

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Thursday, December 8, 2022
DOCKET NO.: W-354, Sub 396
W-1073, Sub 7
TIME: 10:00 a.m - 1:50 p.m.
BEFORE: Hearing Examiner Dustin Rhodes

IN THE MATTER OF:

Application by

Carolina Water Service, Inc. of North Carolina, 4944
Parkway Plaza Boulevard, Suite 375,
Charlotte, North Carolina 28217, and
Water Resource Management, Inc., 151 Bish Boulevard,
Boone, North Carolina 28607, for Authority to Transfer
the Echota Water Utility System, the Seven Devils
Wastewater Utility System and Public Utility Franchise
in Watauga County, North Carolina,
And for Approval of Rates

Volume 2

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P R O C E E D I N G S

HEARING EXAMINER RHODES: Good morning.

Let's come to order, please, and go on the record.

I am Dustin Rhodes, a hearing examiner with the North Carolina Utilities Commission, and I have been assigned to preside over the expert witness hearing today.

I now call for hearing Docket Numbers W-354, Sub 396 and W-1073, Sub 7, which is the Application by Carolina Water Service, Inc. of North Carolina, hereafter Carolina Water Company, or Applicant, and Water Resource Management. Inc., hereafter, Water Resource for authority to transfer the Echota Water Utility System, the Seven Devils Wastewater Utility System, and the Public Utility Franchise in Watauga County, North Carolina, and for approval of rates.

On April 22, 2022, Carolina Water filed its Application for the transfer of the Echota Water System and Seven Devils wastewater system, hereafter the Transfer Application, currently owned by Water Resource to Carolina Water. The Transfer Application requested that the Commission approve the transfer of water and waste assets, approve the

1 transfer of the public utility franchise from Water
2 Resource to Carolina Water, and approve water and
3 wastewater rates. At the time of filing of the
4 Transfer Application, Water Resource served 613
5 water customers in the Echota service area and 149
6 wastewater customers in the Seven Devils service
7 area.

8 On April 26, 2022, Carolina Water filed a
9 revision to Exhibit 4 of its Transfer Application. The
10 revised Exhibit 4 was filed to replace formatting and
11 document quality issues with the original filing, which
12 was difficult to read.

13 On May 9, 2022, after its review of the
14 transfer application, the Public Staff filed a
15 deficiency letter citing the material deficiencies in
16 the transfer application.

17 On May 11, 2022, Carolina Water filed a
18 revised transfer application including revised Exhibit
19 7 and revised Exhibit 8 to address deficiencies
20 identified by the Public Staff.

21 On September 2, 2022, the Commission issued
22 an order scheduling hearings establishing discovery
23 guidelines and requiring customer notice. That order
24 scheduled a public hearing for 7 p.m. on Tuesday,

1 November 1, 2022, at the Watauga County Courthouse in
2 Boone, North Carolina, for the sole purpose of
3 receiving testimony from Water Resource's customers in
4 the Echota and Seven Devils service areas. The order
5 also scheduled an expert witness hearing for 10 a.m. on
6 Thursday, December 8, 2022, in the Dobbs Building, 430
7 North Salisbury Street, Raleigh, North Carolina, for
8 the sole purpose of receiving expert witness testimony
9 from Carolina Water, the Public Staff, and any
10 interveners in this proceeding. The order also
11 required Carolina Water to distribute a customer notice
12 to all affected customers in Seven Devils service
13 areas.

14 The present water utility rates for the
15 Echota service area were approved in Docket number
16 W-1073, Sub 4, on December 16, 2015. These water
17 utility rates become effective for phase 4 of the
18 Echota subdivision for when Commission acknowledged
19 phase 4 as a continuous extension to the existing
20 Echota service areas in an order issued in Docket
21 Number W-1073, Sub 6, on March 26, 2021. The present
22 wastewater utility rates for the Seven Devils service
23 area were approved in Docket Numbers W-1073, Sub 5, and
24 M-100, Sub 138, and have been in effect since

1 February 13, 2015.

2 According to the Transfer Application and the
3 customer notice, upon acquisition of the Echota and
4 Seven Devils utility systems, Carolina Water proposes
5 to charge its uniform rates for flat residential water
6 and wastewater utility service that are currently
7 approved by the Commission in Docket Number W-354, Sub
8 384, April 8, 2022. For residents in the Echota
9 service area, the monthly bill would increase from a
10 flat rate of \$20 to \$68.71. For residents in the Seven
11 Devils service area, the monthly bill for wastewater
12 utility service would increase from a flat rate of
13 \$28.20 to \$85.12.

14 Presently, customers in the Echota service
15 area are not metered. Upon acquisition of the Echota
16 system, Carolina plans to install water meters and
17 provide metered water service in the 613 Echota Water
18 Utility customers. Once meters are installed, Carolina
19 Water plans to charge metered water the uniform rate
20 for monthly metered water service approved by the
21 Commission in Docket Number W-354, Sub 384, on April 8,
22 2022. Based on an average monthly water usage of 3,837
23 gallons, the proposed monthly metered water bill will
24 be \$69.46, which includes a base facility charge of

1 \$24.53 and a usage charge of \$11.71 per 1,000 gallons
2 of water usage.

3 On September 14, 2022, Carolina Water
4 submitted its certificate of service indicating that
5 customer notice was mailed to all customers of the
6 Echota and Seven Devils service areas on
7 September 13, 2022, via United States mail, first class
8 postage prepaid.

9 On October 10, 2022, Carolina Water filed the
10 direct testimony and exhibits of witness
11 Donald H. Denton, III, Senior Vice President, East
12 Operations for Corix Regulated Utilities and President
13 of Carolina Water.

14 On October 14 and 17, 2022,
15 Edward B. Winn, Jr., and James D. Moore, III, filed
16 petitions of intervention in this proceeding. On
17 October 26, 2022, the Lakes Community Property Owners'
18 Association, Inc., hereafter, the Lakes Community POA,
19 filed a petition to intervene in substitution of Mr.
20 Winn and Mr. Moore. On October 26, 2022, the
21 Commission issued an order granting the late
22 intervention of the Lakes Community POA and allowing
23 the withdrawal of the petitions to intervene filed by
24 Mr. Winn and Mr. Moore.

1 On October 31, 2022, The Lakes Community POA
2 filed the joint testimony of Mr. Winn and Mr. Moore.

3 Also on October 31, 2022, the Public Staff
4 filed the testimony and exhibit of Michael Franklin,
5 public utilities engineer with the Public Staff's
6 water, sewer, and telephone division, and the testimony
7 of Lynn Feasel, financial manager with the Public
8 Staff's accounting division.

9 On November 1, 2022, a public witness hearing
10 was held as scheduled at the Watauga County Courthouse
11 in Boone, North Carolina, for the sole purpose of
12 receiving testimony from Water Resource's customers in
13 the Echota and Seven Devils service areas.

14 On November 14, 2022, Water Resource filed
15 its report on customers concerns that were made at the
16 public witness hearing held on November 1, 2022.

17 On November 18, 2022, Carolina Water filed
18 its report on customer concerns that were made at the
19 public witness hearing.

20 Also on November 18, 2022, Carolina Water
21 filed the rebuttal testimony of Donald H. Denton, III.

22 On November 29, 2022, Carolina Water filed a
23 list of witnesses to be called at the expert witness
24 hearing, including estimates for cross examination

1 times by each of the parties.

2 On December 5, 2022, the Public Staff filed
3 its responses to Water Resource's and Carolina Water's
4 reports on customer's concerns from the public witness
5 hearing.

6 That brings us to date. Will the parties
7 please announce their appearances, and for the order,
8 I'll say let's begin with Carolina Water first, and
9 then Water Resource, and last, but not least, we'll do
10 the Public Staff

11 MS. SANFORD: Thank you, Examiner
12 Rhodes. I'm Jo Anne Sanford with Sanford Law
13 Office representing Carolina Water service. With
14 me here today at counsel table is Don Denton the
15 state president of Carolina Water. Very close to
16 counsel table is Matthew Schellinger, with Carolina
17 Water, and in the audience is Tony Konsul, who's
18 director of operations for the State of
19 North Carolina.

20 HEARING EXAMINER RHODES: Thank you,
21 Ms. Sanford.

22 MR. DROOZ: David Drooz. Appearing on
23 behalf of Water Resource Management, and just to
24 clear up some confusion we contributed to, it is an

1 LLC now, not an incorporated. They made that
2 conversion a couple years ago. Thank you.

3 HEARING EXAMINER RHODES: Thank you,
4 Mr. Drooz. We'll make note of that on the record.

5 MR. BRADY ALLEN: Good morning,
6 Mr. Rhodes. Name is Brady Allen. I'm with the
7 Allen law offices, and I represent the Lakes
8 Property Community -- Lakes Property Owner -- Lakes
9 Community Property Owners Association, excuse me.
10 With me is Dwight Allen, who is co-counsel. In the
11 room today we also have Mr. Winn and Mr. Moore, who
12 are both officers of the Lakes Community POA.

13 Thank you.

14 HEARING EXAMINER RHODES: Thank you,
15 Mr. Allen.

16 MR. LITTLE: Jon Little, attorney with
17 the Public Staff, and with me today is
18 Michael Franklin, an engineer with the Public Staff
19 water sewer and telephone division, and
20 Lynn Feasel, who is the manager of the water
21 division, the Public Staff accounting division.

22 HEARING EXAMINER RHODES: Thank you,
23 Mr. Little.

24 All right. For the next step, are there

1 any preliminary matters we need to address before we
2 begin the expert witness hearing.

3 I understand Carolina Water wants to
4 make an opening statement. Now would be a great
5 time to do that.

6 MS. SANFORD: Thank you. Thank you for
7 the opportunity to do so, and I will be brief.

8 This is more about just, sort of,
9 characterizing what we're about this morning, and
10 in some ways I think this case is a little bit of
11 an anomaly. It's a little different. I hope it's
12 a little different in some ways, because it's
13 taking a while. It's been costly. It has more
14 controversy than normally I think we would expect
15 in a transfer case of a relatively small to
16 moderate system. It includes agreement on a number
17 of things, including, I think though I shouldn't
18 characterized other positions, it will be revealed
19 here -- but I believe there is little opposition to
20 the transfer, itself. Let me say that. But a good
21 deal of opposition and concern about the rates.

22 It includes issues familiar to us in
23 this industry, such as rate design, standalone
24 versus uniform, benefits of consolidation, rate

1 shock -- it's been a big concern in this case, and
2 the impact of acquisitions. The notion of when we
3 migrate smaller systems to larger systems, how do
4 we do it? And how do we price it? This -- this
5 relatively, I thought initially, a smaller case
6 seems to be chock full of those kinds of issues.

7 And the point I wanted to make this
8 morning as I've observed what we're about here, is
9 that I think this industry needs guidance from this
10 Commission with respect to acquisitions in to how a
11 company should proceed, in terms of with the
12 management of their business with respect to
13 looking at acquisitions of other systems.

14 So thank you for that opportunity, and
15 we look forward to the hearing.

16 HEARING EXAMINER RHODES: Thank you,
17 Ms. Sanford.

18 Are there any other preliminary matters
19 or statements other parties would like to make this
20 morning?

21 MR. DWIGHT ALLEN: We'll just make a
22 brief statement. Not much. Frankly, with due
23 respect to Mr. Sanford, I'm a little bit surprised
24 that she was surprised that there was concern, at

1 least in the Lakes Community Homeowners
2 Association, about the proposal being made in this
3 case. We have a situation where as a flash cut
4 matter, the company is proposing to increase the
5 rates threefold for these customers.

6 If you look at what they've got proposed
7 in their current rate cases, it's not been
8 finalized, it's a possibility in a short period of
9 time, those rates would be increased fourfold. And
10 the interesting thing is -- and I'll agree with Ms.
11 Sanford in this case -- is a lot of testimony in
12 Mr. Denton's testimony about what a good company
13 Carolina Water Service is. We're not here to
14 decide whether Carolina Water Service is a good
15 company or a bad company, but they are not
16 undergoing a charitable operation here. They are
17 buying a piece of property. They have sought to
18 amend the environmental permit to increase
19 capacity, which indicates it's a big gross agent.

20 And I've done a lot of business cases in
21 my life, but if you look at the cost of acquiring
22 the system and the amount of revenue that's going
23 to be generated, we're talking about a payback
24 period of about a year. And even if you factor in

1 the additional capital investments that the Company
2 has talked about, the payback period is still
3 extraordinarily short. So we think there's reason
4 for the people at Lake Community to be a little bit
5 concerned about this.

6 We are agnostic as to whether this
7 system is transferred or not. We're certainly not
8 proposing we're happy for them to transfer it, but
9 we also think that rate equity and the
10 consideration of the historical cost of service of
11 the Lakes Community the Southern Devils wastewater
12 system ought to be considered, and that's exactly
13 what the Public Staff did in this case. And they
14 came up with a rate of about \$37 compared to the
15 \$87 that Carolina Water would like to begin
16 charging these people on a flash cut basis.

17 I agree with Mr. Sanford that something
18 needs to be done about how to handle these
19 acquisitions. I'm not sure it's something that the
20 Commission needs to deal with, or maybe the General
21 Assembly needs to deal with. This strikes me, the
22 initial proposal, as being a question of legality.
23 I don't think our statutes intended that a company
24 could acquire a system and not consider that

1 company's underlining cost of service and
2 immediately increase a rate by three times. It's
3 not based on Seven Devils cost of service, and it
4 strikes me very much as single issue ratemaking. I
5 think it was contemplated that when you do that,
6 you throw those costs into the general rate case of
7 the company and they come up with another rate, and
8 then the Commission has to decide based on the
9 equities of the situation, whether it will be
10 included in the uniform rate or will there be an
11 exception made because of extenuating
12 circumstances. And that's why we intervened in
13 this case, and why we really think the Public Staff
14 has come up with a pretty good solution for this.

15 MS. SANFORD: Mr. Rhodes, may I make one
16 correction, please?

17 HEARING EXAMINER RHODES: Yes.

18 MS. SANFORD: I agree with much --
19 probably not all, but a great deal of what
20 Mr. Allen said.

21 MR. DWIGHT ALLEN: You never agree with
22 all of what I said, Sanford.

23 MS. SANDFORD: Of course not. What
24 would be the fun in that? I do want to make a

1 correction, if it is needed. We are not surprised
2 at the intervention or the concern. And I
3 specifically mentioned rate shock as being one of
4 the issues that is here before the Commission. So
5 I just wanted to clarify that.

6 MR. DWIGHT ALLEN: I'll accept that
7 clarification.

8 HEARING EXAMINER RHODES: Thank you,
9 Ms. Sanford. Thank you, Mr. Allen.

10 Any other opening statements?

11 Mr. Drooz?

12 MR. DROOZ: Yes. Thank you. I think
13 that finally some other parties show Water Resource
14 Management has been operating at a loss for some
15 years with this system, and it is not their core
16 business. They're a developer. They very much
17 want to put this system in the hands of a company
18 that is a professional water and sewer utility
19 operator. In terms of rates, obviously, that
20 hadn't affected Water Resource Management going
21 forward after transfer, but the fact that the
22 Company has been operating at such a loss means
23 that the rates are not covering costs as is.

24 The last thing I would say is that I

1 have never seen a case or ruling that suggested
2 that uniform rates was unlawful.

3 Thank you. That's all.

4 HEARING EXAMINER RHODES: Thank you,
5 Mr. Drooz.

6 All right. Any other opening
7 statements? Anything the Public Staff would like
8 to say?

9 MR. LITTLE: No. None from the Public
10 Staff.

11 HEARING EXAMINER RHODES: All right.

12 Now we begin the actual part of the
13 case. So, Carolina Water, I have you up first and
14 the case is with you. If you would please call
15 your first witness and I will swear them in.

16 MS. SANFORD: Thank you.

17 I call Donald Denton, please.

18 HEARING EXAMINER RHODES: Good morning.

19 Mr. Denton, if you could place your left hand on
20 the bible and raise your right hand.

21 Whereupon,

22 DONALD DENTON,

23 having first been duly sworn, was examined and

24 testified as follows:

1 DIRECT EXAMINATION BY MS. SANFORD:

2 Q. Thank you, Mr. Denton. That chair must feel
3 a little bit like your second home.

4 A. It does.

5 Q. Tell me when you're ready.

6 A. I'm actually going to use this one instead.

7 Q. Would you please state your name and address
8 and business occupation for the record, please.

9 A. Donald H. Denton, III. Address is 5821
10 Fairview Road, Charlotte, North Carolina 28209. And
11 I'm here as President of Carolina Water Service.

12 Q. And did you prepare for filing and file
13 direct and rebuttal testimony in this case?

14 A. I did.

15 Q. If you gave that testimony orally from the
16 stand today, would it be the same as you had filed?

17 A. It would.

18 Q. Do you have any corrections to your
19 testimony?

20 A. I do not.

21 MS. SANFORD: Let's see. We just had
22 the rate case that we did this differently. Let me
23 see if I can revert. We would ask that his
24 testimony -- and his, let me be clear, he is up

1 here for direct. We'll put him back up for
2 rebuttal. We'll ask that his testimony be copied
3 into the record, and I don't believe we had any
4 exhibits to your direct testimony.

5 MR. DENTON: Not direct.

6 MS. SANFORD: But all of a sudden I
7 don't remember. So we'll ask that be copied into
8 the record as if given orally from the stand, and
9 Mr. Denton is available for cross.

10 HEARING EXAMINER RHODES: Okay. Without
11 objection the prefiled testimony of Mr. Denton --
12 and we'll check if there are any exhibits to his
13 testimony -- but it will be copied into the record
14 as if given orally from the stand.

15 (Whereupon, the prefiled direct
16 testimony of Donald Denton was copied
17 into the record as if given orally from
18 the stand.)

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

2 A. My name is Donald H. Denton III, and my business address is
3 5821 Fairview Rd., Suite 401, Charlotte, North Carolina 28209.

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

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

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

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

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

20 A. I am responsible for the Company’s regulated water and sewer operations
21 in North Carolina, including facility operations, finance, business

1 development, safety, compliance, regulatory affairs, and customer
2 service.

3 **Q. PLEASE DESCRIBE THE WATER AND SEWER OPERATIONS OF**
4 **CWSNC IN NORTH CAROLINA.**

5 A. CWSNC is an investor-owned public utility pursuant to G.S. 62-3, does
6 business as a regulated water and sewer utility in North Carolina, and is
7 subject to the regulatory oversight of this Commission. The Company
8 presently serves approximately 34,672 water customers and
9 21,530 sewer customers in North Carolina and operates approximately
10 93 water systems and 38 sewer systems in the State. The Company's
11 service territory spans 38 counties in North Carolina, from Corolla in
12 Currituck County to Bear Paw in Cherokee County.

13 G.S. 62-131(b) requires that every public utility in North Carolina shall
14 provide service to its customers which is "...adequate, efficient, and
15 reasonable..." CWSNC is proud of the quality of service which it
16 consistently provides to its water and sewer customers in this state. In
17 CWSNC's most recently decided rate case in Docket No. W-354, Sub 384,
18 the Commission, consistent with G.S. 62-131(b), described the overall
19 quality of service provided by the Company as "...adequate, reliable, and
20 economical." (See the April 8, 2022 Sub 384 Rate Case Order at pages 6
21 and 16).

Docket No. W-354, Sub 396

Docket No. W-1073, Sub 7

1 Another significant indicium of the quality of water and sewer service
2 provided by CWSNC in North Carolina is the fact that, upon
3 recommendation by the Public Staff, the Company has been appointed to
4 serve on multiple occasions as the emergency operator of water and/or
5 sewer systems in this state. In fact, CWSNC is presently serving as the
6 emergency operator of four troubled or defunct public utilities in
7 North Carolina: Harrco Utility Corporation (Docket No. W-796, Sub 12);
8 Cross-State Development Company (Docket No. W-408, Sub 9);
9 Mountain Air Utilities Corporation (Docket No. W-1148, Sub 20); and
10 Outer Banks/Kinnakeet Associates, LLC (Docket Nos. W-1125, Subs 9
11 and 10).

12 Furthermore, subsequent to serving as the Commission-appointed
13 emergency operator of two additional troubled utility systems in
14 North Carolina (the Riverbend Estates water system in Macon County
15 [Docket Nos. W-390, Subs 13 and 14 and W-354, Sub 358] and the
16 Silverton water and sewer system in Cabarrus County [Docket Nos.
17 W-354, Sub 361 and W-1046, Sub 5]), CWSNC acquired those systems
18 in system transfer cases by Orders entered on May 16, 2019, and
19 August 6, 2019, respectively.

20 Thus, CWSNC has a strong history of willingness to assist and acquire
21 troubled water and sewer utility systems in North Carolina.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. My testimony explains the object and purposes of this Application and
4 addresses how the public interest is served by the acquisition by CWSNC
5 of the water and sewer utility systems owned by Water Resource
6 Management LLC (“Water Resource”), which are located in Watauga
7 County. James Edward Harrill, II is the Executive Manager for Water
8 Resource.

9 **Q. PLEASE DESCRIBE THE APPLICATION FILED IN THIS DOCKET.**

10 A. On April 22, 2022, CWSNC and Water Resource filed an Application for
11 Transfer of Public Utility Franchise and for Approval of Rates
12 (“Application”) seeking authority to transfer the water and wastewater
13 utility systems and public utility franchise serving all of Water Resource’s
14 service areas in Watauga County, North Carolina, from Water Resource
15 to CWSNC and for approval of rates. CWSNC filed supplemental and
16 additional materials in support of the Application on April 26 and May 11,
17 2022 and has, to date, responded to 9 Data Requests from the Public
18 Staff, many of which include multiple parts and questions.

19 **Q. PLEASE DESCRIBE THE WATER AND SEWER UTILITY SYSTEMS**
20 **WHICH CWSNC SEEKS TO ACQUIRE FROM WATER RESOURCES.**

1 A. Water Resource currently serves 613 monthly flat rate water utility
2 customers and 149 monthly flat rate wastewater utility customers in its
3 service areas in Watauga County, North Carolina. The Water Resource
4 water service areas include Echota Subdivision, Echota on the Ridge
5 Subdivision, Echota East Ridge Subdivision and Phase 4 of Echota
6 Subdivision (collectively, "Echota"). The Water Resource wastewater
7 service areas include the Top of Seven Condominiums, the City Hall for
8 Seven Devils, the Seven Devils Lake Resort Club, one residential
9 customer, the Lakes Community, Hawks Peak Condominiums, and
10 Hawks Peak South Condominiums (collectively, "Seven Devils").

11 **Q. PLEASE DESCRIBE THE UTILITY ASSET PURCHASE AGREEMENT**
12 **ENTERED INTO BY CWSNC AND WATER RESOUCCE.**

13 A. On October 12, 2021, Water Resource and CWSNC entered into a utility
14 asset purchase agreement whereby CWSNC agreed to purchase
15 Water Resource's water and wastewater utility system assets for a
16 purchase price of \$70,000. In addition to the purchase price of \$70,000,
17 CWSNC agreed to make additional payments of \$706 per new customer
18 connection up to 184 connections as an "incentive payment" for future
19 Echota phase IV lots, for which CWSNC requests rate base treatment as
20 those payments are made and new customers are added to the water

1 system. No water or wastewater utility system assets of Water Resource
2 have been excluded from the utility asset purchase agreement.

3 CWSNC is also incurring due diligence costs in conjunction with this
4 application which are currently estimated to be approximately \$45,000,
5 which the Company requests be authorized for inclusion in rate base in
6 this proceeding in addition to the purchase price of \$70,000.

7 Attached as Exhibit 1 is support for Water Resource's net investment in
8 its water and sewer systems, which CWSNC notes is approximately
9 \$120,000. The Company reviewed Water Resource's books over the last
10 several years and has noted several items that appear to have been
11 incorrectly coded as expenses on Water Resource's books instead of
12 recorded as plant in service. In addition, CWSNC has recalculated the
13 net book value at CWSNC's current depreciation rates.

14 **Q. PLEASE DESCRIBE THE RATES CURRENTLY BEING CHARGED BY**
15 **WATER RESOUC E FOR WATER AND SEWER UTILITY SERVICE TO**
16 **ITS CUSTOMERS IN WATAUGA COUNTY AND THE RATES WHICH**
17 **CWSNC PROPOSES TO CHARGE IF THIS TRANSFER APPLICATION**
18 **IS APPROVED BY THE COMMISSION.**

19 **A.** The present water utility rates for the Echota service area were approved
20 in Docket No. W-1073, Sub 4, on December 16, 2015, and Docket No.
21 W-1073, Sub 6, on March 26, 2021. The present wastewater utility rates

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1 for the Seven Devils service area were approved in Docket Nos. W-1073,
2 Sub 5, and M-100, Sub 138, and have been in effect since February 13,
3 2015. Based upon a review of the Commission's electronic docket
4 system, Water Resource does not appear to have ever filed a general rate
5 case for its water and sewer systems, and it is clear that the current rates
6 are, as a result, very low. Upon acquisition of the system, CWSNC
7 proposes to initially charge the Company's Sub 384 Commission-
8 approved Uniform Rates for flat rate residential service for both water and
9 wastewater utility service. The Sub 384 rates were approved by the
10 Commission on April 8, 2022. The present and proposed rates for Echota
11 and Seven Devils are as follows:

	<u>Monthly Flat Rate Service</u>	<u>Present</u>	<u>Proposed</u>
13	Water (Echota)	\$20.00	\$68.71
14	Wastewater (Seven Devils)	\$28.20	\$85.12

15 At present, the Echota service area customers are not metered. Upon
16 acquisition, CWSNC plans to install digital water meters and provide
17 metered service within the Echota water utility system. Once meters are
18 installed, CWSNC proposes to charge the metered water customers the
19 CWSNC Uniform Rates for monthly metered water service (residential
20 and commercial) approved by the Commission on April 8, 2022, in Docket
21 No. 354, Sub 384. Assuming the size of each installed meter will be less
22 than one inch and the average monthly usage is 3,837 gallons, then the

1 proposed monthly metered water bill will be \$69.46. This would include a
2 base facility charge of \$24.53 and a usage charge of \$11.71 per
3 1,000 gallons of treated water.

