



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

August 11, 2017

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

Re: Docket No. W-390, Sub 13

Dear Ms. Jarvis:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the Testimony and Exhibits of Charles M. Junis, Utilities Engineer, Water Division.

By copy of this letter, I am serving electronically a copy of the above to Stuart Sloan, the attorney for Riverbend Estates Water System, Inc. and Ronald Hardegree.

Sincerely yours,

Electronically submitted
/s/ William E. Grantmyre
Staff Attorney
william.grantmyre@psncuc.nc.gov

WEG/cia

Attachments

c: Parties of Record

Executive Director
(919) 733-2435

Communications
(919) 733-2810

Economic Research
(919) 733-2902

Legal
(919) 733-6110

Transportation
(919) 733-7766

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Electric
(919) 733-2267

Natural Gas
(919) 733-4326

Water
(919) 733-5610

**RIVERBEND ESTATES WATER SYSTEM, INC.
DOCKET NO. W-390, SUB 13**

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

August 11, 2017

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS
2 ADDRESS, AND PRESENT POSITION.

3 A. My name is Charles Junis. My business address is 430 North Salisbury
4 Street, Dobbs Building, Raleigh, North Carolina. I am a Utilities Engineer
5 with the Public Staff's Water, Sewer, and Communications Division.
6

7 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE
8 RELATING TO YOUR PRESENT POSITION WITH THE PUBLIC STAFF.

9 A. I am a graduate of North Carolina State University, having earned a
10 Bachelor of Science Degree in Civil Engineering. I have approximately 6
11 years of environmental and civil engineering experience. I am a licensed
12 Professional Engineer in the State of North Carolina. Since joining the
13 Public Staff in April of 2013, I have presented recommendations in rate
14 increase proceedings, new franchise and transfer applications, and other
15 matters relating to water, wastewater, and communications utility regulation
16 before the Commission.

1 Q. **WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?**

2 A. My duties with the Public Staff are to monitor the operations of regulated
3 water and wastewater utilities with regard to rates and service. Included in
4 these duties are field investigations to review, evaluate, and recommend
5 changes, when needed, in the design, construction, and operations of
6 regulated water and wastewater utilities; presentation of expert testimony in
7 formal hearings; and presentation of information, data, and
8 recommendations to the Commission.

9

10 Q. **PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN THIS**
11 **CASE.**

12 A. On July 10, 2017, The North Carolina Utilities Commission (Commission)
13 issued an Order Scheduling Show Cause Hearing. Ordering Paragraphs 2,
14 3, and 5, state the following:

15 "2. That REWS and Ronald L. Hardegree shall appear
16 before the Commission on that date and at that time to provide
17 evidence to rebut the prima facie conclusion reached by the
18 Commission that, for all intents and purposes, REWS and/or
19 Ronald L Hardegree abandoned its/his obligation to furnish
20 water utility service to its customers without first securing the
21 consent of the Commission as required by G.S. 62-118, that
22 REWS has failed to comply with the terms and conditions of
23 Commission Rule R7-3, and that these actions violate certain

1 provisions of the Public Utilities Act, the Commission's rules,
2 regulations and orders and the explicit and implicit terms and
3 conditions included in the certificate of public convenience
4 and necessity which the Commission awarded to REWS
5 and/or Ronald L. Hardegree.

6 3. That REWS and Ronald L. Hardegree shall appear
7 before the Commission on that date and at that time to show
8 cause why it/he should not be subject to the sanctions
9 provided by statute G.S. 62-310 et al, including monetary
10 penalties for abandoning its/his obligation to provide water
11 utility service in REWS' franchised territory without first
12 securing the Commission's consent as required by G.S. 62-
13 118 and/or for failing to comply with the terms and conditions
14 of Commission Rule R7-3.

15 5. That the Public Staff shall participate in the hearing
16 on behalf of the Using and Consuming Public."
17

18 My areas of investigation in this proceeding have been to assist the Public
19 Staff Accounting and Legal Divisions in reviewing company records and to
20 coordinate with the North Carolina Department of Environmental Quality,
21 Public Water Supply Section (PWSS), and compile documentation related
22 to the compliance of REWS.

1 Q. PLEASE DESCRIBE THE SERVICE AREA AND WATER SYSTEM.

2 A. The system serves approximately 136 connections in Riverbend Estates
3 Subdivision in Macon County. Carolina Water Service, Inc. of North
4 Carolina (Carolina Water), was appointed as emergency operator (EO) of
5 the Riverbend Estates water utility system by Commission Order dated May
6 16, 2017, in Docket No. W-390, Sub 13.

