

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

July 3, 2019

Office of the Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Via Electronic Filing

Re: Joint Proposed Recommended Order, Submitted by Pace Utilities Group, Inc., the Public Staff of the North Carolina Utilities Commission, and Carolina Water Service, Inc. of North Carolina Docket Nos. W-1046, Sub 5 and W-354, Sub 361

To the Chief Clerk's Office:

Attached please find for filing a Joint Proposed Recommended Order in the referenced case. I am authorized to submit this to the Commission as a reflection of the agreement among and proposal by all parties to the case: Pace Utilities Group, Inc. (represented by Russell Woodward), the Public Staff of the North Carolina Utilities Commission (represented by Gina C. Holt), and Carolina Water Service, Inc., of North Carolina (represented by the undersigned).

As always, thank you and your staff for your assistance; please feel free to contact me if there are any questions or suggestions.

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford
Attorney for Carolina Water Service,
Inc. of North Carolina

c: Parties of Record

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

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

BEFORE: Freda Hilburn, Commission Hearing Examiner

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

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

For Pace Utilities Group, Inc.:

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

For the Using and Consuming Public:

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

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

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

The water system consists of two wells, two hydro-pneumatic storage tanks, and a distribution system. Pace Utilities purchases bulk sewer treatment from CWSNC, which is treated at CWSNC’s Bradfield Farms’ wastewater treatment facility. According to the Transfer Application, the Silverton water and sewer systems currently serve 61 residential customers. The rates for water utility service reflect the original rates approved in Docket W-1046, Sub 0, dated October 6, 1994; adjusted to reflect House Bill 998, effective January 14, 2015. The rates for sewer utility service reflect Pace Utilities’ last pass through rate increase, effective April 29, 2015. The Public Staff and CWSNC have agreed that the proposed rates should reflect the rates of CWSNC’s water rate division for

Bradfield Farms/Fairfield Harbour/Treasure Cove and the sewer rate division for Bradfield Farms/Fairfield Harbour.

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

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

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

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

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

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

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

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

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

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

planned changes and improvements to the system by CWSNC to improve service and reliability for customers.

Further, on May 24, 2019, the Public Staff filed a Motion for Order Excusing Witness from Hearing (“Motion to Excuse Witness”) requesting that the Commission enter an Order excusing Windley E. Henry from attending the May 29, 2019 hearing in Concord, North Carolina and that his affidavit and exhibit be copied into the record and received into evidence. The Public Staff noted that the purpose of witness Henry’s affidavit and exhibit was to present the results of his investigation of the levels of net plant in service and acquisition adjustment for ratemaking purposes with respect to the Transfer Application filed by CWSNC. The Public Staff acknowledged that its request was contingent upon the Commission having no questions for witness Henry. The Public Staff represented that no party to the proceeding objected to its Motion.

Based upon the foregoing, the Chairman found good cause to grant the Public Staff’s Motion to Excuse Witness by Order entered in these dockets on May 28, 2019. Accordingly, witness Henry was excused from appearing at the May 29, 2019 hearing in Concord, North Carolina and the Chairman ruled that his affidavit and exhibit filed on May 9, 2019, in the above-referenced dockets, would be admitted into the record as if given orally from the stand.

The public and evidentiary hearing was convened as scheduled on Wednesday, May 29, 2019, at 7:00 p.m., in the Cabarrus County Courthouse. CWSNC, Pace Utilities, and the Public Staff were present and represented by counsel. The following three customers testified: Judy Sapielak; Tiffany Woods;

and Katie McCormick. Brain S. Pace testified on behalf of Pace Utilities in support of the Transfer Application. Jonathan Bryce Mendenhall, CWSNC's Vice President of Operations, testified for the Company. The Public Staff presented the testimony of Gina Y. Castleberry, a Utilities Engineer with the Public Staff Water, Sewer, and Communications Division. The Public Staff also introduced in evidence the affidavit and exhibit of Windley E. Henry, the Manager of the Public Staff's Water, Sewer, and Communications Section, Accounting Division.

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

FINDINGS OF FACT

1. CWSNC is a corporation duly organized under the law and is authorized to do business in the State of North Carolina. CWSNC is a franchised public utility which provides water and/or sewer utility service to more than 38,000 customers in 38 counties in North Carolina. CWSNC has been providing water and sewer utility service in North Carolina for more than 50 years. The Company is a wholly-owned subsidiary of Utilities, Inc. (UI).¹

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

¹ Utilities, Inc. owns regulated utilities in 16 states, including CWSNC in North Carolina.

Lemond Acres, and Country Hills. CWSNC also currently provides the wastewater treatment for the Silverton Subdivision.

