19 In the W-1000, Sub 5 Order, the Commission discussed the
20 circumstances when the rate base treatment of acquisition
21 adjustments is proper. The Commission stated the following:

22 As should be apparent from an analysis of the
23 Commission's previous Orders concerning this subject,

1 a wide range of factors have been considered relevant
2 in attempting to resolve this question, including the
3 prudence of the purchase price paid by the acquiring
4 utility; the extent to which the size of the acquisition
5 adjustment resulted from an arm's length transaction;
6 the extent to which the selling utility is financially or
7 operationally "troubled;" the extent to which the
8 purchase will facilitate system improvements; the size
9 of the acquisition adjustment; the impact of including
10 the acquisition adjustment in rate base on the rates
11 paid by customers of the acquired and acquiring
12 utilities; the desirability of transferring small systems to
13 professional operators; and a wide range of other
14 factors, none of which have been deemed universally
15 dispositive. Although the number of relevant
16 considerations seems virtually unlimited, all of them
17 apparently relate to the question of whether the
18 acquiring utility paid too much for the acquired utility
19 and whether the customers of both the acquired and
20 acquiring utilities are better off after the transfer than
21 they were before that time. This method of analysis is
22 consistent with sound regulatory policy since it focuses
23 on the two truly relevant questions which ought to be
24 considered in any analysis of acquisition adjustment
25 issues. It is also consistent with the construction of G.S.
26 62-111 (a) adopted in State ex rel. Utilities Commission
27 v. Village of Pinehurst. 99 N.C App. 224,393 S.E.2d
28 111 (1990), affd 331 N.C. 278,415 S.E.2d 199 (1992),
29 which seems to indicate that all relevant factors must
30 be considered in analyzing the appropriateness of
31 utility transfer applications. As a result, . . . the
32 Commission should refrain from allowing rate base
33 treatment of an acquisition adjustment unless the
34 purchasing utility establishes, by the greater weight of
35 the evidence, that the price the purchaser agreed to
36 pay for the acquired utility was prudent and that both
37 the existing customers of the acquiring utility and the
38 customers of the acquired utility would be better off [or
39 at least no worse off] with the proposed transfer,
40 including rate base treatment of any acquisition
41 adjustment, than would otherwise be the case. *Id.* at
42 27.

1 Different from prior cases with acquisition adjustments, the
2 Commission has determined rate base by adjusting the fair value in
3 Sub 398. However, it remains to be determined whether the issuance
4 of a CPCN, including approval of rates, and associated sale of the
5 system are in the public interest. The County Water System is not
6 troubled in the sense that the utility assets are beyond their useful
7 life, there are serious or widespread environmental compliance
8 issues, there is a lack of capital funding, or the County lacks
9 technical, managerial, and/or financial expertise and capabilities.
10 The potential acquisition of the County Water System is not an
11 exceptional situation that warrants an exception to the general policy
12 against including acquisition adjustments in rate base, or in this case
13 setting into motion CWSNC's plans to ultimately include the fair value
14 in rates. CWSNC has not demonstrated that an "acquisition
15 adjustment" in the form of fair value will provide substantial benefits
16 to all customers, and those benefits outweigh the cost of including
17 the acquisition premium in rate base.

18 **Q. Why is it important to identify and balance the costs and**
19 **benefits of the proposed sale and application for CPCN?**

20 A N.C.G.S. § 62-110(a) provides that "no public utility shall hereafter
21 begin the construction or operation of any public utility plant or
22 system or acquire ownership or control thereof, either directly or
23 indirectly, without first obtaining from the Commission a certificate

1 that public convenience and necessity requires, or will require, such
2 construction, acquisition, or operation.” Furthermore, N.C.G.S. § 62-
3 111(a) provides that “no franchise now existing . . . shall be sold . . .
4 except after application to and written approval by the Commission,
5 which approval shall be given if justified by the public convenience
6 and necessity.” As explained in the Order Approving Merger Subject
7 to Regulatory Conditions and Code of Conduct issued September 29,
8 2016, in Docket Nos. E-2, Sub 1095; E-7, Sub 1100; and G-9, Sub
9 682 (Duke/Piedmont Merger Order):

10 In prior merger proceedings the Commission has
11 established a three-part test for determining whether a
12 proposed utility merger is justified by the public
13 convenience and necessity. That test is (1) whether the
14 merger would have an adverse impact on the rates and
15 services provided by the merging utilities; (2) whether
16 ratepayers would be protected as much as possible
17 from potential costs and risks of the merger; and (3)
18 whether the merger would result in sufficient benefits to
19 offset potential costs and risks. See Order Approving
20 Merger Subject to Regulatory Conditions and Code of
21 Conduct (Duke/Progress Merger Order), issued June
22 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub
23 986, aff’d, In re Duke Energy Corp., 232 N.C. App. 573,
24 755 S.E.2d 382 (2014). These questions are related to
25 one another and together establish a reasoned
26 framework upon which utility mergers may be
27 evaluated. In making these assessments, the
28 Commission has also examined factors such as
29 whether service quality will be maintained or improved,
30 the extent to which costs can be lowered and rates can
31 be maintained or reduced, and whether effective
32 regulation of the merging utilities will be maintained. See
33 Order Approving Merger and Issuance of Securities,
34 issued April 22, 1997, in Docket No. E-7, Sub 596.

1 Duke/Piedmont Merger Order, at 68. The Public Staff believes the
2 Commission's three-part test for determining whether a proposed
3 merger is justified by the public convenience and necessity is also
4 applicable in determining the appropriateness of the proposed sale
5 and application for CPCN to serve the territory of the Carteret County
6 Water System. The test for the present case is: (1) whether the
7 acquisition will have an adverse impact on the rates and services
8 provided by the acquiring utilities; (2) whether ratepayers will be
9 protected as much as possible from potential costs and risks of the
10 acquisition; and (3) whether the acquisition will result in sufficient
11 benefits to offset potential costs and risks.

12 **Q. Will the acquisition have an adverse impact on the rates?**

13 A. Yes. In its Sub 398 Order, the Commission found that the future rate
14 impacts will be material if rate base is set at the purchase price plus
15 fees. The Commission determined that it was not in the public
16 interest to approve the requested fair value for rate base of
17 \$9,500,000 plus fees and determined the fair value to be a lower
18 amount, \$8,416,000 plus fees. However, the future rate impacts to
19 customers remain material.

20 **Q. Please summarize the evaluation of rate base.**

21 A. One measure that should inform the Commission's decision is a
22 comparison of rate base per customer of the system to be acquired

1 and the acquiring utility. The rate base per customer amounts for
 2 water rate divisions calculated by Public Staff witness Feasel from
 3 the Commission's order in the Sub 384 rate case are as follows in
 4 the table below.

5 Table 1

Rate Division	Rate Base	Customer Count	Rate Base Per Customer
CWSNC Uniform Water	\$68,514,633	29,317	\$2,337
BF/FH Water	\$3,321,564	3,533	\$940

6 The fair value and associated fees amount to approximately \$6,835
 7 per customer.¹² The acquired rate base per customer is nearly three
 8 times the rate base per customer of the CWSNC Uniform Water rate
 9 division and, if established as rate base, would negatively impact
 10 both the Carteret County customers to be acquired and CWSNC's
 11 existing Uniform Water customers.

12 **Q. Briefly describe the billing analysis.**

13 A. Based on the County's response to Public Staff Data Request 3,
 14 Question 2, I have analyzed the billing determinants and projected
 15 the number of customers from fiscal year 2022 to fiscal year 2027.

¹² Based on fair value and estimated fees and closing costs, the rate base per customer is \$8,728,039 divided by 1,277 customers (as of June 2022 billing), which equals \$6,834.80.

1 Please see **Public Staff Junis Exhibit 1**. Consistent with CWSNC's
2 assumption in the Updated Addendum, I utilized a 1.50% compound
3 annual growth rate to project the end of period customer count and
4 then average, or midpoint, number of customers for the given year. I
5 projected a monthly average of 1,366 customers during fiscal year
6 2027 (July 1, 2026, through June 30, 2027). The average monthly
7 usage per customer was 3,343 gallons during fiscal year 2022 and
8 3,336 during the first seven months of fiscal year 2023. Based on the
9 consistency in these recent periods, I assumed average monthly
10 usage per customer to be 3,343 gallons in future years for the
11 purpose of estimation.

12 **Q. What would be the estimated rate impact to Carteret County**
13 **Water System customers of the fair value and estimated fees**
14 **and closing costs?**

15 A. Based on the lesser of the purchase price (\$9.5 million) negotiated
16 between the parties to the sale or the fair value (\$8.416 million) set
17 by the Commission plus the proposed reasonable fees and costs,
18 which is \$8,416,000 plus \$312,039, Public Staff witness Feasel
19 calculated the revenue requirement in 2027 to be \$986,996.
20 Assuming system specific rates for 1,366 projected customers in
21 2027 on the County Water System, the average monthly rate impact
22 of the fair value and fees and closing costs would be \$60.21 per
23 County Water System customer.

1 **Q. What would be the estimated rate impact to CWSNC Uniform**
2 **Water customers of the fair value and estimated fees and**
3 **closing costs?**

4 A. Similar to the calculation above, except adding the 1,366 projected
5 customers to the equivalent residential customer (ERC) count of
6 29,426 existing CWSNC Uniform Water customers,¹³ the average
7 monthly rate impact of the fair value and fees and closing costs would
8 be approximately \$2.67 per customer.

9 **Q. What would be the estimated average monthly bill per customer**
10 **on a system-specific basis?**

11 A. Based on the fair value, fees and closing costs, and tank investment
12 in rate base and an estimate of expenses similar to CWSNC's
13 Updated Addendum, except using data from Rate Year 3 of the Sub
14 400 rate case, Public Staff witness Feasel calculated the revenue
15 requirement in 2027 to be \$1,625,189. Assuming system-specific
16 rates, the estimated average monthly bill would be \$99.15 per
17 County Water System customer.

18 **Q. How do the County's present rates compare to CWSNC's**
19 **Uniform Water rates and system-specific rates?**

¹³ Consistent with CWSNC's calculation of the expenses per ERC, except updated to the customer count provided in response to Public Staff Data Request 41 in the Sub 400 rate case.

1 A. The County's present rates, which were approved by the Board of
2 Commissioners on September 20, 2021, and became effective
3 September 21, 2021, are a basic charge of \$40.25 per month for
4 residential customers, including the first 1,000 gallons, and a volume
5 charge of \$10.10 per 1,000 gallons after the first 1,000 gallons.¹⁴
6 CWSNC's present rates were approved on April 8, 2022, in Docket
7 No. W-354, Sub 384. On May 12, 2023, the Commission issued its
8 Order Approving Schedules of Rates, Schedules of Connection
9 Fees, and Customer Notices, including a schedule of rates for the
10 Uniform Water rate division for Rate Year 3 in Docket No. W-354,
11 Sub 400. As noted above, in response to Public Staff Data Request
12 2, Question 1, CWSNC stated "[t]he 2027 rates are still an estimate
13 at an approximate 5% increase in the filing after the current WSIP
14 period ending." Using this assumption and the revenue requirement
15 calculated as a result of rate base accounting of the fair value and
16 associated fees, I calculated an estimate of CWSNC's future Uniform
17 Water rates. The comparison is shown in the table below using the
18 Carteret County average monthly usage of 3,343 gallons per
19 customer.

¹⁴ Water Service FY 23 Fee Schedule. Available at <https://www.carteretcountync.gov/DocumentCenter/View/10202/Water-Service-Fee-Schedule-FY2022-2023> (last visited on October 13, 2022).

1 Table 2

Rate Classification	Base	Usage Per 1,000 gallons	Ave Monthly Bill
Carteret County	\$40.25	\$10.10	\$63.91
Uniform W – Sub 384	\$24.53	\$11.71	\$63.68
Uniform W – Sub 400	\$28.61	\$13.78	\$74.68
Future Uniform Water	\$32.71	\$14.47	\$81.08
System-Specific	\$39.64	\$17.80	\$99.15

2 The acquisition will have an adverse impact on rates whether
3 consolidated into uniform rates or set as system-specific rates for the
4 acquired customers.

5 **Q. Will the acquisition have an adverse impact on services**
6 **provided by the acquiring utilities?**

7 A. No. Utility service to the existing County Water System customers
8 should be the same, or better, after acquisition as CWSNC's record
9 of service is satisfactory and CWSNC has the technical, managerial,
10 and financial capacity to provide water utility service in this franchise
11 location. It should be noted that CWSNC and the County entered into
12 an operation and maintenance oversight agreement dated January
13 24, 2022. Under the agreement, CWSNC provides a certified
14 operator to serve as Operator in Responsible Charge (ORC) and
15 consultation services to County staff for a maximum of one hour per
16 day pursuant to the terms and conditions.

- 1 **Q. Will ratepayers be protected as much as possible from potential**
2 **costs and risks of the acquisition?**
- 3 A. No. As a result of the Sub 398 proceeding, rate base was established
4 at a fair value of \$8,416,000 plus associated fees of \$312,039. This
5 includes costs incurred for appraisals that were not relied upon by
6 the Commission to calculate the fair value. Further, the rate base far
7 exceeds the original cost less depreciation and amortization of CIAC
8 of approximately \$2,332,055. There is also the crucial issue of
9 whether the entirety of plant is used and useful, subject to
10 determination by the Commission in the next rate case.