7
8 Q. PLEASE SUMMARIZE THE HISTORY OF THE SYSTEM UP TO THE
9 SHOW CAUSE HEARING.

10 A. On February 22, 1973, in Docket No. W-390, Sub 0, the Commission issued
11 a Show Cause Order to Calvin Henson, the original developer of the
12 Riverbend Estates Subdivision, for failure to obtain a franchise for the
13 Riverbend Estates water utility system in Macon County. Subsequently,
14 Calvin Henson did file an application for a certificate of public convenience
15 and necessity in Docket No. W-390, Sub 1, and on April 1, 1974, the
16 Commission issued an Order Dismissing Show Cause Order.

17
18 The Commission by Order dated July 9, 1974, in Docket No. W-390,
19 Sub 1, required additional information to support the franchise application
20 filed by Riverbend Estates, Inc. T/A Riverbend Estates Water System,
21 Finding of Fact No. 2 stated:

22 "2. The water system in Riverbend Estates as it
23 now exists does not meet the Standards of the Division of

1 Health Services. The Applicant has not received approval of
2 its water system plans from the State Division of Health
3 Services.”

4
5 The Commission issued Order Granting Temporary Operating Authority to
6 Riverbend Estates, Inc., T/A Riverbend Estates Water System dated
7 December 4, 1974, which ordered the applicant to complete system
8 improvements to bring the water system up to Division of Health Service
9 (DHS) standards.

10
11 The Commission in Docket No. W-390, Sub 2, by Order dated
12 September 15, 1978, approved the transfer of the Riverbend Estates water
13 system to Sportsland, Inc. T/A Riverbend Estates Water System
14 (Sportsland) and also granted Sportsland temporary operating authority.
15 Sportsland obtained the water system as part of the purchase of Riverbend
16 Estates Subdivision.

17
18 By order dated December 10, 1982, in Docket No. W-390, Sub 4, the
19 Commission approved the transfer of the water system from Sportsland to
20 Riverbend Water System, Inc., whose President was Albert Rudisill, who
21 operated a local pump service and well supply business and had previously
22 made improvements to the water system for Sportsland. The system was
23 experiencing excessive iron in a new well and engineering plans for the

1 system improvements made by Sportsland had not been submitted for
2 approval to the North Carolina Department of Human Resources.
3 Riverbend Water System, Inc., was granted temporary operating authority
4 and Riverbend Water System, Inc., was ordered to

5
6 "proceed with measures to correct the excessive iron problem
7 and obtain approval of the Riverbend Estates Water System
8 from the Department of Human Resources."
9

10 On February 25, 1987, in Docket No. W-390, Sub 5, the Commission issued
11 an order in the complaint proceeding filed by a customer alleging the water
12 system was rundown and in need of immediate repair, that there were
13 frequent service interruptions, that the water quality was poor due to a high
14 iron content, and that Riverbend Water System, Inc., had not made the
15 system corrections ordered by the Commission in Docket No. W-390, Sub
16 4. In addition, Albert Rudisill, the President of Riverbend Water System,
17 Inc., had moved to Florida, and it had been difficult for customers to contact
18 him when problems were encountered. The water system still had not
19 received DHS approval even though the Commission's Order dated
20 December 10, 1982, required upgrading so that the water system would
21 satisfy DHS standards. The only DHS approval was for the original system
22 approved to serve only 28 connections, but in 1987 the system was serving
23 90 connections. No plans had been approved by DHS since the

1 Commission's December 10, 1982 Order, in Docket No. W-390, Sub 4, nor
2 had the iron problem been corrected.

3
4 The Hearing Examiner's Order dated February 25, 1987, ordered
5 Riverbend Water System, Inc., to

6 a. obtain DHS plan approval and construct system
7 improvements to comply with the DHS approved plans;

8 b. provide the local qualified operator authority to repair
9 or replace broken water lines and pumps to avoid pressure
10 problems or loss of water to customers;

11 c. provide adequate storage capacity, well yield, water
12 quality, and flushing to remove accumulated iron deposits in
13 the mains; and

14 d. there be no new service connections until authorized
15 by DHS.