4 **Q. HOW WILL THE PUBLIC INTEREST AND PUBLIC CONVENIENCE**
5 **AND NECESSITY BE SERVED BY APPROVAL OF THE**
6 **CWSNC/WATER RESOURCE TRANSFER APPLICATION?**

7 The purpose of this Application is to facilitate the transfer of the water and
8 sewer systems owned by Water Resource to CWSNC at a price which is
9 fair and reasonable to both the seller and the buyer and on terms which
10 are beneficial and certainly not detrimental to the current customers of
11 CWSNC or those of Water Resource. In this instance, the water and
12 sewer systems currently owned by Water Resource, while not yet
13 operationally troubled to the extent that there is a need for appointment of
14 an emergency operator, is in financial and operational difficulty.
15 Mr. Harrell, a developer and not a professional utility operator, has made
16 it clear to CWSNC and to the Public Staff that Water Resource needs to
17 sell this system and CWSNC will continue to identify infrastructure matters
18 that must be addressed, at costs we continue to try to calculate. The
19 system will unquestionably benefit from the significant financial and local
20 operational resources and expertise which CWSNC will provide upon
21 approval of the transfer application.

1 In addition, CWSNC was retained by Water Resource beginning on
2 September 16, 2021, to serve as the contract operator of the water and
3 sewer systems which the Company now seeks to purchase. Based upon
4 the Company's current operational oversight and expertise, the customers
5 served by Water Resource have already benefitted from CWSNC's
6 involvement in their service.

7 Although the subject water and sewer systems are not under an
8 emergency operatorship, CWSNC is aware of the following two significant
9 operational problems which Water Resource experienced with its water
10 and sewer systems in the recent past. First, in early-2021, the Echota
11 water system was under duress and was unable to keep up with customer
12 demand. Water Resource discovered a significant leak in one of its major
13 supply lines that had apparently been leaking for years. The utility had to
14 truck in water to meet system demand at a cost of approximately
15 \$230,000. This situation also caused the wells in the system to over-pump
16 and draw air.

17 Second, after CWSNC became the contract operator, its Geographic
18 System Information Mapping ("GIS") personnel created a map of the
19 Seven Devils sewer system, since no maps existed prior to the Company
20 taking over operations. Upon mapping, CWSNC found a sewer manhole

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1 that was overflowing, and which appeared to have been overflowing for
2 some time. This situation was also corrected.

3 To the best of CWSNC's knowledge, there have been no major
4 operational issues affecting the Water Resource water and sewer systems
5 since the Company assumed operational responsibility in September
6 2021.

7 Over the six months since the transfer application was filed, CWSNC has
8 identified additional capital needs at both the Echota water system and
9 Seven Devils sewer system. In the two years following approval of the
10 acquisition, CWSNC plans to install Advanced Metering Infrastructure
11 ("AMI") water meters. Currently the Echota water system does not have
12 meter boxes or risers installed. Rather, the residents' service lines are
13 straight-piped from the water mains to the premises. The implications of
14 this are that additional costs beyond a standard meter change will be
15 incurred in getting the Echota customers to metered rates. The Company
16 is assessing the costs for installing meters and the current estimate is
17 approximately \$400,000 - \$500,000.

18 The Company also intends to invest approximately \$175,000 in sewer
19 system improvements, including fence replacement (\$20,000); installation
20 of safety rails/steps (\$50,000); painting (\$20,000); replacement of blowers
21 (\$50,000); installation of bar screen influent line supports (\$15,000);

1 installation of mission units on lift stations (\$10,000); and installation of
2 shed/eye wash station for the safety of operators working at the treatment
3 plant (\$10,000).

4 These water and sewer system capital investments and improvements by
5 CWSNC will provide clear benefits to the current Water Resource
6 customers in terms of system reliability, safety, and environmental impact
7 once they are complete and in service.

8 **Q. PLEASE DESCRIBE THE IMPACTS THAT THE WATER AND SEWER**
9 **RATES CURRENTLY BEING CHARGED BY WATER RESOURCE AND**
10 **THE NEW RATES PROPOSED BY CWSNC HAVE ON CUSTOMERS**
11 **AS THEY PERTAIN TO THE PUBLIC INTEREST ISSUE.**

12 A. The water and sewer rates currently being charged by Water Resource to
13 its customers are exceptionally low and do not generate sufficient revenue
14 to ensure adequate and timely capital investments in the systems or to
15 support essential operational and maintenance activities. The transfer
16 application at page 4 shows that for calendar year 2021 (based on the
17 Annual Report filed with the Commission), Water Resource's water
18 system operations incurred a loss of approximately \$450,000 and its
19 sewer system operations showed only a slight profit of approximately
20 \$9,500. This significant loss followed a loss of \$264,997 by Water
21 Resource from operations of its water and sewer systems during calendar

1 year 2020, and a loss of \$81,569 in calendar year 2019 (based on the
2 Annual Reports filed with the Commission).

3 Although the water and sewer customers currently being served at the
4 Water Resource rates will incur significant rate increases under CWSNC's
5 currently-approved rates, it is fair and imperative to consider the fact that
6 the existing rates being charged by Water Resource have historically been
7 and continue to be very low, and that the resulting low utility revenues are
8 logically to be considered as reasons for the declining operational
9 structure, the financial instability that obviously has beset this company,
10 and the impact on and the need for the incumbent owner to exit the
11 business.

12 If the requested transfer is approved, the Water Resource customers will
13 clearly receive substantial benefit in two essential ways: first, from the
14 operational expertise and service improvements which will be timely and
15 prudently provided by the Company; and, secondly, from the financial
16 integrity offered by CWSNC as a well-run and well capitalized public utility
17 able to provide consistently safe, reliable, and compliant service. It is not
18 reasonable, efficient, prudent, or good business practice to expect either
19 CWSNC's shareholders or its current customers to subsidize the Water
20 Resource customers. This is true under existing legacy ratemaking
21 principles, and it would particularly be true over the span of a multi-year

1 rate plan, should the Company's proposed rate plan (currently under
2 consideration in Docket No. W-354, Sub 400) be approved.

3 If rates are properly set and rate base is correctly determined for the
4 Echota and Seven Devils systems, then CWSNC's existing customer
5 base will also benefit from the Company's customer growth as a result of
6 this proposed acquisition and the resulting economies of scale. The
7 additional customers gained by this transfer will provide economies of
8 scale by spreading existing fixed costs over a larger customer base. Both
9 sets of customers will also experience the advantages of operating within
10 a uniform group of ratepayers which includes smoother rate adjustments,
11 regulatory and operational cost efficiencies, and shared access to support
12 for vital capital needs. CWSNC sees no obvious detriment to its current
13 customer base which will result from approval of the pending transfer
14 application. To the contrary, we firmly believe that customer growth is
15 demonstrably good for the Company and its customers.

16 **Q. WHY DO YOU THINK THE MOVE TO UNIFORM RATES IS**
17 **REASONABLE AND FAIR?**

18 A. We obviously recognize that this transfer, if approved, will result in
19 significant rate increases to the Echota and Seven Devils customers. That
20 said, I submit that the reality of this situation supports immediate inclusion
21 of these customers at our uniform Sub 384 rates and the Company

1 believes that the facts clearly support that outcome. First, the fact that the
2 current Echota and Seven Devils rates are low does not mean the
3 associated costs are low. One could logically assume that there is a
4 relationship between these low rates, the growing operational concerns
5 for these systems, and the current owner's financial distress with respect
6 to this enterprise.¹ Rates that are inadequate, over time, have inevitable
7 consequences in terms of system decline and/or unwarranted
8 subsidization by utility owners or other customers.

9 Second, significant warning signals have been emanating from this
10 system, as demonstrated by way of: the evident operational and financial
11 problems being experienced by Water Resource; Mr. Harrill's increasingly
12 urgent efforts to place the system into the hands of a professional,
13 experienced utilities provider; and by even a cursory review of the Annual
14 Reports heretofore filed by Water Resource. The Water Resource
15 operational financial losses have not been a secret and, unsurprisingly,
16 CWSNC continues to discover and evaluate additional system needs as
17 it has conducted its due diligence and as it has served as contract
18 operator.

¹ Mr. Harrill is a developer; not a professional utilities operator. Due to increasing complexities combined with aging systems, the management of these water and wastewater systems is increasingly shown to be best accomplished by a regulated public utility, such as CWSNC, which specializes in and demonstrates the ability to consistently provide adequate, efficient, and reasonable water and wastewater service.

1 Third, the very existence of the disparity between existing rates and the
2 CWSNC Commission-approved uniform rates is, I think, some measure
3 of the sharp inadequacy of Water Resource's current water and sewer
4 rates. It is worth noting that CWSNC's uniform rates are constructed from
5 system costs that are both under and over the average. Uniform rates by
6 their nature include many benefits to customers, including lower
7 administrative costs for the utility, justification of capital investment, and
8 improved service quality for smaller systems.

9 **Q. ARE THERE ADDITIONAL COMMENTS THAT YOU WISH TO OFFER**
10 **REGARDING PUBLIC INTEREST AND RATEMAKING**
11 **CONSIDERATIONS?**

12 A. Yes. Clearly, the public interest will be served by approval of this pending
13 transfer application. Furthermore, even recognizing the necessary
14 significant realignment of the unsupportable current rates, no compelling
15 detriment to CWSNC's customers (existing or those to be acquired) is
16 evident or reasonably expected to result from approval of the transfer.
17 CWSNC has the technical, managerial, operational, and financial capacity
18 to provide adequate, safe, efficient, and reasonable water and sewer utility
19 service on an ongoing basis to existing customers as well as customers
20 in the current Water Resource service area.

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1 Accordingly, consistent with G.S. 62-111(a), CWSNC requests that the
2 Commission conclude that approval of the pending transfer application is
3 justified by the public convenience and necessity and is in the public
4 interest. CWSNC also requests that the Commission approve the
5 Company's proposed rates and determine the Company's rate base
6 request consistent with this testimony.

7 CONCLUSION

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

9 **A.** Yes, it does.

1 HEARING EXAMINER RHODES: All right.

2 Are there any questions?

3 Now we can begin the cross examination
4 part. So I've gotten in our order, in our list,
5 that the intervener, Lakes Community POA will be
6 first -- or, I'm sorry, Water Resource will be
7 first for our cross examination of Mr. Denton.

8 MR. DROOZ: No questions.

9 HEARING EXAMINER RHODES: Thank you,
10 Mr. Drooz.

11 And then next will be our intervene, the
12 Lakes Community POA for cross examination of
13 Mr. Denton.

14 MR. BRADY ALLEN: Thank you, Mr. Rhodes.

15 CROSS EXAMINATION BY MR. BRADY ALLEN:

16 Q. Good morning. My name is Brady Allen. I'm
17 an attorney for the Lakes Community POA.

18 A. Morning.

19 Q. I would like to start with a few questions
20 about your application, and I'm going to refer to the
21 second revision application or revised application that
22 you filed.

23 A. Okay. I'll pull that up.

24 Q. Just let me know when you have it.

1 A. Okay. Got it.

2 Q. Now, on that page 3 of this revised
3 application, line 7 asks for pumping capacity for the
4 Seven Devils Sewer System, and it says in your
5 application that this is not applicable.

6 Do you know if there are any pumps for the
7 Seven Devils Wastewater System?

8 A. As far as you're saying lift stations? I
9 mean --

10 Q. Would a lift station be essentially a pump?

11 A. Well, there is a pump at a lift station
12 usually, yes.

13 Q. On same page, line 14, the capacity of the
14 company's sewer treatment plan is left blank. Was that
15 intentional?

16 A. I don't know that it was intentional.

17 Q. Do you know what the capacity is?

18 A. Roughly about 20,000 gallons.

19 Q. Is there any reserve capacity that's not
20 being used?

21 A. I do not know that.

22 Q. If there is, does Carolina Water plan to add
23 customers to the sewage system if they applied?

24 A. We'd be open to that conversation.

1 Q. Now, on line 13, it says that the disposal
2 for the sewer system for Echota is treated by others.
3 This is for the water system; is that correct?

4 A. That is correct.

5 Q. Do you know who owns this sewer system?

6 A. Actually, I do not.

7 Q. Do you plan to find out before you start
8 operating the system, or you have been operating the
9 water system; is that correct?

10 A. We have been operating the water system.

11 Q. And you don't know who operates that sewer
12 system?

13 A. I personally do not.

14 Q. Now, on page 3, line 16, the number of water
15 meters for the sewer system is left blank; is that
16 correct?

17 A. Line 16, page 3?

18 Q. Yes. Page 16, number of water meters in use.
19 It says N/A under Echota, and then it's left blank for
20 Seven Devils.

21 A. Correct. My understanding is that the water
22 meters are from the town.

23 Q. Now, if we could turn to page 5 of your
24 application, line 18 has the seller's net investment in

1 utility property, and that is \$12,401; is that correct?

2 A. That's -- yes. That's what it says.

3 Q. And on the previous page, page 4, on line 30,
4 the net income for this sewer system is \$9,489?

5 A. Correct.

6 Q. That's a pretty good rate of return; isn't
7 it?

8 A. Well, based on a single point in time for
9 this income statement.

10 Q. Well, the single point of time is a full
11 year?

12 A. Twelve months in 2021. Yeah.

13 Q. All right. If we can turn to your testimony
14 now. Let me know when you have that.

15 A. I have it.

16 Q. Okay. On page 8, lines 11 to 14, you state
17 the water and sewer systems currently owned by Water
18 Resource Management is in financial and operational
19 difficulty; is that correct?

20 A. That is correct.

21 Q. Can you briefly describe what standards you
22 used to determine if the utility is having financial
23 and operational difficulty?

24 A. Well, looking collectively of all of water,

1 not just any individual component. We looked at their
2 financials for what they provided us and what they have
3 filed, and over a period of time they have been in
4 financial stress.

5 Q. What is the standard that you used to
6 determine? Is there a line you look at to say
7 something is in financial difficulty or operational --

8 A. We look collectively at the utility.

9 Q. Okay. Now, in your testimony on line 15, on
10 this page you mentioned a Mr. Harrell. Which
11 Mr. Harrell are you referring to?

12 A. This in case point would be Mr. -- well I
13 refer to Jay Harrell.

14 Q. Okay. And how long have you known
15 Mr. Harrell?

16 A. Gosh. When we first started conversations
17 with him, and it would have been last year. Early last
18 year, I think, was around the timeframe.

19 Q. And you described him in your testimony as a
20 developer and not a professional utility operator?

21 A. That's correct.

22 Q. And do you agree that Carolina Water began
23 operating the system for Mr. Harrell in
24 September of 2021?

1 A. We did.

2 Q. And prior to Carolina Water beginning to
3 operate the system for Mr. Harrell and Water Resource
4 Management, did you meet and discuss the proposed
5 operational relationship with Mr. Harrell?

6 A. With regards to our current operations?

7 Q. Yes.

8 A. Yes.

9 Q. What were the nature of those discussions?

10 A. That he was in need of operations support and
11 we were willing to provide that as part of an agreement
12 to work towards ownership.

13 Q. Did you discuss any specific operational
14 issues with Mr. Harrell regarding the water system?

15 A. I personally did not.

16 Q. Did anyone from Carolina Water?

17 A. I don't know.

18 Q. Do you know if anyone from Carolina Water
19 discussed the specific operational issues with
20 Mr. Harrell regarding the wastewater system?

21 A. I do not know.

22 Q. So you met with Mr. Harrell. You don't know
23 if you discussed any operational issues; is that
24 correct?

1 A. I did not discuss any operational issues with
2 Mr. Harrell, other than he told me at one point they
3 did have a large leak on their water system.

4 Q. And you met with Mr. Harrell, and although
5 you might have discussed some operational systems with
6 the water system, you didn't indicate in your revised
7 second application that you expected to make any major
8 replacements or major improvements during the first
9 five years that you would own these systems?

10 A. No. That's true. With regards to the sewer
11 system or the water system?

12 Q. Sewer system.

13 A. Sewer system, no. Not any major
14 improvements.

15 Q. What about with regard to the water system?

16 A. Water system. We did mention the meters. We
17 did talk about the meters.

18 Q. So only the meters?

19 A. That's what was in the -- that's correct. On
20 the -- when we looked at the -- originally, for the
21 water system, the meters were a major cost what would
22 consider a major project; that's correct. Everything
23 else that we looked at we would not consider a major
24 project.

1 Q. So would you agree, that during the nine
2 months between you begin operating the system and
3 filing the second revised application, you didn't
4 determine anything significant enough to advise the
5 Commission in the application?

6 A. Not that it was significant. We -- I mean,
7 from the standpoint of what we deem is -- we look at
8 our expenses of major project not a major problem. So
9 anything that typically falls below \$50,000 and/or is
10 not high-risk, we consider more of a GL spent and not a
11 major capital project.

12 Q. So you don't believe there's anything at risk
13 with the sewer system?

14 A. That's not what I'm saying. That's not what
15 I'm saying. I'm saying that there wasn't an identified
16 major capital project out of the gate that was more
17 than \$50,000 in the sewer system that we felt would,
18 based on our due diligence, cause an impact to the
19 operations. Now, I will say that, as we continue to
20 operate, as any system, we continue to find things.

21 Q. Now, on page 9, line 10.

22 A. I'm sorry. What line?

23 Q. Page 9, line 10.

24 A. Okay.

1 Q. You state the Echota Water System was under
2 duress and unable to keep up with customer demand; is
3 that correct?

4 A. That's what I believe was the leak that
5 Mr. Harrell referred to.

6 Q. That's right. You state that there was a
7 leak in one of the major supply lines?

8 A. Correct.

9 Q. And that it had been leaking for years?

10 A. That's correct.

11 Q. And the utility, you said, had to truck in
12 water to meet demand; is that correct?

13 A. That's correct.

14 Q. And is it also true that, before Carolina
15 Water was the operator, there were samples of the water
16 taken that exceeded the maximum contaminant levels for
17 arsenic?

18 A. I believe that's true, yes.

19 Q. And do you know how long that has been an
20 issue for the Echota Water System?

21 A. I do not off the top of my head.

22 Q. Do you have Mr. Franklin's testimony in front
23 of you?

24 A. I do.

1 Q. Okay. If you turn to Mr. Franklin's
2 testimony on page 5.

3 A. Yes.

4 Q. On line 7, he says, "The arsenic-exceeded
5 samples were collected on July 30, 2018."

6 A. Yes.

7 Q. Do you have any reason to dispute that?

8 A. I do not.

9 Q. Now, Mr. Denton, for the Seven Devils
10 Wastewater System.

11 A. Yes.

12 Q. Beginning on page 9 of your direct testimony
13 line 20, you state that there was one sewer manhole
14 that had been overflowing; is that correct?

15 A. That's correct.

16 Q. Was that reported to DEQ?

17 A. As an SSO I believe it was. I have to go
18 back and confirm that. But I believe -- we have a
19 typical process for SSO's, and this was an SSO. If it
20 was meeting the minimal threshold for that SSO, then
21 yes, we reported it.

22 Q. But you're not sure?

23 A. I'm not sure off the top of my head, no. I'd
24 have to verify that.

1 Q. Now, to have a major supply line break for a
2 water system and needing to truck in water to meet
3 demand, that's a pretty major operational issue; is it
4 not?

5 A. It would be.

6 Q. And having arsenic in the water is pretty
7 major; is that correct?

8 A. Compliance issue, yes.

9 Q. Would you agree that having a single sewer
10 manhole overflow is not as challenging, from an
11 operational standpoint, as having a major supply line
12 break or having arsenic in the water?

13 A. I think it's a different issue. It is not
14 necessarily in context of either I would consider a
15 minor or major issue. It is something that we take as
16 serious and to heart. This particular manhole was one
17 that wasn't even -- we created maps and found this
18 manhole overflowing. We didn't know how long it had
19 been overflowing. So, quite frankly, could've been a
20 major issue.

21 Q. Do you think customers would be more
22 concerned about not having enough water to drink or
23 having arsenic than they would be a single manhole that
24 was overflowing?

1 A. That would be subjective on my part to answer
2 that question, but, in my opinion, the arsenic and the
3 thresholds of the arsenic versus the issue of an
4 overflowing manhole, it depends on, quite frankly -- my
5 personal opinion would be where is that manhole
6 overflowing to? If the manhole is overflowing into
7 that lake that's there, I would think that's a very
8 major issue for those residents.

9 Q. So if you personally had a choice between
10 drinking water with arsenic in it or having a sewer
11 manhole overflow, are you not sure which you would
12 prefer?

13 A. I'm not saying that. I'm saying that the
14 arsenic is something that needs to be addressed as a
15 compliance issue, which it was, has been, as is the
16 SSO. They are two separate issues. Both of which
17 needed to be addressed.

18 Q. Now, Mr. Denton, on page 2, you state that
19 Carolina Water has 38 sewer systems in the state?

20 A. Yes.

21 Q. Do you know how many of those systems have
22 had a single sewer manhole overflow?

23 A. I do not have that number.

24 Q. If they did, would you consider that system

1 to have a significant operational problem?

2 A. It's an operational problem.

3 Q. Significant?

4 A. Depends on the size of the overflow.

5 Q. Now, you did mention maps earlier. Are you
6 aware that Mr. Winn helped Carolina Water personnel
7 trace the pipe work for those maps?

8 A. It wouldn't surprise me.

9 Q. Okay. Mr. Denton, on page 10, line 3, you
10 state that, to the best of Carolina Water's knowledge,
11 there have been no major operational issues affecting
12 the sewer system since the Company assumed
13 responsibility; is that correct?

14 A. That's my understanding.

15 Q. Is it not true that the Seven Devils
16 Wastewater System received a notice of violation from
17 DEQ March 4, 2022, for fecal coliform contamination?

18 A. Subject to check. I was unaware of that,
19 but, subject to check.

20 Q. Did you receive any violations from DEQ on
21 January 1, 2022?

22 A. I'm unaware of it personally, but subject to
23 check.

24 Q. Would you please turn again to Mr. Franklin's

1 testimony?

2 A. Okay.

3 Q. Page 6, line 1.

4 A. Okay. Page 6.

5 Q. And the sentence actually begins on page 5.

6 At the bottom it says -- well the whole paragraph it
7 says, "The Seven Devils Wastewater system received two
8 NOVs since January 1, 2019. Both violations for
9 fecal --

10 A. Coliform.

11 Q. Yeah. And then the second occurred on
12 January 1, 2022?

13 A. Right.

14 Q. Do you have any reason to dispute that?

15 A. I don't.

16 Q. Do you consider these to be major violations?

17 A. I consider them to be violations.

18 Q. But not major?

19 A. I consider them to be violations.

20 Q. Okay. Did you also receive a notice of
21 violation on December 21, 2021, for the continuing
22 access accessible -- acceptable arsenic levels?

23 A. I assume you're going to point me to
24 somewhere in his testimony that says that.

1 Q. I can, yes. It's Mr. Franklin's testimony.
2 I believe it's on page 5.

3 A. Okay.

4 Q. Do you dispute anything about Mr. Franklin's
5 testimony about that?

6 A. I don't, no.

7 Q. And now what is Carolina Water's methodology
8 for determining whether a situation is a major
9 operational issue?

10 A. Well, we don't get necessarily hung up on the
11 term "major" here, right? It's an operational issue it
12 needs to be addressed. And so whether it's an SSO or a
13 compliance-related issue, any other compliance issue a
14 safety-related issue, anything like that is something
15 that has to be addressed. We want to focus in, figure
16 out how to address it, and make sure it doesn't occur
17 again.

18 Q. Now, is there any difference between an
19 operational issue and an operational problem?

20 A. I don't -- as far as the definition
21 perspective, I don't know if there's a difference
22 there.

23 Q. Is it your position that having one sewer
24 manhole overflow is an indication that a system is on

1 its way to needing an emergency operator?