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

4. Pace Utilities' current rates for water service reflect the original rates approved in Docket W-1046, Sub 0, dated October 6, 1994; adjusted to reflect House Bill 998, effective January 14, 2015. The rates for sewer service reflect Pace Utilities' last pass through, effective April 29, 2015. The Public Staff and CWSNC have agreed that the proposed rates should reflect the rates of CWSNC's water rate division for Bradfield Farms/Fairfield Harbour/Treasure Cove and the sewer rate division for Bradfield Farms/Fairfield Harbour.

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

Water System

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

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

Sewer System

Year 1: Replace the totalization meter

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

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

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

9. Sewage treatment services for the Silverton Subdivision are currently provided by CWSNC at the wastewater treatment plant located at the Company's Bradfield Farms sewer system. That arrangement will continue to be the case after approval of the Transfer Application. The three customers who testified at the public hearing registered no complaints regarding the sewer service

they receive from Pace Utilities.² The Public Staff did not report any concerns with the sewer service currently being provided to customers at the Silverton Subdivision.

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

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

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

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

Cove rate customers outweigh the costs of inclusion in rate base of the excess purchase price.

13. Although CWSNC is proposing rate increases for both water and sewer operations of Pace Utilities, the current rates were approved by NCUC Order dated April 29, 2015, in Docket No. W-1046, Sub 3, and the Silverton Subdivision customers will be expected to receive improved water service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations.

14. The purchase price to be paid by CWSNC for Pace Utilities' water and sewer systems is prudent. Further, the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of costs under a unified rate structure. It is fair and reasonable for CWSNC to receive rate base treatment of the acquisition adjustment of \$25,791.

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

16. On March 21, 2019, CWSNC filed an amendment to its Transfer Application to update its proposed rates for providing water and sewer utility service in the Silverton Subdivision to reflect the rates approved by the

Commission, and set forth on Appendix A-3, in the Company's most recent general rate case proceeding in Docket No. W-354, Sub 360, issued on February 21, 2019.

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

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

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

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

18. The Public Staff recommended that \$20,000 of CWSNC's \$30,000 of unassigned surety bond should be assigned to Silverton Subdivision for water and sewer service. This recommendation is just, reasonable, and appropriate.

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

WHEREUPON, the Commission reaches the following

CONCLUSIONS

Based upon the foregoing, the entire record in this proceeding, and the recommendations of the Public Staff, the Commission concludes that the transfer of Pace Utilities' water and sewer systems and franchises to CWSNC should be approved; that the \$43,000 purchase price should be included in CWSNC's rate base; that the rates for water and sewer utility service proposed by CWSNC should be approved; and that \$20,000 of CWSNC's unassigned bond should be assigned to Silverton's water and sewer systems.

This decision is fully supported by the testimony offered in support of the Transfer Application by Pace Utilities President Pace, CWSNC witness Mendenhall, and Public Staff witness Casselberry, and the affidavit of Public Staff witness Henry. It also responds to and addresses the water quality service concerns expressed by the testimony of customers Judy Sapielak, Tiffany Woods, and Katie McCormick.

Summary of Customer Testimony

The following three customers testified at the hearing: Judy Sapielak; Tiffany Woods; and Katie McCormick. Customer Sapielak testified that she has been a customer of Pace Utilities at Silverton since 1992; that she is not happy with the water and has experienced brown water, rusty water, outages, difficulty contacting the utility, and has heard loud noises from the well system; that her water has been cut off, without any notice, so that Pace Utilities could flush the system; that she is retired and on a fixed income and cannot afford for her utility rates to increase; that the quality of the water she receives is not worth a price

increase; that she would like to have a choice of who will be her utility provider and wants service from the Town of Harrisburg; that there have been problems with some of the utility workers who had a “big attitude” if customers complained; and that she has experienced no problems with her sewer service.

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

Customer witness McCormick testified that she has been a Silverton customer of Pace Utilities since 2001; that many of the things testified to by customer witnesses Sapielak and Woods have been longstanding issues; that

there have been, numerous times, issues with smells (soapy smells, sewage smell), low water pressure, or issues where the response from Pace Utilities, when called, is simply that there is a little bit of air in the lines and it will settle down within the next day or so; that the water is very hard and there are numerous appliances that have to be repaired or replaced frequently; that it is very difficult to keep things like toilets and kitchen faucets in good repair because of the build-up; that the utility's annual water quality report states that everything is within bounds (the qualities of the sulfates, the heavy metals, and electronic waste materials within the water), but at the highest end of those values (the very upper limits on those reports); that has led to a personal decision for her to have a water service for the drinking water and to exclusively use the water at the house for dishes, laundry, showering, etc.; that customers have concerns about the transfer, based on things they read on social media, as to whether there will be improvements in water quality and infrastructure; and that her concern is [water] quality and the cost of service – she wants those things to be the most optimal.

