



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

May 9, 2019

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
Mail Service Center 4325
Raleigh, North Carolina 27699-4300

Re: Docket No. W-354 Sub 361 and W-1046, Sub 5

Dear Ms. Jarvis:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the Affidavit and Exhibit of Windley E. Henry, Manager, Water and Communications Section, Accounting Division; and the Affidavit of Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Telephone Division.

By copy of this letter, we are forwarding copies to all parties of record.

Sincerely,

/s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service, Inc. of)
North Carolina, P.O. Box 240908, Charlotte,)
North Carolina 28244, for Authority to Acquire)
the Water and Sewer Utility System in Silverton)
Subdivision in Cabarrus County, North Carolina)
from Pace Utilities Group, Inc., 6719-C Fairview)
Road, Charlotte, North Carolina 28210 and)
Approval of Rates)

AFFIDAVIT OF
WINDLEY E. HENRY

I, Windley E. Henry, being duly sworn, do depose and say:

I am the Manager of the Water/Sewer/Communications Section of the Public Staff – Accounting Division, 430 N. Salisbury Street, Raleigh, North Carolina and represent the using and consuming public. I have a Bachelor of Science Degree in Accountancy from the University of North Carolina at Wilmington. I joined the Public Staff on July 16, 1990.

The purpose of my affidavit is to present the results of my investigation of the levels of net plant in service and acquisition adjustment for ratemaking purposes concerning the application, filed by Carolina Water Service, Inc. of North Carolina (CWSNC or Company) on September 13, 2018, 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.

Attached to the Company's application is an Asset Purchase Agreement (APA), dated August 6, 2018, between CWSNC and Pace Utilities. 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 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 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 my exhibit. 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.

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. The criteria that the Commission used 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.

The Commission, by order dated January 6, 2000, 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.

In the Public Staff's opinion, the Company's acquisition of Pace Utilities 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 customers outweigh the costs of inclusion in rate base of the excess purchase price.

According to Public Staff engineer, Gina Casselberry, there are deficiencies in the Pace Utilities water and sewer systems and the Silverton Subdivision customers will benefit from the approximately \$162,500 in system improvements CWSNC intends to make in the next two years to the well house, hydro pneumatic storage tanks, replacement of a conduit in the well, repairs to the SCADA system, and replacement of the totalization meter. CWSNC is a professional utility company and has a number of water and sewer systems in the Charlotte area. Although the Public Staff is recommending rate increases for both water and sewer operations of Pace Utilities, the current rates were

approved by order dated April 29, 2015, in Docket No. W-11046, Sub 3, and the Silverton Subdivision customers will receive significantly improved water and sewer service reliability from the plant improvements that CWSNC will make and also from CWSNC's extensive field service operations.

Based upon information provided by CWSNC, I conclude that the purchase price paid for the Pace Utility systems is prudent. Additionally, I conclude 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, I recommend that CWSNC receive rate base treatment of the acquisition adjustment of \$25,791, as calculated on Schedule 1-2 of my attached exhibit.

This completes my affidavit.

Windley E. Henry
Windley E. Henry

Sworn to and subscribed before me
This the 9th. day of May, 2019.

Cleo L. Ackerman
Notary Public

Cleo L Ackerman
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 01-08-2023

My Commission expires: 01-08-2023

INDEX TO HENRY EXHIBIT I

<u>LINE NO.</u>	<u>TITLE</u>	<u>SCHEDULE NO.</u>
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2.	ORIGINAL COST RATE BASE - SEWER OPERATIONS	1(b)
3.	CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE - WATER OPERATIONS	1-1
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CAROLINA WATER SERVICE, INC. OF NC
Docket No. W-354, Sub 361
ORIGINAL COST RATE BASE
For the Test Year Ended December 31, 2017

Public Staff
Henry Exhibit I
Schedule 1(a)

WATER OPERATIONS

<u>Line No.</u>	<u>Item</u>	<u>Per Application (a)</u>	<u>Public Staff Adjustments (b)</u> [1]	<u>After Public Staff Adjustments (c)</u>
1.	Plant in service	\$168,332	(\$96,862)	\$71,470 [2]
2.	Accumulated depreciation	(127,701)	73,440	(54,261) [3]
3.	Contributions in aid of construction	0	0	0
4.	Accumulated amortization of CIAC	0	0	0
5.	Purchase acquisition adjustment	0	4,291	4,291 [4]
6.	Accumulated amortization of PAA	0	(172)	(172) [5]
7.	Original cost rate base (Sum of L1 thru L6)	<u>\$40,631</u>	<u>(\$19,303)</u>	<u>\$21,328</u>

[1] Column (c) minus Column (a).
[2] Henry Exhibit I, Schedule 1-1, Column (a), Line 8.
[3] Henry Exhibit I, Schedule 1-1, Column (f), Line 8.
[4] Henry Exhibit I, Schedule 1-2, Column (a), Line 5.
[5] Henry Exhibit I, Schedule 1-2, Column (a), Line 6.