2 A. Not by itself.

3 Q. Okay. Mr. Denton, let's switch gears a
4 little bit --

5 A. Okay.

6 Q. -- and talk about financial difficulties. On
7 page 8, line 12 to 14.

8 A. Of my testimony?

9 Q. Yes. Back to your testimony.

10 A. Okay.

11 Q. On page 8, line 12 to 14, you state that the
12 sewer system is in financial difficulty, correct?

13 A. That's what it says.

14 Q. And it also says on --

15 A. Let me clarify, the water and sewer systems.

16 Q. Right. That would include the water and
17 sewer system is in financial difficulty, would it not?

18 A. It does. It says it's the water and sewer
19 systems collectively. WRM, the water and sewer systems
20 currently owned by Water Resource is in financial and
21 operational difficulty, yes. Collectively.

22 Q. Right. So you don't mean that the sewer
23 system is in financial difficulty?

24 A. They both are.

1 Q. Okay. And on page 11, line 19, you state
2 that the sewer system operations made a profit into
3 2021; do you not?

4 A. A slight profit.

5 Q. But a profit?

6 A. Yes.

7 Q. However -- and you also stated, in 2021, the
8 water system lost \$450,000; is that correct?

9 A. Correct.

10 Q. And then I think, in the next few sentences,
11 you show a combined loss for both systems in 2020 and
12 then again in 2019?

13 A. Yes, sir.

14 Q. Can you point to me anywhere in your
15 testimony or application that shows that the sewer
16 system operated at a loss for a year?

17 A. I can't, but I can also say that, if you look
18 at the operations, they are combined operation. So
19 between the two, you're allocating cost. And so if --
20 in any given year or any given point just a small
21 adjustment to those allocations can make that \$9,000 go
22 negative. Now, that's not the way they represented it
23 in their financials, but those allocations can change,
24 because it is a combined appreciation.

1 Q. Now, you state on page 12, lines 17 through
2 20, that it is not reasonable, efficient, or good
3 business practice to expect shareholders of Carolina
4 Water's current customers, to subsidize Water Resource
5 customers; is that correct?

6 A. That's what it says.

7 Q. And if you conflate the Echota water system
8 with the Seven Devils wastewater profits, doesn't it
9 show that you are requiring the Seven Devils Wastewater
10 system to subsidize the Echota water system?

11 A. Well, again, it's a combined operation
12 currently. It's not -- that operation, the wastewater
13 system, is not operated on a standalone basis. If it
14 were, it would be way in the red. And so you're trying
15 to parse the two, and they're operated by the same
16 operations group, so there's shared costs.

17 Q. Is it not true that the Seven Devils
18 Wastewater customers, they're not served by the Echota
19 water system, are they?

20 A. Not by the Echota system, no.

21 Q. So do you disagree that you're essentially
22 requiring the Seven Devils Wastewater customers who
23 aren't served by this Echota system to subsidize the
24 Echota Water system?

1 A. Not necessarily, no. And so there's -- like
2 I said, there's an allocation of cost between the two.
3 Now, depending on in any given year how much time is
4 spent, how many resources is spent between those two.
5 Again, separate one's water for Echota, one's
6 wastewater for Seven Devils, but again, they're
7 operated by the same group.

8 Q. If Carolina Water was permitted to triple the
9 rates of the Lakes Community Association in excess of
10 their unique cost of service, wouldn't the Lakes
11 Community wastewater customers be subsidizing your
12 general body of ratepayers?

13 A. Well, going to uniform rates and the benefit
14 of uniform rates, there is a difference in the
15 standpoint of when it's time to have a significant
16 capital infusion. The benefit of uniform rates is that
17 those customers are part of that collective uniform
18 rate, and, therefore they are not bearing the burden of
19 solely of that entire capital infusion.

20 At some point, Seven Devils is going to have
21 a major infusion required. We don't know when that is
22 going to occur, but it is going to occur. And so
23 having them a part of uniform rates at the appropriate
24 time -- and I know we're going to get to our new

1 proposal at some point, hopefully, but that at the
2 appropriate time when they are a part of the uniform
3 rates, they will have the benefits of being a part of
4 that collective. Which it minimizes overhead for the
5 collective it basically allows for that capital
6 infusion, and they don't bear the burden of that
7 infusion by themselves. And then fixed costs are
8 spread across a much larger base.

9 Q. I don't believe you answered my question. I
10 said do you -- let me ask another way.

11 Do you disagree with me that, if you triple
12 the rates of the Lakes Community, if they're paying an
13 excess of their unique cost of service, will they be
14 subsidizing your general body of ratepayers? Do you
15 disagree with that?

16 A. As a part of the collective, no. But I don't
17 disagree with it. But it is -- they get the benefit of
18 that when it comes around their turn. But if they're
19 on their own rate, right, and a company is subsidizing
20 that, when it comes their turn, they are paying the
21 full cost, but at that time, my expectation is they're
22 going to want to go to uniform rates, because they're
23 not going to want to be a part of or have to pay for
24 that total investment themselves.

1 Q. So if it's a bad business practice for your
2 current customers to subsidize the Seven Devils
3 Wastewater customers and you don't agree that they
4 would be subsidizing -- the Seven Devils system would
5 be subsidizing your current customers, but they would
6 have to have a flash cut of triple their rates, why is
7 it a good business practice for Seven Devils to do it
8 now?

9 A. It's two different scenarios, and so maybe
10 I'm not being clear. So the scenario of the uniform
11 rates is one where there are customers that are below
12 the average and there's customers that are above
13 average, right? That's how you get to the uniform
14 number, right? And so it's not everybody's at that
15 same that same cost basis. It's a mix.

16 Here, in the counterpart, is what -- my
17 testimony is saying that, if they were to remain at a
18 much lower rate and a company and/or our customers are
19 subsidizing them at that much lower rate so it's two
20 different scenarios there. And so I don't necessarily
21 say that there are puts and takes within the uniform
22 rate, yes. To answer. Maybe that's the question your
23 asking. But there are those that are subsidizing and
24 there are those that are benefitting. That's part of

1 that uniform. That's how the uniform construct works.

2 Q. Now, correct me if I'm wrong, but I think I
3 heard earlier you say that the Seven Devils Wastewater
4 customers would ultimately prefer being a uniform
5 system rate; is that correct?

6 A. When that plant has either a major
7 modification or has to be replaced and it's getting
8 long in the tooth, that cost is going to be
9 significant.

10 Q. Have you asked any of the customers there if
11 that would be their preference?

12 A. I have not. But given the fact that they
13 don't like the rate that has been proposed immediately,
14 I can fully expect that that plant replacement would be
15 close to or higher than that rate. Just based on
16 current pricing.

17 Q. So we've established in your testimony that
18 Seven Devils wastewater system made a profit in 2021?

19 A. Yes.

20 Q. You remember 2021, right? We were still in a
21 pandemic; is that correct?

22 A. Correct.

23 Q. And there were mask mandates, social
24 distancing requirements. Many folks were leaving

1 cities to try to find a place to have a vacation.

2 Would you agree with that?

3 A. In general, yes.

4 Q. And you have folks that had second homes were
5 more likely to visit those homes if they were in a more
6 rural area or around less people. Would you agree with
7 that?

8 A. Depends on the time. There was a number of
9 times where the stay in place orders were out, but
10 again, to the premise, yes. I will agree with that.

11 Q. Would you agree that more people were
12 visiting the Lakes Community Property Owners
13 Association in 2021?

14 A. I can't answer that. I have no idea.

15 Q. You have no idea. Would you -- would it be
16 logical to assume that more people would be going there
17 during the pandemic to try to leave the cities, go to
18 their vacation homes? More people able to work
19 remotely?

20 A. I would agree with you that it would be an
21 assumption, yes.

22 Q. It's logical, isn't it?

23 A. Again, based on the conversation we just had,
24 it's possible.

1 Q. So if assuming more folks were in the Lakes
2 Community, it would also be an assumption that there
3 would be more people using the wastewater; is that
4 correct?

5 A. Yes, that would be an assumption. Logically.

6 Q. And because the wastewater system is being
7 used more, the cost to operate the system would be up,
8 correct?

9 A. The variable cost would. It's a 24/7/365
10 operation. It's not -- the plant doesn't just operate
11 when people are there. Its operates year-round.

12 Q. Sure. But there might be more incremental
13 costs. A little more chemicals to treat. A little
14 more sludge removal.

15 A. Some variable cost, yes.

16 Q. And if rates were flat, there wouldn't be any
17 incremental revenue that would have covered those
18 increased costs necessarily; is that correct?

19 A. No.

20 Q. Therefore, even with the possibility that you
21 admit is possible that, you know, there are a higher
22 usage that year, most costs -- certainly incremental
23 costs -- no more incremental revenue in 2021, that
24 system still made a profit in 2021; is that correct?

1 A. It is. I could also say the opposite is
2 true. That because of COVID, everybody stayed home in
3 that community. I don't know, but it's possible.

4 Q. Therefore, it's possible that, with the flat
5 rate and costs less in lower years, that that sewer
6 system may have been more profitable than it was in
7 2021?

8 A. My scenario would put it the other way, but
9 yes, it's possible.

10 Q. Let's switch gears and turn to rates a little
11 bit, Mr. Denton.

12 A. Okay.

13 Q. You state a number of times in your testimony
14 that the rates charged by Water Resource Management
15 have been historically low and continue to be very low;
16 is that correct?

17 A. That is.

18 Q. And that's your position, despite the fact
19 that the Seven Devils Wastewater system made a profit
20 in 2021?

21 A. \$9,000 will not cover expenses that are
22 coming down the pike at some point for this facility
23 and this collection system.

24 Q. And you also state that the rates for the

1 wastewater system at Seven Devils were approved in
2 Docket Number W-1073, Sub 5; is that correct?

3 A. I think that's correct, yes.

4 Q. And those rates were approved on
5 February 13, 2015. I believe Mr. Rhodes cited that in
6 his opening.

7 A. Yes, he did.

8 Q. Are you aware that the rates were actually
9 lowered in that docket?

10 A. I was not.

11 Q. Would you accept that subject to check?

12 A. Subject to check.

13 Q. Does it surprise you that those rates were
14 lowered in 2015, yet six years later in 2021, that
15 sewer system still made a profit?

16 A. Again, I would say the premise of a \$9,000
17 profit -- and this is the single year that we're
18 talking about, but the \$9,000 profit, if that were to
19 be extrapolated, will not cover costs and variable
20 costs. If you look at the cost increases over the past
21 year alone, it would consume that \$9,000.

22 Q. All right. Mr. Denton, I have an exhibit I
23 would like to show you.

24 MR. BRADY ALLEN: May we approach,

1 Mr. Rhodes?

2 HEARING EXAMINER RHODES: Yes,

3 Mr. Allen. Please do.

4 Q. Mr. Denton, once, I guess, it gets passed out
5 and you have the opportunity to look at it a bit,
6 just --

7 A. Are they the same? I got two pages. Is it
8 one page or two pages?

9 Q. It's the schedule of rates for Water Quality
10 Utilities, Inc. Is that what you have?

11 A. Okay. Yeah. But I was handed two pages.
12 Are they the same or is just one page.

13 Q. It should just be one page.

14 A. Okay. Thank you.

15 Q. You might have two copies.

16 MR. BRADY ALLEN: Now, Mr. Rhodes, I'd like
17 to mark this as Lakes property -- Lakes Community POA
18 excuse me Denton Cross Examination Exhibit 1.

19 HEARING EXAMINER RHODES: Without
20 objection, the exhibit shall be so identified and
21 admitted into evidence.

22 (Lakes Community POA Denton Cross
23 Examination Exhibit 1 was marked and
24 admitted into evidence.)

1 MR. LITTLE: Excuse me. Can we have a
2 copy?

3 MR. DWIGHT ALLEN: Oh I'm sorry. Excuse
4 me.

5 Q. Now, Mr. Denton, I'll represent to you that
6 this is the schedule of rates for the Water Quality
7 Utilities, Inc., and these rates were issued on Docket
8 Number W-1264, Sub 4, on the 13th day of February 2015
9 which noncoincidentally [sic] is the same date that
10 Water Management's rates were --

11 A. Okay.

12 Q. -- established or effective.

13 And this subdivision the Ponds, do you see
14 here that it's located in Watauga County?

15 A. Yes, I see that.

16 Q. And do you see that the monthly flat sewer
17 service is \$31.49?

18 A. I see that, yes.

19 Q. And you -- would you agree that, compared to
20 Water Quality Utility's rates for sewer service in the
21 same general area, they're pretty much inline with what
22 Water Resource Management's rates are?

23 A. Close.

24 Q. \$3 higher; is that correct?

1 A. That's correct.

2 Q. Roughly?

3 A. Roughly.

4 Q. Okay. Now, in your testimony, moving on, you
5 state that -- you make reference to ratemaking
6 principles; do you not? On page 12 -- page 12, line
7 20, specifically.

8 A. I do.

9 Q. Is it a general ratemaking principle that the
10 rates customers pay should be based on the cost to
11 serve them?

12 A. We look at it from the standpoint, yes. But
13 we look at it from the standpoint, and in this case,
14 the argument is being made from the standpoint of
15 uniform rates, so the cost to serve the entire
16 collective, yes.

17 Q. And you would agree that the cost of service
18 is generally determined in a general rate case,
19 correct?

20 A. Correct.

21 Q. And do you agree that that would involve the
22 Public Staff, the Commission, and possibly interveners
23 reviewing the Company's expenses, rate base,
24 appreciation rates, working capital allowances, and the

1 cost of capital, among other things?

2 A. In a general rate case, yes.

3 Q. And are you familiar with the term "single
4 issue ratemaking"?

5 A. Yes.

6 Q. What is it?

7 A. Basically, in this case -- and I think where
8 you're going is you've got a single component that is
9 driving the rate, and so here what it is driving at is
10 this, that we are trying to drive a rate based on the
11 acquisition itself.

12 Q. And isn't it true that the rates you have
13 proposed are not based on the costs of service for
14 Seven Devils?

15 A. For Seven Devils by itself, currently, no.

16 Q. They weren't included in the Sub 384 rate
17 case, correct?

18 A. They were not.

19 Q. Or in the current rate case that Carolina
20 Water has pending before the Commission?

21 A. They were not.

22 Q. Now, in your testimony, page 13, line 6, you
23 also talk about the benefits of the economies of scale;
24 is that correct?

1 A. That's correct.

2 Q. What are economies of scale?

3 A. Basically, with the larger the entity, that
4 there are, for instance, in this case, fixed cost for a
5 larger base, that those fixed costs are spread across a
6 larger base.

7 Q. In your view, does a flash cut tripling of
8 the rates to the Lakes Community POA amount to a
9 benefit from economies of scale?

10 A. It will in time. In time. And this is not a
11 single-year look. We are looking at, over time, when
12 the capital is required for this facility -- these
13 facilities and the collection system, which that time
14 will come, that they will benefit from being in uniform
15 rates.

16 Q. What do synergies mean when used in the
17 context of one company acquiring another?

18 A. That there are benefits that align.

19 Q. And from a regulatory standpoint, is
20 North Carolina a least-cost ratemaking state?

21 A. From the stand -- and so --

22 Q. From a regulatory standpoint?

23 A. Yeah. Yeah.

24 Q. Where North Carolina is a least-cost

1 ratemaking state; is that correct?

2 A. That's correct.

3 Q. Do you consider Carolina Water to be a
4 high-cost company?

5 A. We have rates that are in comparison to
6 others in the state, fairly high, yes. But I would say
7 that, when those comparisons are made, it's difficult
8 to compare apples to apples. We are very remote, and
9 we have facilities that span from the coast to the
10 mountains, and we serve rural communities, which
11 typically are higher cost basis.

12 Q. And it's true that, in your last rate case,
13 based on your cost of service for Carolina Water, that
14 produced a wastewater rate that was three times the
15 rate currently paid by the Lakes Community customers?

16 A. That's correct.

17 Q. And that's true, even though your testimony
18 shows that the system -- the Seven Devils system --
19 operated at a profit in 2021?

20 A. Again, in 2021, based on the allocations that
21 were made that they operated a profit of a little more
22 than \$9,000, yes.

23 Q. Mr. Denton, do you know any companies in
24 North Carolina that have higher wastewater rates than

1 you are proposing in your pending rate case?

2 A. I don't know.

3 Q. Do you know how many wastewater companies
4 there are in North Carolina?

5 A. Many. I don't know off the top of my head
6 the exact number, but there are a lot.

7 MR. BRADY ALLEN: Thank you, Mr. Denton.
8 I have no further questions.

9 MR. DENTON: Okay.

10 HEARING EXAMINER RHODES: Thank you,
11 Mr. Allen.

12 I have next on our list for cross
13 examination is from the Public Staff. So,
14 Mr. Little, take it away.

15 MR. LITTLE: Your Honor, Mr. Allen
16 subsumed all of my questions that I was going to
17 ask Mr. Denton, so the Public Staff has no
18 questions.

19 HEARING EXAMINER RHODES: Okay. Thank
20 you, Mr. Little.

21 So that leads us to if there's any
22 redirect from Carolina Water, we'll take that now.

23 MS. SANFORD: Okay. Thank you.

24 REDIRECT EXAMINATION BY MS. SANFORD:

1 Q. Let's see. Let's start with the April 22nd
2 application. I think Mr. Allen asked some questions
3 about that. Do you have that before you, Mr. Denton?

4 A. I'll pull that up. Yes, I've got it.

5 Q. Page 4. The financial statement, line 30.

6 A. Yes.

7 Q. Mr. Allen talked to you repeatedly about the
8 profit on the sewer system of \$9,489, correct?

9 A. Yes, correct.

10 Q. For year ending 2021?

11 A. Correct.

12 Q. And what was the tally, in terms of net
13 income, for the water system for WRM during that same
14 period?

15 A. Negative \$449,384.

16 Q. Okay. Thank you. And let's talk for just a
17 minute, and I'm going -- sort of trying to take things
18 possibly not in the same order they were asked. Let's
19 talk about the conversation about the realm of the
20 possible with respect to occupancy during 2021. You
21 had a good bit of conversation there, but I want to be
22 sure I understand what your bottom line is.

23 Do you know what the level of occupancy was
24 compared to one year to the other?

1 A. I have no idea.

2 Q. You have no idea. But we can all speculate
3 on what was possible or what might have been possible?

4 A. Yes.

5 Q. Okay. I just wanted to establish that you
6 didn't know if that's the case. With respect to the --
7 and I'll try to go in better order here.

8 With respect to the conversation that you had
9 with Mr. Allen about operational issues with water
10 and/or sewer, during the course -- you made a due
11 diligence examination of the systems before the offer
12 of purchase, right?

13 A. Right.

14 Q. Somebody in your organization did?

15 A. Correct.

16 Q. And then when did you begin the operation of
17 the system?

18 A. September.

19 Q. Of?

20 A. Last year.

21 Q. And in the course of that operation, have you
22 found -- have you identified things that need to be
23 done, for lack of a better way to put it?

24 A. Yes, we have. There are a number of things

1 on both the water and the sewer side of the system that
2 need to be addressed over time. The operations to
3 date, when you think from an operational philosophy,
4 have been more of a run to failure mode versus a focus
5 on future preventive maintenance, and so our philosophy
6 is obviously to keep the system running. We want to
7 make sure that the systems are running, so we continue
8 to look for opportunities for improvement and
9 efficiencies for the operations of both systems.

10 Q. And is that your ordinary course of business
11 when you take over, or when you have owned and just
12 operate facilities, is that kind of examination just
13 part of what you do?

14 A. It is.

15 Q. Is it any -- let's see. And there was a
16 conversation, I think, about the GIS mapping and the
17 manhole overflowing. There was conversation that I
18 won't try to repeat about various items that you found.

19 Is it a surprise to you that you find things
20 as you go in the operation of these systems?

21 A. It is not atypical.

22 Q. It is ordinary?

23 A. We find things in the systems that we have
24 owned for years. We continually learn things as we go.

1 Q. And would I correctly understand your answers
2 to Mr. Allen to suggest that what you found there is
3 fairly ordinary and expected with respect to activities
4 or events that need to take place, right?

5 A. Yes.

6 Q. And you are not here attempting to justify
7 the uniform rates that you had originally asked for or
8 the revised rates that you are ultimately asking for
9 based upon a representation that there are specific big
10 expenditures that need to be made in this system; is
11 that right?

12 A. That's correct.

13 Q. Is it -- is it the Company's position, or
14 your view, that value extends to these new customers
15 simply by your ownership?

16 A. Yes.

17 Q. Could you explain why?

18 A. Well, again, I think that, as we have
19 expertise in operations, we have operations that are
20 local. We have operators that -- across the state,
21 and, quite frankly, across the nation that we share
22 best practices. We have resources that are available
23 for storm management. We have resources that are
24 available from the standpoint of, obviously, capital.

1 And so from the standpoint of we are a dedicated
2 utility, that this is our core business, that we
3 provide that value to these customers.

4 Q. And so would it be correct to construe your
5 answers to indicate that a value to customers occurs
6 simply by the ownership of you specifically as a
7 professional water and wastewater provider?

8 A. Yes.

9 Q. Separate and apart from the immediacy of any
10 specific investment?

11 A. Yes.

12 Q. You're the emergency operator for Kinnakeet;
13 is that right?

14 A. We are.

15 Q. What level of rates do you charge at
16 Kinnakeet?

17 A. Kinnakeet currently is -- we moved to
18 uniform.

19 Q. You moved immediately to uniform rates; did
20 you not?

21 A. We did.

22 Q. No conversation about standalone?

23 A. There was no conversation.

24 Q. Kinnakeet was -- is it correct that Kinnakeet

1 was by the normal definitions that we use around here,
2 a "troubled system"?

3 A. Very much so.

4 Q. Is there a -- what I want to talk about here
5 is how those kinds of things are determined.

6 Is there a continuum that exists between
7 troubled and struggling and something else?

8 A. There's not a detailed definition per se
9 that -- there are, as you look at the differences
10 between any systems, whether it's established as an
11 emergency operator system or not in need of an
12 emergency operator, that there is a need for the
13 long-term, view of where the systems currently are
14 versus where they'll be in the long-term such that if
15 that investment is required that you've got, in
16 particular, a company like us, that is there to be able
17 to invest and keep the system running to meet the
18 environmental standards as well the expectations of
19 customers.

20 Q. And so you're not trying to make the case
21 that, on a standalone basis, on a cost-of-service
22 focus, just on the WRM systems, that that level of
23 investment would, quote, "support or equal the uniform
24 rates," are you?

1 A. That's not the case right now.

2 Q. That's not your case.

3 A. No.

4 Q. That's not your presentation here.

5 With respect to the conversation about
6 subsidies -- do you recall that conversation with Mr.
7 Allen?

8 A. Yes.

9 Q. The word "subsidy" is used in a lot of
10 different context, isn't it?

11 A. It is.

12 Q. I suppose could one make the case that those
13 systems that are in uniform rates, but whose cost
14 attributes are below uniform rates, are being
15 subsidized by other uniform rate customers. No. I'm
16 saying this backwards. I'm sorry.

17 A. It's backwards. That's okay. I know where
18 you're going with this.

19 Q. Let me try again. Let's see if you can
20 answer it.

21 Those customers -- those systems that are
22 within uniform rates with -- with -- in many ways
23 function as, sort of, an insurance pool for each other
24 with respect to there being a commonality or just a

1 pulled rate that reflects the kind of cost that would
2 be required of the various systems which have different
3 cost factors?

4 A. That's correct. And specifically for smaller
5 systems that benefit is a -- has a much greater
6 potential impact because of the financial stress that
7 would be borne by a smaller system when replacements
8 are required.

9 Q. And if you were required to observe
10 standalone rates for customers -- for systems rather,
11 whose costs are below the average of uniform rates, if
12 you have to keep them at standalone until their costs
13 equal or exceed uniform rates, then would it be correct
14 that they are receiving a benefit during that interim
15 from either the Company or from other customers?

16 A. Well, they're getting a benefit on the front
17 end if they join the uniform rate pool, only after they
18 exceed the uniform rate average, yeah.

19 Q. Right. Just a minute. There was
20 conversation about the examination about generally
21 often takes place of rates in a rate case when systems
22 are newly incorporated into the Company; is that
23 correct?

24 A. Yes.

1 Q. Did you try to get this system dealt with in
2 the Sub, 400 Docket, which I will represent as a
3 parallel docket dealing with rate?

4 A. We did originally, yes.

5 Q. You did originally. And you filed in April,
6 right, with the hope that that could happen?

7 A. That's correct.

8 Q. But the timing has not worked out that; is
9 correct?

10 A. That's correct.

11 Q. Because the hearing in the rate case was a
12 week or so ago --

13 A. It was.

14 Q. -- and here we are --

15 A. Here we are.

16 Q. -- with Echota.

17 Did you consider trying to -- was there
18 conversation about trying to ask to have the record
19 held open in the rate case so that we could deal with
20 Echota?

21 A. We did have that conversation.

22 Q. Yeah. So you made an effort to have this
23 examined in the rate case, right?

24 A. We did, yes.

1 Q. But it just, for many reasons, didn't work
2 out. You were asked some questions about comparison of
3 your rates to other rates. Some questions about
4 whether your rates are, quote, "high." I think you
5 indicated that was relative to a number of things.

6 Would it be correct that one thing that would
7 be relative to would be the ownership of the kinds of
8 systems to which you were be compared, i.e., regulated
9 versus governmental?