- 11 **Q. Will the acquisition result in sufficient benefits to offset**
12 **potential costs and risks?**
- 13 A. No. The record is void of tangible evidence of benefits that would
14 materially offset the potential costs and risks. In pertinent parts, the
15 Commission discussed benefits as follows:

16 The Company, in the present case, offered generalized
17 opinions regarding the benefits of consolidation and
18 growth. However, the Company did not quantify the
19 benefits to customers of spreading costs over a larger
20 customer base or demonstrate that the value of those
21 benefits would exceed the costs to customers. The
22 Company failed to adequately respond to the Public
23 Staff's questions about whether the operating costs of
24 the System will be higher than necessary because of
25 inefficient design of the System. The Company did not
26 articulate any business plan for growth of the System
27 or integration of the System into the Company's other
28 systems that would suggest that acquisition of the
29 System was part of a considered strategy for organic
30 growth or improved operational efficiencies.

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The Commission observes that the evidence of a benefit to System customers is decidedly mixed. The County Commission has no present plans to use any of the sales proceeds to directly benefit System customers specifically, for instance by creating a hardship fund for System customers who have difficulty affording the rates under private ownership.

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Sub 398 Order at 24-25. The County (after paying off its Water Fund liabilities, interest payable, and debt balances) will net cash from the Water Fund of approximately \$1,071,582. See **Public Staff Junis Exhibit 2**. The net cash from the Water Fund described above added to the purchase price of \$9.5 million for the County Water System assets result in a grand total of approximately \$10.5 million, no part of which is currently planned to be used to offset this transaction's impact on County Water System customers.

17 **Q.**
18 **A.**
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Do you recommend that the Commission grant the franchise?
No. I recommend that the Commission deny CWSNC's CPCN Application to provide water utility service to the Carteret County Water System. As described in greater detail above, and in testimony in the Sub 398 proceeding, (1) the acquisition will have an adverse impact on the rates; (2) ratepayers will not be adequately protected from potential costs and risks of the acquisition; and (3) the acquisition will not provide sufficient benefits to offset potential costs and risks. Incentivizing acquisitions at this magnitude of cost

1 premium while also failing to provide material net benefits does not
2 serve the public interest.

3 **Q. Do you have an alternative recommendation if the Commission**
4 **does not deny the application?**

5 A. Yes. Before providing my alternative recommendation, I would note
6 that if the Commission does not deny the CPCN Application, which,
7 in addition to the issues specific to this case described above, such
8 a decision could trigger a domino effect of future fair value
9 acquisitions at rate bases significantly higher than net book value
10 despite a lack of offsetting benefits and further exacerbate upward
11 pressure on rates and affordability. To avoid such an outcome, I
12 recommend issuance of the CPCN and approval of the proposed
13 rates, which are presently charged by the County including a four-
14 year rate freeze, contingent on certain conditions. First, the
15 Commission should exercise its authority to set rates for the County
16 Water System on a system-specific basis, in accordance with its
17 authority reiterated in N.C.G.S. § 62-133.1A(e).¹⁵ Further, the
18 County Water System should remain on system-specific rates for the
19 duration of time that the purchase acquisition adjustment is in rate

¹⁵ (e) Commission's Authority. – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

1 base, or until such time after its next general rate case that CWSNC
2 clearly shows by the weight of credible evidence that the County
3 Water System customers and CWSNC uniform water customers
4 would mutually benefit from consolidation. Additionally, CSWNC and
5 the County should either agree to amend or the Commission should
6 require that the asset purchase agreement provide that the proceeds
7 from the sale shall either be: (1) held by the County in trust for the
8 benefit of County Water System customers, as a hardship fund or to
9 subsidize customer bills on a pro rata basis so that customers across
10 the state do not have to unfairly and unnecessarily share the burden
11 of the purchase price premium with County Water System
12 customers; or (2) credited to CWSNC as a direct reduction in rate
13 base of the acquired system to offset impacts of system-specific
14 rates on Carteret County Water System customers.

15 **Q. Does this conclude your testimony?**

16 **A.** Yes, it does.

QUALIFICATIONS AND EXPERIENCE

CHARLES JUNIS

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering in May 2011. I have been a licensed Professional Engineer in North Carolina since December 2015. I have over eleven years of water and wastewater engineering experience, and since joining the Public Staff in April 2013, have worked on general rate cases, new franchise and transfer applications, emergency operations proceedings, customer complaints, rulemakings, and other aspects of utility regulation. More specifically, I have assisted in the investigation and drafting of petitions and/or testified in the Webb Creek (Docket No. W-864, Sub 11), Riverbend Estates (Docket No. W-390, Sub 13), Mountain Air (Docket No. 1148, Sub 20), and Kinnakeet Shores (Docket No. W-1148, Sub 20) emergency operator proceedings. I also contributed to the Public Staff's Initial Comments and Recommended Rules filed in Docket No. W-100, Sub 60. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. Through this education and experience, I have gained considerable knowledge of relevant engineering and construction principles and utility operations, maintenance, and capital planning.

1 MR. CREECH: Ms. Feasel and Mr. Junis
2 are available for cross examinations and
3 questions from the Commission -- from
4 the parties of the Commission.

5 MR. WHEATLY: I only have questions for
6 Mr. Junis. I have no questions of Ms. Feasel.

7 Do you want me to start now with him?

8 COMMISSIONER HUGHES: They're a panel
9 so.

10 CROSS EXAMINATION BY MR. WHEATLY:

11 Q. Mr. Junis, you're aware that Mr. Tommy Burns
12 and Ms. Dee Meshaw filed rebuttal testimony to your
13 testimonies a couple months ago?

14 A. (Mr. Junis) Yes, sir. On March 27th, I
15 believe.

16 Q. And you also sent to them a Public Staff Data
17 Request Number 7 that was requested on March 28, 2023?

18 A. Yes, I recall that.

19 Q. And they responded, did they not?

20 A. Yes, sir.

21 Q. Now, the reason for the request is because
22 you had some difficulty understanding their rebuttal
23 testimony and you wanted clarification?

24 A. We were certainly looking for additional

1 supporting documentation, clarification regarding the
2 testimony, yes.

3 Q. So the Commission has the rebuttal testimony,
4 but they do not have the additional information that we
5 sent to you to clarify what misconceptions or
6 misunderstandings you may have had?

7 A. Correct. Discovery is not typically filed
8 unless submitted by a party.

9 Q. And it would be in the best interest to
10 obtain the truth about this matter for this request to
11 be admitted into the record; would it not?

12 A. That sounds great to me.

13 MR. WHEATLY: Mr. Chairman, we would
14 hope that we could introduce Carolina Water Service
15 of North Carolina Carteret County W-354 Sub, 399
16 Public Staff Data Request 7 as requested March 29,
17 2023, which has been answered by Mr. Tommy Burns
18 and Ms. Meshaw, the finance director, and have it
19 introduced into the record.

20 COMMISSIONER HUGHES: Do you have
21 exhibits that you want to --

22 THE WITNESS: Yes, sir.

23 COMMISSIONER HUGHES: Let's hand those
24 out, and then we'll go ahead and mark it.

1 Okay. Let's go ahead and mark the
2 exhibit as Public Staff Panel Carteret County Cross
3 Exhibit Number 1.

4 (Public Staff Panel Carteret County
5 Cross Exhibit 1 was marked for
6 identification.)

7 MR. WHEATLY: May I continue, sir? Did
8 everyone have a chance to read it?

9 COMMISSIONER HUGHES: We can read it as
10 we go.

11 MR. WHEATLY: Sir?

12 COMMISSIONER HUGHES: You can continue.

13 MR. WHEATLY: Okay.

14 Q. Now, Mr. Junis, one of the areas of your
15 discussion has been regarding depreciation; is that
16 correct?

17 A. (Mr. Junis) Yes, sir. Just a note, this is
18 the responses. This is not the data request
19 necessarily, but it's quoted out and I would just note
20 that it's my understanding this does not include the
21 Excel workpapers that were also provided as part of
22 this response; is that correct?

23 Q. Are you aware that there was a updated
24 response with regard to the current financial standing

1 of the Carolina Water System, as of I guess, end of
2 this month really?

3 A. It's my understanding that the County
4 supplemented their response or updated their response
5 to one of the spreadsheets that were provided as part
6 of this.

7 Q. Did you look at that spreadsheet?

8 A. Yes, sir.

9 Q. Are you aware that the County lost \$251,000
10 for this year?

11 A. Are you going to hand me that document? I
12 would love to --

13 Q. I sent it to Zeke.

14 A. Okay. I mean, I don't have it handy on the
15 stand.

16 MR. WHEATLY: May I approach, sir?

17 THE WITNESS: Thank you, sir.

18 Q. Mr. Junis, that would be the same document
19 that was given to you previously, except there's now a
20 third column added?

21 A. Yes, sir. So that third column is unaudited
22 county projected fiscal year 2023.

23 Q. And basically it looks like we lost
24 \$251,000 --

1 COMMISSIONER HUGHES: Excuse me. We
2 haven't -- this is not really part of Exhibit 1
3 from what I understand that you passed out. So
4 we're going to have to mark this if you want to
5 discuss it.

6 MR. WHEATLY: Okay. I was trying to get
7 them to identify it, but I'll -- I've got one to
8 pass around, if it would be okay.

9 COMMISSIONER HUGHES: That's fine. We
10 mainly have to --

11 MR. WHEATLY: Carteret County Cross
12 Number 2.

13 COMMISSIONER HUGHES: Okay. So marked.
14 Public Staff Panel Carteret County Cross Exhibit 2.
15 (Public Staff Panel Carteret County
16 Cross Exhibit 2 was marked for
17 identification.)

18 COMMISSIONER HUGHES: Go ahead and
19 proceed.

20 Q. Mr. Junis, now, we come back on the
21 depreciation issue. The County does not accrue or fund
22 depreciation; is that correct?

23 A. So it's my understanding the County doesn't
24 budget for depreciation. The County budgets for debt

1 principal and interest. But then in its financial
2 reporting, sort of the end-of-year financial reporting,
3 they do account for depreciation.

4 Q. They're controlled by the County process
5 referred to as GAAP; is that correct?

6 A. That's my understanding, sorry.

7 Q. And if the County did fund depreciation,
8 then that would greatly increase our water rates;
9 would it not?

10 A. Well, if you budgeted for depreciation, you'd
11 have to net the debt cost because essentially you'd
12 sort of be recovering both to some degree. I mean,
13 especially when you're talking about the principal
14 portion. I mean it's really up to how the County
15 accounts for this. It's my understanding that again,
16 they budget for principal and interest, the account at
17 the end of the year, financials with depreciation.

18 Q. Well, let me go back and ask the question
19 again, if the County charged and collected
20 depreciation, that would increase the customer's water
21 bill, would it not?

22 A. If it was purely an addition on top of what
23 you're already budgeting for then, yes, it would
24 increase rates.

1 Q. Now, you also understand that the County
2 created a water district to cover the area where this
3 system is; is that right?

4 A. You're referring to the special tax district?

5 Q. Yes. Special water district.

6 A. Yes, sir, I'm aware of that.

7 Q. And at the time it was funded, it was five
8 cents on the 100 valuation and that was an additional
9 tax to every parcel owner in that district; is that
10 correct?

11 A. I'll accept that amount subject to check.

12 Q. So if this system is sold to Carolina Water
13 System and that district goes away, that would be a
14 benefit not only to the current customers but also to
15 the people in that district who do not use the service;
16 is that right?

17 A. Yes, but I would just add that it was my
18 understanding that that tax rate was reduced to zero as
19 part of the rate increase that was approved I think it
20 was back in June of '21 which was effective July '21
21 and then was slightly reduced that rate increase was
22 reduced in roughly September of 2021.

23 Q. Well, that rate can be imposed by the County
24 Commissioners at any time they wish; is that correct?

1 A. It -- it's certainly up to the purview of the
2 County Commissioners to set tax rates.

3 Q. And the Utilities Commission does not control
4 the amount of rate charged by county to the customers;
5 does it? I mean, we can do what we want to, correct?

6 A. Correct. So the County could fully fund
7 its -- its water rates to cover all of its cost, and I
8 think Ms. Meshaw had represented that that would
9 require essentially a 40 percent increase to a revenue
10 amount of I think \$1,490,000 that my understanding
11 included some amount. Either it wasn't referred to
12 directly as depreciation, but there's a \$370,000 what I
13 would say reserve amount and there's also \$100,000 for
14 some contract work, but it's my understanding, having
15 watched the County Board of Commissioners meeting
16 yesterday evening, where they set the budget for this
17 coming year that they did not actually increase the
18 rates 40 percent. So I'm not sure if that's necessary
19 or not in fact.

20 Q. I guess a lot -- that has a lot to do with
21 what happens here, doesn't it?

22 A. I don't know. I can't speak for the County
23 Commissioners. I know it was -- there was one question
24 from Commissioner Cavanaugh of what was the status of

1 the sale, and I believe it was Commissioner
2 Mansfield -- Commissioner Mansfield that commented that
3 that there was a hearing today.

4 Q. Well, you have to agree that the customers
5 will be better protected by this Commission than they
6 would be the Carteret County Commissioners if they
7 wanted to ensure that the system operated and paid its
8 way?