16
17 6. On October 7, 1987, in Docket No. W-390, Sub 6, the Commission
18 issued Order Approving Stock Transfer approving Albert Rudisill
19 transferring his 100% of the stock in Riverbend Water System, Inc., 50% to
20 Ronald L. Hardegree, and 50% to Geraldine M. Hardegree (Hardegrees).
21 The Hardegrees stated they would make the improvements as required in
22 the February 25, 1987, Order as follows:

1 a. Have engineers update as-built plans and get them
2 approved by DHS;

3 b. Filter the high yield well for iron or drill another well if
4 iron filtering cannot feasibly be done;

5 c. Install 20,000 gallons more storage (in addition to the
6 current 20,000 gallons);

7 d. Install new main as needed (as engineer
8 recommends);

9 e. Provide 24 hour service man and truck using Rudisill
10 Pump Service or other qualified sub-contractors having
11 specialty equipment that would not be feasible for the
12 Hardegrees to own (when needed); and

13 f. Meter all customers.
14

15 7.a. Riverbend Water System, Inc., filed a general rate case in 1989,
16 being Docket No. W-390, Sub 8. The Hearing Examiner in the Order dated
17 April 24, 1989, stated in finding of fact no. 5 that

18 "The Company is presently providing adequate service to its
19 customers."

20 b. Andy Lee, the Director of the Public Staff Water Division, testified
21 that the Hardegrees had completed all the Commission required
22 improvements in the Order dated October 7, 1987, with the exception of
23 metering all the customers. Andy Lee testified

1 "As built plans specifying improvements have been submitted
2 and approved by the Department of Health Services (DHS).
3 The high yield well has been recased and berm filters have
4 been installed to remove excess iron. An additional 20,000
5 gallons of ground storage has been added bringing the total
6 storage to 40,000 gallons. New mains have been installed to
7 tie all wells directly to the storage tanks. A new electrical
8 control system has been installed to operate and control the
9 well and filtering system more efficiently. Twenty-four hour
10 service is being provided. Five meters have been installed
11 leaving 92 meters to be installed. At the end of the test year
12 period, September 30, 1988, the Hardegrees had invested
13 \$41,781 in capital for improvements to the system."
14

15 In the general rate case Order dated July 9, 1998, Docket No. W-390,
16 Sub 9, Hearing Examiner Stallings found in finding of fact no. 2 that
17 Riverbend Water System, Inc., was providing adequate service. However,
18 customers testified that at certain times their water was red or brown. Andy
19 Lee outlined in his affidavit how improved filter operations and distribution
20 system flushing could improve the water quality. Andy Lee stated that the
21 Hardegrees had installed well filters and began flushing the system, both of
22 which had improved the water quality.

1 In the next general rate case in Docket No. W-390, Sub 10, with hearing
2 held on July 23, 2002, several customers testified they had experienced
3 episodes of brown or discolored water coming from their faucets and other
4 plumbing fixtures. Riverbend Water System, Inc., had installed an iron
5 removal filter and was flushing the distribution system monthly. Hearing
6 Examiner Stallings found in the Order dated September 12, 2002, in finding
7 of fact no. 14

8
9 "The water utility system serving Riverbend Estates
10 Subdivision is compliant with the NC Department of
11 Environment and Natural Resources Division of
12 Environmental Health, and the Applicant is providing
13 adequate water utility service. However, customers are
14 continuing to experience slugs of brown water on a periodic
15 basis, primarily the result of sediment build-up in the
16 distribution mains. The Company should investigate and
17 report to the Commission on the practicability, effectiveness
18 and cost of remedying this problem through each of the
19 following approaches; (1) sequestration; (2) scouring or
20 cleaning the mains; and (3) purchasing water from the Town
21 of Franklin."

1 In the summer of 2012, the Town of Franklin bulk purchased water
2 interconnection was completed and the Town of Franklin began to sell bulk
3 metered water to the Riverbend Estates water system. Prior to the
4 interconnection, the customers continued to experience discolored water
5 and staining from iron. In addition, the wells had struggled to meet the
6 demand. The Hardegrees had transferred the water system to a newly
7 formed corporation Riverbend Estates Water System, Inc. (REWS), in
8 which the Hardegrees owned 100% of the stock.

9
10 The Order Granting Franchise, Granting Partial Rate Increase and
11 Requiring Customer Notice dated February 26, 2013, in Docket No. W-390,
12 Sub 11, granted a certificate of public convenience and necessity to REWS
13 and a rate increase to include the expenses relating to purchased bulk water
14 from the Town of Franklin. No customers protested the applied for increase.
15 The Commission approved the metered rates as follows:

16	Monthly base charge, zero usage:	\$19.52
17	Usage charge, per 1,000 gallons:	\$5.00

18
19 The annual purchased water expense included in this rate case was
20 \$40,228, based upon average residential customer usage of 4,200 gallons
21 per month, plus 10% water loss, and the Town of Franklin's water usage
22 rate of \$5.00 per 1,000 gallons, plus a monthly base charge for a four-inch
23 water meter of \$440.