10 A. That is one comparison, yes.

11 Q. And your rates are extensively reviewed by
12 the Public Staff and by various interveners and
13 determined by the Utilities Commission, right?

14 A. Correct.

15 Q. Would you say that's a pretty rigorous and
16 demanding process?

17 A. It is a very rigorous and demanding process.

18 Q. And so would it be logical to assume that
19 whatever your rates are, are rates that are duly
20 examined by some -- some people who are extremely
21 expert in the field?

22 A. Absolutely.

23 Q. Okay. And as you said, you do serve in
24 some -- you serve in the more remote areas in some

1 instances; is that correct?

2 A. That is correct.

3 Q. Do you enjoy the benefits of a lot of
4 economies of scale?

5 A. We have the economies of scale from the
6 standpoint of the State and the benefits that come from
7 the corporation of having economies of scale.

8 Q. But you don't enjoy the benefits of, for
9 example, density of that it pertains to the levels to
10 economy of scale?

11 A. At the local level, no.

12 Q. Because you're spread out from west to east?

13 A. Correct.

14 Q. This purchase is a package deal from WRM; is
15 that correct?

16 A. That's correct.

17 Q. Water and sewer?

18 A. Water and sewer together.

19 Q. Did WRM, or either of the Mr. Harrells, show
20 any interest in keeping the sewer operation and selling
21 the water system?

22 A. Not to my knowledge. Early on there was
23 conversation, but we ended up he wanted to sell both of
24 these entities.

1 Q. I think we did a site visit on the day of our
2 Boone hearing, I think; is that correct?

3 A. That is correct.

4 Q. And were members of the Public Staff in
5 attendance?

6 A. Yes.

7 Q. Who was there?

8 A. (Indicating.)

9 Q. Mr. Franklin?

10 A. Mr. Franklin. Sorry. Thank you.

11 Q. In the course of your site visit, did you
12 observe issues there or things that needed to be tended
13 to or have an eye kept on?

14 A. Yes, there are, both in the water system and
15 the sewer system. And we collectively had
16 conversations with our operations team about things
17 that we could do to, in the interim, address, and then
18 things in the future that would need to be addressed.

19 Q. Okay. We'll get to this in your rebuttal,
20 and so I don't want far into that -- down that road
21 right now. But if you're unable to arrive, in the
22 course of this case, at rates that the company believes
23 are compensatory or sustainable, and if your level of
24 investment continues or spikes because of an event

1 there, would the Company consider filing a standalone
2 rate case?

3 A. We would.

4 Q. You would. And that could be -- and I really
5 don't know the answer to this so I'll be very
6 interested in what you say.

7 Could that be whether these rates -- whether
8 these investments -- I'm sorry, would take the rates
9 either to the uniform or above the uniform?

10 A. Either.

11 Q. Either. You can file the standalone case in
12 either event?

13 A. Yes.

14 Q. Last question, I believe. Do you have any
15 idea of what the replacement cost could be of the
16 wastewater treatment facilities should the plant, I'll
17 say, needs to be replaced? I realize that's a
18 draconian -- I hope it's a draconian -- eventuality.

19 A. We actually have a lot of recent market data
20 on plant replacements, because we have a lot that are
21 currently in our multi-year plan in North Carolina, and
22 they range in size from fairly small to very large. In
23 this particular case, and I would say it would be
24 substantial. Well over a million dollars, but it

1 ranges in price. Again, depending on scale and
2 depending on what needs to be replaced. The influent
3 line into this plant is above ground on piers,
4 concrete -- well not even, they're cinder blocks for
5 the most part. And if we were looking at replacements
6 at the appropriate time, we would also look at
7 improvements along the way, such that it would extend
8 the life of the collection system as well as the plant
9 where it was required. So, legitimately, we're
10 probably looking at -- and I'm hesitant to throw out a
11 number, but it would be in the millions of dollars.

12 Q. And you were -- just to keep the record clear
13 here, you're not suggesting that that appears to be --

14 A. No.

15 Q. It's just a measure of the cost?

16 A. That is not evident that it is necessary in
17 the near term future, but at some point it would need
18 to be replaced.

19 MS. SANFORD: I have no more questions,
20 but I do have a correction to make to the record.
21 Mr. Denton's testimony had one exhibit, and I'd
22 like to ask that that be identified, please.

23 HEARING EXAMINER RHODES: Yes. That
24 exhibit will be entered into evidence and marked as

1 pre-filed. Thank you, Mr. Sanford.

2 (Denton Exhibit 1 was identified as it
3 was marked when prefiled and admitted.)

4 HEARING EXAMINER RHODES: Also, out of
5 abundance of caution I just wanted to ask, was
6 there a summary that Mr. Denton had or any
7 statement he wanted to also move into the record.

8 MS. SANFORD: No. We did not do a
9 summary. Summaries seem to have fallen into
10 neglect or disfavor around here, so we didn't do
11 one. Thank you.

12 HEARING EXAMINER RHODES: That's okay.
13 Thank you. I just wanted to double check to be
14 sure.

15 MS. SANFORD: I appreciate it.

16 HEARING EXAMINER RHODES: All right.
17 Mr. Denton, I think you cannot be excused just yet,
18 because you will be back for your rebuttal, but you
19 can step down for the moment. Thank you for your
20 testimony so far, sir.

21 MR. DENTON: Thank you.

22 HEARING COMMISSIONER RHODES: All right.
23 Next on our list I show that Mr. Winn with the
24 Lakes Community POA will be next, and just to

1 clarify, Mr. Allen, I wanted to ask our witness
2 list shows Mr. Winn and Mr. Moore coming up
3 separately; is that still the case as everyone is
4 understanding?

5 MR. DWIGHT ALLEN: We were planning to
6 offer Mr. Winn and Mr. Moore as a panel if that's
7 okay, because it's a joint testimony. It's kind of
8 hard to break down. We have no problem if
9 questions are directed to each one of them
10 individually.

11 HEARING EXAMINER RHODES: Okay. Hearing
12 no --

13 MR. DWIGHT ALLEN: Are you ready for
14 them now?

15 HEARING EXAMINER RHODES: Yes, sir.
16 Hearing no objection to the joint panel appearing,
17 that will be fine.

18 MR. DWIGHT ALLEN: Thank you for your
19 indulgence on that and to the other parties as
20 well.

21 HEARING EXAMINER RHODES: Yes, sir.

22 Mr. Winn, Mr. Moore, I'll swear you both
23 in first. I'll give you a moment to get yourself
24 in position and seated. And I'm sorry we only have

1 one bible, but if you wouldn't mind scooting it
2 over between both of you. If you could both put
3 your left hand on the bible and raise your right
4 hand.

5 Whereupon,

6 BERRY WINN AND JAMES MOORE, III,
7 having first been duly sworn, was examined and
8 testified as follows:

9 HEARING EXAMINER RHODES: The case is
10 with the Lakes Community POA. So whenever --
11 Mr. Allen, whenever you're ready.

12 MR. DWIGHT ALLEN: And, Mr. Chairman, I
13 guess I'm the dinosaur in the room, so I did
14 prepare -- or they prepared a summary of their
15 testimony so that they can read it. It's fairly
16 brief and I think we can do it fairly quickly.

17 DIRECT EXAMINATION BY MR. DWIGHT ALLEN:

18 Q. Good morning. Would you each of you please
19 state your name and address for the record, please.

20 A. (Berry Winn) Good morning. My name is Berry
21 Winn. My permanent address is 281 7th Ridge Drive in
22 Seven Devils, North Carolina.

23 A. (James Moore, III) And I'm James Moore, 205
24 Little Boulder Lane, Seven Devils, North Carolina.

1 Q. And did the two of you prepare and cause to
2 be filed with the Commission direct testimony of this
3 docket consisting of 12 pages, that testimony being
4 filed on October 31, 2022?

5 A. Yes.

6 Q. Is there any additions or corrections to that
7 testimony?

8 A. (James Moore, III) No.

9 A. (Berry Winn) No.

10 Q. If you were asked those questions that appear
11 in your prefiled testimony from the witness stand
12 today, would the answers be the same as they appear in
13 your prefiled testimony?

14 A. Yes.

15 A. (James Moore, III) Yes.

16 Q. And are they true and correct based on your
17 knowledge or belief?

18 A. Yes.

19 Q. Have you prepared a summary of your
20 testimony?

21 A. Yes.

22 Q. Mr. Winn, I think you're going to go first
23 briefly on the summary. Could you please summarize
24 what you want to say in the summary?

1 A. (Berry Winn) Yes. I've introduced myself. I
2 will add that I serve as treasurer of the board of the
3 Lakes Community Property Owners Association. I'm a
4 licensed professional engineer in North Carolina and
5 received my degree in chemical engineering. I worked
6 for almost 33 years in Aurora North Carolina. That was
7 what was then the world's largest vertically
8 integrative prospect monument manufacture complex. My
9 career there, as well as elsewhere, afforded me the
10 opportunity to gain knowledge in the design and
11 operation of continuous processes, including process
12 water systems.

13 As part of my duties at Aurora, I was
14 responsible for the surface water, groundwater, solid
15 hazardous waste, and community right-to-know programs.
16 My staff was responsible for responding to after-hour
17 alarms from the complex's wastewater treatment plant.
18 Since retirement, I've served on the Seven Devils
19 Public Works Committee, which provides oversight for
20 the Town's water supply system and other
21 infrastructure.

22 I've prepared this testimony jointly with
23 James D. Moore, III, who's also a resident of Seven
24 Devils, North Carolina. Although this is joint

1 testimony for which I also take responsibility, I will
2 defer to Mr. Moore to complete that summary of the
3 testimony, because he serves as President of the Lakes
4 Community Property Owners Association.

5 Q. Mr. Moore, would you present your summary
6 now, please.

7 A. (James Moore, III) Yes, sir. Good morning.
8 As Mr. Winn mentioned, I'm a resident of Seven Devils
9 and president of the Lakes Community Owners
10 Association. Mr. Winn is treasurer of the association,
11 and we're authorized to speak on behalf of the
12 association. Both my undergraduate and graduate
13 degrees are in civil engineering. As part of my work
14 experience I have broad knowledge in utility systems
15 and cost of service, including water, and wastewater.
16 I also have experience with both state and federal
17 regulations regarding water, wastewater, stormwater,
18 and solid waste.

19 Our joint testimony outlines our concern
20 about the proposal of Carolina Water to acquire the
21 wastewater system currently serving the Lakes Community
22 and four other HOA's. The effect is to implement a
23 more than threefold increase in our current rates from
24 \$28.20 a month to \$85.12. This threefold increase

1 could quickly become a fourfold increase if the pending
2 rate proposal of Carolina Water are approved.

3 As we understand it, this increase will be
4 implemented without the benefit of the Lakes Community
5 cost of service being included in any general
6 proceeding of Carolina Water. It would provide
7 immediate increase in revenue based on one input
8 without a corresponding analysis of other aspects of
9 the Company's cost of service.

10 Frankly, we were surprised and disappointed
11 by the testimony of the Company's witness Denton who
12 states that an immediate threefold increase in rates is
13 not detrimental to the current customers of Water
14 Resource's, many of whom are senior citizens on a fixed
15 income.

16 When comparing the rates proposed by Carolina
17 Water, we found that -- the rates to be high in
18 comparison to other providers, and note that the
19 Company has some rates that do not conform to the
20 uniform rates. Our purpose was not to decide whether
21 the various exceptions are justified, but rather to
22 show that the Commission has the discretion to make
23 exceptions.

24 In our view, the circumstances in this case

1 clearly justify an exception for the uniform rate
2 because of the magnitude of the increase. This would
3 provide a windfall to the Company. Our cost of service
4 has not been subjected to a general rate case scrutiny.
5 The testimony of the Public Staff appears to support
6 this conclusion.

7 Furthermore, in its application for transfer,
8 Carolina Water did not forecast any major improvements,
9 additions, or replacements during the first five years;
10 however, Mr. Denton has suddenly discovered that
11 Carolina Water needs to make some \$175,000 in addition
12 to investments in the sewer system, many of which
13 appear to be cosmetic. One of his excuses is that the
14 Company found a form confusing although Carolina Water
15 seems quite capable of filling out general rate case
16 applications on almost a yearly basis. It's important
17 to note that our current treatment system is in
18 material compliance with the Department of
19 Environmental Quality discharge permit. To the best of
20 our knowledge customer, service complaints are
21 essentially nonexistent. The only defects cited by
22 Carolina Water is an overflow from a single manhole in
23 Seven Devils. There were no service issues cited for
24 Lakes Community. Many of the service issues raised by

1 Mr. Denton relate to the water system and not the sewer
2 system. And he attributes those to what he views as
3 exceptionally low rates.

4 It is simply not reasonable to punish
5 customers for a decision by service providers to
6 maintain lower rates. Mr. Denton suggests that
7 Carolina Water will provide the benefits of economies
8 of scale provided by a larger company; however, we see
9 no service or economic benefits that one would expect
10 for the economies of scale argument. In fact, Carolina
11 Water appears to have some of the highest sewer rates
12 in the state, which can negate any economies of scale
13 argument that the Company may make.

14 In closing, the Lakes Community Property
15 Association asks that the Commission reject the
16 Company's proposal to implement the uniform rate. We
17 support a lower phased-in rate, such as that proposed
18 by the Public Staff. The Commission can review the
19 rate at the Company's next general case and hopefully
20 will continue the phased-in approach. We do not favor
21 a short-term automatic phase-in that is recommended by
22 Carolina Water.

23 Q. Does that complete the summary of both you,
24 Mr. Moore, and you, Mr. Winn?

1 A. It completes the summary, and we appreciate
2 the opportunity to submit our summary of the testimony.
3 Thank you.

4 MR. DWIGHT ALLEN: We would ask that the
5 prefiled testimony and joint testimony of Mr. Winn
6 and Mr. Moore be copied into the record as if given
7 orally from the witness stand.

8 HEARING EXAMINER RHODES: Without
9 objection, the testimony will be admitted into
10 evidence and will be identified as marked when
11 prefiled.

12 (Whereupon, the prefiled direct
13 testimony of Edward Winn, Jr. and James
14 Moore, III was copied into the record as
15 if given orally from the stand.)
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1 **Q. MR. WINN, WOULD YOU PLEASE STATE YOUR NAME AND**
2 **ADDRESS FOR THE RECORD.**

3 A. My name is Edward B. (Barrie) Winn, Jr. My address is 281 Seventh
4 Ridge Drive, Seven Devils, NC 28604. I am currently Treasurer of the
5 Board of The Lakes Community POA.

6 **Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND**
7 **AND WORK EXPERIENCE FOR THE RECORD.**

8 A. I received a B.Sc. (Eng) Degree in Chemical Engineering from
9 Imperial College of Science and Technology. My subsequent chemical
10 engineering career included 8 years as an employee of a consulting
11 company in London and 32 years in the world's largest vertically
12 integrated phosphate mine and manufacturing complex in Aurora, NC.
13 At the time of my retirement, I was responsible for quality control,
14 customer support and process improvements at Aurora and a similar
15 complex in Florida.

16 My career gave me broad knowledge of designing and operating
17 continuous processes, including process water systems. I was deeply
18 involved in the development of operating and capital budgets.

19 I am a licensed professional engineer in North Carolina (license
20 number 014600).

21 **Q. IS ANY OF YOUR PROFESSIONAL EXPERIENCE RELATED**
22 **TO THE ISSUES INVOLVED IN THIS PROCEEDING?**

1 A. Yes. I believe it is. Part of my experience at Aurora was serving as
2 the complex's Senior Environmental Engineer, responsible for the
3 surface water, groundwater, solid & hazardous waste and Community
4 Right-to-Know programs. This involved updating and ensuring
5 compliance with an NPDES permit. As Manager, Technical Services,
6 some of my staff were responsible for responding during nights and
7 weekends to alarms from the complex's wastewater treatment plant.
8 Relevant experience gained since retiring includes service on the
9 Seven Devils Public Works Committee from 2019-2021. This
10 committee provides oversight for the town's water supply system as
11 well as other infrastructure.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
13 **COMMISSION?**

14 A. No. I have not.

15 **Q. MR. MOORE, WOULD YOU PLEASE STATE YOUR NAME**
16 **AND ADDRESS FOR THE RECORD.**

17 A. My name is James D. Moore III. My address is 205 Little Boulder
18 Lane, Seven Devils, NC 28604. I am currently President of the Board
19 of The Lakes Community POA.

20 **Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND**
21 **AND WORK EXPERIENCE FOR THE RECORD.**

22 A. I received a B.S. and M.S in Civil Engineering from Virginia Tech.
23 Previous work experience relevant to this case includes staff

1 environmental / utility engineer with Mead Paper and 24 years with
2 Collins & Aikman serving as Vice President Corporate Engineering
3 for over 10 years. Expertise relevant to this case includes 1) broad
4 knowledge of utility systems and cost of service (water, stormwater,
5 wastewater, electricity, natural gas) 2) annual capital and maintenance
6 budget preparation and management. Long range capital planning to
7 support the business plan and 3) broad knowledge of State and Federal
8 environmental regulations (water, wastewater, stormwater, air, solid
9 waste, FERC, etc.). I also have served as Chairman of the American
10 Textile Manufacturing Institute (ATMI) Environmental Preservation
11 Committee and Chairman of the Carolina Utilities Customer
12 Association's (CUCA) Electrical Committee. While involved with
13 CUCA, I was exposed to the work of this Commission because of
14 CUCA's intervention in numerous proceedings.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
16 **COMMISSION?**

17 A. No. I have not.

18 **Q. WHY ARE YOU SUBMITTING JOINT TESTIMONY?**

19 A. We are submitting joint testimony to minimize duplication and
20 maximize efficiency in the Commission hearing.

21 **Q. HOW ARE RESIDENTS OF THE LAKES COMMUNITY POA**
22 **BILLED FOR WASTEWATER TREATMENT SERVICES?**

1 A. They receive a coupon book on an annual basis, which provides for
2 quarterly payments of \$84.60.

3 **Q. IN YOUR OPINION, DO EITHER OF YOU BELIEVE THE**
4 **RATES PROPOSED BY CWSNC FOR WASTEWATER**
5 **TREATMENT ARE REASONABLE?**

6 A. No.

7 **Q. ON WHAT DO YOU BASE THAT OPINION?**

8 A. The basis for the proposed wastewater rate is from a 2022 CWSNC
9 state-wide rate case: Docket No. W-354, Sub 384. The Seven Devils
10 system was not part of the CWSNC system at that time and none of
11 those operations were included in this case. The CWSNC uniform
12 wastewater flat rate for customers using 4000 gallons per month
13 increased from \$74.36 to \$85.12, the rate which CWSNC has
14 requested for the Seven Devils system. If approved, Seven Devils
15 customers would begin paying over 3 times as much as the current rate
16 of \$28.20 per month.

17 On Page 6 of his testimony, Mr. Denton states that the transfer of the
18 water and sewer systems are being made at a price that is fair and
19 reasonable to both the seller and buyer. He goes on to say that, in his
20 opinion, the terms are beneficial and not detrimental to the current
21 customers of Water Resources. However, it is hard for us to conclude

1 that an immediate increase in rates of approximately 200% is not
2 detrimental to customers.

3 The current wastewater rate was decreased from \$30 per month to
4 \$28.20 per month in 2015 and has remained at that level up to the
5 present. This has apparently been sufficient to maintain and operate
6 the wastewater collection and treatment system in an environmentally
7 responsible manner.

8 Also, the Town of Seven Devils provides metered water service for the
9 Lakes Community. In 2004 the base rate was \$30 per month and today
10 the rate is \$40 per month. The \$40 per month includes \$5 per month
11 for a capital reserve. While our water rate has increased by a third in
12 18 years, CWSNC is requesting a shocking and immediate three-fold
13 increase in our wastewater rate.

14 We would like to emphasize that all wastewater collection and
15 treatment systems are not the same, and we strongly disagree that a
16 uniform rate from a previous case be applied to the Seven Devils
17 system.

18 To support our position, we would point out that, in addition to the
19 uniform rates, ten individual service area wastewater rates were
20 approved in the Docket No. W-354, Sub 384 rate case. The individual
21 system nearest in customer base size to the Seven Devils system is

1 Kings Grant-Charlotte with 177 customers. The monthly rate for this
2 system decreased from \$57.65 to \$46.28. The fact that ten individual
3 rates were approved demonstrates that both the North Carolina
4 Utilities Commission and CWSNC recognize that a uniform rate is
5 neither mandatory nor applicable across the CWSNC system.
6 Although individual circumstances may differ, the Commission clearly
7 has the authority to provide for different rates when conditions require
8 it.

9 **Q. HAVE YOU HAD THE OPPORTUNITY TO REVIEW ANY OF**
10 **THE FINANCIAL INFORMATION FILED BY CWSNC IN**
11 **THIS DOCKET?**

12 A. Yes, we have. The "Statement of Cash Flows - Sewer Operations"
13 on the Addendum to Application for Transfer of Public Utility
14 Franchise and for Approval of Rates indicates a purchase price of
15 \$69,720 for the system with no assumption of any debt. According to
16 the Application to Transfer, no capital expenditures are forecasted by
17 CWSNC in years 0-5 for major improvements/additions or
18 replacements. In this context it is important to note that the current
19 treatment system is in material compliance with the NCDENR
20 wastewater discharge permit.

1 Based on the proposed rates, the cash flows show that CWSNC will
2 realize a 1-year payback of their investment. This rate of return and
3 complete recovery of the purchase price in one year is clearly
4 excessive. There are few businesses cases that contemplate a complete
5 recovery of an investment within one year.

6 If the rates that are proposed by CWSNC in the upcoming 3-year rate
7 case under Docket No. W-354, Sub 400 are approved and the
8 incremental increases are applied to the Seven Devils Wastewater
9 Utility System, the Seven Devils monthly wastewater bill will exceed
10 \$110 per month in 3 years. This nearly four-fold increase from the
11 current rate would occur even though CWSNC, according to its
12 application, does not plan to invest in any capital improvements in the
13 Seven Devils system for the next 5 years.

14 Finally, the requested rate increase comes at a particularly challenging
15 time for customers who are senior citizens living on fixed incomes.
16 The Watauga County and Seven Devils tax bills that our community
17 recently received are of the order of 30% more than last year. We are
18 all having to navigate inflation rates that have not been seen in a
19 generation. A three-fold increase and perhaps ultimately a four-fold
20 increase in wastewater treatment rates would compound the financial
21 burdens we are already bearing.

1 **Q. Does Mr. Denton identify any service issues associated with**
2 **wastewater services to the Lakes Community area?**

3 A. No, he does not. Mr. Denton indicates that CWSNC became a
4 contract operator for the water and sewer systems of Water Resources
5 on September 16, 2021. During that time, he identifies only two
6 operational problems. One of these involved the Echota water system
7 and the other involved a single sewer manhole in Seven Devils that
8 was overflowing. He cited no service issues in the Lakes Community
9 area. We are also not aware of any service issues in our area, so the
10 system seems to be operating effectively with its existing level of
11 revenues.

12 **Q. Did Mr. Denton suggest a cause for these service issues?**

13 A. Mr. Denton seems to place a lot of the blame on what he contends are
14 exceptionally low rates. However, it should be noted that even with
15 what Mr. Denton contends are unusually low rates, the sewer system
16 still produced a small profit. He attributes the bulk of the alleged
17 losses to water system operations. Interesting, his testimony also
18 states that the low rates result because Water Resources chose not to
19 file for a general rate case. Of course, that decision was made by
20 Water Resources and not its captive customers. Water Resources
21 could have pursued rate relief if it had chosen to do so. Contrary to
22 the statements made by CWSNC in its original application, Mr.
23 Denton has modified the Company's position and now says that

1 CWSNC intends to invest approximately \$175,000 in sewer system
2 improvements. It should also be noted that nearly a quarter of this
3 amount appears to relate to what could be termed cosmetic
4 investments, which might increase the investment base for the
5 company but not improve service for customers. Even if such
6 investments are necessary, the exorbitant rate increases proposed for
7 the Lakes Community customers would still result in an unreasonably
8 short payback period.

9 **Q. Mr. Denton partially justifies the significant rate increases for**
10 **wastewater by stating existing customers have been paying what**
11 **Mr. Denton believes to be low rates, do you agree with Mr.**
12 **Denton's conclusion?**

13 A. No, we do not. The previous rates paid by Lakes Community
14 wastewater customers are unrelated to the operations of CWSNC and
15 do not justify exorbitant increases proposed by CWSNC. Although
16 uniform rates may be justifiable over time, they should not be imposed
17 in a vacuum without a thorough analysis in a CWSNC general rate
18 case if and after the transfer is approved. This ratemaking approach is
19 not in the best interest of customers and simply provides an unjustified
20 windfall to CWSNC. Our review of the rates charged by CWSNC
21 indicate that many of the areas it serves do not pay the "uniform" rates
22 that it proposes to impose upon customers in the Lakes Community
23 area. In the past the Commission has been mindful of customer rate

1 shock, and if the transfer is approved, the rate increases, if justified,
2 should be phased in over a period of time. As previously noted, under
3 the CWSNC proposal, it will recover its purchase price from
4 wastewater customers in approximately one year. That is a payback
5 period that is excessive under any rational economic or business case
6 analysis. Mr. Denton espouses the benefits of economies of scale, but
7 yet, the economics of scale that he discusses appear to provide no
8 synergies or economic benefits to the customers of the Lakes
9 Community.