9 A. I have the utmost confidence in this
10 Commission. I'm also am quite proud of the work that
11 my division does and our accounting division and our
12 legal staff, but I would note -- I believe it was the
13 rebuttal testimony of Mr. Burns -- that local
14 government knows best. And you have the ability to
15 change rates as you please, and so you could set rates
16 that are protective of your customers. It could be
17 cost-effective given that the County doesn't pay a
18 return on equity. The County paid for the
19 construction of this system by a majority of grant
20 money. So it didn't require customer investment. And
21 so there are efficiencies to that, and I believe that
22 the County could keep rates lower than Carolina Water
23 can, but that is a duty of the County Commissioners.

24 So while I have confidence in this

1 Commission, there are perimeters that this Commission
2 has to operate within, including the opportunity of a
3 reasonable return for its regulated utilities.

4 Q. Don't you agree if Carolina Water acquires
5 our system, that they can operate it much cheaper based
6 upon the economy of scale where they can have an
7 operator to go around to several companies when we have
8 to get one just keep him in our particular company?

9 A. I think that's a great question. I think the
10 county has an opportunity to hire contract operators.
11 So contract operator can also operate multiple systems.
12 The County could use part-time employees. You know,
13 also -- when you talk about economies of scale here,
14 this is a system that is quite sprawling. The
15 infrastructure and rate base, in terms of the
16 assessment value, far exceeds that of Carolina Water's
17 customers at least on an average basis. And so with
18 that, there is treatment infrastructure that is above
19 average than a Carolina Water System. You have iron,
20 manganese filtration equipment here. You have a
21 softening system here. You have chlorine gas, which
22 would be possibly transitioned to liquid chlorine
23 treatment. And you also have three elevated storage
24 tanks. These are all characteristics that are above

1 average for a Carolina Water System.

2 So I could also then extrapolate that the
3 cost of service would be higher than average for a
4 Carolina Water System. So I do question whether the
5 economies of scale claimed can be realized for a
6 reduced rate for these customers and the existing
7 Carolina Water customer base.

8 Q. But you don't know; is that right? You don't
9 know whether or not they can do an economy of scale has
10 any effect because you're not in that business, are
11 you?

12 A. I think I am in the business. I would argue
13 that I review the expenses, the operations, the capital
14 of numerous utilities. This Commission regulates
15 approximately 90 water and sewer utilities, and, so I'm
16 quite familiar with their operations and the claims of
17 economies of scale. That is a -- it's a very catchy
18 phrase, but there are real challenges to realizing
19 economies of scale.

20 A. (Ms. Feasel) May I make some additional
21 comments here because it's kind of also related to
22 economic of scale. It's kind of also related to the
23 accounting area. Regarding your question whether
24 Carolina Water operates the County system will benefit

1 the customers. So we have done some analysis from the
2 Carolina Water exhibits, MPS-4 that is Matt's exhibit.
3 In that exhibit, Matt has calculated the revenue
4 requirements for the Carteret County if we go with the
5 system and specific rates. He also calculated
6 incremental expenses if the County roll into the
7 Carolina Water sewer -- water account. So he has the
8 revenue requirement for the uniform rates. But in that
9 exhibit, we do not have the revenue requirement if the
10 transaction is not closed, which means Carteret County
11 still operate on its own. But we analyze in three
12 different situations. And here I can give my -- some
13 conclusions. My concerns and comments and some details
14 of my analysis.

15 On the Revised Rebuttal Exhibit MPS-4, if you
16 could go to line 49. Line 49 shows the average monthly
17 bill for customer -- for CWSNC uniform water rates, if
18 the Carteret County has the stand-alone rates, that
19 rate on year 5 is \$76.89; however, on line 50, the
20 average month bill for CWS uniform water rates
21 including Carteret County system, which is the roll-in
22 rate proposed by the Company is \$77.58. Before I do
23 all of my adjustments, this already shows the roll-in
24 rate -- if the Commission approved roll-in rate, the

1 Carolina Water customers will get hurt. So that is my
2 first point. The roll-in rate does not benefit all
3 customers.

4 On top of that, I'm going to do some more
5 comments on this exhibit. From line 40 to line 42,
6 these three lines calculate the impact for Carteret
7 County customers. And I would say that the Public
8 Staff disagreed with the methodology that how the rate
9 is calculated.

10 First of all, Carteret County has two set of
11 customers from two systems. One set of customer is
12 from North River; one set of customer is from Merrimon.
13 So the rates impact for both group of customer need to
14 be calculated separately instead of using the weighted
15 average rate, which is the methodology used by Carolina
16 Water.

17 Q. May I ask -- stop you right there. How many
18 customers are in Merrimon?

19 A. 31 customers.

20 Q. 31?

21 A. Yes.

22 Q. And how many in North River?

23 A. About 2,000 -- over 2,000.

24 Q. How many?

1 A. Over 2,000.

2 Q. In North River?

3 A. Yes. I don't record the exact amount.
4 That's high.

5 Q. Well, I think you're a little high.

6 MR. CREECH: Were you trying to say
7 12 --

8 MR. WHEATLY: 1,254.

9 THE WITNESS: I don't remember, but let
10 me make my point here. If the Public Staff
11 understanding that every customer need to be
12 protected, it does not matter 31 customers or 3
13 customers, or 40 customers. If there was one
14 customer get hurts, that is hurt. So it does not
15 matter how small the group is.

16 Q. Well, let me ask you, if we've agreed with
17 Carolina Water to freeze these rates for four years and
18 then any increase has to be approved by this
19 Commission, how come they're not protected?

20 A. I'm just going to -- yeah. I'm going to
21 continue my analysis to answer your questions, so thank
22 you for asking that.

23 Q. I thought everything was already in the
24 record?

1 A. I have done my analysis, which shows Merrimon
2 customers are not protected by uniform rates. So if I
3 can continue my analysis, I will show clearly the
4 reason why.

5 As I said earlier, from line 40 to line 42
6 this rates are calculated when using weighted average
7 rates, which means combined North River customers and
8 the Merrimon customers. This methodology we do not
9 agree. And also, further on line 42, the average
10 monthly bill for Carteret County customer was without
11 ownership. Carolina water used an inflation factor to
12 calculate a rate for each of the five years, but we do
13 not agree this methodology. This inflation factor will
14 be applied to expenses, but we do not directly apply
15 the inflation factor on the calculation for rate.

16 Q. Let me stop you there. The inflation factor
17 will not apply to the rates. It will apply to the
18 company if they take over. It cost them more to
19 produce the water, but it's not going to be passed on
20 to the customer; isn't that correct?

21 A. That's not what I said. I think you
22 misunderstand what I said. I'm saying the methodology
23 to calculate the rate is different from how the Company
24 did. The Company directly used the inflation factor on

1 the rate, but my methodology is not like that. So let
2 me explain.

3 MR. WHEATLY: Mr. Chairman, can I object
4 to her reading her testimony, again, after it's
5 already been introduced into the record? And I'll
6 try not to go through that again, I didn't
7 understand enough to ask her any questions the
8 first time about it. I mean, it's already in the
9 record.

10 MR. CREECH: Presiding Commissioner
11 Hughes, I think the question was -- first of all,
12 we've offered our witnesses as a panel and the
13 parties have agreed to it; and second, the question
14 was on the economies of scale and who's going to
15 benefit and Ms. Feasel has done her analysis, and
16 she's offering to provide that in response to your
17 question, but it's not a easy -- it's not an easy
18 yes or no. Sometimes it comes down to the numbers.

19 MR. WHEATLY: Mr. Chairman, I never
20 asked her a question. She just jumped in based on
21 my questions I was asking Mr. Junis.

22 COMMISSIONER HUGHES: Overruled. It is
23 a panel.

24 THE WITNESS: Okay. I believe this

1 is -- because this is related to economy of sale,
2 so let me do my analysis to why show the Merrimon
3 customer is not protected by uniform rates. We got
4 from the Company's response for DR-7 on question 1.
5 1D, the calculation assumption supporting document
6 for the -- for the projected increase of 40 percent
7 in water-sewer rates to establish a capital fund
8 and to fund operations. So we got the responses.
9 In the Carteret County's response, the projected
10 revenue and land expenses for the total of
11 \$1,490,000 -- let me say this beforehand. We have
12 concerns and comments about all of this
13 projections, but before I do all of my concerns,
14 let me -- we have using a really conservative way
15 to do the -- to do the analysis to calculate the
16 revenue requirement for both North River customers
17 and the Merrimon customers, but totally based on
18 the Company's projections without any changes; and
19 here is the conclusion, the \$1.49 million projected
20 by Company -- first of all, I am not sure that
21 projection actually incurred in 2023 or 2027, but
22 just to be conservative, I've treated as if that is
23 projection for the first year of 2023. So we do
24 analysis for the projected -- the revenue

1 requirement in total for each of the five years
2 using the inflation factor that is already approved
3 from the Carolina Water's most recent rate case
4 354, Sub 400.

5 In year five, based on that methodology
6 I just described in year five, the total revenue
7 requirements based on the Company's projection is 1
8 thousand -- I'm sorry -- it's \$1.6 million
9 thereabout. And I break down that total revenue
10 requirement into revenue requirement for the North
11 River and the revenue requirement for the Merrimon.
12 The revenue requirement for the North River is
13 \$1.6. The revenue requirement for Merrimon is
14 \$30,000.

15 Based on this revenue requirement, I
16 calculated the base rate per customer per month for
17 North River and for Merrimon, and the rate I
18 calculated -- the base rate for North River is
19 about \$77 but the base rate per customer per month
20 for Merrimon is only \$51.45. That is about close
21 to \$20 below the uniform rate proposed by the
22 Company. And please know that all of this are
23 before we make any of the adjustment of ourselves
24 because we do have concerns about the projection in

1 the DR-7 response.

2 And here some of my concerns. Salaries
3 and benefits. The total is \$384,000. If we use
4 Carolina Water's estimates, about \$55,000 salary
5 per employee, that is about seven employees --
6 full-staff employee. And then, also on the data
7 DR-7 response, there is a contract service for
8 \$100,000. That is about two full-time
9 equivalent -- two full-time employees equivalent. So
10 we are talking about nine employees in total to
11 operate this Carteret County system. In Matt's
12 addendum, MPS-4, one line in the -- okay -- give me a
13 moment. Let me reach to Matt's MPS-4, under the
14 non-incremental expenses on line's 36, direct salary
15 additions, what Carolina Water did is to remove the
16 allocated salary from Carolina Water's most recent
17 rate case and add in two full-time employees,
18 including benefits, payroll taxes, and
19 capital time.

20 So based on Carolina Water's analysis,
21 it requires two full-time employees to operate
22 Carteret County system. However, on Carteret
23 County's DR-7 response, we just talk about there are
24 about nine full-time employees to operate the system.

1 Now keeping this in mind, I'm accounting. I'm not
2 engineer, so I don't know how many employees need
3 to be operating this system but the two versus nine,
4 that raises a big concern to me. Also, on DR-7
5 response, Carteret County says under the other
6 financial uses, transferrable to water capital fund,
7 there is a \$370,000 that Carteret County want to
8 recover. As far as I know, this \$370,000 is
9 not actually incurred yet. This is projected
10 capital fund and when we calculate it, the revenue
11 requirement for the capital plant we only include
12 the known and measurable actual incurred cost
13 instead of the projected cost that may or may not
14 happen.

15 MR. CREECH: Ms. Feasel, you have done a
16 ton of analysis here and I'll just interject
17 because I think you're conveying a lot of
18 information. I would just proactively offer that
19 the Public Staff would be pleased to file a
20 late-filed exhibit with this analysis. If helpful
21 and -- to the process as well, but it may help to
22 hit the --

23 THE WITNESS: It will be greatly
24 helpful. I would love to file late-filed exhibit.

1 MS. SANFORD: The Company doesn't need a
2 late file exhibit, for whatever that's worth in the
3 determination. We appreciate the offer.

4 THE WITNESS: Please keep in mind, my
5 exhibit shows the Merrimon customer is not
6 protected by the uniform rate. If this does not
7 get into the record, we will not have evidence to
8 show that Merrimon customer are not getting
9 protected. But it's our belief that every customer
10 need to be protected including Merrimon customers.
11 It does not matter how many customers there are.
12 They need to be protected.

13 MS. SANFORD: If I might -- and I
14 intended to get into this on some examination -- we
15 aren't asking for uniform rates in this docket. We
16 have indicated that we would intend at this time to
17 propose it in the next rate case. That opportunity
18 would be, we believe, three, four years down the
19 road. And in the interim, our arrangement, our
20 proposal, is that there be a rate freeze. So we
21 think this examination is entirely and completely
22 appropriate to the rate case that will take place
23 at some point in the not very near future. We
24 don't think that it is relevant or necessary for a

1 determination of this case.

2 So I say that to indicate what our view
3 is, and also our reasons for having no interest in
4 a further late-filed exhibit because Ms. Feasel has
5 given us a significant amount of information this
6 morning as to her core position.

7 Thank you.

8 THE WITNESS: Please just keep in mind
9 that my analysis is the forecast of the year five.

10 MR. CREECH: All I would say is,
11 obviously, this is a matter of first impression.
12 The Company has updated its -- its application on
13 an ongoing basis -- including a response to the
14 Public Staff about five times. We -- Ms. Feasel
15 has done this analysis. Her main concern,
16 obviously, is that there's going to be different
17 treatment between these two systems. And she
18 thinks it would be very helpful to be able to file
19 a late-filed exhibit. And we tried to be efficient
20 with the Commission's time here.