Summary of Testimony of Pace Utilities Witness Brian S. Pace

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

repeated here, but are incorporated herein by reference as support for the testimony offered by witness Pace in support of the Transfer Application.

Summary of Testimony of CWSNC Witness Jonathan Bryce Mendenhall

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

Company witness Mendenhall testified that the improvements proposed by CWSNC, including the new SCADA system, the supervisory control, the new electronics, and the replacement of the two hydro-tanks, are expected to give some assurance and reliability regarding some of the problems that have been seen with the water system and that, in his opinion, the quality of service to be provided to Silverton customers will be improved under CWSNC operations.

Witness Mendenhall further testified that current estimates for the cost of the planned water and sewer system improvements have increased from the initial estimate of \$162,500 to approximately \$240,000.

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

Summary of Testimony of Public Staff Witness Gina Y. Casselberry

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

water and sewer systems within the next two years as detailed in Finding of Fact No. 5 above. These capital improvements are, in particular, intended to remedy, to the maximum extent possible, the water quality service problems being experienced by Silverton water customers.

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

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

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

Public Staff witness Casselberry concluded her testimony by stating that the Public Staff is of the opinion that CWSNC has the technical, managerial, and financial capability to provide water and sewer utility service in Silverton Subdivision and the transfer from Pace Utilities would be in the best interest of the

Silverton customers. The Public Staff, therefore, recommended that CWSNC's Transfer Application to acquire the franchise of Pace Utilities be approved.

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

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

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

Regarding the \$43,000 purchase price and the debit acquisition adjustment of \$25,791, witness Henry noted that the Commission established the criteria for approval of acquisition adjustments in its *Order Approving Transfer, Acquisition Adjustment, and Maintaining Current Rates*, dated April 30, 1997, in Docket No. W-274, Sub 122 ("Hardscrabble decision"), which concerned the application of Heater Utilities, Inc., to acquire the Hardscrabble water system. Witness Henry stated that the criteria the Commission used in that case to determine whether the

debit acquisition adjustment should be allowed in rate base was based on a three-prong test: 1) the benefit to ratepayers should outweigh the cost of inclusion in rate base of the excess purchase price; 2) system deficiencies would go unaddressed if not for the acquisition by the acquiring company; and 3) the acquisition is a result of arm's length bargaining.

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

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

Witness Henry further stated that Silverton Subdivision customers will receive significantly improved water and sewer service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field

service operations. Accordingly, witness Henry concluded that the purchase price to be paid by CWSNC for the Pace Utilities systems is prudent; and that the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of costs under a unified rate structure. Therefore, witness Henry recommended that CWSNC should receive rate base treatment of the acquisition adjustment of \$25,791, as calculated on Schedule 1-2 of his Exhibit 1.

COMMISSION CONCLUSIONS

The Commission, after careful review of the testimony and exhibits offered by Pace Utilities witness Pace, Company witness Mendenhall, and Public Staff witness Casselberry, and the affidavit of Public Staff witness Henry, finds such testimony and evidence to be entirely credible, supportive of approval of the Transfer Application, and responsive to the water quality service concerns expressed by the testimony of customers Judy Sapielak, Tiffany Woods, and Katie McCormick.

More specifically, the entire record in this proceeding supports the Commission's findings and conclusions that:

1. The Transfer Application filed by CWSNC and Pace Utilities should be approved.
2. CWSNC has the technical, managerial, and operational expertise and the financial resources necessary to correct and improve the quality of water utility service provided to Silverton customers and to provide adequate, efficient

and reasonable water and sewer utility service to those customers on an ongoing basis.

3. The Public Staff's description of the quality of service provided by CWSNC to its customers in North Carolina as "good" is supported by the record in this case. The Commission, in the General Rate Case Order (Docket No. W-354, Sub 360) entered in CWSNC's most recent rate case on February 21, 2019 (less than five months ago), found and concluded that the overall quality of service provided by CWSNC is adequate. N.C. Gen. Stat. § 62-131(b) requires all public utilities in North Carolina, including CWSNC, to provide "adequate, efficient and reasonable service" to customers. The service provided by CWSNC to its customers throughout North Carolina complies with that statutory standard.

4. There are deficiencies affecting Pace Utilities' water system which negatively affect the quality of water utility service currently being provided to Silverton customers. Those customers will benefit from the investment of approximately \$162,500 - \$240,000 in system improvements, which CWSNC intends to make in the next two years to the well houses, hydro-pneumatic storage tanks, including replacement of a conduit in the well, repairs to the SCADA system, and replacement of the sewer totalization meter.

5. The \$43,000 purchase price to be paid by CWSNC for Pace Utilities' water and sewer systems is prudent. Further, the acquisition will not have a negative impact on the customers and rates of both CWSNC and Pace Utilities, because of the spreading of costs under a unified rate structure. It is, therefore,

fair and reasonable for CWSNC to receive rate base treatment of the acquisition adjustment of \$25,791.