10 **Q. DO YOU HAVE ANY SUGGESTIONS AS TO HOW TO**
11 **DEVELOP A FAIR AND EQUITABLE WASTEWATER**
12 **TREATMENT RATE?**

13 A. If the transfer is approved, the Commission should phase in any rate
14 increase over an extended period to avoid the possibility of customer
15 rate shock. At some point in the future, the cost of service of the Lakes
16 Community system should be rolled into the overall cost of service of
17 CWSNC. Even when that occurs, the Commission should continue the
18 roll in of rates for the Lakes Community to assure that customer rate
19 shock can be minimized.

20 **Q. ARE THERE ANY FURTHER RECOMMENDATIONS THAT**
21 **YOU HAVE FOR THE COMMISSION?**

1 A. To avoid rate shock, if the transfer application is approved, any
2 increase in the rate should be phased in over several years.

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

4 A. Yes.

1 MR. DWIGHT ALLEN: Thank you. And with
2 that, the panel is available for cross examination.

3 HEARING EXAMINER RHODES: I have first
4 on our witness list cross examination by the Public
5 Staff. Is that still everyone's understanding for
6 our next step here?

7 MR. LITTLE: The Public Staff has no
8 questions.

9 HEARING EXAMINER RHODES: Thank you,
10 Mr. Little.

11 Next, I have cross examination by
12 Carolina Water. Does Water Resource have any cross
13 examination?

14 MR. DROOZ: Water Resource Management
15 has no cross.

16 HEARING EXAMINER RHODES: Okay. Thank
17 you.

18 CROSS EXAMINATION BY MS. SANFORD:

19 Q. Good morning, gentlemen. It's still a little
20 bit morning. I'm Jo Anne Sanford, and I have a few
21 questions for you today. I think I'll start with the
22 summary, and give me just a minute if you would.

23 You are concerned about, and object to, the
24 magnitude of the rate hike as it was expressed in the

1 initial application -- I'll start there -- correct?

2 A. (No verbal response.)

3 Q. And you continue to object to --

4 MR. DWIGHT ALLEN: If you guys will
5 speak up so that the court reporter can have
6 something -- I don't mean to tell you what to do.
7 Just say yes or no. And if it's okay, I think that
8 one of them says that. Just for clarification for
9 the record.

10 MS. SANFORD: Yeah. That's fine.
11 That's fine. And these mics are a little bit
12 tricky. You do, kind of, have to talk right into
13 them. That might help. You feel like you're going
14 to swallow it.

15 Q. And you object to the magnitude of the rate
16 hike as it is proposed in Mr. Denton's rebuttal; is
17 that correct?

18 A. (Berry Winn) Yes.

19 Q. The alternative. You had, among other
20 things, suggested that whatever rate hike is approved
21 be spread out over a period of time, right?

22 A. Yes.

23 Q. And it's clear that the rate hike, as it is
24 currently configured -- the request for the rate

1 increase, as it's currently configured, would be
2 something that took place over three years; is that
3 correct?

4 A. (James Moore, III) We haven't agreed to that.

5 Q. I'm not asking if you agree. I'm asking you
6 understand it.

7 A. (Berry Winn) Yes.

8 Q. Do you agree that that's what's proposed?
9 Let me say it that way.

10 A. (James Moore, III) Yes.

11 Q. Okay. Thank you. And do you understand or
12 agree -- do you agree with the fact that, at the end of
13 that three years, the rates, per the proposal, would
14 still only be at the current rates, and there would
15 have been an intervening rate case order in the
16 interim; is that understood?

17 A. Not completely.

18 Q. Let me ask the question again. Perhaps I
19 didn't ask it very well. The proposal is for a
20 phase-in to what we call the Sub, 384, rates. I won't
21 go into that jargon. Those are the rates that are in
22 effect right now for Carolina Water uniform customers,
23 but that there be an acceptance of the Public Staff's
24 proposal, but with a phase-in over a three-year period

1 that would take these rates up to the current rates.

2 The rates currently in existence.

3 A. You're talking about the current uniform
4 rates?

5 Q. The current uniform rates, yes.

6 A. Okay. We understand that's the proposal.

7 A. (Berry Winn) Yes.

8 Q. Okay. So that's the proposal. I understand
9 you don't agree with it. I just want to be sure we're
10 on the same page for the conversation.

11 And so would you agree, just as a matter of a
12 fact that at the end of that three-year period, which
13 we are proposing as the ramp period to get up to the
14 current rates, those would still not reflect the rates
15 that would be of existence in three years should the
16 Commission make a decision that increases rates in the
17 current rate case? And it is a little confusing. Are
18 you clear about that?

19 A. (James Moore, III) Well, you're muddying the
20 water. But we don't know how the current three-year
21 rate case is going to play out.

22 Q. Right.

23 A. But I have not seen anything in writing that
24 clearly documents exactly what you're trying to say,

1 so.

2 Q. Well, we'll talk more about that in
3 Mr. Denton's rebuttal testimony, but you do understand
4 that, in the rebuttal testimony, there is a proposal
5 that is different than the one that was originally
6 made?

7 A. (Berry Winn) Yes.

8 Q. And that it contains the offer to agree to
9 the Public Staff's current rate proposal with the
10 addition of a phase-in over a period of time to move
11 these rates towards the existing uniform rates?

12 A. That's clear.

13 Q. Okay. All right. You made the comment that
14 Mr. Denton had suddenly discovered that Carolina Water
15 needs to make a certain amount of money in additional
16 investments.

17 Do you suggest by that that there's been any
18 artifice or any kind of gaming of the system here by
19 Mr. Denton and the people from the Company?

20 A. (James Moore, III) Well, we looked at the
21 original application, and it says year one to four no
22 significant CapEx, and it actually through year 40, it
23 had what meters and pumps.

24 A. (Berry Winn) It's no major investments were

1 anticipated.

2 Q. That is correct. That is correct. That was
3 in the application, you state that correctly, but both
4 of you, given your experience, will lead me to ask you
5 the question. Can you imagine that these initial
6 determinations, based on due diligence, will yield to
7 an actual level of knowledge about events once you take
8 over and begin to learn more about a system; would that
9 not be reasonable?

10 A. (James Moore, III) Depends on your level of
11 due diligence.

12 Q. And a lot of this plant's underground, right?

13 A. The wastewater plant?

14 Q. The total plant.

15 A. The collection system is mostly underground,
16 except for what comes out near the resort club, and
17 then you got the aboveground wastewater treatment
18 system at this plant.

19 Q. And do you or do you not think that it's not
20 reasonable that, over a period of time of appreciation,
21 additional needs and efficiencies would be discovered?

22 A. (Berry Winn) I would expect there to be
23 ongoing maintenance cost and the occasional perhaps
24 capital replacements, but when you read -- and I'm

1 looking at the May 11th application, page 7, where it
2 talks for the first 5 years no replacement expected,
3 and then up to 40 years routine replacement of 40 years
4 replacement of pumps/meters. Forty years is a long
5 time, and I think perhaps, you know, the plant is maybe
6 twenty years old now. Evidently, they were expecting
7 it up to a 60-year-life and defer to their experience
8 of operating and maintaining systems like this, but
9 that seems to imply that there was no thought or major
10 capital required for the next 40 years.

11 Q. Well, let's say that they were -- let's say
12 that they -- upon additional discovery of additional
13 issues, that their cost estimates have gone up. Let's
14 talk about how much that actually matters right now
15 with respect to the Commission's willingness to change
16 the rate for a dime.

17 Do you understand that any evidence of
18 investment that anything that is essential to a
19 decision by this Commission has to be shown to them in
20 the form of proof, and the Company has the burden of
21 proof. My question is this. Let me rephrase it.

22 MR. DWIGHT ALLEN: That's actually
23 asking for a legal opinion, I think, as to what the
24 burden of proof might be. I would object to that

1 for that reason.

2 Q. Let me try it again. If the Company's
3 initial estimate was of a certain amount or a low
4 amount of enhancements for repairs, and if the Company
5 revised that upon the acquisition of greater knowledge,
6 do you understand that those figures are all subject to
7 check in proceedings such as this one and others by
8 this Commission?

9 A. (James Moore, III) To some extent I could
10 agree to that.

11 Q. Okay. Let me move on through this. Is it
12 you're understanding that WRM owns and was selling both
13 water and sewer, that they weren't selling these
14 systems separate -- separately?

15 A. (Berry Winn) Speaking as a customer for the
16 sewage system, I was totally unaware of how they were
17 interacting with their civil water supply. I just --
18 you know, as far as I was concerned, I was dealing with
19 a company that was providing just sewage system
20 wastewater treatment.

21 A. (James Moore, III) That was the letter we got
22 in the mail talking about the transaction.

23 A. (Berry Winn) Yeah. I guess the notice we had
24 was probably the first time I realized, you know, the

1 water system and the --

2 Q. And the sewer?

3 A. -- sewer are part of the same company.

4 Q. Okay. Thank you. You make the statement
5 that Carolina Water has some of the highest in the
6 state -- sewer rates -- and that this negates any
7 economies of scale arguments that the Company makes.
8 How do you reason from the high rates to your
9 representation that -- that there are no or there are
10 negated economies of scale?

11 A. (Berry Winn) Well, the thing that really
12 jumps out in the application paperwork is, first of
13 all, this table of the 2021 operating costs, which
14 shows the profitability, but when I look at -- and
15 this, an addendum to your April 22nd application --
16 it's projected income statement sewer operations the
17 operating expenses go from roughly \$40,000 a year up to
18 about \$67,000 a year. And there's a lot of pluses and
19 minuses here, and we can compare the two tables, but
20 basically, the real thing that jumps out is that other
21 operating expenses undefined is about \$20,000 a year.
22 So it would appear that, instead of seeing any
23 economies here, we're seeing an increase in operating
24 costs.

1 Now, Mr. Denton has made comments of
2 allocation of overhead and so forth, but this \$20,000
3 increase is just other operating expenses, which,
4 undefined, you know, lead us to believe we're not
5 seeing any economies. Okay.

6 Q. Would you accept -- and I may be getting in
7 troublesome territory with the counsel again -- would
8 you accept, subject to check, that these and other
9 issues like these, with respect to the accuracy of
10 investment and reasonable and prudent management of the
11 Company, are issues that the Public Staff and the
12 Commission are here to examine on your behalf; on
13 everyone's behalf?

14 A. Why, yes. Certainly, I appreciate the fact
15 that the Public Staff is there to help us.

16 Q. But you have your questions and I understand
17 that.

18 A. Yes. And, as a matter of fact, we didn't
19 know what the Public Staff was going to say up until
20 the day we had to file our intervention.

21 Q. Right. A couple more questions on this and
22 then we'll move to another --

23 MR. DWIGHT ALLEN: Excuse me. Just for
24 clarification, you mean up until the date you filed

1 your testimony, right?

2 THE WITNESS: Yes.

3 MR. DWIGHT ALLEN: Talk into the
4 microphone.

5 MR. WINN: 31st of October is the date.

6 Q. And last round of questions on this. You
7 indicate that the Commission can review the rates at
8 the next general rate case, and I know that this
9 business of parallel regulatory rate cases does get a
10 little confusing, but would you accept, subject to
11 check, that the next opportunity for such a review we
12 believe will be three years down the road?

13 A. (James Moore, III) Yeah. That's what we
14 assume. That's what we assumed.

15 Q. All right. So that's what you intended?

16 A. That's what we're assuming, yes.

17 Q. Okay. All right. Are you opposed to the
18 transfer of the system from WRM to Carolina Water?

19 A. Well, we really don't care who ends up owning
20 it, as long as it's, you know, run properly and rates
21 are cost-effective.

22 Q. Do you believe it's been run properly with
23 cost effective rates?

24 A. So far.

1 Q. Do you have any knowledge about --

2 A. That's the sewer system. I just want to
3 clarify.

4 Q. The sewer system, correct.

5 A. Sewer system. I want to clarify.

6 Q. Absolutely. I understand. I understand
7 that's what you're talking about, and I intend to say
8 that if I don't, please remind me or assume it if you
9 can.

10 Are you aware of any difficulties that the
11 Harrells have had with respect to their stewardship of
12 WRM, which actually includes water and sewer?

13 A. Not really. I mean, I know more about Mark
14 Harrell's health than about running the water
15 resources.

16 A. Yeah. I mean, over the years, I know a lot
17 about environmental, so I've checked the environmental
18 compliance of the system, our own HOA due diligence.
19 Is the system in compliance and so forth. So I've done
20 a little bit of that on our own, but I've not done
21 anything on the water system at Echota. It's just been
22 the sewer system.

23 Q. And so you're not aware of any financial or
24 operational concerns that have led the Harrells to try

1 to sell it?

2 A. Only recently with all that's come out in
3 this case.

4 HEARING EXAMINER RHODES: All right.

5 I'm going to interrupt for just a second. Let's
6 take a short break for the court reporter, please.
7 That would be a good time to stop. I'd say let's
8 come back in about 15 minutes, which would put us
9 at about 12:03. And we will -- just so everyone
10 knows, we will also have a lunch break not too far
11 after that. I don't want anyone to starve.

12 (At this time, a recess was taken from
13 11:46 p.m. to 12:03 p.m.)

14 HEARING EXAMINER RHODES: All right.

15 We're going to go back on the record, and I think
16 where we left it off -- well, first, thank you.
17 Let me say that we will take a lunch break. We'll
18 try to take a lunch break at about 1:00. If that
19 appears to be a good time for everyone, that's
20 about a good stopping point. We'll do an hour
21 lunch break, but before our short break we just
22 had, I think we left it with Ms. Sanford. You were
23 still doing your cross on our intervener here, and
24 so I'll let you take it away.

1 MS. SANFORD: Okay. Thank you.

2 Q. I believe that I had asked you if you opposed
3 the transfer and you had answered that question; is
4 that your memory?

5 A. (Berry Winn) Yes.

6 Q. And I believe you said, in other words,
7 possibly that you're basically indifferent to whether
8 it sold. Just as far as the ownership?

9 A. (James Moore, III) Yes. We don't care who
10 owns it, just as long as it's run properly and costs
11 are, you know, in a cost-effective manner going
12 forward.

13 Q. Right. Do you believe there is any value to
14 you as a customer in having your sewer service provided
15 by a professional organization that does that?

16 A. Yes, there's advantages.

17 Q. Value to you with respect to your service to
18 your property values?

19 A. Overall service, environmental compliance.

20 Q. Okay. And so you would agree that, to have
21 it in the hands of Carolina Water or a similar
22 organization, is a superior solution than having it in
23 the hands of a developer who, by definition, is a
24 developer and not a professional wastewater operator?

1 A. We can agree with that.

2 Q. Okay. Let's talk about possibilities here.
3 We've spent some time on that this morning. I want to
4 talk about what this looks like going forward, if we go
5 with the Public Staff's proposed rates if the Public
6 Staff's proposal is adopted or some other thing is
7 adopted, but if the Company's proposal is not adopted,
8 do you understand that, in the event of additional
9 investment, they can file a standalone case?

10 A. Yes, we understand that.

11 Q. Okay. And those -- there would be expenses
12 associated with that case which would be, if
13 reasonable, part of the Company's recovery; would you
14 understand that or accept that subject to check?

15 A. Subject to check.

16 Q. Okay. And if there were to be a standalone
17 case and the rates that were approved in that case
18 exceeded uniform rates, would you think you should
19 still be in the standalone category of rates?

20 A. (Berry Winn) We'd have to address that at
21 that time.

22 Q. Fair enough. Fair enough. Is yours a resort
23 community for the most part?

24 A. (James Moore, III) We wouldn't call it a

1 resort. Combination of second homes, permanent homes,
2 some rental property.

3 Q. Do you have any idea of what percentage of
4 the people are permanent residents at the Lakes?

5 A. Five people there. Five of the seventy
6 permanent.

7 Q. Five of seventy?

8 A. But it flux [sic]. It's -- some people come.
9 Some people it's their primary home. They'd be there
10 eight months, you know, and they'd be in Florida, you
11 know, four months. So what do you call that?
12 That's -- so it's -- there would be several people that
13 have permanent homes there, but they're there every
14 day. Berry's there every day. He's completely
15 full-time.

16 MS. SANFORD: All right. Give me just a
17 minute. I don't think I have anymore questions,
18 but let me just check my various piles of notes
19 here. I think that is all I have. Thank you.

20 HEARING EXAMINER RHODES: All right.
21 Thank you, Mr. Sanford.

22 Is there any redirect?

23 MR. DWIGHT ALLEN: Just a few questions.
24 I'll try to keep it brief.

1 EXAMINATION BY MR. DWIGHT ALLEN:

2 Q. Do you recall Ms. Sanford asking you some
3 questions of your understanding of their three-year
4 proposal when the rates would be phased in over three
5 years.

6 A. (Berry Winn) Yes.

7 Q. And she indicated that that would involve a
8 phase in from the recommended Public Staff rate to the
9 \$85.10 a month, or whatever it is; is that correct?

10 A. Yes.

11 Q. Now, you also stated, I believe, that you are
12 aware that Carolina Water would be able to file an
13 additional rate increase after about three years; is
14 that correct?

15 A. Yes.

16 Q. And that would be in addition to the rate
17 increase that they have on file now that is currently
18 pending before the Commission for decision; do you
19 understand that?

20 A. Yes.

21 Q. Do you know what the proposed sewer rates
22 were in that proposed rate increase?

23 A. (James Moore, III) \$110 dollars.

24 A. (Berry Winn) It ultimately reaches \$110.

1 Q. And we don't know if the Commission is going
2 to do that, so if that entire amount was approved, then
3 the uniform rate would become \$110, would it not?

4 A. Yes, that's right.

5 Q. So after three years, then Carolina Water
6 would be able to file another rate increase, would they
7 not?

8 A. Yes.

9 Q. And based on Denton's testimony that costs
10 keeps going and problems keep occurring, you would
11 anticipate that probably the rate proposed in that
12 docket would be in excess of \$100 by some amount,
13 wouldn't it?

14 A. Yes.

15 Q. And if they filed a rate case in three years,
16 after three years, let's say three and a half years,
17 they could include the cost of the Lakes Community in
18 Seven Devils wastewater treatment system in that rate
19 case at that time, couldn't they?

20 A. Yes.

21 Q. And you would -- your cost would be included
22 in a rate case that could result in a rate being
23 approved as an excess of \$110 that they currently have.

24 So do you have any insurance or have you had

1 any insurance that the rates for your sewer system
2 couldn't be in excess of about \$110 in about four
3 years?

4 A. (James Moore, III) No insurance.

5 Q. And you would presume, since Mr. Denton seems
6 to favor uniform rates, that they would propose in that
7 rate case to include you among the uniform rates?

8 A. (Berry Winn) Yes.

9 Q. And so is that a concern of yours that it
10 might be even higher than \$85?

11 A. Yes.

12 Q. Now, Ms. Sanford asked you some questions
13 about site visits and finding things that needed to be
14 done to the wastewater treatment system, which you're
15 referring to the fact that Mr. Denton didn't include
16 any capital cost in his application; do you recall
17 that?

18 A. Yes.

19 Q. All right. I think her question was, "Well
20 you would think that they might discover some on a
21 go-forward basis," so isn't it reasonable that they
22 might have discovered something after they filed that
23 application; do you recall that?

24 A. Yes, sir.

1 Q. Now, it's true, is it not, that Carolina
2 Water was actually operating that system for nine
3 months prior to the filing of that application?

4 A. Yes.

5 Q. So if it's routine, it would be expected that
6 some cost would be discovered during an interim period.
7 Wouldn't it be reasonable to assume that, if there were
8 problems, that Carolina Water Service might have
9 discovered some of those problems during the nine
10 months before it was operating the system before they
11 filed an application?

12 A. Yes.

13 Q. Yet, it is true that the application didn't
14 indicate any of those costs at that time, correct?

15 A. Correct.

16 Q. And it was only after this docket was started
17 and they learned the concern from the Lakes Community
18 Association that all of a sudden these additional
19 capital costs materialized; isn't that true?

20 A. Yes.

21 Q. There was some discussion about cost being
22 included in a general rate case, and Ms. Sanford asked
23 you some questions about what a general rate case, is
24 and isn't it subject to a lot of scrutiny and a lot of

1 work and a lot of effort; do you recall those?

2 A. Yes.

3 Q. Well, is one of your concerns at least at
4 this point, that a \$85 rate increase has been posed and
5 your cost of service has not been included in the
6 general rate case and subjective to all that scrutiny
7 and detailed analysis of the work that Ms. Sanford
8 mentioned; is that true?

9 A. Yes.

10 Q. Now, economies of scale. Ms. Sanford asked
11 you some questions about economies of scale. When you
12 acquire a business and say you're going to get some
13 approval benefits from economies of scale, you
14 generally think that there's going to be some economic
15 benefit associated there; is that true?

16 A. Yes.

17 Q. And your testimony is that, at least in the
18 short-term, you do not believe that increasing your
19 rates from \$28 to \$85 results in any economic benefit
20 to you?

21 A. That's right. It doesn't.

22 Q. And in discussing the benefit of economies of
23 scale offered by Carolina Water Service, Mr. Denton was
24 talking about -- and I believe you were in here when he

1 testified, were you not?

2 A. Yes.

3 Q. Well, he was talking about, well, you know,
4 one of these days things may just come unglued and we
5 might have to replace that system. Do you recall that?

6 A. I do.

7 Q. Well, the truth is that hasn't happened yet?

8 A. No.

9 Q. And you look at their application, it
10 indicates that the existing system may have a use of
11 life, at least a good part of it, for 40 additional
12 years?

13 A. Exactly.

14 Q. So to the extent those economies of scale
15 might be realized you, you may not realize those for a
16 extended period of time let's say 20 years; is that
17 correct?

18 A. Yes.

19 Q. And if that's the case, you and I probably
20 won't benefit from the those scales of economies; is
21 that correct?

22 A. Possibly, not.

23 MR. DWIGHT ALLEN: That's all I have.

24 Thank you.

1 HEARING EXAMINER RHODES: Thank you,
2 Mr. Allen.

3 I do not have any questions for the
4 witnesses, so both of you may be excused. Thank
5 you very much for your testimony today, and I
6 really appreciate you both coming out.

7 THE WITNESS: Thanks you for your time.

8 HEARING EXAMINER RHODES: And after
9 Mr. Winn and Mr. Moore escape from the stand, we
10 have Public Staff up next. I did want to clarify
11 first with Mr. Little, do you plan to present the
12 Public Staff as a panel since they filed jointly?

13 MR. LITTLE: I don't believe their
14 testimony was filed jointly. I was planning on
15 having Ms. Feasel testify separately. Ms. Feasal
16 has a training function as manager of the water
17 division in the accounting this afternoon, and I
18 would ask, after she's done, that she be excused.
19 We'll cross that bridge when we get to it.

20 HEARING EXAMINER RHODES: Okay. That
21 sounds good to me. All right. Mr. Little, if you
22 will call your first witness to the stand.

23 MR. LITTLE: The Public Staff will call
24 Ms. Feasel, Your Honor.

1 HEARING EXAMINER RHODES: Thank you.

2 Whereupon,

3 LYNN FEASEL,

4 having first been duly sworn, was examined and
5 testified as follows:

6 HEARING EXAMINER RHODES: All right.

7 Mr. Little, you can take it away with your witness.

8 DIRECT EXAMINATION BY MR. LITTLE:

9 Q. Would you state your full name, your business
10 address, and the position for the record, please.

11 A. Yes. My name is Lynn Feasel. Business
12 address is 430 North Salisbury Street, Raleigh,
13 North Carolina.

14 Q. And on October 31st of this year, did you
15 prepare and cause to be filed in this docket testimony
16 consisting of seven pages and one exhibit?

17 A. Yes, I do.

18 Q. And an appendix, I believe. Do you have an
19 exhibit attached?

20 A. I do not file exhibit, but we provided the
21 Commission with the exhibit.

22 Q. And you had one appendix to your testimony?

23 A. Yes, I do. Yes, I do.

24 Q. And do you have any changes or corrections to

1 make to your testimony today?

2 A. No, I do not.

3 Q. And if I were to ask you the same questions
4 today, would your answers be the same as in your
5 prefiled written testimony?

6 A. Yes.

7 MR. LITTLE: Your Honor, I move that
8 Ms. Feasel's direct testimony consisting of seven
9 pages and one appendix be copied into the record as
10 if given orally from the stand, and that the
11 appendix be identified as marked as prefiled.

12 HEARING EXAMINER RHODES: Without
13 objection, the testimony of Mr. Feasel will be
14 admitted into evidence and marked as prefiled,
15 including the appendix.

16 (Whereupon, the prefiled direct
17 testimony and Appendix A of Lynn Feasel
18 was copied into the record as if given
19 orally from the stand.)
20
21
22
23
24

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

3 A. My name is Lynn L. Feasel. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 financial manager with the water, sewer and telecommunication
6 section within the Accounting division of the Public Staff – North
7 Carolina Utilities Commission (Public Staff).