1 Beginning in August 2015, REWS only made partial purchased bulk water
2 payments each month to the Town of Franklin. The past due balances
3 increased monthly, with only a few exceptions. As of June 10, 2016, REWS
4 was indebted to the Town of Franklin in the amount of \$13,995 of which
5 \$11,347 was past due. Mrs. Hardegree executed a payment agreement
6 with the Town of Franklin dated June 10, 2016, with an agreed upon
7 payment plan to pay the current bill each month plus \$500 each week of the
8 arrearage. However, REWS did not comply with the agreement.

9
10 The Commission approved rates for REWS were reduced by Order dated
11 October 13, 2015, Docket No. W-390, Sub 12, for the repeal of the gross
12 receipts tax, by Order dated May 26, 2016, Docket No. W-390, Sub 12, for
13 the reduction to 4% of the North Carolina corporate income tax rate, and by
14 Order dated December 12, 2016, in Docket No. W-390, Sub 12, for the
15 reduction in the North Carolina corporate income tax rate to 3%. The
16 Commission approved rates for REWS were:

17 Metered Monthly Rates (Residential Service)

18	Base charge, zero usage	\$18.67
19	Usage charge, per 1,000 gallons	\$ 4.79

20
21 The average monthly residential customer water bill was \$38.79 based
22 upon the REWS tax reduced rates and the 4,200 gallons average monthly

1 consumption from the most recent REWS general rate case decided in
2 2013.

3
4 The bulk water rate, effective July 1, 2016, the Town of Franklin charged
5 REWS was a monthly base charge \$589.70, which included 24,000 gallons
6 minimum, and usage charge per 1,000 gallons of \$6.60. The Public Staff
7 Water Division on multiple occasions advised and provided instructions with
8 a sample filing to Ronald Hardegree for the filing of a purchased water pass
9 through rate increase. However, REWS has not filed for a pass through.

10
11 By letter dated October 10, 2016, attached as Junis Exhibit 1, the Town of
12 Franklin advised Mr. and Mrs. Hardegree that they owed the town \$27,987,
13 and the bulk water would be disconnected if the account was not paid in full
14 by November 10, 2016. The Town of Franklin's bulk water is the only water
15 source for the Riverbend Estates water system as the wells were
16 disconnected in the summer of 2012.

17
18 REWS sent to the 131 residential customers a letter dated
19 October 31, 2016, and attached as Junis Exhibit 2, stating that the company
20 was at risk of closing in the next 30 days. The letter stated customers
21 should make arrangements to start a personal account with the Town of
22 Franklin, and if that is not an option, to drill a water well for their residences.

1 Carolina Water's appointment as EO was effective May 16, 2017. The
2 Commission approved provisional rates as follows:

3 Metered Rates (Residential Service)

4 Monthly base charge, zero usage \$35.00

5 Usage charge, per 1,000 gallons \$11.95

6 In addition, the Commission's Order Appointing Emergency Operator and
7 Approving Increased Rates ordered:

8 "5. That the following items of information shall be
9 provided to Carolina Water within three business days of the
10 effective date of the emergency operator appointment:

11 a. Customer information for each residence
12 connected to the water system, containing at a minimum,
13 customer name, service address, billing address, contact
14 phone numbers (home and work), and billing records.

15 6. That the following items of information shall be
16 provided to Carolina Water within ten business days of the
17 effective date of the emergency operator appointment:

18 a. Copy of the water system plans and
19 specifications.

20 b. Copies of all monitoring reports and evaluations
21 completed by Riverbend Estates Water System, Inc., or its
22 certified operator for the past 24 months.

1 c. The names, addresses, and telephone number
2 of all vendors providing materials and supplies for the water
3 system operations.

4 d. Copies of all 2015 and 2016 property tax bills.

5 e. Copies of all 2016 and 2017 purchased bulk
6 water bills from the Town of Franklin.”
7

8 Pertaining to REWS' compliance with the Ordering paragraphs 5a. and 6a.-
9 e., the Public Staff has made the following findings:

10 Due date May 19, 2017

11 5a. Customer information, including name, billing address, and some
12 phone numbers and e-mail addresses were provided by REWS' counsel on
13 May 15, 2017. The customer list included the open balance on each
14 customer account, the outstanding balances total \$11,677.70 and the
15 account credits total \$348.09. The net open balance totals \$ \$11,329.61.
16 Approximately 60% of the accounts have an open balance less than \$50.00
17 while 11% exceed \$200.00, and the average water bill based on the tax
18 reduced rates and 4,200 gallons of usage was \$38.79. The customer list
19 was generated by REWS on May 8, 2017 and likely includes bills issued in
20 April but not the majority of payments associated with those bills. Detailed
21 billing records that include monthly consumption, bill amount, and payment
22 history have not been provided as required by Commission Order and

1 specifically requested by the Public Staff via e-mail dated May 3, 2017,
2 enclosed as Junis Exhibit 3.