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

IT IS, THEREFORE, ORDERED as follows:

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

2. That CWSNC is granted a Certificate of Public Convenience and Necessity to provide water and sewer utility service in the Silverton Subdivision in Cabarrus County, North Carolina, effective upon the closing of the transfer of the water and sewer utility system assets to CWSNC.

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

4. That the Schedule of Rates attached hereto as Appendix B is approved for water and sewer utility service in the Silverton Subdivision, effective

for service rendered on and after the date of closing of the transfer of the water and sewer utility system assets to CWSNC.

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

6. That the \$43,000 purchase price paid to Pace Utilities Group, Inc. shall be included in CWSNC's rate base.

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

8. That \$20,000 of CWSNC's \$30,000 unassigned bond shall be assigned to the Silverton Subdivision. CWSNC's remaining unassigned bond surety shall be \$10,000.

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

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

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

ISSUED BY ORDER OF THE COMMISSION.

This is the _____ day of _____ 2019.

NORTH CAROLINA UTILITIES COMMISSION

_____, Chief Clerk

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 361

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

is granted this

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

to provide water and sewer utility service in

SILVERTON SUBDIVISION

Cabarrus County, North Carolina

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

ISSUED BY ORDER OF THE COMMISSION.

This is the _____ day of _____ 2019.

NORTH CAROLINA UTILITIES COMMISSION

M. Lynn Jarvis, Chief Clerk

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

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

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

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

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

Usage Charge, per 1,000 gallons	\$ 3.75
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Availability Rate: (Monthly rate, billed semiannually)

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

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

Fairfield Harbor: ^{1/}

All Areas Except Harbor Pointe II Subdivision

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

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

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

Bradfield Farms:

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

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

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

Monthly Sewer Service:

Residential:

Flat Rate, per dwelling unit	\$ 50.46
Bulk Flat Rate, per REU	\$ 50.46

Commercial and Other:

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

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

Usage Charge, per 1,000 gallons \$ 1.43

Bulk Sewer Service for Hawthorne at the Green Apartments: ^{4/}

Bulk Flat Rate, per REU \$ 50.46

(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

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

Connection Charge:

Fairfield Harbour: ^{1/}

All Areas Except Harbor Pointe II Subdivision

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

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

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

Bradfield Farms and Silverton:

Connection charge per tap None

New Sewer Customer Charge: ^{5/} \$ 27.00

Reconnection Charge:^{6/}

If sewer service is cut off by utility for good cause

Actual Cost

MISCELLANEOUS UTILITY MATTERS

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

Notes:

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

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

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

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

^{5/} This charge shall be waived if customer is also a water customer within the same service area.

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

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 361, on this the _____ day of _____, 2019.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

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

NOTICE TO CUSTOMERS

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

The North Carolina Utilities Commission has approved the following new water and sewer rates which are:

Monthly Metered Water Service (Residential):

Base Facility Charge (With zero usage) \$16.74

Usage Charge:

Per 1,000 Gallons: \$ 3.75

Monthly Sewer Service Residential:

Flat Rate, Per Dwelling Unit \$50.46

Connection Charge, Water and Sewer:

None

Meter Testing Fee: ^{1/}

\$ 20.00

New Water Customer Charge:

\$ 27.00

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

MISCELLANEOUS UTILITY MATTERS

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

Notes:

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

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

^{3/} This charge shall be waived if customer is also a water customer within the same service area.

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

The approved rates are effective for water utility service rendered on and after _____, 2019.

CERTIFICATE OF SERVICE OF CUSTOMER NOTICE

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

This the ____ day of _____, 2019.

By: _____
Signature

Name of Utility Company

The above-named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notice to Customers was mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket Nos. W-1046, Sub 5 and W-354, Sub 361.

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

Notary Public

Printed Name

(SEAL) My Commission Expires: _____
Date

CERTIFICATE OF SERVICE

On behalf of Carolina Water Service, Inc. of North Carolina, I hereby certify that I have today served a copy of the attached JOINT PROPOSED RECOMMENDED ORDER in Docket Nos. W-354, Sub 361 and W-1046, Sub 5, on all parties of record in this proceeding, in accordance with North Carolina Utilities Commission Rule R1-39, either by: United States mail, first class postage pre-paid; hand delivery; or by means of electronic delivery upon agreement of the receiving party.

This the 3d day of July 2019.

Electronically Submitted
/s/Jo Anne Sanford
State Bar No. 6831

SANFORD LAW OFFICE, PLLC
sanford@sanfordlawoffice.com
Tel: 919.210.4900
**Attorney for Carolina Water Service,
Inc. of North Carolina**