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

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

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

11 A. The purpose of my testimony is to provide the North Carolina Utilities
12 Commission (Commission) with the results of my investigation of
13 specific areas of the application filed on April 22, 2022, by Carolina
14 Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-
15 354, Sub 396 and Water Resource Management, Inc. (Water
16 Resource) in Docket No. W-1073, Sub 7, for transfer of public utility
17 franchise and for approval of rates (the Joint Application) and
18 whether the transfer is in the best interest of the using and
19 consuming public.

20 **Q. Please discuss the areas you investigated in.**

21 A. I reviewed the company's application and associated documents,
22 sent out data requests asking for the calculation supporting

1 documentation of the company's data, clarification of items that
2 attracted my attention, amount of due diligent fees paid, justification
3 and calculation of the proposed uniform rates, correcting and
4 updating the capitalized costs, etc. Based on the company's
5 responses to the data requests, I identified the amount of capitalized
6 costs and expenses I should use to calculate the reasonable level of
7 revenue requirements.

8 **Q. Please describe how you determine and calculate the revenue**
9 **requirements for these two systems.**

10 A. I considered three factors to calculate revenue requirements: 1) Rate
11 of return, including debt and equity structures, debt rate, and equity
12 rate. The Company should recover reasonable forecasted or incurred
13 expenses plus return on rate bases based on a fair rate of return; 2)
14 Expenses, including operating and maintenance expenses (O&M
15 expenses), general expenses, depreciation and amortization
16 expenses, property taxes, and payroll taxes; 3) Rate base, including
17 plant in service, accumulated depreciation, and due diligence closing
18 costs.

19 **Q. Please describe how you determine rate of return.**

20 A. I used the rate of return from the most recent rate case W-354, Sub
21 384 to calculate the return for rate base items.

1 **Q. Please describe how you determine expenses.**

2 A. I used the estimated expenses provided by the Company and
3 adjusted the depreciation expenses and amortization expenses to
4 reflect the Public Staff recommended level of plant in service cost
5 and the purchase acquisition adjustments.

6 **Q. Please describe how you determine rate bases.**

7 A. In response to one of the Public Staff's data requests, the Company
8 indicated that the reason why the maintenance and repair expense
9 and the purchased water/sewer treatment expense was significantly
10 high was that many of the expenses were for repair and replacement
11 of wells, which should have been capitalized instead of expensed.
12 Based on the Company's responses, I sent out another two data
13 requests, requiring the company to reclassify the wrongly classed
14 O&M expenses to capitalized cost. The Company provided the
15 reclassification documentation with the capitalized cost,
16 accumulated depreciation, and depreciation expenses by system in
17 response to data request eight and an updated version in response
18 to data request nine. After reviewing the responses to these two data
19 requests, I determined that the purchase price for these two systems
20 were reasonable. Therefore, I used the purchase price as the plant
21 in service costs. I calculated the accumulated depreciation and net
22 book value under the WRM depreciation rates. I also included the
23 due diligence fee paid by the Company under the purchase

1 acquisition adjustment (PAA) item and amortized it over composite
2 rate of 2.73% for Echota Water.

3 **Q. What is the original cost net investment of the Echota water**
4 **utility systema and the Seven Devil wastewater utility system?**

5 A. The original cost net investment of the Echota water utility system
6 and the Seven Devil wastewater utility system are listed as follows:
7 Echota Water: \$53,651; Seven Devils: \$13,549.

8 **Q. Do you include any purchase acquisition adjustments?**

9 A. For Echota Water, I included transaction due diligence costs in the
10 amount of \$8,229.39 in purchase acquisition adjustments and
11 amortized it over 2.73% approved in the last rate case. In response
12 to Public Staff data request four, the Company provided the
13 calculation of estimated revenue requirement. In the calculation, it
14 included \$70,000 purchase price, \$130,000 incentive payments,
15 \$21,194 Fusion allocation, and \$300,000 AMI meter fees in the rate
16 base. With the exception of \$70,000 purchase price, the rest of the
17 expenses are estimated or will not incur until a later date. Per Public
18 Staff witness Franklin, the Public Staff accepts the Company pay
19 incentive payments to the developer for installing infrastructure for
20 future development. However, the Company should only recover the
21 costs paid when the infrastructure is put in service. The incentive
22 payment will be paid in future phase IV, which means the new

1 infrastructure is not in service. Therefore, the incentive payment
2 should not be included in the rate base until it occurs. For the same
3 reason, estimated AMI meter fees should be not included in the rate
4 base either. The Fusion allocation was overstated by the Company.
5 If the Fusion costs are to be amortized through March 31, 2023, the
6 estimated Fusion allocation per ERC should be \$22.28 calculated
7 based on Fusion cost approved in the last rate case and the
8 Company's estimated ERC counts. The unamortized portion of the
9 Fusion cost included in rate base will be phased out in the future
10 when Fusion costs are fully amortized. The ERC counts will change
11 in the future, so the estimated Fusion cost allocated per ERC is not
12 necessary representative. The estimated return related to Fusion is
13 only about \$974 for Echota Water and \$240 for Seven Devils, which
14 is immaterial. Based on the reasons listed above, I recommend not
15 including Fusion allocation in the rate base.

16 **Q. What is the rate base amount under the WRM depreciate rates?**

17 A. The rate base for Echota Water under WRM rates is \$61,656. The
18 rate base for Seven Devils under the WRM rates is \$13,549.

1 **Q. What are the Public Staff's recommendations revenue**
2 **requirements?**

3 A. The recommended revenue requirements for the Echota water utility
4 system and the Seven Devil wastewater utility system are listed as
5 follows:

6 Echota Water: \$247,709; Seven Devils: \$66,261.

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

8 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

LYNN FEASEL

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

1 MR. LITTLE: Mr. Feasel is available for
2 cross examination, Your Honor.

3 HEARING EXAMINER RHODES: Okay. Thank
4 you, Mr. Little.

5 And I have up first for cross
6 examination by the Lakes Community POA.

7 MR. BRADY ALLEN: Good morning -- or,
8 excuse me, good afternoon, Ms. Feasel.

9 MS. FEASEL: Good afternoon.

10 MR. BRADY ALLEN: I do not have any
11 questions. Thank you.

12 HEARING EXAMINER RHODES: Thank you,
13 Mr. Allen.

14 And then next up for cross examination
15 of Ms. Feasel would be Carolina Water.

16 CROSS EXAMINATION BY MS. SANFORD:

17 Q. Thank you. Good afternoon.

18 A. Good afternoon.

19 Q. Ms. Feasel, I will not keep you long so that
20 you can get to your training program.

21 A. Thank you.

22 Q. I think I have one question. When you did
23 your calculations that support the Public Staff's
24 position, when you looked at expenses, did you use the

1 expense level that existed in the Sub, 384 case?

2 A. I used expenses that projected about a
3 company in the appendix filed within the application.

4 Q. So you used the filed and there was no update
5 or adaptation?

6 A. Most of the numbers the same with the
7 Company's expenses. There are some adjustment I made
8 for the depreciation expense, which is to reflect the
9 plant-in-service amount expenses. And I'm in the
10 position of PAA purchase acquisition adjustment
11 expense. Those are the basically two adjustment made.
12 Otherwise, the expenses stay the same with two
13 companies.

14 Q. Would these expenses -- would these levels of
15 expenses that you calculated, starting with the
16 company's expenses, be at the same level as those that
17 you have calculated for the purposes of the Sub, 400
18 docket?

19 A. Those are different things. The expenses in
20 Sub, 384 represent the expense level for the current
21 water and before the acquisition. This expenses I use
22 to calculate the requirement in this case represent the
23 expense level for the to-be-acquired system, so they're
24 not comparable.

1 Q. Okay. The expense level, the comparable
2 expense levels, I realize you're saying they're not
3 comparable in terms of your belief, that they should be
4 the same, but those expense levels calculated and
5 represented in the agreement with the Company for Sub,
6 400 would be higher than these; is that a correct
7 statement or not?

8 A. Yes. Sub, 384 expense level would be higher
9 than what I used.

10 Q. Sub, 384 is higher than what you used?

11 A. Yes.

12 MS. SANFORD: Okay. All right. I have
13 no more questions. Thank you.

14 HEARING EXAMINER RHODES: Thank you,
15 Ms. Sanford.

16 Is there any redirect from the Public
17 Staff?

18 MR. LITTLE: No, Your Honor.

19 HEARING EXAMINER RHODES: Thank you,
20 Mr. Little.

21 EXAMINATION BY HEARING EXAMINER RHODES:

22 Q. I just have two, hopefully should be very
23 short, questions for you, Ms. Feasel, before I let you
24 go. But, Ms. Feasel, on page five of your direct

1 testimony -- I'll let you get there. You discuss your
2 adjustments to rate base for the Echota Water System,
3 you included due diligence costs of just a little more
4 than \$8,000?

5 A. Yes.

6 Q. Did you include any due diligence costs
7 associated with the Seven Devils Wastewater System?
8 Just to clarify those --

9 A. The Company does not calculate due diligence
10 cost for Seven Devils. The due diligence cost is only
11 for Echota.

12 Q. Okay. Thank you for that clarification. And
13 my other question I have, is on November 10, 2022, the
14 parties all received an e-mail from Public Staff
15 Attorney Little containing several exhibits from the
16 Public Staff that were used for the calculation of the
17 revenue requirement in rate base, and there were
18 several other amounts in those files included many from
19 you, Mr. Feasel.

20 Would the Public Staff with willing to work
21 with the Commission's Staff to file parts of those
22 exhibits from that November 10th e-mail?

23 A. Yes.

24 Q. And any -- we may ask for some other

1 supporting exhibits or calculations that were contained
2 in those files. Would that be okay with you?

3 A. Yes, we can do that.

4 Q. Okay. Thank you, Mr. Feasel. Yes. I'm
5 sorry. I have one more question for you. I know you
6 have an arrangement you have to attend to, so we will
7 be quick. But on page 6 of Mr. Denton's rebuttal
8 testimony, he states that the Company will accept the
9 Public Staff's recommended flat rates upon acquisition.
10 That's the \$33.67 for water and \$37.06 for wastewater
11 subject to the phase-in of Carolina Water's Sub, 384
12 uniform rates. I just wanted to ask: What's the
13 Public Staff's response to Mr. Denton's proposal there?
14 And that's, he has a proposal for a stipulation he
15 mentioned on page 6 of his rebuttal testimony beginning
16 on line 7.

17 A. I do not agree with the predetermined
18 phased-in rate, and here are the reasons. The rates
19 are determined by revenue requirement, and the revenue
20 requirement is calculated by the actual incurred
21 expenses and capital cost by the Company. Until we do
22 have the actual information and do several
23 investigations to determine the necessity and the
24 reasonableness and completeness of the Company's costs

1 that actually incur, we cannot determine the rate
2 beforehand without doing all of this investigation.

3 HEARING EXAMINER RHODES: Okay. Thank
4 you for that clarification, Ms. Feasel.

5 Those are all the questions I had. Are
6 there any questions on the Hearing Examiner's
7 questions from the parties?

8 MR. BRADY ALLEN: I have one question.

9 EXAMINATION BY MR. BRADY ALLEN:

10 Q. Mr. Rhodes just asked you a question about
11 whether you agree to the phase-in approach.

12 Would you agree that the Public Staff's
13 position would be that they would favor a standalone
14 rate increase as opposed to -- or a standalone rate
15 case as opposed to the phased-in approach?

16 A. I would agree that the standalone rate now is
17 the more accurate methodology to go with, because with
18 a phase-in rate, we do not have the information to
19 determine the rates.

20 MR. BRADY ALLEN: Thank you.

21 HEARING EXAMINER RHODES: Yes,
22 Ms. Sanford.

23 EXAMINATION BY MS. SANFORD:

24 Q. Ms. Feasel, your answer has prompted a

1 question or two by me.

2 You say you don't agree with the phase-in
3 because you favor an actual revenue requirement
4 examination; is that correct?

5 A. That's correct. We need to do
6 investigations.

7 Q. When a number of systems are assembled
8 together in that category we call uniform rates, they
9 differ from each other in costs, don't they? Revenue
10 requirement.

11 A. They should be different.

12 Q. They should be different. There would be
13 some that are below the uniform rates in terms of there
14 cost attributes, correct?

15 A. Yes.

16 Q. And some that are above it?

17 A. Yes.

18 Q. So this category long approved by the
19 Utilities Commission of uniform rates does not reflect
20 the strict revenue requirement determination that leads
21 to a rate setting to those individual systems, does it?

22 A. The uniform rate is already calculated by the
23 Commission, Sub, 384, and that is the combination of
24 expenses for those systems to reflect the actual

1 expenses and the rate of return of equity for rate
2 basis.

3 Q. And there is that revenue determination that
4 you speak about based upon the individual
5 characteristics of those systems, but the ultimate
6 uniform rate is an averaging of all that, isn't it?

7 A. That's a composite rate.

8 Q. Yeah. A composite rate. An average rate.
9 So that rate may or may not reflect the actual revenue
10 requirement or costs attributable to any one system?

11 A. But when you calculate the revenue
12 requirement, that does include all the system together.
13 We do not calculate separate rate for each system.

14 Q. Right. Right. And that's efficient, isn't
15 it? Would you agree? Efficient rate setting.

16 A. How do you determine by efficient, you mean?

17 Q. I mean that you are not required -- you, we,
18 the Commission, is not required to go through and set a
19 separate rate for every one of those systems as a
20 collective rate?

21 A. That's correct. For the existing system.

22 MS. SANFORD: Yeah. Okay. Thank you.

23 HEARING EXAMINER RHODES: Mr. Drooz, did
24 you have a question?

1 EXAMINATION BY MR. DROOZ:

2 Q. Yes. I was just curious, is it now Public
3 Staff policy to recommend standalone rates when the
4 standalone rate would be less than the uniform rate?

5 A. I would not say that, because this is going
6 on a case-by-case basis. In this case, we determined
7 the revenue requirement that the Company should recover
8 is much lower than what the Company proposed, but I
9 would not say that it's a common policy that, as long
10 as the stand alone rate is lower than the proposed
11 rate, then we go with that.

12 Q. What are the unique characteristics of this
13 case that lead the Public Staff to its recommendation?

14 A. Because what the Company proposed for the
15 uniform rate, about \$60 for water and \$80 for sewer,
16 when we do the investigation with the Company's
17 proposed estimated expenses that will incur and the
18 rate basis, the revenue requirement we calculated is
19 much lower than what the Company proposed. So that's
20 why we recommend the standalone base. It's not
21 comparable to the existing uniform system.

22 Q. So do I understand correctly, it's because
23 the deferential was so great in this case? Is that the
24 Public Staff Policy?

1 A. It's because -- yeah, because the difference
2 is great, and it's not -- my calculation of revenue
3 requirement does not support to go with the -- to go
4 with existing rate.

5 MR. DROOZ: Thank you. That's all.

6 HEARING EXAMINER RHODES: Thank you,
7 Mr. Drooz.

8 Are there any additional questions based
9 on examiner's question?

10 MR. LITTLE: Yes, I have a couple
11 questions, Your Honor.

12 EXAMINATION BY MR. LITTLE:

13 Q. Ms. Feasel, can you tell us, are all of
14 Carolina Water Service systems under uniform rates?
15 Are all systems that are operated -- owned and/or
16 operated by Carolina Water?

17 A. There are uniform rates in the Bradfield
18 Farms and Fairfield Harbour rates.

19 Q. Are there any systems that have standalone
20 rates?

21 A. Not as I know of right now.

22 Q. But there is a -- there is a separate rate
23 scheduled for the Treasure Cove, Bradford Harbor?

24 A. Yes.

1 Q. Why is that? Do you know?

2 A. I do not remember from the top of my head
3 right now.

4 Q. And you've heard a lot of discussion of the
5 potential of filing a rate case in the future by
6 Carolina Water. Do you know if -- let me rephrase the
7 question.

8 MR. LITTLE: Actually, that's all the
9 questions I have. I'm sorry.

10 HEARING EXAMINER RHODES: Thank you,
11 Mr. Little. All right.

12 I think you are free to go, Mr. Feasel.
13 Thank you very much for your testimony, and you may
14 be excused, and hopefully we did not make you late
15 to your training.

16 MS. FEASEL: Hopefully.

17 HEARING EXAMINER RHODES: All right.
18 Mr. Little, if you will call your next witness,
19 please.

20 MR. LITTLE: The Public Staff will call
21 Mike Franklin, Your Honor.

22 Whereupon,

23 D. MICHAEL FRANKLIN,
24 having first been duly sworn, was examined and

1 testified as follows:

2 MR. LITTLE: Thank you, Your Honor.

3 DIRECT EXAMINATION BY MR. LITTLE:

4 Q. Mr. Franklin, will you please state your
5 name, your address, and your position with the Public
6 Staff, please.

7 A. Sure. My name is D. Michael Franklin. My
8 business address is 430 North Salisbury Street,
9 Raleigh, North Carolina. My position is I'm a public
10 utilities engineer with the Public Staff water sewer,
11 and telephone division.

12 Q. And on October 31st of this year, did you
13 prepare and cause to be filed in this docket testimony
14 consisting of 16 pages, one appendix, and one exhibit?

15 A. I did.

16 Q. And do you have any changes or corrections to
17 your testimony or exhibits?

18 A. I do. In my testimony, on page 5, line 8,
19 the correct date should be July 30, 2021, versus 2012.
20 And I'll just point out that Mr. Allen had asked Mr.
21 Denton a specific question about that date, so I'm just
22 to point out that it was 2021 not 2012. And then the
23 other change or correction is on page 8, line 21, where
24 it says for Echota. It should also include for Echota

1 and Seven Devils.

2 Q. And with those corrections that you made just
3 now, if I were to ask you the same questions as in your
4 prefiled direct testimony, would your answers be the
5 same?

6 A. Yes, it would.

7 MR. LITTLE: Your Honor, I move that
8 Mr. Franklin's direct testimony be copied into the
9 record as if given orally on the stand and that the
10 appendix and exhibit be identified as marked when
11 filed.

12 HEARING EXAMINER RHODES: Without
13 objection, the evidence will be admitted into
14 evidence as marked and prefiled.

15 (Public Staff - Franklin Exhibit 1, was
16 identified as it was marked when
17 prefiled and admitted.)

18 (Whereupon, the prefiled direct
19 testimony and Appendix A of D. Michael
20 Franklin was copied into the record as
21 if given orally from the stand.)

22

23

24

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

3 A. My name is D. Michael Franklin. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Public Utilities Engineer with the Water, Sewer, and Telephone
6 Division of the Public Staff – North Carolina Utilities Commission
7 (Public Staff).

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

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

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

11 A. The purpose of my testimony is to provide the North Carolina Utilities
12 Commission (Commission) with the results of my investigation of
13 specific areas of the application filed on April 22, 2022, by Carolina
14 Water Service, Inc. of North Carolina (CWSNC) in Docket No. W-
15 354, Sub 396 and Water Resource Management, Inc. (Water
16 Resource) in Docket No. W-1073, Sub 7, for transfer of public utility
17 franchise and for approval of rates (the Joint Application) and
18 whether the transfer is in the best interest of the using and
19 consuming public. The specific areas of my investigation include
20 customer complaints, Notices of Violation and Notices of Deficiency
21 issued by the North Carolina Department of Environmental Quality
22 (NCDEQ) and assisting the Public Staff Accounting Division in
23 reviewing expenses and plant in service.

1 **Q. Are the Echota water system and Seven Devils wastewater**
2 **system included in CWSNC's rate case currently before the**
3 **Commission in Docket No. W-354, Sub 400?**

4 A. In the Sub 400 rate case application, CWSNC proposed both the
5 Echota water system and Seven Devils wastewater system be
6 incorporated into uniform rates. However, due to the evidentiary
7 hearing in the Sub 396 transfer proceeding scheduled after the
8 evidentiary hearing in the rate case proceeding, the Public Staff
9 determined Echota and Seven Devils service areas could not be
10 included in the rate case proceeding since CWSNC would not have
11 ownership of the Echota water and Seven Devils wastewater
12 systems. This decision was communicated to CWSNC.

13 **Q. Please describe the service area and water and wastewater utility**
14 **systems.**

15 A. The service area is located in Watauga County and is comprised of the
16 Echota water system serving approximately 613 water customers and
17 the Seven Devils wastewater system serving approximately 149
18 wastewater customers. The Echota water system is comprised of nine
19 active wells with three water treatment locations. Each water treatment
20 location serves three wells with the first water treatment location
21 serving wells 1 through 3, the second serving wells 4 through 6, and
22 the third serving wells 7 through 9. The Echota water utility system also
23 has four ground storage tanks with two having a capacity of 30,000

1 gallons each, one with a capacity of 75,000 gallons and another with a
2 capacity of 83,000 gallons. The Echota water system is currently
3 unmetered.

4 The Seven Devil wastewater system is comprised of three lift stations
5 and a 20,000 gallons per day wastewater treatment plant that
6 discharges to a Watauga River tributary.

7 **Q. Have you inspected the Echota water system and the Seven**
8 **Devils wastewater system and, if so, what were your**
9 **observations?**

10 A. At this time, I have not inspected either utility system, but a site visit of
11 both utility systems is scheduled to occur on the date of the Public
12 Witness Hearing, November 1, 2022. The Public Staff may file
13 supplemental testimony based on observations from the site visit.

14 **Q. Briefly describe the results of your investigation of North Carolina**
15 **Department of Environmental Quality Notices of Violation and**
16 **Civil Penalties.**

17 A. Since January 1, 2019, the Echota water system (System No.
18 NC3095002) has received seven Notices of Violation (NOV). One
19 NOV was issued on October 27, 2020 for failure to submit a
20 Consumer Confidence Report. The report provides information on
21 local drinking water quality and the Environmental Protection Agency

1 requires water providers to deliver the report to customers by July 1
2 of each year.

3 Two of the six remaining NOV's were due to test results from samples
4 collected from two sample points on July 30, 2021. The samples from
5 each sample point exceeded the arsenic maximum contaminant
6 level (MCL) with one NOV issued for the MCL exceedance for each
7 sample point. The arsenic MCL exceedance from the samples
8 collected on July 30, 2012 resulted in four additional NOV's for
9 continuing violations of arsenic MCL based on a running annual
10 average. The annual running average for arsenic MCL continued to
11 be exceeded although the samples collected since July 30, 2021
12 were non-detect for arsenic. In the April 11, 2022 NOV on the
13 continuing violation of arsenic MCL, NCDEQ states that, "In the most
14 recent quarterly report, Carolina Water Service, Inc. of NC expressed
15 the samples from July 30, 2021 were erroneous due to sampling or
16 laboratory error and because the results from fourth quarter 2021
17 and first quarter 2022 were below the detection limit." No penalties
18 were assessed for any of the seven NOV's.

19 The last inspection of the Echota water system was performed on
20 March 16, 2022 with no deficiencies identified.

21 The Seven Devils wastewater utility system (Permit No. NC0035149)
22 has received two NOV's since January 1, 2019. Both violations were

1 for fecal daily maximum exceedances with the first occurring on
2 March 9, 2021 and the second on January 1, 2022. No penalties
3 were assessed for either NOV. The last Compliance Evaluation
4 Inspection of the Seven Devils wastewater treatment plant was
5 performed on October 30, 2019 with the results reported as
6 satisfactory.

7 **Q. Did CWSNC provide Notice to Customers?**

8 A. Yes. On September 2, 2022, the Commission issued the Order
9 Scheduling Hearing, Establishing Discovery Guidelines, and
10 Requiring Customer Notice. The Order directed CWSNC to provide
11 the Notice to Customers no later than 10 days after the date of the
12 Order and submit a signed and notarized certificate of service not
13 later than 20 days after the date of the Order. On September 14,
14 2022, CWSNC filed a Certificate of Service stating the Notice to
15 Customers was mailed or hand delivered one day after the date
16 specified in the Order. The Certificate of Service was accompanied
17 by the Company's request that the Commission accept the filing nunc
18 pro tunc.

19 On October 4, 2022, the Public Staff was contacted by the property
20 manager of the Villas at Hawks Peak, an eight-unit condominium
21 building in Seven Devils. The property manager stated that while the
22 condominiums receive wastewater utility service from Water

1 Resource, the residents did not receive the Notice to Customers. As
2 a result, the Public Staff contacted Water Resource and confirmed
3 the Villas at Hawks Peak was included in the customer address list
4 provided to CWSNC. Upon notification of the non-receipt of the
5 Notice to Customers, CWSNC confirmed the Notice to Customers
6 was sent to the Villas at Hawks Peak based on the address list
7 provided by Water Resource, but out of extreme caution sent an
8 individual to the condominiums to attach the Notice to Customers on
9 the door of each condominium unit.

10 The Public Staff finds that while the delay in receipt of the Notice to
11 Customers is unfortunate, due to the small number of condominium
12 units affected and the prompt response by CWSNC, the overall
13 impact is minor and does not adversely affect this proceeding's
14 schedule.