CAROLINA WATER SERVICE, INC. OF NC
Docket No. W-354, Sub 361
ORIGINAL COST RATE BASE
For the Test Year Ended December 31, 2017

Public Staff
Henry Exhibit I
Schedule 1(b)

SEWER OPERATIONS

Line No.	Item	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$120,906	(\$120,906)	0 [2]
2.	Accumulated depreciation	(95,097)	95,097	0 [2]
3.	Contributions in aid of construction	0	0	0
4.	Accumulated amortization of CIAC	0	0	0
5.	Purchase acquisition adjustment	0	21,500	21,500 [3]
6.	Accumulated amortization of PAA	0	(860)	(860) [4]
7.	Original cost rate base (Sum of L1 thru L6)	<u>\$25,809</u>	<u>(\$5,169)</u>	<u>\$20,640</u>

- [1] Column (c) minus Column (a).
[2] Adjustment to remove plant recovered through lot sales.
[3] Henry Exhibit I, Schedule 1-2, Column (b), Line 5.
[4] Henry Exhibit I, Schedule 1-2, Column (b), Line 6.

CAROLINA WATER SERVICE, INC. OF NC
 Docket No. W-354, Sub 361
CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE
 For the Test Year Ended December 31, 2017

Public Staff
 Henry Exhibit I
 Schedule 1-1

WATER OPERATIONS

Line No.	Item	Plant In Service (a)	Year Acquired (b)	Life (c)	Years In Service (d)	[4]	Annual Depreciation (e)	[5]	Accumulated Depreciation (f)	[6]
Plant in service per Sub 0 Franchise:										
1.	Water plant	\$60,000	1994	33.33	[1]	24.75	\$1,800		(\$44,550)	
Plant additions since Sub 0 Franchise:										
2.	Meter and meter installations	3,144	1995	20	[2]	[3]	23.75	0	(3,144)	
3.	Chemical pumps	475	1995	3	[2]	[3]	23.75	0	(475)	
4.	Supply main	4,057	1996	40	[2]	[3]	22.75	101	(2,298)	
5.	Pumping equipment	2,422	1998	5	[2]	[3]	20.75	0	(2,422)	
6.	Pumping equipment	1,372	2000	5	[2]	[3]	18.75	0	(1,372)	
7.	Total plant additions (Sum of L2 thru L6)	<u>11,470</u>					<u>101</u>		<u>(9,711)</u>	
8.	Total plant in service L1 + L7)	<u>\$71,470</u>					<u>\$1,901</u>		<u>(\$54,261)</u>	

[1] Per NCUC Final Order, Docket No. W-1046 franchise proceeding.
 [2] Per examination of Company's financial records.
 [3] Provided by Public Staff Engineer Casselberry.
 [4] Calculated based on year placed in service using half year convention through 3/31/2019.
 [5] Column (a) divided by Column (c), unless fully depreciated.
 [6] Column (d) multiplied by Column (e), unless fully depreciated.

CAROLINA WATER SERVICE, INC. OF NC
 Docket No. W-354, Sub 361
**CALCULATION OF PURCHASE ACQUISITION ADJUSTMENT,
 ACCUMULATED AMORTIZATION AND
 AMORTIZATION EXPENSE**
 For the Test Year Ended December 31, 2017

Public Staff
 Henry Exhibit I
 Schedule 1-2

SEWER OPERATIONS

Line No.	Item	Water (a)	Sewer (b)	Total (c) [5]
1.	Purchase price	\$21,500 [1]	\$21,500 [4]	\$43,000 [6]
2.	Plant in service	71,470 [2]	0	71,470
3.	Accumulated depreciation	(54,261) [3]	0	(54,261)
4.	Net plant in service (L2 + L3)	17,209	0	17,209
5.	Purchase acquisition adjustment (L1 - L4)	\$4,291	\$21,500	\$25,791
6.	Accumulated amortization of PAA (L5 x 4%)	(\$172)	(\$860)	(\$1,032)