3
4 Due date May 30, 2017

5 6a. A system map was provided to Carolina Water on June 29, 2017.

6 6b. Laboratory testing results from approximately 2015 through 2017 for
7 Total Coliform, E. coli, lead, copper, total trihalomethanes, and haloacetic
8 acids were provided to Carolina Water on June 29, 2017.

9 6c. Vendor name, address, and phone number information was provided
10 to Carolina Water for Ferguson Enterprises Inc., plumbing, HVAC, and
11 building supply company, and City Plumbing, plumbing supply company, on
12 June 29, 2017.

13 6d. Copies of all 2015 and 2016 property tax bills were provided to
14 Carolina Water on June 29, 2017.

15 6e. Copies of all 2016 and 2017, with exception to September 2016,
16 October 2016, and June 2017, purchased bulk water bills from the Town of
17 Franklin were provided to Carolina Water on June 29, 2017.

18
19 Based on review of copies of bills received from REWS and an account
20 register from the Town of Franklin, the Public Staff has calculated an
21 updated amount of \$53,821.28, which has been billed to REWS prior to
22 Carolina Water becoming the emergency operator on May 16, 2017.

1 With the 4% increased bulk water rate, effective July 1, 2017, the Town of
2 Franklin charges to Carolina Water are a monthly base charge \$613.29,
3 which includes 24,000 gallons minimum, and usage charge per 1,000
4 gallons of \$6.86.

5
6 Q. **HAVE YOU PERSONALLY SPOKEN TO MR. HARDEGREE PRIOR TO**
7 **THE EMERGENCY OPERATOR PETITION?**

8 A. I have spoken to Mr. Hardegree on multiple occasions. On the following
9 occasions, I individually spoke with Mr. Hardegree and documented the
10 conversation in a call log or with written notes:

11
12 On August 11, 2015, I received a call from Mr. Hardegree and he was
13 inquiring about if and how he could charge the customers a security deposit.
14 In addition, he mentioned cut off or discontinuance of service for non-
15 payment. I sent an e-mail later that day as follow-up and clarification, which
16 I have enclosed as Junis Exhibit 4. In summary of the e-mail, I informed
17 him of the pertinent Commission Rules, attached them for his reference,
18 and reminded him that the most recent Commission approved schedule of
19 rates states that bills are considered past due 30 days after the billing date.

20
21 On May 20, 2016, I received a call from Mr. Hardegree and he expressed
22 concerns about losing money and how he could return to utilizing his wells.
23 Unfamiliar with the history or details of the system at the time, I told him that

1 typically there is a reason those wells were made inactive or
2 decommissioned and the initial permitting and testing would likely be costly.
3 There would also be the cost to treat and/or filter the wells if the reason was
4 water quality. There would be the cost of additional wells if the reason was
5 lack of production. To address any increase in the cost of purchased water,
6 I referred him to G.S. 62-133.11. and provided Docket No. W-218, Sub 428
7 as an exemplary pass-through petition. Mr. Hardegree indicated he would
8 need his wife to call me back since she was "smarter" and would likely draft
9 the petition. I left Mr. Hardegree with my phone number and assured him
10 that I would be happy to assist her. I did not receive a follow-up
11 communication from Mrs. Hardegree.

12
13 Q. **WHAT HAS CAROLINA WATER DONE TO ADDRESS UNACCOUNTED**
14 **FOR WATER?**

15 A. Carolina Water replaced a leaking 2" valve along Czonka Lane on May 19,
16 2017, the invoice from Black Oak Maintenance and Repair LLC is enclosed
17 as Junis Exhibit 5. In addition, Matchpoint Inc. submitted to Cavanaugh &
18 Associates a Leak Detection Survey. The stated objective of the survey
19 was to "provide some preliminary indication of the integrity of the distribution
20 piping network, specifically identifying any breaks or leaks that have yet to
21 surface, known as "unreported" leakage." The survey identified one
22 confirmed leaking fitting on the distribution mains and a suspected leak on

1 a customer service after the meter, which were estimated to be leaking at a
2 combined 0.25 gallons per minute or 10,950 gallons per month.