15 **Q. Has the Public Staff received any customer complaints?**

16 A. From July 1, 2019 through August 31, 2022, the Public Staff
17 Consumer Services Division has not received any customer
18 complaints on the Echota water utility or Seven Devils wastewater
19 utility systems.

20 As of October 31, 2022, 35 customers filed consumer statements in
21 these dockets. All consumer statements objected to the rates
22 proposed by CWSNC. None of the consumer statements identified

1 concerns or complaints with the water or wastewater utility services
2 provided by Water Resource.

3 **Q. Is Water Resource providing safe and reliable service?**

4 A. Yes. Based on review of NOVs and penalties issued by NCDEQ and
5 the lack of significant customer complaints on water quality and
6 customer service issues, I have determined that Water Resource is
7 providing safe and reliable service to its customers of the Echota
8 water system and the Seven Devils wastewater system.

9 **Q. What are the existing and proposed water and wastewater utility
10 service rates?**

11 A. The present water utility rates for the Echota service area were
12 approved in Docket No. W-1073, Sub 4 on December 16, 2013 and
13 Docket No. W-1073, Sub 6 on March 26, 2021. The present
14 wastewater utility rates for the Seven Devils service area were
15 approved in Docket Nos. W-1073, Sub 5 and M-100, Sub 138, and
16 have been in effect since February 13, 2015. Upon acquisition of the
17 system, CWSNC proposes to charge CWSNC Uniform Rates for flat
18 rate residential service for both water and wastewater utility service.
19 CWSNC Uniform Rates were approved by the Commission in Docket
20 No. 354, Sub 384 on April 8, 2022. The present and proposed rates
21 for Echota are as follows:

22 Monthly Flat Rate Service: Present Proposed

1	Water	\$20.00	\$68.71
2	Wastewater	\$28.20	\$85.12
3	<u>Tap-on Fees</u>		
4	Water	\$300	\$0 ¹
5	Wastewater	\$200	\$100
6	<u>Reconnection Charge</u>		
7	If water service cut off by		
8	utility for good cause	Actual Cost	Actual Cost ²
9	If water service is discontinued		
10	at customer's request	Actual Cost	\$42.00
11	If sewer service cut off by		
12	utility for good cause	Not identified ³	Actual Cost

13 Presently the Echota service area customers are not metered. Upon
14 acquisition, CWSNC plans to install water meters and provide
15 metered service to the 613 Echota water utility system customers.
16 Once meters are installed, CWSNC intends to charge the metered
17 water customers the Sub 384 CWSNC Uniform Rates for monthly
18 metered water service (residential and commercial). Assuming the
19 size of each installed meter will be less than one inch and the
20 average monthly usage is 3,837 gallons, the proposed monthly
21 metered water bill will be \$69.46, based on a base facility charge of

¹ In response to Public Staff Data Request No. 4, CWSNC provided that the proposed tap on fees for the Echota service area is \$0.

² This reconnection charge amount is for flat-rate water customers. Once metered, this reconnection charge is \$42.00.

³ The present wastewater utility rates for the Seven Devils service area approved in Docket Nos. W-1073, Sub 5 and M-100, Sub 138 does not identify a reconnection charge for wastewater service.

1 \$24.53 and a usage charge of \$11.71 per 1,000 gallons of treated
2 water.

3 **Q. What is the result of the Public Staff's Revenue Calculations?**

4 A. For water utility service, the resulting calculated service revenue
5 requirement is \$247,709. For wastewater utility service, the
6 calculated service revenue requirement is \$66,261. The service
7 revenue requirements were calculated by Public Staff witness Lynn
8 Feasel (Feasel direct testimony, page 7, line 4).

9 **Q. What is your recommendation regarding the requested**
10 **approval of rates?**

11 A. The Public Staff recommends that in this transfer and rate increase
12 proceeding, the Echota and Seven Devils service areas should not
13 be charged CWSNC's Uniform Rates and instead be subject to a
14 standalone rate schedule. The basis for standalone rates is that the
15 expected revenues to be collected by CWSNC's proposed rates
16 would significantly exceed the recommended revenue requirements.

17 **Q. What is your recommendation regarding rates for the service**
18 **areas?**

19 A. As previously stated, the Echota service area is currently unmetered
20 with the Company planning to install Advanced Metering
21 Infrastructure (AMI) meters in the two years following approval of the
22 acquisition (Denton direct testimony, page 10, lines 9 through 11).

1 As a result, flat rates are appropriate for the Echota service area until
2 meters are installed, at which time metered rates are appropriate.
3 The rates are designed to meet Public Staff Accounting Manager
4 Feasel's recommended service revenue requirements with the intent
5 of equitably bridging the gap between the present and proposed
6 rates.

7 In determining the appropriate monthly metered water utility service
8 rates, the Public Staff used a revenue split of 40% provided by the
9 base charge and 60% provided by the usage rate. This is consistent
10 with CWSNC's most recent approved rates in Docket No. W-354,
11 Sub 384. Further, since the Echota service area is unmetered, the
12 monthly usage amount upon which the usage rate is based is an
13 average monthly usage, rounded to the nearest hundred, for three
14 service areas considered similar to the Echota Service Area with a
15 combination of seasonal and full-time residents. Two of the service
16 areas are Mountain Air Country Club (W-1148, Sub 9) and
17 Springdale Estates (Docket No. W-1324, Sub 1). The third is the
18 Lake Royale Subdivision with monthly usage determined by the
19 Public Staff as part of the transfer proceeding in Docket No. W-1146,
20 Sub 13; although a proposed Order providing Notice to Customers
21 has not been filed with the Commission. This resulted in an average
22 monthly water usage of 2,600 gallons.

1 The Seven Devils wastewater usage will remain unmetered and as
2 a result, flat rates are appropriate.

3 The Public Staff's recommended water and wastewater service rates
4 are as follows:

	<u>Recommended</u>
5 Monthly Flat Rate Utility Service:	
6 Water	\$33.67
7 Wastewater	\$37.06
8	
9	
10 Monthly Metered Water Utility Service	
11 Base Charge, zero usage	\$13.50
12 Usage Charge, per 1,000 gallons	\$ 7.80
13 Reconnection Charges	
14 If water service cut off by utility for good cause	\$42.00
15 If water service is discontinued at customer's	
16 request	\$42.00
17 If sewer service cut off by utility for good cause	Actual Cost
18 My rate design calculations are shown in Franklin Exhibit 1 .	

19 **Q. What is your recommendation concerning the purchase price?**

20 A. On October 12, 2021, Water Resource and CWSNC entered into a
21 Utility Asset Purchase Agreement (APA) for the Echota water system
22 and the Seven Devils wastewater system. Section 2.04. of the APA
23 provides that the purchase price for purchase assets is \$70,000
24 subject to prorations and adjustments set forth in the APA. In
25 response to Public Staff Data Request No. 3, the Company stated
26 the \$70,000 purchase price is comprised of \$57,599 for the Echota
27 water utility system and \$12,401 for the Seven Devils wastewater

1 utility system. As stated in Public Staff Financial Manager Lynn
2 Feasel's direct testimony (page 5, line 7), the original cost net
3 investment of the Echota water utility system is \$53,651 and \$13,549
4 for the Seven Devils wastewater utility system or a total of \$67,200.
5 As a result, the purchase price amount that can be included in rate
6 base is \$67,200.

7 The APA also stipulates that in addition to the purchase price of
8 \$70,000, additional payments will be paid for lots in a future Phase
9 IV development at a rate of \$706 per new customer connection up to
10 184 connections as an "Incentive Payment" following transfer
11 closing. Review of Exhibit A to the APA indicates the incentive
12 payment applies to additional lots located in the proposed Echota
13 Phase IV development.

14 In response to Public Staff Data Request No. 3, CWSNC provided
15 additional information related to the incentive payment stating the
16 developer will be installing all infrastructure for new development.
17 The incentive payment allows the developer to recoup some costs
18 associated with installing infrastructure for new customers while
19 providing CWSNC additional customers. The additional CWSNC
20 customers provide a benefit to existing customers by spreading
21 expense and water utility costs among more customers. The rate
22 base per customer in the transfer and new customers subject to the

1 incentive payments are below the rate base per customer of the
2 CWSNC Uniform Rate divisions. The Public Staff agrees with
3 CWSNC's position; however since the incentive payment is for future
4 connections, it should not be included in the rate base until the
5 connections to Echota Phase IV are implemented.

6 **Q. Briefly describe CWSNC's plans for capital improvements.**

7 A. On page 10, lines 3 through 6 of Company witness Denton's direct
8 testimony, Mr. Denton states that CWSNC assumed operational
9 responsibility of the Echota water and Seven Devils wastewater
10 systems in September 2021. In the Joint Application, the only capital
11 improvement the Company identified was \$300,000 for Advanced
12 Metering Infrastructure (AMI) water meters for the Echota service
13 area. No capital improvements were identified in the Joint Application
14 for the Seven Devils wastewater system.

15 After more than a year of operating the Echota and Seven Devils
16 utility systems and approximately six months after filing the transfer
17 application with the Commission, CWSNC determined additional
18 capital expenses were required. On page 10, lines 7 through 17 of
19 Company witness Denton's direct testimony, Mr. Denton states
20 "Over the six months since the transfer application was filed,
21 CWSNC has identified capital needs at both the Echota water system
22 and Seven Devils sewer system." He further states that CWSNC

1 plans to install AMI water meters at Echota with a current estimate
2 of “approximately \$400,000 - \$500,000.” Mr. Denton states on page
3 10, line 18 through page 11, line 3 of his direct testimony that “The
4 Company also intends to invest approximately \$175,000 in sewer
5 system improvements, including fence replacement (\$20,000);
6 installation of safety rails/steps (\$50,000); painting (\$20,000);
7 replacement of blowers (\$50,000); installation of bar screen influent
8 line supports (\$15,000); installation of mission units on lift stations
9 (\$10,000); and installation of shed/eye wash station for the safety of
10 operators working at the treatment plant (\$10,000).” It is unclear why
11 after more than six months of operating the Seven Devils wastewater
12 utility system, that these capital improvements were not identified at
13 the time the Joint Application was filed.

14 **Q. What is your recommendation concerning the bond for the**
15 **water and wastewater utility systems?**

16 A. I recommend a bond of \$50,000 for the Echota service area and the
17 Seven Devils wastewater service area consistent with the
18 considerations identified in N.C. Gen. Stat. § 62-110.3. These
19 considerations include the number of water and wastewater
20 franchises CWSNC holds in North Carolina, CWSNC’s record of
21 operation, the number of customers CWSNC serves in North
22 Carolina and the condition of the Echota water utility and Seven

1 Devils wastewater utility systems. Currently CWSNC has \$190,000
2 in unassigned bond filed with the Commission.

3 **Q. What is your recommendation regarding the requested transfer**
4 **of public utility franchise?**

5 A. The Public Staff recommends the Commission approve the transfer
6 of the Water Resource public utility franchise to CWSNC at the rates
7 recommended by the Public Staff and not the Uniform Rates
8 proposed by CWSNC. The Public Staff also recommends that
9 CWSNC install water meters in the Echota service area within one
10 year of taking ownership of the Echota water system.

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

12 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

D. MICHAEL FRANKLIN

I graduated from the University of South Carolina, earning a Bachelor of Science Degree in Engineering. I worked in the electric utility industry for 33 years prior to joining the Public Staff in June 2019. While employed by the Public Staff, I have worked on utility rate case proceedings, new franchise and transfer applications, customer complaints, and other aspects of utility regulation.

1 MR. LITTLE: Mr. Franklin is available
2 for cross examination, Your Honor.

3 HEARING EXAMINER RHODES: Thank you,
4 Mr. Little.

5 And I believe we have up first cross
6 examination by the Lakes Community POA.

7 CROSS EXAMINATION BY MR. BRADY ALLEN:

8 Q. Good afternoon, Mr. Franklin. I just have a
9 few questions. You state in your testimony that you
10 were scheduled to make a site visit of both utility
11 systems on November 21, 2021. Did you make that visit?

12 A. I did.

13 Q. Did you witness or document any operational
14 difficulties with the Seven Devils wastewater system?

15 A. No operational difficulties.

16 Q. Has the Public Staff received any complaints
17 from customers of the Seven Devils Wastewater System to
18 suggest there're major difficulties?

19 A. No.

20 Q. Now, in Mr. Denton's testimony, he states the
21 sewer system is operationally troubled, but not to the
22 extent that it requires an emergency operator. Are you
23 aware of that statement?

24 A. I heard his testimony, yes.

1 Q. Are there companies, other than Carolina
2 Water, that the Public Staff or the Commission might
3 call upon to be an emergency operator for a system that
4 is truly in distress?

5 A. Yes.

6 Q. And when a company takes over as an emergency
7 operator, isn't it true that they get to recover the
8 cost it incurs in taking over the system and making
9 necessary repairs?

10 A. Yes. Under review by Public Staff.

11 Q. So would you agree that, in the final
12 analysis, the company that takes on the obligation as
13 an emergency operator does so because it's a good
14 business decision and not just because they're making
15 some type of charitable act for the Public Staff or the
16 Commission?

17 A. I don't know if I would characterize it
18 exactly that way.

19 Q. How would you characterize it?

20 A. Of course, I have not -- I've only been
21 involved on peripheral of those discussions, but I
22 believe that Public Staff identifies a system that
23 requires an emergency operator, and then they work with
24 some of our known providers or other public utilities

1 to see who is the best to provide that service. And
2 then we discuss that with the Company, and they then
3 decide whether that is something they want to take on;
4 but whether it's to their best interest from a business
5 standpoint, I don't know if I can really comment on
6 that.

7 Q. So you wouldn't agree that, you know, subject
8 to the Public Staff's review, that companies are
9 generally allowed to --

10 A. I mean, they're not going to suffer a loss
11 because of the arrangements of an emergency operator,
12 but at the same time, it does have its own challenges.

13 Q. Okay. If another company could acquire the
14 Water Resource Management system and could recoup their
15 cost of its investment in one year, do you think other
16 companies might find that to be an attractive
17 proposition?

18 A. Sure.

19 Q. Now, in Mr. Denton's testimony, he states
20 that Carolina Water intends to invest \$175,000 in sewer
21 system improvements. Were you aware of that?

22 A. Yes.

23 Q. This includes \$20,000 for fencing. Are you
24 aware of any operational troubles that \$20,000 in

1 fencing will fix?

2 A. No.

3 Q. He also includes \$20,000 for paint. Are you
4 aware of any operational troubles that that will fix?

5 A. Well, the painting would, depending on what
6 exactly is being painted, could make the equipment last
7 longer.

8 Q. But not necessarily now?

9 A. No. Again, the current system is -- as I
10 recall, the wastewater treatment plant is a metal tank,
11 and so I don't know exactly where Mr. Denton was
12 planning on painting, but that could prove to be a
13 benefit if that tank were to have some type of coding.

14 Q. Mr. Denton also includes \$10,000 for the
15 installation of a shed and an eye wash station. The
16 Public Staff thinks safety is important, correct?

17 A. Correct.

18 Q. But will \$10,000 for a shed fix any
19 operational collection system?

20 A. No. That's a personnel safety issue.

21 Q. Excuse me one second. Similarly, he includes
22 \$50,000 for safety rails and steps. Safety is
23 important, but is that going to improve the
24 operational --

1 A. No. Again, that's a safety issue.

2 Q. Okay. Now, for the other items that
3 Mr. Denton lists, has the Public Staff had the
4 opportunity to investigate those capital investments?

5 A. Yes. The blowers, for example, is an expense
6 that we believe is needed. We need blowers. The
7 influent line supports is another example based on our
8 inspection.

9 Q. I just have a few more questions,
10 Mr. Franklin.

11 How do the wastewater rates for Carolina
12 Water compare, generally, with the wastewater rates in
13 for other companies in North Carolina?

14 A. They tend to be higher.

15 Q. Now, from a rate standpoint, how do the
16 customers of Carolina Water benefit from the economies
17 of scale if they're paying the highest rates in the
18 state?

19 A. Well, there has been quite a bit of capital
20 investment that's been required on these systems. So
21 by the uniform rates have spread those expenses across
22 more customers.

23 MR. BRADY ALLEN: Thank you,
24 Mr. Franklin. I have no further questions.

1 HEARING EXAMINER RHODES: Thank you,
2 Mr. Allen.

3 I think up next for cross we have either
4 Carolina Water or Water Resource up next for cross.

5 MR. DROOZ: Water Resource Management
6 will proceed, and I just have a few questions here.

7 CROSS EXAMINATION BY MR. DROOZ:

8 Q. Mr. Franklin, do you know if the Public Staff
9 recommended to Water Resource Management that Carolina
10 Water Service would be the best option of a utility to
11 sell to?

12 A. I'm not aware of that.

13 Q. You don't know if Mr. Brantmeier (phonetic
14 spelling) made that recommendation to Jay Harrell?

15 A. I'm not aware of that, no.

16 Q. Does the Public Staff favor transfers, as a
17 general policy, from developers to professional utility
18 companies?

19 A. Typically, yes.

20 Q. Setting aside the debate over the appropriate
21 level of rates, does the Public Staff support transfer,
22 in this case?

23 A. The Public Staff does support the transfer.

24 MR. DROOZ: Thank you. That's all.

1 HEARING EXAMINER RHODES: Thank you,
2 Mr. Drooz.

3 Any cross from Carolina Water?

4 MS. SANFORD: Yes, thank you.

5 CROSS EXAMINATION BY MS. SANFORD:

6 Q. We are officially into the afternoon now. I
7 do have a few questions for you, and I appreciate your
8 testimony here. Give me just a minute to figure --
9 okay. Let's talk about the nature of the WRM systems
10 with respect on this, what I'm going to call a
11 continuum from troubled to working like a -- you know,
12 working like a charm.

13 There's no representation that this is a
14 troubled system, in the way it is traditionally
15 defined; is that correct?

16 A. That's correct.

17 Q. Are you aware of or do you share any concerns
18 that it is stressed in any way operationally or
19 financially?

20 A. No. Not that I would -- I would not call it
21 stressed, no.

22 Q. Are you aware -- I know you have read the
23 annual reports and you're familiar with the various
24 expenditures that Mr. Harrell has had to make, but I

1 think you are telling me that you don't have any
2 knowledge of Mr. Harrell's concerns about operational
3 or financial difficulty with respect to his ownership?

4 A. That's correct. Not to my knowledge, no.

5 Q. Would you agree that, if a company is
6 experienced -- if an operator or a provider is
7 experiencing difficulties -- and I'm going to ask this
8 in the alternative, financially or operationally or
9 both -- is it in the best interest of the customers for
10 the system either to be addressed by the owner or
11 migrated into the ownership of a -- probably a larger
12 but certainly a more professionally operated water or
13 wastewater provider?

14 A. Yes.

15 Q. And the Public Staff supports that generally
16 speaking, don't they?

17 A. Yes. And we support that in this case as
18 well.

19 Q. Right. The -- do you believe that simply the
20 acquisition or the ownership by one of these heavily
21 regulated water and wastewater providers is, in and, of
22 itself, is a value to the customers of that system?

23 A. Yes.

24 Q. Without regard to specific investments?

1 A. That's correct.

2 Q. I want to represent to you what I think is
3 clear to the record, and if it's not, I'm really
4 falling down on my job, but I want to represent to you
5 that Carolina Water is not seeking to support the
6 uniform rates based upon proof of a level of
7 infrastructure investment on a standalone basis that
8 would equal those uniform rates. Does that make sense?
9 Do you understand what I'm saying?

10 A. If you could repeat it.

11 Q. Okay. Let me try. I want to represent to
12 you, for purposes of a series of questions I'm going to
13 ask you about that, the Company is not seeking to
14 support the uniform rates for which it asks, but trying
15 to prove that there has been a level of investment
16 which, if calculated on a standalone basis, would equal
17 those uniform rates?

18 A. I think I'll take your word for that.

19 Q. Let me see if I can pursue that a little bit
20 and let it make more sense. What I want to talk about
21 for just a few minutes is this concept of uniformed
22 rates. Ms. Feasel told us that it is developed as an
23 average of a lot of revenue requirement analysis, and
24 other kind of analysis. I'm not trying to short

1 circuit what it's done, but the uniform rate is derived
2 as an average of systems -- costs of systems or revenue
3 requirements of systems -- I'm never quite sure what to
4 say -- which vary from those that are lower than the
5 uniform and higher than the uniform, right?

6 A. That's correct.

7 Q. It's an average. And that being true, then
8 it would be incorrect to say, would it not, that a
9 system can't be considered for uniform rate status
10 unless its revenue requirement lands right on the
11 uniform; is that correct?

12 A. That's correct.

13 Q. And so, in this case, the Company -- for
14 reasons that Mr. Denton has mentioned, for benefits
15 that he has elucidated, the Company is trying to move
16 more directly to the uniform set of rates, and, again,
17 he set forth the reasons. So do you agree that that's
18 what the Company is trying to do?

19 A. Based on whatever Mr. Denton said?

20 Q. Whatever had he said, right. And so if the
21 uniform category of rates is only populated as we go
22 forward by systems who have cost characteristics or
23 revenue requirements that are at the uniform or above,
24 they would put upward pressure on those revenue rates,

1 right?

2 A. That's correct. But that's not how uniform
3 rates are developed. I mean, as you yourself stated,
4 it's an average. So you have some lower and some
5 higher. But the problem that we have with this
6 specific case is that the revenue that Carolina Water
7 would earn would double the required revenue, and that,
8 plus the fact that the rate shock to customers, it is
9 too excessive, where we don't think uniform rates are
10 appropriate at this time for this case.

11 Q. And that led you to the proposal that you
12 made?

13 A. That's right.

14 Q. Which was below what the Company had
15 requested, which was above the current rate?

16 A. That's correct.

17 Q. And so in Mr. Denton's rebuttal testimony,
18 his offer I'll call it, his proposal, is that your
19 proposal be accepted initially?

20 A. Uh-huh.

21 Q. But with the addition of a phase-in over a
22 period of three years to get the customers of the
23 system, these systems I should say, to the existing
24 Sub, 384 rates, correct?

1 A. Correct.

2 Q. And I'm going to go through a couple of "ifs"
3 at you here, so follow me through some dockets, please.

4 If there is what we would call "rate relief"
5 in the Sub, 400 docket, the multi-year rate plan, and
6 if that is a three-year rate plan, then at the end of
7 three years, under the Company's proposal, the rates
8 would be at current rates but below what we think will
9 soon be a different set of rates?

10 A. That's correct.

11 Q. In the Sub, 400?

12 A. That's correct.

13 Q. So would you agree this represents a phase-in
14 approach?

15 A. It's represents a phase-in approach, but the
16 problem that the Public Staff has with that phase-in
17 approach is that it's not based on actual expenses.
18 It's just a phase-in based on arbitrary information to
19 try to reach that uniform rate point.

20 Q. Right. And so how do you differentiate that
21 concern from the way you approach the structure of the
22 construct of a set of uniform rates?

23 A. Because the uniform rates are based on actual
24 expenses when they're calculated. We take all the

1 actual expenses into account to determine the uniform
2 rates.

3 Q. And --

4 A. At least that's my understanding.

5 Q. Yeah. Yeah. And so the -- let me back up.
6 So when it comes time, say three years down the road,
7 if this company is to be in the next rate case,
8 whatever comes after Sub, 400, to add -- to be added
9 into the uniform rates, it could still be that the
10 rates are determined to be the actual costs, the actual
11 revenue requirement could be determined to be lower
12 than the uniform, right?

13 A. That's correct.

14 Q. And it could be higher than the uniform if
15 something catastrophic happened?

16 A. Right. And it still could be decided that it
17 needs to be standalone.

18 Q. Could be standalone. And as long as these
19 customers are in a standalone rate position, which is
20 what you recommend and sort of modified?

21 A. Right.

22 Q. But you recommend basically standalone, as
23 long as they are there. Do you agree that they are
24 subject to or that the possibility exists for this

1 company to file a standalone case to deal with this?

2 A. Yes.

3 Q. And if the results of the standalone
4 analysis, should it be accepted by the Commission, were
5 to arrive at a rate level that was at the uniform
6 rates, would the Public Staff's position be that you
7 would cap it there, or would you be agreeable upon
8 sufficient proof for that standalone rate landing at a
9 point higher than the uniform rates?

10 A. If the expenses are justified and prudent and
11 reasonable, then we would land where we thought it
12 needed to be, irregardless of where it lined up with
13 the uniform rate. Not to say that a future point would
14 roll it in to uniform rates.

15 Q. At a future point. But between now and the
16 next rate case, for example, if something happened
17 there -- and I'm not trying to predict --

18 A. Sure. No, I understand.

19 Q. But things do happen in plants. There are,
20 you know, failures and replacements. If something
21 happened that precipitated this standalone case, and if
22 the results of that were to have rates higher than the
23 uniform, the Public Staff would support those rates
24 being wherever they landed need to be; is that correct?