- [1] Column (c), Line 1 multiplied by water allocation factor of 50%.
- [2] Henry Exhibit I, Schedule 1-1, Column (a), Line 8.
- [3] Henry Exhibit I, Schedule 1-1, Column (f), Line 8.
- [4] Column (c), Line 1 multiplied by sewer allocation factor of 50%.
- [5] Column (a) plus Column (b), unless otherwise footnoted.
- [6] Per Second Amendment to Asset Purchase Agreement.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Carolina Water Service, Inc. of)
North Carolina, P.O. Box 240908, Charlotte,)
North Carolina 28244, for Authority to Acquire)
the Water and Sewer Utility System in Silverton)
Subdivision in Cabarrus County, North Carolina)
from Pace Utilities Group, Inc., 6719-C Fairview)
Road, Charlotte, North Carolina 28210 and)
Approval of Rates)

AFFIDAVIT OF
GINA Y. CASSELBERRY

I, Gina Y. Casselberry, being duly sworn, do depose and say:

I am a Utilities Engineer with the Public Staff's Water Division. I graduated from Michigan Technology University receiving a Bachelor of Science Degree in Civil Engineering. I have been with the Public Staff's Water Division since February, 1992. I have presented recommendations in rate increase proceedings, new franchise and transfer applications, and other matters before the Commission for the past twenty-seven years.

The purpose of this affidavit is to summarize my investigation concerning the application filed by Carolina Water Service, Inc. of North Carolina (CWSNC or Company) and to make recommendations regarding the Company's application.

On September 13, 2019, the Company filed an application with the Commission 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.

The water system consists of two wells, two hydropneumatic 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 application states there are 61 residential customers.

On March 21, 2019, CWSNC filed an amendment to its 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 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:

	Pace's Present Rates	CWSNC's Proposed Rates
<u>Monthly Metered Water Utility Service</u>		
Base charge, zero usage	\$ 6.72	\$16.74
Usage charge, per 1,000 gallons	\$ 1.85	\$ 3.75
<u>Monthly Flat Sewer Utility Service</u>	\$39.53	\$50.46

The monthly water bill would increase from \$16.45 to \$36.47, based on an average usage of 5,262 gallons.

On March 25, 2019, the Commission issued an Order scheduling hearing and requiring customer notice, specifying that the matter could be determined without public hearing if no significant protests were received.

On March 27, 2019, the Company filed the Certificate of Service indicating that customer notice had been given in accordance with the Commission's Order. As of May 8, 2019, the Public Staff 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. The petition also states that residents of Silverton Subdivision have had persistent issues with low water pressure, poor drinking water quality, and discolored water.

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 Treasure Cove/Bradfield Farms/Fairfield Harbour and the sewer rate division for Bradfield Farms/Fairfield Harbour. It has been the Public Staff's position that it is inappropriate to compare the rates of a regulated water utility like CWSNC to the rates of municipal water systems for the following reasons:

1. The operational costs per customer are lower for customers of municipalities because of economies of scale. Municipal water systems, in general, have a much larger customer base from which to recover its fixed costs;
2. Municipalities are not regulated and can recover some of their costs through tax revenues;
3. Municipalities qualify for grants and low interest bonds and loans, unlike private utilities; and

4. Private utilities have the right to an opportunity to earn a rate of return on their investment in addition to recovering their operating expenses.

Based on its application, CWSNC indicated that it intends to invest approximately \$162,500 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 SCADA system.

Sewer System

- Year 1: Replace the totalization meter.

Installing 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. 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, CWSNC has the capital to make those improvements.

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, recommends that CWSNC's application to acquire the franchise of Pace Utilities be approved. The

Public Staff also recommends that \$20,000 of the Company's \$30,000 of unassigned surety bond should be assigned to Silverton Subdivision for water and sewer service. The Public Staff further recommends that CWSNC's current water rates for its Treasure Cove/Bradfield Farms/Fairfield Harbour rate division and sewer rate for its Bradfield Farms/Fairfield Harbour rate division be approved.

This completes my affidavit.


GINA Y. CASSELBERRY

Sworn to and subscribed before me
This the 9th day of May, 2019.


Notary Public

Cleo L Ackerman
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 01-08-2023

My Commission expires: 01-08-2023