3

4 Q. **HAS THE PUBLIC STAFF RECEIVED ANY CUSTOMER COMPLAINTS?**

5 A. As of August 8, 2017, the Public Staff has received approximately 33
6 customer complaints, which were filed with the Chief Clerk and are
7 generally in opposition to the magnitude of the rate increase and that REWS
8 should be held responsible for the arrearage to the Town.

9

10 Q. **DID REWS AND MR. HARDEGREE AS THE PRESIDENT AND SOLE**
11 **SHAREHOLDER OF REWS, ABANDON THE RIVERBEND ESTATES**
12 **WATER UTILITY SYSTEM WITHOUT COMMISSION APPROVAL AS**
13 **REQUIRED BY G.S. 62-118(a)?**

14 A. Yes, neither REWS nor Mr. Hardegree applied to the Commission for
15 permission to abandon this water system. The Commission has not issued
16 an order authorizing the abandonment of the Riverbend Estates water
17 system.

18

19 By letter dated October 10, 2016 (Junis Exhibit 1), the Town of Franklin
20 advised Mr. and Mrs. Hardegree that they owed the town \$27,987, and the
21 bulk water would be disconnected if the account was not paid in full by
22 November 10, 2016. The Town of Franklin's bulk water is the only water

1 source for the Riverbend Estates water system as the wells were
2 disconnected in the summer of 2012.

3
4 Public Staff Attorney William Grantmyre spoke with Summer Woodard,
5 Franklin Town Manager on November 7, 2016, and informed Ms. Woodard
6 that the Public Staff would request the Commission appoint an emergency
7 operator (EO) pursuant to G.S. 62-118(b) and that the EO would assume
8 all operations and responsibilities for the Riverbend Estates water system,
9 including payment of all Town of Franklin purchased water bills.

10
11 The Public Staff believes the failure by REWS and Mr. Hardegree to pay
12 the Town of Franklin's purchased water bills was an abandonment of the
13 franchise service responsibilities creating an emergency as all the
14 residential customers were in imminent danger of losing all water service
15 through discontinuance by the Town of Franklin for non-payment of the bulk
16 purchased water.

17
18 The Public Staff contacted Mr. Hardegree on approximately 10 occasions,
19 subsequent to Mr. Hardegree's letter, dated October 31, 2016 (Junis Exhibit
20 2), to customers, attempting to obtain customer consumption information in
21 order to calculate EO customer rates to recommend for Commission
22 approval to ensure the revenues would be adequate for the EO to pay the
23 operating expenses.

1 Mr. Hardegree informed me that his wife did all the customer billing, and I
2 would need to get the information from her. Mrs. Hardegree never would
3 return my approximately 6 calls and never did provide the customer
4 consumption billing information. The failure to provide this information
5 constituted a violation of Commission Rule R7-3(a). Finally, on May 4,
6 2017, the Public Staff received 12 non-consecutive months of customer
7 meter reading papers sent by the REWS attorney Stuart Sloan. As the
8 meter reading papers did not contain a full twelve months, the Public Staff
9 used the 2013 REWS general rate case customer consumption information
10 to calculate the Public Staff recommended EO rates.

11

12 Q. **WHEN DID REWS AND MR. HARDEGREE COMPLETELY ABANDON**
13 **THE SERVICE TO THE RESIDENTIAL CUSTOMERS?**

14 A. Neither REWS nor Mr. Hardegree made any payments to the Town of
15 Franklin subsequent to February 21, 2017. The Town of Franklin's bulk
16 water is the only water source for the Riverbend Estates water system.
17 Subsequently, the following purchased bulk water bills were sent by the
18 Town of Franklin:

<u>Bill Date</u>	<u>Current Bill Amount</u>	<u>Total Amount Due</u>
February 22, 2017	\$5,341	\$37,340
March 22, 2017	\$5,222	\$42,562
April 21, 2017	\$4,433	\$46,995
May 22, 2017	\$6,554	\$53,649

1 During that same period the Public Staff estimates that REWS billed the
2 residential customers approximately \$19,000, **but did not make any**
3 **payments to the Town of Franklin.** The Public Staff recommends the
4 Commission rule that the REWS abandonment was effective on February
5 22, 2017. The Town of Franklin purchased water bills and REWS payments
6 from January 2016 through July 2017 have been summarized in a table,
7 shown on Junis Exhibit 6, as well as the bills dated May 22, 2017, and
8 June 22, 2017.