21 COMMISSIONER HUGHES: We're going to
22 hold off on whether we do it. We need to get some
23 of the legal fire power here to help this engineer
24 proceeding, Commissioner. So you made your

1 message. I appreciate it. Continue.

2 MR. WHEATLY: May I continue with Mr.

3 Junis, sir? I just got one or two more.

4 Q. Mr. Junis, also had suggested in your
5 testimony that a portion of money be put in trust for
6 people that had difficulty paying their bills; is that
7 correct?

8 A. Yes, sir.

9 Q. Have you ever heard of that happening before?

10 A. I would say this is a peculiar case, and it's
11 a first of its kind, and we -- we have to think sort of
12 outside the box here to resolve an issue of -- this is
13 the first fair value case. This is the first CPCN that
14 would potentially incorporate a fair value decision,
15 and obviously, that rate base amount would have a
16 material impact on rates, which was acknowledged by
17 this Commission in its Sub 398 Order.

18 Q. Well, you don't know of any legal authority
19 that would be able to create such a trust fund or
20 whatever, do you?

21 A. So as my testimony states, we suggested
22 voluntarily that the parties come to some agreement for
23 such hardship fund. One possibility would be related
24 to my exhibits -- my exhibit 2, which basically

1 addresses how the water fund would address its
2 liabilities and then have a remaining million dollars
3 left over. I mean, that is a by-product of this
4 utility being run as an enterprise and separate, and so
5 those are funds that could be potentially returned to
6 customers or used to offset the rate impact to
7 customers.

8 This takes, in my opinion, a willingness by
9 the County to do that, but alternatively, it's
10 ultimately up to this Commission to decide whether
11 there's a legal basis to require it.

12 Q. In the exhibit -- or cross examination
13 Exhibit Number 1, Mr. Burns set forth the various
14 agencies that currently exist to assist in paying water
15 bills; did you pay any attention to that, sir?

16 A. I certainly read that the response and
17 recognize that those are options. A lot of times there
18 are eligibility concerns and also it takes effort by
19 the customer to potentially get those funds and there's
20 no guarantee that they will get them. What I was
21 speaking to was either a direct offset to rate base or
22 the creation of a separate fund specific for this
23 purpose recognizing the impact of this potential
24 transfer.

1 Q. Right. And you know -- you know of no
2 legal -- any legal authority that would give you the
3 right to do this, do you?

4 A. So I think you asked that question already.
5 I'm not an attorney, so I'm not going to make any legal
6 opinions here, especially regarding -- to dictate or
7 limit this Commission's authority.

8 Q. Would this be something Carolina Water should
9 put in the fund or is this something the County should
10 use the money that's being returned to the County as
11 the purchase price use?

12 A. I was referring to some of the proceeds.
13 Like I said, that water fund balance that is in my
14 Exhibit 2 or the purchases price paid which is \$9.5
15 million.

16 Q. The water fund balance was \$1,071,000, was it
17 not?

18 A. That is after paying the liabilities. Now
19 there -- there's a question: Well, should that balance
20 be used to pay those or should the sale proceeds be
21 used to pay those liabilities. But essentially what
22 I'm suggesting is that there is potentially a
23 break-even number here to mitigate the rate impact to
24 customers and that would be a worthwhile cause for the

1 county to ensure that protection for the customers
2 that, as the word was thrown around earlier,
3 abandoning.

4 Q. Are you aware that \$475,000 of the money that
5 the water company paid pursuant to their contract,
6 that's in that ticket?

7 A. Are you referring to, like, earnest money?

8 Q. Yes. Or their bid money.

9 A. I was not directly aware of that but
10 certainly worth considering.

11 MR. WHEATLY: I have no further
12 questions.

13 MS. SANFORD: Commissioner Hughes, this
14 is a little unusual but I wondered if it was
15 possible for -- I don't know when you planned to
16 have your break -- I wondered if it might be
17 possible to have a few minutes' break now. I have
18 a fair number of questions for these witnesses and
19 I believe I can be a little more efficient with
20 them if I have just a few moments.

21 COMMISSIONER HUGHES: I like the word
22 efficient. How much time do you need?

23 MS. SANFORD: Ten minutes. We're almost
24 at the hour and a half, which is why I had the

1 temerity to ask.

2 MR. CREECH: No objection. No
3 objection.

4 COMMISSIONER HUGHES: Okay. Yeah. If
5 it shortens it up, that's fine. We'll be back
6 here, take a recess. We'll go off the record and
7 be back here at 11:35.

8 MS. SANFORD: Thank you very much.
9 (Recess was taken at 11:24 a.m. until
10 11:35 a.m.)

11 COMMISSIONER HUGHES: Okay. I hope the
12 operation -- the efficiency operation was
13 successful.

14 MS. SANFORD: We hope so.

15 COMMISSIONER HUGHES: Before you do
16 that, I did want to rule on the request to allow a
17 late file exhibit. It's unusual to have that kind
18 of -- this kind of information and there's many
19 better places that this should have been, but with
20 that said, because there were so many numbers
21 thrown around, I think we'll need to see it, but
22 we'll allow it but we will give it the weight it's
23 due.

24 MS. SANFORD: And may I ask -- will we

1 have an opportunity to respond to the late-filed
2 exhibit because we haven't seen this information.

3 COMMISSIONER HUGHES: Yes.

4 MS. SANFORD: If necessary.

5 COMMISSIONER HUGHES: If necessary.

6 MS. SANFORD: Thank you very much.

7 With me?

8 COMMISSIONER HUGHES: Yes. Yes.

9 MS. SANFORD: Thank you very much, and
10 thank you for indulging us with the break.

11 CROSS EXAMINATION BY MS. SANFORD:

12 Q. My questions I think are mostly for
13 Mr. Junis, but, Ms. Feasel, if any of them strike into
14 your territory, I know you will respond. I want to
15 spend just a few minutes on what I call talking about
16 why we're here and what we're doing.

17 Mr. Junis, this CPCN Application is filed
18 pursuant to GS62-110; is that correct?

19 A. (Mr. Junis) Yes, ma'am.

20 Q. Filed August 2nd. Almost a year ago, 2022?

21 A. Yes, I'll accept that date, subject to check.

22 Q. Okay. Thank you. You should always check me
23 on dates and numbers. We are referred to this as a
24 companion case to Docket Number 354 Sub 298, also known

1 as the fair value case; do you agree that's a fair
2 characterization of these two cases?

3 A. Yes. They are definitely interrelated.

4 Q. Okay. The public hearing phases of these
5 cases are jointly held and are joint to the two
6 dockets, correct?

7 A. Yes, ma'am.

8 Q. Okay. Thank you. And these cases in
9 combination are cases -- are a case -- cases of first
10 impression under GS62-133.1A?

11 A. Yes, ma'am.

12 Q. The fair value statute. Thank you. The fair
13 value statute 133.1A provides a process for determining
14 fair value when a GS62 regulated company buys, what
15 I'll refer to as a governmental utility; would you
16 agree?

17 A. Correct. This is an alternative method to
18 establish rate base.

19 Q. To establish rate base, yes. And the
20 Commission heard us -- including the public hearing
21 components in the fair case, Docket Number 398, and
22 issued its Order on February 10th of this year; is that
23 correct?

24 A. Yes, ma'am.

1 Q. The Order was captioned, "Order Establishing
2 Rate Base of Water System Acquired from Carteret
3 County," would you agree?

4 A. Subject to check.

5 Q. Subject to check. And in that Order, the
6 Commission -- and I'm -- this is a question, I want to
7 see if you agree. The Commission determined that the
8 fair value they adjusted our proposed fair value, "our"
9 meaning my side of the table here, our proposed fair
10 value they adjust it to -- downward to \$8.4 million; is
11 that generally correct?

12 A. Yes.

13 Q. And they added some reasonable fees and
14 expenses?

15 A. Yes, ma'am.

16 Q. And that number that the Commission found in
17 the public interest was the support for the rate base
18 for Carolina Water upon an acquisition of this system,
19 right? In other words, that is how the rate, that is
20 how they are to determine and they are to conclude,
21 they are to understand that the rate base that will be
22 attributed to this system, if they acquire, is that
23 adjusted fair value plus the reasonable fees; is that
24 correct?

1 A. Yes, ma'am.

2 Q. Is there any reason to go through the fair
3 value exercise other than to emerge with a conclusion
4 of what rate base will be?

5 A. I would say the primary purpose of that fair
6 value proceeding is to establish rate base. I think
7 the Commission has acknowledged directly in a footnote
8 that the next rate case would be used to determine
9 whether those assets are used and useful. So the
10 possibility of an overbuilt plan or a excess capacity
11 adjustment so that rate base number still can be --
12 that's still the starting point, but it could be
13 adjusted or alternatively you could have a contribution
14 in the form of CIAC that could go to offset part of
15 that rate base but you're still using that \$8.7 million
16 number.

17 Q. And this mechanism that's set forth in 133.1A
18 is specifically understood and I think specifically
19 expresses in the terms of the statute itself as an
20 alternative to other mechanisms that this Commission
21 has used traditionally for determining rate base; is
22 that correct?

23 A. Yes. Again, as I have acknowledged it. It
24 is an alternative to the previous methods.

1 Q. It is and so previous methods, such as in the
2 North Topsail case, that's one to which we
3 often -- often cite that -- that look at a variety of
4 factors and that are themselves subject to exceptions
5 based upon the individual case. These previous and
6 preexisting or legacy methods of determining rate base
7 continue to be applicable in certain instances, but an
8 alternative to them is provided by 133.1A, right? An
9 alternative method of determining rate base?

10 A. Correct. Now, obviously we're sitting in the
11 399 hearing and we're posed with the question of is the
12 issuance of a certificate of public convenience a
13 necessity. Is it a public convenience, a necessity,
14 and in the public interest, and, I think that's what
15 we're trying to quantify.

16 Q. I agree with you and we're going to talk
17 about that.

18 A. Sorry.

19 Q. No. No. No. No. No apologies necessary.
20 I want to get to that, but with respect to this rate
21 base decision, the Commission has determined that at
22 the adjusted level, it is -- you've quoted that
23 language and I have it in here somewhere -- but,
24 essentially, it is in the public interest.

1 A. Correct.

2 Q. That rate base is in the public interest.

3 A. For example finding of fact 19 says, in
4 quote: In the public interest, it is appropriate for
5 the Commission to adjust the fair value to \$8,416,000.

6 Q. Right. And I think the Commission said in
7 words better than all you's here that, "Had the rate
8 base been 9.5, plus reasonable fees, that that would
9 have been material."

10 A. Correct. So I think you are referring to
11 finding of fact.

12 Q. 21?

13 A. 21.

14 Q. That's right.

15 A. And then also just the preceding finding of
16 fact says that it's not possible in the present record
17 to quantify the extent to which this will benefit CWS
18 existing customers and then the future rates.

19 Q. That's right. That's right. And then at
20 paragraph 22, while we're at that phase and while my
21 book is open to it, the Commission said, "At the fair
22 value as adjusted by the Commission in its discretion,
23 utilization of the fair value statute is in the public
24 interest."

1 A. Yes, ma'am. And this is page 5 of my
2 testimony.

3 Q. That's right. That's right. That's in your
4 testimony as well. This is oft referred to very
5 important language, and so recognizing other decisions
6 are to be made, the rate base decision, this initial
7 rate base decision is made, by this Commission Order,
8 correct? Public interest in all.

9 A. Correct. Subject to the granting of the
10 certificate of public convenience and necessity;
11 otherwise, it's a meaningless number.

12 Q. And that's why we're here in Sub 399. This
13 is part two of this companion case exercise, and so I
14 want to talk about that for a few minutes and you have
15 expressed concern, Ms. Feasel has talked at some length
16 this morning, and in her testimony about what kinds of
17 things -- about whether there are benefits, whether
18 there are adequate benefits and you've talked a lot
19 about what kinds of things might happen in rates in the
20 future whether stand-alone or uniform; is that correct?
21 That's important to the Public Staff and you've talked
22 about it a lot, I think?

23 A. Yes, ma'am.

24 Q. We all agree, don't we, that there's a rate

1 freeze for four years. I think that's been repeatedly
2 testified to. I want to see if there's any doubt about
3 whether there's going to be a rate freeze for four
4 years should my client acquire this system.

5 A. So it's my understanding Mr. Denton testified
6 this morning that, yes, in fact, it will be a full
7 four-year rate freeze from approval or closing of this
8 transfer and we acknowledge the value of that. We
9 support that portion of this Application. But it would
10 be not in the best interests of customers to only look
11 at that time period because that is not representative
12 of the lifetime of these assets and for what they will
13 pay in the future. We have to represent their best
14 interest going forward; otherwise, it's sort of a bait
15 and switch of, okay, we'll charge you this sort of
16 discounted rate, but we'll also show you in our
17 calculations that we can justify a higher rate and it
18 is our intention or CWSNC's intention to charge a
19 higher rate in the future. The proposal is or at least
20 the current plan would be to incorporate them into
21 uniform rates. And so we have to look at that. That
22 is part of the Commission's form, the five-year
23 addendum looks at what are going to be the cost and
24 what are going to be the revenues under your ownership

1 and how do you project that.

2 Q. And let's talk for a minute about how much we
3 can ever know about what events, what changes in the
4 economy, what development, on and on and on, we can go
5 about what will happen over a four-year period with
6 respect to a determination four years down the road as
7 to what rates will be, we don't know, do we? I mean
8 how can we know?