9

10 Q. **DID REWS AND MR. HARDEGREE VIOLATE G.S. 62-118(b)**
11 **ABANDONING SERVICE CREATING AN EMERGENCY AND THE**
12 **IMMINENT DANGER OF THE RIVERBEND ESTATES WATER**
13 **CUSTOMERS LOSING ALL WATER SERVICE?**

14 A. Yes, the complete failure to pay anything to the Town of Franklin
15 subsequent to February 21, 2017, created the imminent discontinuance for
16 non-payment by the Town of Franklin of the bulk purchased water, the only
17 water source. The process of the Public Staff preparing the petition to the
18 Commission for the appointment of an EO, enabled the customers to
19 continue to receive water service.

20

21 Q. **WHAT PENALTY DOES THE PUBLIC STAFF RECOMMEND?**

22 A. The Public Staff recommends that the Commission order Mr. Hardegree
23 and REWS, jointly and severally, to pay a penalty pursuant to G.S. 62-310,

1 of \$1,000 per day for each day from the last payment to the Town of Franklin
2 on February 21, 2017, until the Commission appointment of the emergency
3 operator on May 16, 2017, being a total of \$84,000 for the 84 days.

4
5 Mr. Hardegree is the President and sole owner of REWS, and upon advice
6 of counsel REWS has not complied with the requirements of the North
7 Carolina Business Corporation Act. REWS has not filed the required annual
8 report with the North Carolina Secretary of State subsequent to REWS'
9 annual report for the fiscal year ending September 30, 2013, as shown on
10 Junis Exhibit 7. The Public Staff does not believe that REWS has held the
11 required annual shareholder meetings. In addition, the previously
12 described approximately \$19,000 billed to customers has apparently been
13 misapplied as these funds have not been utilized for the payment of the
14 Town of Franklin bulk purchased water bills.

15
16 The misapplication of this approximately \$19,000 billed to customers is a
17 material contributing factor to this willful abandonment.

18
19 **Q. WHAT IS THE AMOUNT OF PURCHASED BULK WATER EXPENSE**
20 **OWED BY REWS TO THE TOWN OF FRANKLIN ON MAY 16, 2017, THE**
21 **EFFECTIVE DATE OF THE EMERGENCY OPERATOR APPOINTMENT?**

22 **A.** The purchased water total was \$53,821.28.

1 Q. WILL THE PENALTIES TOTALING \$84,000 BE PAID TO THE TOWN OF
2 FRANKLIN?

3 A. No. The penalties described in G.S. 62-310, would not be payable to the
4 Town of Franklin.

5

6 Q. HAS THE PUBLIC STAFF CONSIDERED AN ALTERNATIVE
7 RECONCILIATION OF THE VIOLATIONS?

8 A. Yes. In lieu of payment of the recommended \$84,000 penalties, the Public
9 Staff recommends the Commission allow Mr. Hardegree 30 days from the
10 date of the hearing, August 15, 2017, to pay the \$53,821.28 owed to the
11 Town of Franklin. If the balance has not been paid by the close of business
12 on September 14, 2017, the Commission should apply to a Superior Court
13 judge for enforcement of the \$84,000 penalties.

14

15 Q. WHAT LAND PARCELS ARE COMPONENTS OF THE RIVERBEND
16 ESTATES WATER SYSTEM?

17 A. Prior to 2013, the water source was wells. There are five real property
18 parcels which to the best of the Public Staff's knowledge were utilized for
19 well production and/or storage. These five parcels are listed by the Macon
20 County Property Tax Office to Riverbend Water System, Inc., the company
21 owned by Ronald Hardegree and his wife Geraldine Hardegree, and
22 granted the Riverbend Estates water system franchise in 1987, Docket No.
23 W-390, Sub 6, Order dated October 7, 1987. These five real property

1 parcels are shown on Junis Exhibit 8. The total combined property tax
2 assessed value is \$74,660.

3

4 Q. **DOES RIVERBEND WATER SYSTEM, INC., STILL EXIST?**

5 A. No, the corporation was administratively dissolved by the North Carolina
6 Secretary of State on December 1, 1993, as shown on Junis Exhibit 9.

7

8 Q. **HAVE THE FIVE PARCELS BEEN TRANSFERRED TO REWS?**

9 A. The Public Staff's online search of the Macon County Register of Deeds
10 records does not reveal a transfer to REWS, as shown on Junis Exhibit 10.

11

12 Q. **HAS THE PUBLIC STAFF'S REGISTER OF DEEDS RECORDS SEARCH**
13 **REVEALED MORTGAGES OR DEED OF TRUST ON THESE**
14 **PROPERTIES?**

15 A. The Public Staff found none.

16

17 Q. **IS RONALD HARDEGREE AN EXPERIENCED BUSINESS PERSON?**

18 A. I have only spoken with Ronald Hardegree on the telephone and have not
19 researched his entire business history. The Public Staff did search online
20 the Macon County Register of Deeds for Ronald Hardegree, and Junis
21 Exhibit 11 is the printout which reflects numerous real property transactions
22 as grantor on deeds, grantee on deeds, and grantor on deeds of trust. Mr.

1 Hardegree appears to be experienced in Macon County land transactions
2 including financing with deeds of trust.

3

4 Q. **WHAT IS THE MOST RECENT DEED OF TRUST EXECUTED BY**
5 **RONALD HARDEGREE AND WIFE SHIRLEY DIANE HARDEGREE?**

6 A. There is an Equity Line of Credit Deed of Trust dated February 19, 2016,
7 recorded on March 3, 2016, in Deed Book 2335 page 2342, Macon County
8 Register of Deeds, as shown on Junis Exhibit 12. The lender is TD Bank,
9 N.A., the maximum obligation limit is \$220,000 as stated in paragraph no.
10 3, and the property secured is a 1.42 acre tract, being the property
11 conveyed to Ronald L. Hardegree by deed recorded on January 31, 1984,
12 in Deed Book 0-15 page 87, Macon County Register of Deeds.

13

14 Q. **DOES THE PUBLIC STAFF KNOW WHAT AMOUNTS RONALD**
15 **HARDEGREE HAS OBTAINED ON THIS EQUITY LINE OF CREDIT?**

16 A. No, we do not have access to that information.

17

18 Q. **DOES THE PUBLIC STAFF KNOW WHY MR. HARDEGREE DID NOT**
19 **UTILIZE THIS EQUITY LINE OF CREDIT TO PAY THE TOWN OF**
20 **FRANKLIN WATER BILLS?**

21

22 A. The Public Staff does not know. However, as shown on Junis Exhibit 1, the
23 amount due to the Town of Franklin on the deed of trust recording date was

1 \$17,971. A total of \$12,741 was paid to the Town of Franklin prior to the
2 March 22, 2016, billing date. However, at no time after that payment, did
3 REWS or Mr. Hardegree pay all the Town of Franklin current monthly bills
4 and the arrearages increased each month.

5
6 The Public Staff believes this \$220,000 Equity Line of Credit provided
7 Ronald Hardegree with adequate access to funds for a loan to REWS or
8 equity infusions to REWS. Mr. Hardegree's willful failure to provide the
9 necessary funds is a material contributing factor of the abandonment.

10
11 Q. **HAS THE PUBLIC STAFF RESEARCHED RONALD HARDEGREE'S**
12 **PERSONAL ASSETS?**

13 A. The Public Staff searched the online records of the Macon County Property
14 Tax Office. The Public Staff found one parcel listed to Ronald L. Hardegree,
15 Sr., on McClure Mill Road with an assessed value of \$218,550, two parcels
16 listed to Ronald L. Hardegree, Sr., and Geraldine Hardegree (now
17 deceased), one being on Fire House Road with an assessed value of
18 \$271,890, and one described as two lots on Coweeta Lands with an
19 assessed value of \$96,690. These three parcels have a combined
20 assessed value of \$587,130.

21
22 In addition, there is one parcel listed to Ronald Hardegree and wife Diane
23 Hardegree, described as 1.40 acres Coweeta, with a property tax assessed

1 value of \$120,270. These four tax real property parcels are shown on Junis
2 Exhibit 13.

3

4 The Public Staff believes Ronald Hardegree has had adequate access to
5 funds in order to pay the Town of Franklin. Mr. Hardegree's willful failure to
6 do so, is a material contributing factor to the abandonment.

7

8 Q. DOES THE PUBLIC STAFF RECOMMEND THAT THE COMMISSION
9 ORDER RONALD HARDEGREE AND REWS FILE DOCUMENTATION
10 WITH THE COMMISSION?

11 A. Yes, the Public Staff recommends that the Commission order Mr.
12 Hardegree and REWS to file with the Commission on or before September
13 14, 2017, the following:

14 a. Customer billing and payment records for each month January 2016
15 through May 2017

16 b. Copies of all REWS bank statements for each month January 2016
17 through May 2017, including all REWS cancelled checks.

18

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.