9 A. We don't know for sure. But we can and are
10 required to attempt to project that. This is a task
11 that I think we're getting better with practice.
12 Having gone through two multi-year rate cases where
13 we've had to project three years into the future and
14 these addendums are nothing new. We've had to project
15 five years into the future. I will say, you know, I
16 love my job and I enjoy this process and going back and
17 forth with your questions and Mr. Wheatly's questions,
18 but if I could to a T predict the future five years
19 out, then I probably wouldn't be sitting here as much
20 as I love this.

21 Q. And I would affiliate with you if you had
22 that.

23 A. However, we are doing the best we can. And I
24 have tried as part of our analysis to acknowledge the

1 work that Mr. Schellinger has done in an attempt to
2 project these costs and I think we have a reasonably
3 known projection and have an idea of what the rate
4 impact would be and I think that's the important part
5 here. We are -- we agree with the rate freeze. The
6 rate freeze is good in the short term. Long term,
7 though, there is a significant impact to these
8 customers, and I believe there is also an impact to
9 Carolina Water's existing customers. It is, you know,
10 these North River individuals and the Merrimon
11 customers, and I think, simply said, the Merrimon
12 customers are on a smaller separate system and are
13 charged a lower rate to account for that. They don't
14 have iron and manganese treatment; they don't have a
15 softening system; they don't have elevated storage.
16 It's a very simple system with a hydratank and
17 chlorination. And their rate acknowledges that. They
18 only pay a \$23.40 base charge that includes a thousand
19 gallons of usage in comparison to the North River rate
20 that is \$40.25, so Merrimon customers are going to be
21 impacted more. But that is what we're trying to
22 analyze and acknowledge of knowing or at least
23 projecting of where does this end up at in terms of
24 long-term rates and that is currently proposed to be

1 uniform rates. What is the impact to those customers,
2 and is it in the public convenience and necessity?

3 Q. And so, Mr. Junis, if your goal is to in
4 perpetuity, -- I'll say "protect" because I know that
5 would be the way you would look at your goal -- but if
6 your goal is to protect customers at system-specific
7 rates going to the future, how do you ever justify
8 combinations of companies, acquisitions, how do you
9 deal with the basis of support for consolidation and
10 ultimate movement into uniform rates? I mean it sounds
11 like you're focused out for a very long time is to
12 preserve to all these customers the -- what you would
13 call "benefits" of the very specific costs associated
14 with their system -- how do those two things jell?

15 A. So it is a hard task and I think this
16 Commission is somewhat struggling with it. I can
17 recall three recent rate cases where this has been a
18 question of when is it appropriate for uniform; when is
19 it appropriate for system's specific; and I think in a
20 situation like this where there is a cost of service
21 that is unusual and that cost is directly linked to
22 this system, then we believe the system specific is
23 appropriate. I would -- just the tough part here is
24 the system was majority paid for by grants, and now

1 this rate treatment requires the customers to pay for
2 it. And it -- that -- that decreases the benefit that
3 had been acquired by the County. You got state and
4 federal funding and now that's sort of tossed out in
5 the past. And I think that's really boiling down our
6 position. That rate base treatment has a negative
7 impact which then puts this not in the public interest
8 in terms of a Certificate of Public Convenience because
9 when you talk about the benefits, the County's
10 compliant. The County has a system that is
11 well-maintained. I think Mr. Denton testified to it
12 this morning. The system is in good condition so where
13 do -- where are the opportunities for Carolina Water to
14 do better and provide a benefit that outweighs the cost
15 here of paying for that system that had been built with
16 grants and we're just not seeing that.

17 Q. And, Mr. Junis, I know you understand and
18 we'll talk more about this in a minute and I'll try to
19 go quickly through them. That we -- that my client
20 believes; that the County believes; that there are a
21 considerable number of benefits and we're going to talk
22 about this on the record in this case. But I hear. I
23 see your struggle with the I'll say concept or notion
24 it's far more than that with the practice that is

1 observed in the chapter 62 arena of CIAC and
2 contributions and how this gets paid for and you don't
3 pay for it twice. We have a statute. We have a
4 statute that has changed the protocol and the
5 arrangements, the opportunities, the rules with respect
6 to the kind of acquisition that we're talking about
7 here, and at 133.1AB1D, if I have all of that correct,
8 my notes say the original source of funding for any or
9 all portions of the water and sewer assets being
10 acquired, is not relevant to an evaluation of fair
11 value, you agree? That the statute says that?

12 A. I'll say subject to check of the exact
13 language and I think that issue has already been
14 addressed by this Commission. When they established a
15 fair value of 8.416 million, but that does not restrict
16 how they consider whether this is in the public
17 convenience and necessity to grant a certificate to
18 Carolina Water and to support the sale of the system.

19 Q. And so is it your position that the Company
20 can comply with the statute, can get an Order from the
21 Commission that says that the fair value as they
22 adjusted and established it is in the public interest
23 and yet still the transfer, the acquisition, shouldn't
24 be approved because the rate base is too high; is that

1 your position?

2 A. So that is one of the recommendations I made
3 and that is denial, and I feel strongly about that that
4 the County is capable and I think capable not only to
5 operate this system in an appropriate fashion, but to
6 also keep rates low. But alternatively, we did
7 recommend that there is a path forward in terms of rate
8 freeze and system-specific rates if the Commission so
9 decides.

10 Q. And so to support your position, would one
11 have to believe that it's -- I guess plainly put that's
12 it's the Public Staff's responsibility to decide what
13 the County should do with respect to stewardship of a
14 water system selling a water system?

15 A. Will you repeat that question for me.

16 Q. Well, I'll try, but I don't know that I can
17 get it all in order but I probably didn't have it in
18 order then. I hear your position with respect to the
19 concern about the public interest the benefit, but you
20 recite to the fact that the County doesn't have
21 operational problems, those things that you said, sort
22 of commend them as an operator, do you -- let me try
23 this another way maybe more clearly but do you agree
24 that that is the County's decision as to whether they

1 want to keep it or sell it?

2 A. So, ultimately they can enter into a
3 agreement, but for this to be transferred to a
4 Commission-regulated utility, it is ultimately up to
5 the approval of this Commission, and I think in the
6 issue of certificate of public convenience and
7 necessity, that is a major question of is this either
8 the -- I would argue the best option for these
9 customers. When you get into a certificate and I think
10 we're seeing the problems now is, all right, let's say
11 it's a developer-owned system and they get a
12 certificate and they run this system into the ground.
13 Well, should they have gotten a certificate? Should we
14 know better now that maybe that is not the best option?
15 And what was the analysis done to think about the cost
16 of service and their ability to have the technical
17 managerial and financial strength to operate a system?
18 And, I think, in this situation, Carteret County has a
19 track record of compliance. They have a track record
20 of a well-maintained system. Now on the financial
21 side, I acknowledge the losses. I think the losses can
22 be addressed. It's in Mr. Burns' testimony. They can
23 change rates whenever they want. They did change rates
24 when they wanted in June of '21. They increased the

1 rates 95 percent. I think that's doing what you want
2 and when you want. That's a prime example. And so
3 they can do this. They operate a budget of over\$160
4 million. I listened to the meetings yesterday about how
5 they deliberated over what's appropriate to
6 fund the schools, what's appropriate to fund the EMS
7 and fire. What's -- all aspects of county operations
8 and how they had come out strong through COVID,
9 Hurricane Florence, this is a staff that is capable.
10 If you can do that on a county scale that serves I
11 think it's like 70,000 residents? Why can't you serve
12 these 12, 1300 customers, or approximately, you know,
13 2,000-some-odd residents? I think they can.

14 Q. So how do you square your endorsement of
15 their ability to raise rates a lot and on a moment's
16 notice and with very little justification, how do you
17 square that with your concern about the welfare and the
18 benefits -- the situation of these customers of theirs?

19 A. So, you know, I'm not endorsing unwieldy use
20 of that authority. You should, though, cover your
21 costs. And at a benefit of county ownership and this
22 is sort of one thing that I think Ms. Meshaw put
23 together an analysis and it's referenced by
24 Mr. Schellinger, when you talk about fully funding

1 depreciation or fully funding -- or comparing CWS
2 ownership versus county ownership, if you don't have to
3 pay cost of equity, imagine if you put that in your
4 cost of service but built a reserve. You're advancing
5 funds to potentially make the improvements you'd need.
6 And so when you look at rates dollar for dollar, let's
7 say it's the exact same, you can get more through the
8 county than you can through Carolina Water.

9 Q. And so that's the Public Staff's position
10 that -- about what the County should do as opposed to
11 entering into this transaction to sell it under the
12 statute?

13 A. Yes, ma'am.

14 Q. And you believe the County should do
15 whatever it needed to do to cover its cost without
16 regard to whether its -- this last part you didn't
17 say, I'm going to say it so you can object, if you
18 want to -- whether it's the 40 percent increase that
19 Ms. Meshaw says they're going to have to do or whether
20 it's the -- I forgot the number of the very large
21 increase -- percentage increase -- I think
22 it --

23 A. Are you talking about back in '21?

24 Q. Yeah, I am.

1 A. It was like 95 percent.

2 Q. 95 percent. So you -- your concern for these
3 customers doesn't extend to the County's demonstration
4 of willingness to do that or its announcement of its
5 intention to do that, but it -- it does attach to a
6 future rate increase under Carolina Water's ownership,
7 which will only be decided if this -- I'm sorry to
8 point -- if this Commission analyzes and approves of
9 same?

10 A. So, again, that analysis, when you look at
11 the cost of service, when you look at her \$1,490,000 of
12 necessary revenue, that's not dissimilar to
13 Mr. Schellinger's numbers for revenue requirements
14 either under uniform or system-specific rates.
15 And -- and so with that, again, customers under
16 Carolina Water ownership and under that revenue
17 requirement that is in his MPS4, you are looking at
18 paying for what you already have. Paying for what you
19 already have that had been paid for with -- in a
20 different form.

21 Q. And that's offensive to you; isn't it? As a
22 matter of policy?

23 A. Well, it's offensive in the concept that I
24 represent the consumer interest and to have to pay

1 again or pay for what you already have or had been paid
2 for defeats the concept of trying to control cost. And
3 under that same revenue requirement for
4 Carteret County, again, you are building a reserve, not
5 paying necessarily entirely for what you already had,
6 because it was already paid for, but you are now
7 building a reserve going forward. And I think that is
8 very important when you compare the budget amount that
9 Ms. Meshaw talks about and then the revenue
10 requirements that Mr. Schellinger calculates in MPS4.

11 Q. I'm going to go more quickly, I hope, through
12 a few items I have. They're not in any particular
13 order here. Do you agree that it is good in the scheme
14 of the things that we're talking about that these
15 systems don't appear to have great needs for capital
16 investment? They haven't demonstrated any significant
17 needs for big capital investment based
18 upon --

19 A. So I think the way that had been portrayed to
20 the legislature and when this was going through the
21 rulemaking was that the private utilities could
22 have -- has access to capital to make improvements.

23 Q. I'm sorry. I bet I didn't state that very
24 well. I'm talking about, do you think it is a good

1 thing that this system has been described as a system
2 not in need of significant capital investment? With
3 that, does that -- is that a thing that makes that a
4 smarter purchase for Carolina Water?

5 A. Is it good for when you're trying to weigh
6 future ratemaking, but it is counter to one of the
7 supposed benefits that Carolina Water can offer capital
8 to make investments that otherwise hadn't been made.
9 But Carteret County has been making the investment and
10 has a well-maintained system.

11 Q. Okay. Thank you. And for -- with respect to
12 benefits, has the Company and the County have
13 enumerated benefits -- I'd like for us to go very
14 quickly through them. Do you agree that it is a
15 benefit to have a rate freeze for four years?

16 A. Yes.

17 Q. Are you aware of any other set -- I'm just
18 curious about this -- any other set of customers that
19 has a guaranteed rate certainty for four years in the
20 Chapter 62 world?

21 A. Not off the top of my head.

22 Q. Okay. Do you believe it is a benefit for
23 these systems to be operated by a professional company
24 that does this for a living and to whom the Public

1 Staff and Commission have turned for -- I'll call it
2 emergency assistance repeatedly?

3 A. I think that Carolina Water is capable of
4 providing compliant service, and I think Carteret
5 County has also shown an ability to do so.

6 Q. Do you agree that -- assuming the acquisition
7 proceeds and assuming the rates are frozen, that rates
8 do not change until and unless the North Carolina
9 Utilities Commission gives approval for a change?

10 A. Correct.

11 Q. And that would be whether they changed to
12 become stand-alone rates or whether they became uniform
13 rates or some other kind of paradigm that I'm not
14 thinking of. No change unless the Commission analyzes
15 and approves?

16 A. Yes, ma'am. And that first rate case would
17 also be when this rate base is analyzed for whether the
18 assets are used and useful.

19 Q. Access capacity. That's right. You've made
20 clear that the Public Staff's interested in that. And
21 that too would be a thing that comes before the
22 Utilities Commission for a consideration. A range of
23 things -- I mean, everything comes before the
24 Commission for consideration in a rate case, doesn't

1 it? In terms of analysis of prudence and investment,
2 it's very thorough?

3 A. Yes. I just want to emphasize the Commission
4 has acknowledged and it bears repeating, that the fair
5 value decision, a decision in the certificate does not
6 preclude that that rate base potentially being reduced
7 for that used and useful analysis in a potential
8 over-built plan adjustment.

9 Q. And so given that four years is four years and
10 assuming that many things can happen in four years
11 and -- and understanding that at the proper time the
12 Commission will have a thorough analysis of it, do you
13 understand why the Company's position is that it is
14 not -- it isn't relative to conduct rigorous analysis
15 of what rates might look like in four years because
16 come four years from now, that will be before the
17 Commission in the proper way with evidence presented
18 that is current and that can be thoroughly challenged
19 and the Commission will make that decision?

20 A. I'm going to need that one again, if you
21 don't mind. I'm sorry. It was a long question.

22 Q. I'm sorry. I got carried away in my own
23 question here. Do you think it's reasonable that the
24 Company's position -- that I'll describe -- is

1 reasonable and that position is that, in four years,
2 everything that Ms. Feasel talks about, that you talk
3 about, everything having to do with rates on a current
4 basis will be present to the Commission for its
5 analysis and determination before there's a rate case?

6 A. That is a reasonable expectation.

7 Q. Okay.

8 A. That would be the case.

9 Q. One second, please. You indicated earlier
10 in response to Mr. Wheatly's -- a question Mr. Wheatly
11 that local government knows best. Do you agree that
12 this local government has decided it's in its best
13 interest to sell this system?

14 A. So I didn't represent the local government
15 knows best. I was referring to Mr. Burns had
16 represented that local government knows best.

17 Q. Do you think local government knows best how
18 to conduct its own business?

19 A. I fear that that is a generalization. There
20 are situations where, yes, that would be appropriate
21 and there are situations where it probably is not
22 appropriate. I mean, there are systems that have been
23 taken away. Basically, are run by the LGC. So I think
24 it is a generalization.

1 Q. If the fair value/rate base were decided at a
2 much lower level than the Commission decided it, would
3 that affect your view of whether it's in the public
4 interest to allow -- to grant a CPCN?

5 A. So the easy answer is, yes. But I want to
6 caveat that I'm not trying to relitigate fair value.
7 If we're trying to relitigate fair value, we would have
8 appealed it. We would have filed a motion for
9 reconsideration. Clearly, we're capable of doing that.
10 We've found significant parts of that Order with the
11 significant endorsement from this Commission in our
12 analysis. Many of the concerns we pointed out were
13 acknowledged and will be used in future proceedings.
14 So yes. If the number's lower, it changes this
15 analysis and obviously decreases the rate impact to
16 customers and potentially does create a benefit for the
17 existing customers and the acquired.

18 MS. SANFORD: Thank you. I have no more
19 questions.

20 COMMISSIONER HUGHES: Redirect?

21 MR. CREECH: Yes. Administrative
22 question first. The Public Staff did have as
23 redirect exhibit, the DR-7 response that previously
24 came out. Having said that, it also included the

1 initial spreadsheets that I don't know were in what
2 was provided. I'm not suggesting it was an error
3 or what have you. It's just not as complete. And
4 so we're pleased to do another exhibit here or we
5 can file the entirety late filed; however, the
6 Commission might want on that.

7 COMMISSIONER HUGHES: Yeah. I'm
8 fine -- I'm fine if you want to propose it as an
9 exhibit, then we can.

10 MR. CREECH: That's fine. So we've got
11 two exhibits -- redirect exhibits we'd like to hand
12 out at this time. One is that DR-7 that included a
13 response from Friday that we got.

14 COMMISSIONER HUGHES: Proceed.

15 MR. CREECH: Proceeding Commissioner
16 Hughes, if I may, I'd like to -- I'd like to
17 propose these. The first is the graphs. It's
18 Public Staff Redirect Exhibit 1. And then the DR
19 response as Public Staff Redirect Exhibit 2.

20 COMMISSIONER HUGHES: Let's go ahead and
21 put panel. Public Staff Panel Redirect Number 1
22 and Public Staff Panel Redirect Number 2.

23 (Public Staff Panel Redirect Exhibit 1
24 and Public Staff Panel Redirect Exhibit

1 2 were marked for identification.)

2 MR. CREECH: Thank you so much. Okay.

3 REDIRECT EXAMINATION BY MR. CREECH:

4 Q. Mr. Junis, you were asked a lot of really
5 wonderful -- and policy questions and -- and,
6 Ms. Feasel, you were asked some questions as well on
7 finances. On this Public Staff Panel Redirect
8 Exhibit 1, Mr. Junis, this is a document you prepared
9 and maybe you had some input from Ms. Feasel; is that
10 correct?

11 A. (Mr. Junis) I just want to make sure we're
12 talking about the same thing, is one the response --

13 Q. One is here.

14 A. One is the charts?

15 Q. Yes.

16 A. All right. I just wanted to make sure we
17 were on the same page. Thanks. Yes, sir.

18 Q. And so you prepared this, correct?

19 A. Yes, sir.

20 Q. And so it's an overview -- really a
21 comparison of what you were just discussing about the
22 impact on current operations and what may occur for
23 system-specific rates and/or uniform rates, and so the
24 first page, there is your comparison -- your revenue

1 requirement comparison; is it not?

2 A. Right. And that's looking at post-rate
3 freeze -- what has been represented as the revenue
4 requirements.

5 Q. All right. And we'll go to the next page.
6 Page 2 of 6. That's a summary of the budgets and
7 revenue requirements. It has, first, Carteret County,
8 then see the system-specific rates and then CWSNC
9 uniform Carteret; is that correct?

10 A. Yes, sir. And so Table 1, Carteret County is
11 based on a number of documents including their budget
12 documents. Their audited financial reports. And the
13 information provided by Ms. Meshaw regarding the
14 necessary cost or budget for sustainable rates. And
15 then item two, the CWSNC systems specific is directly
16 from Mr. Schellinger's calculations on MPS4 and the
17 same with number 3, being the uniform with
18 Carteret County.

19 Q. All right. So the first page, again, is just
20 a graphical representation, a comparison. The next is
21 your table. And then after that, you have -- you dive
22 in a little deeper. You have three kind of
23 corresponding graphs that -- that are associated with
24 those numbers. First Carteret County revenue

1 requirement then CWSNC systems specific and then
2 finally, CWSNC uniform with Carteret County revenue
3 requirement, correct?

4 A. Correct. That's just a visual illustration
5 of the table that is page 2.

6 Q. And then your final has bills and revenues
7 comparison, that's also a projection 2023-2027; is it
8 not?

9 A. Correct. And, again, this is -- these are
10 values taken directly from Schellinger's exhibit in
11 rebuttal which is an addendum that would normally be
12 provided as part of the Application. This is not an
13 endorsement of these calculations. But if you were to
14 accept them on face value, a little bit of further
15 analysis and comparison of those values.

16 Q. All right. And we'll come to that just
17 momentarily. Ms. Feasel and Mr. Junis, you do also see
18 the redirect -- the Panel Redirect Exhibit 2 -- the
19 DR-7 response; do you see that?

20 A. (Ms. Feasel) Yes.

21 Q. And if you turn over all the way to page 10
22 of that, it says 10 of 16. That's the verification
23 page signed by Denise Meshaw -- Dee Meshaw, and then
24 beyond that though, page 11 of 16 that's upper

1 left-hand corner there. I'm sorry. And then the next
2 page 12 of 16. And then 13 of 16. And then the final
3 page 14 to 16, those are the attachments -- the Excel
4 attachments to the DR response, and then finally, pages
5 15 and 16 is the email from the County Attorney, Mr.
6 Wheatly, on Friday morning, page 15 to 16. And then the
7 Excel attachment for that page 16 of 16; is that
8 correct?

9 A. So, yes. Those are as described. I think
10 we're still missing one of the spreadsheets, and I
11 believe it's in response to question 1D, which is the
12 water rates projection with that 40 percent increase.

13 Q. All right. All right. Thank you. Thank
14 you. All right. Well, let's go back then to
15 your -- go back to your exhibit -- Panel Exhibit 1.
16 And you were asked a lot of questions about public
17 interest, about this proceeding vis-à-vis or in
18 relation to the other proceeding. This proceeding is a
19 -- is a companion proceeding but the determination by
20 the -- by the Commission here is a distinct in its own
21 decision; is it not?

22 A. (Mr. Junis) Yes. These are two separate
23 proceedings. If not, then this would have already been
24 decided and we wouldn't be here today.

1 Q. And it's similar to what Commission
2 Clodfelter asked in the last proceeding is whether this
3 is a good transaction at any price; is that correct?

4 A. Yes.

5 Q. And overall, you know -- just to finalize the
6 point -- you were asked questions about some case law
7 in North Topsail, you were asked questions about the
8 fair value statute, but the -- but the decisions that
9 relate to public convenience and necessity by the
10 North Carolina Supreme Court by this Commission, to the
11 extent that it wants to take judicial notice of them,
12 it doesn't say that public convenience of necessity
13 there's an exception for fair value, it still has to
14 meet that standard; does it not?

15 A. Correct.

16 Q. And -- all right. So let's talk broadly, if
17 we can, about convenience and necessity and in the
18 public interest. Okay. Now, for the Carteret County
19 customers -- Carteret County customers, who are --
20 have, of course, and this is the first such transaction
21 in state who have a local system, who have been paying
22 into a system, and then -- and you've talked about it,
23 how they're going to pay for it again but not -- they
24 won't own it when they pay for it again, will they?

1 A. No, I mean, this would be Carolina Water's
2 asset that they are going to make a return on. They
3 are financing and will potentially spread the cost
4 across. But I think this is best shown - if you like
5 numbers, page 2, if you like a chart, page 1 - of that
6 Redirect Exhibit 1, where when you look at Carteret
7 County costs of service over the next five years based
8 on their budget documents, based on Ms. Meshaw's
9 projected increase, and their audited financials, and you
10 compare that to what Mr. Schellinger has calculated,
11 when you look at the County total over the five years
12 which is roughly 6.8 million and then you look at the
13 CWSNC uniform with Carteret that total and this is
14 specific to that group of customers but under these
15 scenarios it's also right around or at \$6.8 million.

16 Now, what do you pay for and what do you get?
17 All right. The County calculations, assumptions
18 include, you know, a \$370,000 essentially a savings
19 deposit or reserve on an annual basis. So you're going
20 to build nearly \$1.5 million to invest in the future
21 into this system.

22 Alternatively, under the CWSNC ownership, you
23 have an equity expense of nearly two and a half million
24 dollars that would be built into rates. That is

1 significant. Now, again, we're talking about revenue
2 requirements and this doesn't necessarily tie in the
3 rate freeze, and I get it, I totally acknowledge that
4 the rate freeze is a benefit, but it's a temporary
5 benefit. And that is shown on page 6 where basically I
6 take the average monthly bill per ERC, again, straight
7 from Mr. Schellinger -- I'm not trying to argue. We're
8 in the ballpark when we're talking about rate impact.
9 We're in the same neighborhood. It's how we're
10 interpreting the benefits that go along with those
11 costs, I think it's the biggest point of contention
12 here. And I will acknowledge right now that there is a
13 benefit to that rate freeze when you look at CWSNC
14 proposed roll-in. Look at the reduction in the total
15 revenue. So this is the -- the bottom row of the
16 bottom table of page 6 of 6. That total, assuming that
17 this is accurate and using those averages per ERC is
18 5.4 million. In your -- under systems-specific rates
19 over those five years, those customers will at least in
20 concept would have to pay \$8.1 million. I recognize
21 there's a benefit in the freeze, but it's that then
22 going forward, the County can keep its cost lower.
23 Even at -- and I totally disagree with this projection
24 of a 40 percent increase in 2024 and then subsequent

1 2.4 percent increases. Those are applied to the
2 entirety of the cost of service for the County, and
3 I'm referring to that rate description in the second
4 row of the first table and then that is quantified on
5 an annual revenue basis in the second row of the
6 service revenues -- the bottom table. When you go
7 from 6147 to 8606 and so on, that's a bad assumption.
8 You don't apply inflation to all your costs. Do you
9 apply inflation to debt costs that are already set?
10 You have debt terms. You pay a certain principal.
11 You pay an interest amount. That is scheduled out
12 into the future which is, again, captured on page 2
13 when you look at debt, principal, and interest. But
14 when you look at debt cost for Carolina Water, you
15 have annual depreciation debt and equity expense --
16 and I know I'm jumping around a little bit here -- but
17 I think it's worth highlighting these portions of
18 these schedules. Look at the annual depreciation
19 expense. Look at the debt cost. Look at equity
20 expense. The debt cost which is only interest -- I'm
21 not talking about principal payments -- is in the
22 neighborhood -- it ranges because it goes down over
23 time as you're determining the un-depreciated balance
24 \$200,000 to \$174,000. That's in the ballpark of the

1 principal and the interest of that Carteret County is
2 paying. So if those two costs match, well, then you have
3 a depreciation expense and an equity expense that
4 combined are in the \$750,000 neighborhood. Those costs
5 aren't in the County budget. Those are costs tied to
6 Carolina Water or a private utility ownership, and so
7 that's the -- question here is, what are you paying
8 for? There's a big difference here when you're looking
9 at an analogous revenue requirements or budget amounts.

10 Q. So, Mr. Junis, just on page 1 here, again,
11 your summary. The first column, it shows that there's
12 no equity expense there. By the way, that's Carteret
13 County. They don't have to pay an equity expense
14 there. They've got their saving -- a fair amount of
15 funds here, right? And then -- and then they have some
16 debt, lower cost of debt, but it's there. They have
17 operating expenses as well. And then -- and then the
18 revenue they have an either -- and this is -- this in
19 some instances, it's a loss, but it's close to break
20 even; is it not?

21 A. I'm sorry. Say that one more time.

22 Q. Explain -- so I guess I was trying to compare
23 or, again, the first column Carteret County, they're
24 saving -- the gray piece there is their savings,

1 correct?

2 A. Correct. When you're looking at 2027, this
3 all ties to the very next page and the table. It's
4 \$370,000 represented by Ms. Meshaw.

5 Q. That's right. But then you go to the next
6 column and you've got a -- that includes Carolina Water
7 and they've got an even larger equity expense there; is
8 that correct?

9 A. Correct. So there's an equity expense of
10 \$477,000.

11 Q. And then you have the same in the -- in the
12 third as well, correct?

13 A. Yes, sir.

14 Q. Okay.

15 A. And I will say one assumption tied with the
16 uniform with Carteret is this reduction of
17 nonincremental expenses. One of the items that
18 Mr. Schellinger includes is corporate allocations.

19 Well, I would represent to you that corporate
20 allocations are by customer. So when you add, let's
21 say 12 hundred customers. Well, then corporate at the
22 highest level between state subsidiaries is going to
23 allocate its corporate cost to the state level. And so
24 that is not an incremental that you can just cut out

1 that's going to be shared with the other state
2 customers. And you don't get any bump up. No, no, no,
3 no. Corix shares those costs on a per-customer basis.
4 So I don't agree that that would be a reduction or a
5 nonincremental cost. So there are flaws in this
6 analysis, but just to accept it on its face for
7 comparison and what you get for what you're paying for
8 is the main focus here.

9 Q. All right. So just to close the loop on
10 existing customers, the existing customers have a lower
11 debt expense; do they not?

12 A. Yes.

13 Q. They don't have an equity expense; is that
14 correct?

15 A. Correct.

16 Q. And -- and they're currently
17 saving -- they're putting money into the fund; is that
18 correct?

19 A. They would be under this 2027 scenario.
20 That's accepting Ms. Meshaw's representation of what is
21 necessary going forward for budgeting purposes.

22 Q. And in terms of the loan where they are in
23 terms of -- they got two fairly sizable loans -- they
24 are close to paying off one of those loans here in

1 several years. And then of course the USDA one is a
2 longer duration. So they're very close to -- to not
3 only owning this more, but they -- one of the changes
4 here is that the Company's going to depreciate is
5 less -- I mean, have a longer duration, you know, it's
6 going to be paid -- largely paid for here coming up?

7 A. Correct. So in terms of benefits that the
8 county can provide the customers, the majority of the
9 SRF loan will be paid back -- actually, the entirety
10 will be paid back as of 2026. So that's where you see
11 a reduction in the principal and interest cost. They
12 will have an outstanding revenue bond through the USDA.
13 Those costs are currently sort of a roll-in and they
14 will increase starting in 2028. But it's also
15 something that the County may consider paying
16 off early. Is there a benefit to paying off a
17 principal of \$906,000 to avoid interest costs of over
18 \$400,000? That's a decision for the County to make,
19 but we have captured this representation of their true
20 cost of service in this table and chart.

21 Q. All right. Let's go to Carolina Water
22 customers, if we can. There's a lot of -- there
23 certainly was a lot of testimony rebuttal testimony
24 on -- on subsidization, but one of the things that --

1 in terms of benefits -- is whether the cost of this
2 transaction will be borne by customers all across the
3 state; is it not?

4 A. So you're kind of talking about the claimed
5 economies of scale. I think that does come into
6 question when you start removing some of these non
7 incremental expenses. For example, the corporate
8 allocation concern, I don't think that actually is
9 going to away as simply as Mr. Schellinger has
10 calculated. And if these customers get rolled-in, you
11 are pushing a higher cost of service system with lower
12 density on average and higher rate base than on
13 average. So if -- many of the factors, scale, expense,
14 and capital are all working against you in comparison
15 to the average CWS customer, then I would suggest that
16 that will negatively impact the CWS average customer.

17 Q. All right. Now, let's go on to -- you were
18 asked questions about the hardship fund and
19 whether -- various questions about that. The
20 rationale -- can you -- can you discuss a moment more,
21 in terms of the rationale behind the hardship fund in
22 terms of protecting customers and how that fits into
23 your notion of what's in the public interest?

24 A. So, I mean, the concept is how do you sort of

1 offset some of this rate impact and protect these
2 customers? And so this is truly an attempt to think
3 outside the box and try to provide solutions. I could
4 have simply kept my testimony to deny, but I'm trying
5 to -- to get us to something that can protect and
6 benefit these customers, not just Carteret County being
7 transferred but Carolina Water's existing customers.
8 Sometimes you got to test out some ideas and that's
9 what we're trying to do here. And I think it was
10 prompted to some degree from that Sub 398 proceeding.

11 Q. There was a reference to a hardship fund or
12 something to that effect in the Sub 398 Order; is that
13 correct? At least one reference?

14 A. Yes, sir.

15 Q. All right. Now, you're aware that companies
16 voluntarily -- parties voluntarily, in other
17 proceedings, have decided, even when they're not
18 required necessarily, to agree to mitigate impacts on
19 customers and -- is that correct?

20 A. Yes. I mean, the rate freeze is an example.
21 You know, I guess, Carolina Water could've walked away
22 from this deal when the fair value was set at \$8.4
23 million because they're paying \$9.5 and so -- but that
24 number is still not palatable for customers.

1 Q. Let's talk a little bit about the County part
2 of this though. You obviously got some questions from
3 the County and they're a party to this transaction.
4 The County could agree to set aside funds here for the
5 benefit of those existing customers, could it not?

6 MR. WHEATLY: Objection. No legal basis
7 for the County to set money aside for private
8 purposes like that.

9 COMMISSIONER HUGHES: Let him answer the
10 question.

11 THE WITNESS: So I mean -- it is
12 interest that Mr. Burns represents that the general
13 fund is distinct and separate from the water fund,
14 but in the same breath, suggests that the general
15 fund and the rest of the County have been
16 supporting this system. So I think that's
17 something they need to reconcile with but,
18 conceptionally, I think it is feasible.

19 Q. All right. And then with respect to
20 something like that, you know, one of the reasons why
21 we're here obviously is the County wants to sell -- has
22 come forward to sell the system and -- but yet they've
23 said they didn't want to do the hardship they --
24 they -- in the process they're asking -- are they not

1 asking this Commission to do a number of things that
2 they're not, themselves, willing to do? They say that
3 they're -- you know, this Commission will better
4 protect their folks than they can. This Commission can
5 monitor rates better than they can. You know, how do
6 you respond to that?

7 A. Well, I mean --

8 MS. SANFORD: Objection. I don't
9 believe that's what we said.

10 MR. CREECH: I said effectively.
11 Effectively said.

12 MS. SANFORD: I withdraw the objection.

13 COMMISSIONER HUGHES: Overruled.

14 MS. SANFORD: Yeah. I withdraw.

15 THE WITNESS: Can you --

16 MR. CREECH: She withdrew the objection.
17 Go ahead.

18 THE WITNESS: All right. Can you repeat
19 the question? I got lost in the excitement there.
20 Sorry.

21 Q. The County's indicated that they're not going
22 to do a hardship fund. They've indicated that
23 they --

24 MR. WHEATLY: Objection. They've

1 indicated that they have given you information
2 whether there are hardship funds available. They
3 never said they're not going to do it. They said
4 there's no legal justification to take money out
5 and put it in their savings that we know of.

6 Q. Let me rephrase the question, if I can.

7 The -- the Commission -- excuse me -- the
8 County contends that there's no legal basis to set up a
9 hardship fund that you have recommended. The County
10 has indicated that this Commission can protect
11 customers better than they can. How do you -- how do
12 you square that with, you know, the fact that the
13 county, who's a party to this proceeding, is asking
14 this Commission to do -- to protect customers in a way
15 that it says it can't do itself?

16 A. Yeah. I mean, the -- it's a confusing
17 position and it's somewhat contradictory when it talks
18 about they've been unable to include in the user
19 charges sufficient revenues to support the capital
20 fund, but then also say they're not governed by any
21 rate change restrictions and could raise the rates each
22 month if necessary, but then go on to say, in fact, the
23 customers are more protected from rate increases from a
24 private utility company than they would from a locally

1 owned utility. So that's a -- it's a lot to try to
2 process, but, ultimately, I think they do have the
3 discretion to not only set appropriate rates that cover
4 their costs but also to control what they are charging
5 and its costs to mitigate the effect to customers and
6 protect them best because, again, this Commission has a
7 bunch of wisdom and a bunch of authority, but it's
8 still -- it's powers are limited to some degree with
9 regards to ratemaking, while the County represents that
10 they sort of have unwielded power.

11 Q. I've just got some final questions, if I can,
12 please. And these are kind of a little -- in different
13 spots. On the -- on your -- on the question of you all
14 today, one of the questions came up about service.
15 Now, there's contract operator right now and that's
16 Carolina Water Service and so the service is -- is not
17 being improved by the nature of this transaction; is
18 it? I mean, the service will not change?

19 A. I would say, no. In the temporary, no. It's
20 hard to predict the future of whether this deal doesn't
21 go through. Does Carolina Water reconsider that
22 arrangement? But, ultimately, the County had compliant
23 service before engaging Carolina Water, so I think they
24 have a proven record of an ability to do so and it was

1 convenient in the short term for both parties for this
2 current operations arrangement.

3 Q. Those were the questions that I had with
4 respect to the testimony and your redirect exhibit and
5 then, to clarify, on the -- on the data response but
6 that is the full data response, but you were
7 referencing -- I'm talking about DR-7 -- you were
8 referencing another response; is that correct?

9 A. So DR-7, the response to 1D says, "The
10 calculations, assumptions, and supporting documentation
11 for projected increase of 40 percent". "Please see
12 Water Rates Projections spreadsheet". I don't see that
13 spreadsheet in this packet, so I think it would be
14 worthwhile to make sure that this is a complete
15 representation and, as such, possibly a late-filed
16 exhibit just to correct it.

17 A. (Ms. Feasel) Yeah. That is the one with the
18 \$1,490,000 projected expenses.

19 Q. All right. All right. Thank you.

20 MR. CREECH: No more questions.

21 COMMISSIONER HUGHES: Okay. Commission
22 questions?

23 Okay. We've got quite a few from the
24 staff, so let's go ahead and try to get through as

1 many of these as we can.

2 EXAMINATION BY COMMISSIONER HUGHES:

3 Q. The Company Witness Schellinger provides
4 Table 1 on page 3 of his rebuttal testimony, which
5 shows the Company's understanding regarding the proper
6 way to account for this fair value transaction on its
7 books. Are you there with me?

8 A. (Mr. Junis) Yeah. Table 1 on page 3?

9 Q. Yeah.

10 A. Okay.

11 Q. Does the Public Staff agree with the
12 accounting set forth in the Schellinger Table 1, for
13 either one of you?

14 A. (Ms. Feasel) I'm fine with how they
15 categorize in two different utility accounts. The main
16 issue is just the depreciation rate difference.

17 Q. Okay. So -- so the character --

18 A. Yeah. I'm fine with how they categorize
19 that.

20 Q. It's just the depreciation. Okay. Are you
21 aware of any guidance, GAAP or NARUC, specific to
22 acquisitions governed by fair value statutes?

23 A. That I cannot exactly recite what it shows on
24 the NARUC, but basic concept is the PAA purchase

1 acquisition adjustment is the difference between the
2 purchase price versus the net value which include in
3 the plant cost minus accumulated depreciation.

4 Q. Okay. Is it -- is it specific to fair values
5 statutes?

6 A. I do not recall it saying fair value, but I
7 think if the Commission proved fair value to be that we
8 consider that as a total, and we can calculate the PAA
9 from -- based on the total amount.

10 Q. Okay. Did you reference any other NARUC
11 uniform system of accounts guidance other than pages 19
12 to 20 and pages 59 to 60, noted by Witness Schellinger
13 on page 3 of his rebuttal testimony?

14 A. There are about 200 pages for NARUC, so I
15 don't remember, like, could you be more specific? I
16 will try my best to see if I can answer the
17 question -- but, no. I don't remember specifically.

18 Q. Do you agree with the Company's proposed
19 accounting method of determining depreciation including
20 with respect to the amortization of the acquisition
21 adjustment? If not, why not?

22 A. Okay. We do not. So in our testimony, we
23 have a depreciation rate of 4 percent. Later on, I can
24 defer to Witness Junis to see why he decides for 4

1 percentage for the total 8 million fair value accounts,
2 but in my interpretation for the fair value, that 8.2
3 million includes the net value plus the PAA, plus the
4 due diligent fees. I considered all of that as a whole
5 group that is related to the Carteret County system and
6 when we depreciate it in order to have everything
7 including plant PAA and due diligence depreciate the
8 same time like when we fully depreciate everything,
9 every component stop at the same time. We believe it
10 is more reasonable message to have the same rate for
11 the PAA and due diligent to go with the plant, but I
12 would defer to Junis to say why we decide 4 percent
13 rate.

14 A. (Mr. Junis) So I'll take a line from
15 Ms. Sanford in that this is all going to be looked at
16 if approved in a future rate case. You're potentially
17 looking at a depreciation study that may modify some of
18 these depreciation rates because the Company has not
19 completed depreciation study in multiple rate
20 cover -- there is a use of county accounting records
21 but an avoidance of CIAC. If you factor in CIAC, the
22 balance is reduced significantly and then you're
23 looking at a majority of this rate base amount being an
24 acquisition as opposed to Mr. Schellinger, I think, has

1 it about a \$3,000,000 acquisition adjustment. And so
2 then when we were evaluating, well, what is the
3 reasonable estimated life of these assets going
4 forward, that's where it was my testimony representing
5 that 25 years would be a reasonable expectation going
6 forward. And that's why we use the 4 percent on the
7 entirety of the \$8.7 million number because, again,
8 we're just trying to estimate the impact in this
9 proceeding. And our numbers -- if you look really at
10 the detail of the depreciation expense and the returns
11 the values are very, very close.

12 A. (Ms. Feasel) Let me also make a little
13 supplemental comments. On Mr. Schellinger's schedule,
14 there is one supporting document to calculate the
15 depreciation so the life from the Carteret County, the
16 life from NARUC, and life from Carolina Water. As I
17 recall, the life from the NARUC is about 20 years for
18 two of them and 20, 40 years for them. So the NARUC
19 rate -- or the NARUC life is very close to what
20 Carteret County already do and our estimated life is
21 also close to the NARUC rate.

22 Q. Okay. Got it. I think you answered this,
23 but if you have anything else to add about the Public
24 Staff's determination of a 4 percent depreciation rate

1 for the acquired assets and a 4 percent rate for the
2 amortization.

3 A. (Mr. Junis) Again, we're looking at
4 essentially that sum as a whole when looking at a
5 acquisition adjustment and any remaining undepreciated
6 balance of plant on the County's books. And so we're
7 trying to go forward with those estimated lives. The
8 County was using 30 years, and so a majority of these
9 assets are down to -- I think they were going to be
10 fully depreciated in the entirety in 9 years. So we
11 have taken a temporary approach but Carolina Water, by
12 using it's uniform depreciation rates, extends some of
13 these plant assets out to a life of 100 years, and
14 we're just not comfortable with that as a reasonable
15 expectation of the estimated life going forward.

16 Q. Okay. Are there any physical characteristics
17 of the County's systems that are different from the
18 Company's water systems that would warrant
19 consideration by the Commission of a different ongoing
20 depreciation rate for the acquired systems than the
21 Company's currently approved depreciation rates? I
22 think you answered it, but go ahead.

23 A. Yeah. I mean, so that is this calculus and,
24 you know, it's engineers' discretion here in terms of

1 what is a reasonable life when you're considering
2 multiple different assets at potentially different
3 stages, but overall, are in good condition so.

4 Q. Okay. Witness Schellinger states on page 5,
5 line 11 of his rebuttal testimony. I'm not sure you
6 need to find it, but that the Commission has complete
7 discretion to set the depreciation rates in the
8 proceeding. Can the Public Staff provide example
9 dockets in which the Commission has approved the new
10 owner's depreciation rates for the transferred assets?

11 A. One more time on the tail-end portion of
12 that.

13 Q. Are you aware -- is the Public Staff aware of
14 past dockets where the Commission has approved the new
15 owner's depreciation rates -- what's been proposed by
16 the new owner as the rates for the transferred assets?

17 A. (Ms. Feasel) I do not remember from the top
18 of my head.

19 A. (Mr. Junis) I don't recall off the top of my
20 head. I am familiar with some transfers where,
21 essentially, the acquisition adjustment has been set
22 anywhere from between 25, 30, 3.03 percent, which would
23 be 33 years. So they have taken -- the Commission has
24 taken discretion on that aspect. But in terms of the

1 remaining assets, whether they were treated as part of
2 that, I don't recall, but I think we would be happy to
3 provide that in a very brief late-filed exhibit or
4 briefing just to give examples of dockets where that
5 has occurred.

6 Q. Okay. We'll take you up on that offer.

7 A. All right. I'll write that one down.

8 Q. Okay. Again, another familiar one, but let's
9 get this on record. Does the Commission need to
10 determine the appropriate depreciation rates in this
11 proceeding or can this determination be made in
12 Carolina Water's next general rate case proceeding if
13 the CPCN is approved?

14 A. (Ms. Feasel) This can be determined in the
15 next rate case.

16 Q. Witness Junis, on page 36 of your testimony,
17 you present rate impacts in a Table 2. Clarify what
18 the estimate of future uniform rates of \$81.08
19 portrays. Does this calculation include the Carteret
20 County customers in the Carolina Water uniform rate
21 division?

22 A. (Mr. Junis) Give me one second. I had a
23 work paper that I thought was in my stack here.

24 Q. And where we're getting -- well, I'll wait.

1 Let me keep going with the sentence when you find it.

2 A. Found it.

3 Q. Okay. So it's a multi-part question. First
4 off, just tell us -- clarify what that 81.08 portrays,
5 and then does that lead in to -- is it your testimony
6 that Carolina Water's uniform rate customer's average
7 monthly bill would increase from \$74.68 to \$81.08 if
8 the acquired customers are included in Carolina Water's
9 uniform rate division?

10 A. So this is looking at, yes. If they're
11 rolled-in, when you're looking at -- and it's
12 Schellinger's testimony that talks about, okay, after
13 you get through the 3-year rate period in Sub 400 what
14 would be the rate increase that's going to be asked for
15 when you're looking at rate year 5? And so he assumed
16 a 5 percent increase. And then what I added was the
17 \$2.67, which is referenced on -- it's the magnitude of
18 the rate base impact on uniform customers, and so
19 that's on page 34 on my testimony, line 8.

20 So when you take end of multi-year rates,
21 again, consistent with Schellinger, he said 5 percent
22 increase assumed in the first year of a future rate
23 case, and then I'm rolling in the rate base impact of
24 the fair value decision after depreciation, so going

1 five years forward, of \$2.67 and getting that average
2 bill of \$81.08.

3 Q. Okay. Thanks for that. Again, this one is
4 for you. On page 22 of your testimony, lines 1 through
5 6, you discuss that the County's present rates are
6 sufficient to cover its costs during the 12-month
7 period ending 6/30/2022. Is it your testimony that the
8 monthly rate of \$63.91 included in the first line of
9 your Table 2 on page 36 is sufficient for the County to
10 recover its costs? And explain.

11 A. So it was sufficient. So that is an audited
12 financials that the net income was roughly \$43,000.
13 There is this projection that Mr. Wheatly presented to
14 me and was emailed to us, I think, it was like Friday
15 of last week that projects what their costs have been
16 for the fiscal year of 2023. I have yet to confirm
17 those amounts, and I don't think their finalized being
18 that it is projected. So to say that it is -- covers
19 its costs today, I can't definitively say that, but it
20 has in the past.

21 Q. Witness Junis, County Witness Meshaw
22 addresses in her rebuttal testimony on Page 2 -- I'm
23 not sure you're going to need to find this, but that's
24 where it is -- that if the Board of Commissioners does

1 not levy a special water district ad valorem tax, the
2 county would have to raise rates by 40 percent. What
3 is the Public Staff's response to Witness,
4 Ms. Meshaw's, rebuttal testimony? What is the
5 sustainable monthly rate for the County systems?

6 A. So I would disagree with that representation
7 of 40 percent. Number one, that's not what they did
8 yesterday in establishing rates effective July 1. So
9 if there was a need and they had this discretion to set
10 rates, I'm surprised that they didn't do so, but also
11 that 40 percent increase, which is supported by a
12 schedule that says, you know, 1.49 million. That
13 includes a debt cost, a principal and an interest, but
14 it includes this \$370,000 contribution to the capital
15 fund, and that's where I'm talking about. If you want
16 to build a reserve, you can do that but that is
17 atypical of how they've been operating and then there's
18 \$100,000 contract amount, which I think Ms. Feasel
19 called into question. So we have concern about those
20 amounts being substantiated to support a 40 percent
21 increase. But in our analysis, trying to at least
22 consider that I incorporated those numbers for
23 comparison purposes in what I believe is Redirect
24 Exhibit 1.

1 Q. Okay. And does that include sustainable
2 monthly rate for the County systems? Do you have that?

3 A. So it's a moving target given that Carolina
4 Water is currently doing contract opts, if they're
5 going to employ full-time employees of their own. We
6 can give you a sustainable rate amount as long as we're
7 agreeable on, well, what are the assumptions here? Is
8 it continue contract opts? Is it full-time employees?
9 Are we going to build a reserve? Are we just going to
10 cover their actual principal and debt cost? You know,
11 it's up to some discretion. I'm happy to make
12 those -- decide on some assumptions and provide that as
13 a late filed --

14 Q. We don't need that. Thank you. Good answer.
15 Clear answer. Witness Junis, County Witness Burns
16 states in item 3 of his rebuttal testimony that if the
17 county were to continue operating this system, a
18 combination of substantial rates and tax increases
19 would result impacting the customers on a greater scale
20 than if the system were acquired by a private utility
21 company. What is the Public Staff's response to
22 Witness Burns' rebuttal testimony on this issue?

23 A. It's another one that's hard to substantiate.
24 It's a big claim, but we're just not seeing the support

1 for it. And I will note in terms of sustainable rates
2 as part of being identified as a distressed system,
3 they're supposed to do an asset assessment but they're
4 also supposed to do a rate study. I'd be curious of
5 what the status of that rate study is. And you may be
6 familiar with an organization that previously provides
7 services to help with rate studies called the UNCEFC so
8 I'm not sure if they engaged with them either.

9 Q. Thank you for that. Again, another one for
10 you. Beginning on page 10 of Carolina Witnesses
11 Schellinger's rebuttal testimony, he discusses rate
12 impacts. Witness Schellinger has set forth comparisons
13 in his rebuttal exhibit MPS-4 the monthly customer
14 bills in three scenarios including showing rate impacts
15 of including the Carteret County customers in Carolina
16 Water's uniform rate division. On page 12, lines 12 to
17 15, Witness Schellinger testifies that based on these
18 calculations, Carolina Water concludes that Carolina
19 Water's uniform water customers would benefit from the
20 acquisition of the County system. What is your
21 response?

22 A. So that's, again, part of this analysis that
23 we do not agree with, and some of the flaws that we've
24 identified are those nonincremental expenses, such as

1 the corporate allocation, the rate base impact. How
2 does spreading across an average customer rate base
3 that is higher not net into a cost to existing
4 customers just sort of defies logic for me, personally.

5 A. (Ms. Feasel) And also for the MPS-4 for
6 Matt's exhibit on line 50. That shows their calculated
7 estimated rate for the Carolina Water uniform customers
8 when the Carteret County is rolled in. In year 5, it's
9 \$77.58 which is higher than the stand-alone rate. So
10 that represent roll-in rate does not benefit Carolina
11 Water uniform customers.

12 Q. This one's for you actually, Witness Feasel.
13 On pages 13 to 14 of Witness Schellinger's rebuttal
14 testimony. He requests that the Commission set the
15 amortization of the due diligent cost of at 2.5 percent
16 and place them in an organization plant account similar
17 to the Public Staff's recommendation for the Riverbend
18 and Silverton acquisitions. Does the Public Staff
19 agree with Witness Schellinger's request? I think you
20 probably answered that, but --

21 A. Actually --

22 Q. Can you explain?

23 A. Okay. We use 4 percent acquisition rate.
24 That rate including due diligent fees. We recommend

1 that because we considered that net plant from the
2 Carteret County and the purchase acquisition adjustment
3 and the due diligent as a whole that is approved by the
4 Commission. In the total amount of 8.2 million and
5 that the plant PAA and due diligent as whole, can be
6 depreciated at the same time, and when they are fully
7 depreciated, they can be fully depreciated at the same
8 time, so I think that it is more reasonable to use the
9 same rate for due diligent, which is 4 percent.

10 Q. Okay. Thank you. One more question and then
11 see if we can get this done. You have asked the
12 Commission to condition the CPCN on either, one, the
13 county agreeing to hold the proceeds of the sale in a
14 trust for the system of customers in a hardship fund or
15 to subsidize customer bills, or, two, that the proceeds
16 should be credited to Carolina Water as a reduction in
17 rate base to offset the impacts of the system-specific
18 rates. Are you aware of any proceeding in which the
19 Commission has done something similar? And do you have
20 a basis for suggesting --

21 A. (Mr. Junis) So --

22 Q. We have authority -- the Commission has
23 authority to place such restrictions on the County's
24 use of proceeds?

1 A. I think this was a question by Wheatly
2 to -- early in this process.

3 Q. Yeah. I think you can address the number 2
4 part about the proceeds should be credited to
5 Carolina's reduction.

6 A. I think it can be done. It's the concept of
7 essentially CIAC, again, this takes either a voluntary
8 act by the County or the belief that the Commission
9 has the authority. I do not have a definitive legal
10 reference for that authority.

11 COMMISSIONER HUGHES: Okay. Well, with
12 that -- I think this is going to be a good breaking
13 spot. That's our questions -- unless there
14 are -- okay.

15 We're going to go ahead and take a lunch
16 break. We'll be back here at 2:00 sharp.

17 (Recess was taken at 1:03 p.m.)

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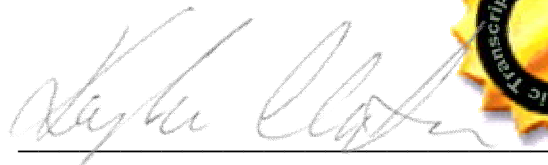
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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Kaylene Clayton, court reporter, 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 30th of June, 2023.





KAYLENE CLAYTON

Notary Public 202228500270