1 A. That's my understanding, yes.

2 Q. All right. Thank you. Give me just a minute
3 to look at some other -- I may have asked you this
4 before, or I sort of asked you this before, but let me
5 -- to hit it more directly, I said in the beginning of
6 the proceeding that, at least for me, in the
7 examination of this, been a lot of thought given to
8 uniform versus standalone and consolidation, all these
9 things, and rate shock and all those things the
10 Commission and the Public Staff and parties have to
11 deal with here. But I am interested in -- and I may
12 not be knocking on the right door for this, but I'm
13 going to try it with you. My client has to make
14 decisions about acquisitions, and they're sort of
15 constantly making those decisions. And it is -- would
16 you agree that the -- generally speaking, the policy of
17 the Public Staff and the Commission has been to favor,
18 if not encourage, acquisitions by these companies of
19 smaller systems?

20 A. Yes. The developer owns his systems.

21 Q. Right. Right. And would I be correct to
22 assume that the Public Staff's view of these
23 acquisitions, and perhaps translating into your
24 recommendation about rates in these acquisition, it's

1 going to be influenced, again, by that continuum of
2 whether this is a, capital T, troubled system,
3 Kinnakeet, or whether it is a system that has some
4 issues but is not officially troubled?

5 A. Uh-huh.

6 Q. Would you agree that there is benefit to
7 customers and to rates overall in the regulated
8 community here in addressing, I'll say struggling
9 companies? And I'm not asking you to agree that this
10 one's struggling, because you have said that you don't
11 know that, but is there a benefit to encouraging the
12 acquisitions sooner rather than later so that we don't
13 have a Kinnakeet?

14 A. Oh, yes. Yes.

15 Q. Does the Public Staff have a policy that
16 considers that when you make your decisions? I mean,
17 isn't that a data point or a reference point for you as
18 you decide what your position will be in these cases?

19 A. Typically, what we decide is -- I mean, as
20 I've stated and as you pointed out, our preference has
21 been to move these developer-owned systems towards
22 larger utility systems. But, again, we do our due
23 diligence, as far as determining rates and to the
24 customers and if it's prudent and reasonable and if it

1 benefits the customers. So that's what we consider.

2 Q. Okay. And would it seem reasonable to you
3 that the companies, the Carolina Waters of the world,
4 have to make business decisions based on these
5 acquisitions based upon what they think is reasonably
6 likely that they could get, in terms of rate approval?

7 A. Yes.

8 Q. Do you see any -- in your experience here
9 with the Public Staff, do you see any shift in the --
10 either the Public Staff, or in your observation, the
11 Commission's approach to encouraging or discouraging
12 acquisitions, or do you see anymore attention or a
13 different kind of attention being given to this topic?

14 A. Not to my knowledge, no.

15 Q. Okay. That may be it, Mr. Franklin. Give me
16 just a minute. Quick question. You went on a site
17 visit with Mr. Denton and, again, we are not trying to
18 bootstrap operational or repair or management kind of
19 decisions into a case that --

20 MR. DWIGHT ALLEN: If we can just have
21 questions and not speeches.

22 MS. SANFORD: Thank you, Dwight. I
23 certainly will.

24 Q. You went on a site visit?

1 A. I did.

2 Q. And did you -- what did you observe with
3 respect to the condition of the systems?

4 A. So I'll just add that representatives of DEQ
5 were also with me, with us. The individual who's
6 assigned the water -- the Echota water system and the
7 individual assigned Seven Devils, they both
8 participated as well. So the water system, overall, I
9 felt it was in very good shape. Did not have any
10 concerns. I did not visit the entire system, because
11 we ran out of time due to some time constraints because
12 of -- on of the DEQ individuals, but I saw the majority
13 of the system and, again, thought it was in good shape.

14 Some of the wells were difficult to access
15 because it's in Boone -- near Boone in the mountains,
16 but all in all, in good shape. The Wastewater
17 Treatment Plant, you know, it's a metal structure with
18 aboveground influent, so the -- as Mr. Denton has
19 identified, the supports to that influent, you know,
20 they were -- they're made out of concrete blocks, so
21 it's not an immediate replacement, but it is something
22 over time that's going to need to be replaced. And
23 same with the wastewater treatment plant at some point.

24 MS. SANFORD: Thank you. I have no more

1 questions.

2 HEARING EXAMINER RHODES: Thank you,
3 Ms. Sanford.

4 Is there any redirect from the Public
5 Staff?

6 MR. LITTLE: A couple of questions,
7 Your Honor.

8 REDIRECT EXAMINATION BY MR. LITTLE:

9 Q. Mr. Franklin, you were discussing with
10 Ms. Sanford distressed systems and non-distressed
11 systems. And we're talking about the rate requirements
12 or the revenue requirements.

13 Now, a distressed system, can you -- what is
14 your definition of a distressed system?

15 A. Well, a distressed system is a system where
16 you have numerous violations from DEQ that are going --
17 that are long-standing and are not being addressed, and
18 you have service problems as well. Lack of service, or
19 for wastewater treatment system it could be overflows,
20 and collection system issues, lift pump -- lift station
21 issues. So service issues, regulatory issues, you
22 know, a lot of which is driven by financial issues.

23 Q. Would it be fair to say that a distressed
24 system would be -- would need repairs? A lot of

1 repairs or --

2 A. Yes.

3 Q. More so than a non-distressed system?

4 A. Definitely.

5 Q. And, therefore, a distressed would have a
6 higher -- possibly have a higher revenue requirement
7 than a non-distressed system?

8 A. That's correct.

9 Q. And if the revenue requirement is higher,
10 would that lead to a higher rate recommendation?

11 A. Yes.

12 Q. Is the -- in your opinion, is the Echota
13 Water System a distressed system?

14 A. I don't believe so, no.

15 Q. Is the Seven Devils sewer wastewater
16 treatment system distressed?

17 A. No. In my opinion, no.

18 Q. And do you know of any repairs -- immediate
19 repairs -- that need to be made to either system?

20 A. The only probably near-term repairs is the
21 blower that Mr. Denton identified, and also one of the
22 lift systems. The electrical the power supply to it
23 needed to be better installed, but that was mainly for
24 safety, not operational.

1 MR. LITTLE: That's all the questions
2 that I have, Your Honor.

3 HEARING EXAMINER RHODES: Thank you,
4 Mr. Little.

5 EXAMINATION BY HEARING EXAMINER RHODES:

6 Q. And I have just a couple very small questions
7 for you, Mr. Franklin. The parties took care of my
8 question about your site visit, so I won't ask that one
9 again. But on pages 5 and 6 of your testimony, and you
10 noted there that the Seven Devils wastewater system
11 received two notices of violation for fecal daily
12 maximum exceedances?

13 A. That's right.

14 Q. Do you know the cause of these exceedances or
15 was it, like, an operator error or possible treatment
16 plant malfunction or anything to that effect?

17 A. I don't recall, Mr. Rhodes, exactly what
18 caused -- what caused those.

19 HEARING EXAMINER RHODES: Okay. Thank
20 you for that. That's okay. Those are all of the
21 questions I have.

22 Just something to clarify the record. I
23 think now we are a good stopping point. First, let
24 me ask that, first, are there any questions on

1 Hearing Examiner's questions? I should have asked
2 that first.

3 MS. SANFORD: None from us.

4 MR. LITTLE: None from the Public Staff.

5 MR. BRADY ALLEN: No questions.

6 HEARING EXAMINER RHODES: Okay. Thank
7 you all very much. Then, Mr. Franklin, you may be
8 excused. And with that, I think we are at a good
9 time to break for lunch.

10 MR. BRADY ALLEN: Mr. Rhodes, I would
11 just like to advise the Commission, I know I
12 estimated about 60 minutes for cross, and judging
13 by how I tend to speak faster when I start to get
14 excited, and considering that, you know, looking at
15 my prepared questions I have less questions
16 prepared for cross examination on rebuttal than I
17 did on direct, I would imagine that I would
18 probably be less than 30 minutes for this cross.
19 So I'll leave it up to you and everyone in here. I
20 don't want to stand between anybody and lunch, but
21 if we want to proceed and get this done before
22 lunch, I'll leave it up to you.

23 MS. SANFORD: We completely agree if
24 that's your position and you have enough that time

1 and in you to do, we would be pleased to continue
2 if that works for the Commission and other parties.

3 HEARING EXAMINER RHODES: Madam Court
4 Reporter, would it be okay? Okay. Hearing no
5 objections to just chugging along and getting
6 through this so we can all get to lunch, I'd say
7 let's continue with the case. And the next part we
8 have will be Mr. Denton coming back up for
9 rebuttal. So the case will be with Carolina Water.
10 And since we already swore you in earlier,
11 Mr. Denton, I don't think that we have to do that
12 again. So I think I'll pass you on with
13 Ms. Sanford when you're ready.

14 Whereupon,

15 DONALD DENTON,
16 having previously been duly sworn, was examined
17 and testified as follows:

18 MS. SANFORD: As soon as he gets set up,
19 Mr. Denton is available for cross.

20 HEARING EXAMINER RHODES: We have the
21 Lakes Community POA up first for first cross
22 examination of Mr. Denton.

23 MR. DWIGHT ALLEN: Did you put your
24 rebuttal in the record?

1 MS. SANFORD: No, I did not. I've been
2 reminded twice now. I appreciate that.

3 MR. BRADY ALLEN: Well, we object to it.

4 MS. SANFORD: Fire away. Just check the
5 box.

6 DIRECT EXAMINATION BY MS. SANFORD:

7 Q. I would like to ask you a series of quick
8 questions, Mr. Denton. You've already indicated, I
9 think, that you caused to be prefiled -- caused to have
10 prefiled both direct and rebuttal testimony in this
11 case?

12 A. Correct.

13 Q. We're talking about your rebuttal now, and if
14 you gave it orally from the stand today, do you have
15 any changes to make to it?

16 A. I do not.

17 MS. SANFORD: With that, I'm going to
18 ask that Mr. Denton's testimony be moved into the
19 record, and I think here, again, he has no
20 exhibits. And with that, he is available for
21 cross.

22 HEARING EXAMINER RHODES: Hearing no
23 objection, the testimony -- Mr. Denton's rebuttal
24 testimony will be admitted into evidence and marked

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as prefiled.

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

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

2 A. My name is Donald H. Denton III, and my business address is
3 5821 Fairview Rd., Suite 401, Charlotte, North Carolina 28209.

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

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

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

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

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

20 A. I am responsible for the Company’s regulated water and sewer operations
21 in North Carolina, including facility operations, finance, business

1 development, safety, compliance, regulatory affairs, and customer
2 service.

3 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**
4 **PROCEEDING CONSISTING OF SIXTEEN PAGES AND ONE**
5 **EXHIBIT?**

6 A. Yes. My direct testimony and one supporting exhibit were filed in this
7 docket on October 10, 2022.

8 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

9 A. The purpose of this rebuttal testimony is to respond to written testimony
10 filed in this proceeding by customers Edward B. Winn, Jr. and James D.
11 Moore III and Public Staff witnesses D. Michael Franklin and Lynn L.
12 Feasel.

13 **Q. BY WAY OF BACKGROUND, PLEASE DESCRIBE THE RATES**
14 **CURRENTLY BEING CHARGED BY WATER RESOURCE**
15 **MANAGEMENT LLC (“WRM”) FOR WATER AND SEWER UTILITY**
16 **SERVICE TO ITS CUSTOMERS IN WATAUGA COUNTY AND THE**
17 **RATES WHICH CWSNC PROPOSES TO INITIALLY CHARGE IF THIS**
18 **TRANSFER APPLICATION IS APPROVED BY THE COMMISSION.**

19 A. The present water utility rates for the Echota service area were approved
20 in Docket No. W-1073, Sub 4, on December 16, 2015, and Docket No.
21 W-1073, Sub 6, on March 26, 2021. The present wastewater utility rates

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1 for the Seven Devils service area were approved in Docket Nos. W-1073,
 2 Sub 5, and M-100, Sub 138, and have been in effect since February 13,
 3 2015. Based upon a review of the Commission's electronic docket
 4 system, WRM does not appear to have ever filed a general rate case for
 5 its water and sewer systems, and the current rates are, as a result, very
 6 low. Upon acquisition of the system, CWSNC proposes to initially charge
 7 the Company's Sub 384 Commission-approved Uniform Rates for flat rate
 8 residential service for both water and wastewater utility service. The
 9 Sub 384 rates were approved by the Commission on April 8, 2022. The
 10 present and proposed rates for Echota and Seven Devils are as follows:

<u>Monthly Flat Rate Service</u>	<u>Present</u>	<u>Proposed</u>
Water (Echota)	\$20.00	\$68.71
Wastewater (Seven Devils)	\$28.20	\$85.12

14 **Q. PLEASE BRIEFLY DESCRIBE IN GENERAL THE POSITION TAKEN**
 15 **BY CUSTOMERS WINN AND MOORE REGARDING THE COMPANY'S**
 16 **PROPOSED SEWER RATE FOR SEVEN DEVILS.**

17 A. Customers Winn and Moore contend that it would be unreasonable for the
 18 Commission to approve the Company's proposal to implement its Sub 384
 19 Uniform Rate for flat rate residential wastewater utility service at
 20 Seven Devils upon approval of the transfer application, citing the
 21 magnitude of the requested rate increase above the present WRM
 22 wastewater rate, "rate shock" and other system-specific wastewater rates

1 currently being charged by CWSNC. Customers Winn and Moore
2 conclude their testimony with the following statement: "To avoid rate
3 shock, if the transfer application is approved, any increase in the rate
4 should be phased in over several years."

5 In support of their position, customers Winn and Moore also point out
6 that, in addition to the uniform rates, ten individual service area
7 wastewater rates were approved in the Docket No. W-354, Sub 384 rate
8 case. They assert that the fact that ten individual rates were approved
9 demonstrates that both the Commission and CWSNC recognize that a
10 uniform rate is neither mandatory nor applicable across the CWSNC
11 system and that the Commission clearly has the authority to provide for
12 different rates when conditions require it.

13 **Q. PLEASE BRIEFLY DESCRIBE IN GENERAL THE POSITION TAKEN**
14 **BY THE PUBLIC STAFF REGARDING THE COMPANY'S PROPOSED**
15 **WATER AND SEWER RATES FOR THE ECHOTA AND SEVEN**
16 **DEVILS SERVICE AREAS.**

17 A. Public Staff witnesses Franklin and Feasel recommend that, in this
18 transfer proceeding, the Echota and Seven Devils service areas should
19 not be charged CWSNC's Uniform Water and Sewer Rates and instead
20 should be subject to a standalone rate schedule. The Public Staff's stated
21 basis for standalone rates is that the expected revenues to be collected

1 by CWSNC's proposed rates would significantly exceed the revenue
2 requirements recommended by the Staff in this case.

3 Public Staff witness Feasel calculated proposed standalone revenue
4 requirements for the Echota water system and the Seven Devils
5 wastewater system to be \$247,709 and \$66,261, respectively. Using
6 witness Feasel's recommended revenue requirements, witness Franklin
7 designed and recommends the following monthly flat rates for water and
8 sewer utility service: Echota Water - \$33.67 and Seven Devil's
9 Wastewater - \$37.06.

10 In addition, the Public Staff, through witness Franklin's testimony,
11 recommends that the Commission approve the transfer of the WRM public
12 utility franchise to CWSNC at the rates recommended by the Staff and not
13 the Uniform Rates proposed by CWSNC. The Public Staff also
14 recommends that CWSNC install water meters in the Echota service area
15 within one year of taking ownership of the Echota water system.

16 **Q. PLEASE DESCRIBE THE COMPANY'S POSITION IN RESPONSE TO**
17 **THE CUSTOMER AND PUBLIC STAFF TESTIMONY SUMMARIZED**
18 **ABOVE.**

19 A. CWSNC continues to believe that it would be reasonable and appropriate
20 for the Commission to approve the Company's joint transfer application
21 subject to immediate implementation of the CWSNC Uniform Water and

1 Sewer Rates in the Echota and Seven Devils service areas for the reasons
2 previously stated in my direct testimony.

3 However, in the spirit of reasonable compromise and in response to
4 customer concerns, CWSNC, in good faith, now offers the following
5 alternative compromise rate design implementation proposal for
6 consideration and approval by the Commission.

7 First, CWSNC will accept the proposed water and sewer revenue
8 requirements and flat rates proposed by the Public Staff for
9 implementation upon Commission approval of the transfer application,
10 subject to a Commission-authorized phase-in of the Company's Sub 384
11 uniform rates. CWSNC offers this proposal subject to a stipulation that
12 the Company's acceptance of the Public Staff's proposed water and
13 wastewater revenue requirements and rates should be declared by the
14 Commission, if approved, to have no precedential value in view of the
15 Company's offered compromise position and concerns set forth below.

16 Second, the Company asserts that a phase in of rates is reasonable
17 and in the public interest for several reasons. The revenue requirement
18 for the Echota and Seven Devils systems will increase beyond the
19 Public Staff's numbers as a result of the necessary capital investments in
20 the systems, including the addition of meters. Additionally, there are
21 savings both in money and time for the Company, the Public Staff, and

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1 the Commission should the Company not be required to file standalone
 2 rate cases for the Echota and Seven Devils communities. Finally, the
 3 proposed phase in will address customer concerns to rate shock. Absent
 4 consistent incremental change to the Echota and Seven Devils rates, the
 5 concerns of future rate shock will remain unaddressed. If the
 6 recommended rates below are approved, this system will be at the Sub
 7 384 rates after 36 months from Commission order, and still below the
 8 Company proposed Sub 400 rates. CWSNC will work to continue to
 9 address this rate disparity in a future rate case in a reasonable and
 10 incremental manner such that rate shock can be reasonably avoided.

11 Third, CWSNC proposes that the phase-in to the Sub 384 uniform
 12 water and wastewater rates proceed as follows:

	Public Staff Recommended				Sub 384 Rates
	Year 1	Year 2	Year 3		Year 4
	At Commission Order	12 months after Commission Order	24 Months after Commission Order		36 Months after Commission Order
Monthly Flat Rate Utility Service:					
Water	\$ 33.67	\$ 45.35	\$ 57.03		\$ 68.71
Wastewater	\$ 37.06	\$ 53.08	\$ 69.10		\$ 85.12
Monthly Metered Water Utility Service					
Base Charge, zero usage	\$ 13.50	\$ 17.18	\$ 20.85		\$ 24.53
Usage Charge, per 1,000 gallons	\$ 7.80	\$ 9.10	\$ 10.41		\$ 11.71
Reconnection Charge					
If water service cut off by utility for good cause	\$ 42.00	\$ 42.00	\$ 42.00		\$ 42.00
if water service is discontinued at customer's request	\$ 42.00	\$ 42.00	\$ 42.00		\$ 42.00
if sewer service cut off by utility for good cause	Actual Cost	Actual Cost	Actual Cost		Actual Cost

13
 14 Fourth, this phased in approach toward implementation of the Sub 384

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1 Uniform Water and Sewer Rates is consistent with the joint testimony
 2 offered by customer witnesses Winn and Moore that, if the transfer is
 3 approved, any increase to their wastewater rate should be phased in over
 4 several years to avoid rate shock. This is exactly what CWSNC's current
 5 alternative, phased in rate design proposal does, while also ensuring that,
 6 within a reasonable period, the Company will be able to fully implement
 7 its Sub 384 Uniform Water and Sewer Rates. This alternative,
 8 compromise approach is fair and reasonable to both the Echota water and
 9 Seven Devils sewer customers as well as to the Company's existing
 10 customer base.

11 **Q. PLEASE DESCRIBE ANY CONCERNS THAT CWSNC HAS WITH**
 12 **RESPECT TO THE STANDALONE WATER AND SEWER REVENUE**
 13 **REQUIREMENTS PROPOSED BY THE PUBLIC STAFF.**

14 A. CWSNC appreciates the fact that the Public Staff, through the testimony
 15 of witnesses Franklin and Feasel, has determined and recommended that
 16 (1) the transfer should be approved and (2) the Company's aggregate
 17 purchase price of \$70,000¹ for the Echota water and Seven Devils sewer

¹ In my prefiled testimony, I noted that: "Attached as Exhibit 1 is support for Water Resource's net investment in its water and sewer systems, which CWSNC notes is approximately \$120,000. The Company reviewed Water Resource's books over the last several years and has noted several items that appear to have been incorrectly coded as expenses on Water Resource's books instead of recorded as plant in service. In addition, CWSNC has recalculated the net book value at CWSNC's current depreciation rates."

The \$70,000 purchase price to be paid by CWSNC for the WRM rate base assets, when compared to WRM's net investment of \$120,000, is clearly a benefit to both the Company's existing ratepayers as well as the new customers to be acquired by CWSNC upon approval of the proposed transfer.

1 systems is reasonable for inclusion in rate base and determining cost of
2 service upon approval of the transfer. Nevertheless, the Public Staff's
3 standalone revenue requirement understates CWSNC's total dollar
4 capital investment in this transfer proceeding which should be eligible for
5 inclusion in rate base because it understates and does not recognize full
6 due diligence costs incurred by the Company in conjunction with this
7 transaction. To date, the Company has incurred due diligence costs
8 totaling \$24,746 and estimates additional costs through the conclusion of
9 the transfer case process which should be reviewed in in the next rate
10 case.

11 In her testimony, witness Feasel states that for Echota Water she
12 included transaction due diligence costs in the amount of \$8,229.39² in
13 purchase acquisition adjustments as part of her standalone cost of service
14 recommendation. Thus, the Public Staff's water and sewer rate base
15 determinations and proposed rates are understated. Acceptance of those
16 understated determinations in this case is a concession made by CWSNC
17 in the spirit of compromise designed to move this case forward without
18 further controversy, but with no future prejudicial precedent to the

² In my prefiled direct testimony, I specifically noted that: "CWSNC is also incurring due diligence costs in conjunction with this application which are currently estimated to be approximately \$45,000, which the Company requests be authorized for inclusion in rate base in this proceeding in addition to the purchase price of \$70,000."

1 Company. In addition, Public Staff witness Feasel calculated her
2 proposed standalone rate base and accumulated depreciation numbers
3 using WRM depreciation rates instead of CWSNC depreciation rates.
4 Final due diligence costs should be reviewed and included in CWSNC's
5 next general rate case for ratemaking purposes as was done in prior
6 acquisition application dockets.

7 **Q. WHAT IS CWSNC'S POSITION REGARDING RATE BASE**
8 **TREATMENT FOR ADDITIONAL PAYMENTS OF \$706 PER NEW**
9 **CUSTOMER CONNECTION FOR UP TO 184 CONNECTIONS AS AN**
10 **"INCENTIVE PAYMENT" FOR FUTURE PHASE IV LOTS?**

11 A. As I stated in my direct testimony, CWSNC requests rate base treatment
12 as those payments are made and new customers are added to the water
13 system. This ratemaking treatment is consistent with the Public Staff's
14 recommendation in the testimony of witness Franklin that these incentive
15 payments "...should not be included in the rate base until the connections
16 to Echota Phase IV are implemented." There is no difference of opinion
17 with the Public Staff here.

18 **Q. WHY SHOULD THE COMMISSION REJECT THE PUBLIC STAFF'S**
19 **RECOMMENDATION THAT CWSNC SHOULD BE REQUIRED TO**
20 **INSTALL WATER METERS IN THE ECHOTA SERVICE AREA WITHIN**
21 **ONE YEAR OF TAKING OWNERSHIP OF THE WATER SYSTEM?**

1 A. For the following reasons, it is not likely that CWSNC will be able to install
2 the water meters in the first year of operation as recommended by the
3 Public Staff. The current lead time for water meters is eight to twelve
4 months. The construction and utility markets have experienced delivery
5 challenges of equipment and supplies over the last three years, driven by
6 raw material delivery and labor shortages.

7 In addition, Echota customers are currently directly connected into
8 the water distribution system. Adding meter infrastructure where line
9 location will be required typically adds complexity, schedule delays, and
10 potentially increased cost to the installation. CWSNC is investigating
11 alternatives including installing meters under the multifamily units (in the
12 crawlspaces) as an alternative. This will not, however, address the long
13 supply chain timeline.

14 **Q. HOW DO YOU RESPOND TO THE IMPLIED CRITICISM OFFERED BY**
15 **PUBLIC STAFF WITNESS FRANKLIN THAT “AFTER MORE THAN A**
16 **YEAR OF OPERATING THE ECHOTA AND SEVEN DEVILS UTILITY**
17 **SYSTEMS AND APPROXIMATELY SIX MONTHS AFTER FILING THE**
18 **TRANSFER APPLICATION WITH THE COMMISSION, CWSNC**
19 **DETERMINED ADDITIONAL CAPITAL EXPENSES WERE**
20 **REQUIRED.”**

1 A. CWSNC was retained by WRM beginning on September 16, 2021, to
2 serve as the contract operator of the water and sewer systems which the
3 Company now seeks to purchase. In my prefiled direct testimony, I stated
4 that: "Over the six months since the transfer application was filed
5 [April 22, 2022], CWSNC has identified additional capital needs at both
6 the Echota water system and Seven Devils sewer system." It should not
7 be surprising to the Public Staff and, for that matter, to the current
8 customers of WRM, that CWSNC, in its role as contract operator of the
9 water and sewer systems in question, gained (and continues to gain)
10 greater insight as to the capital needs and operational issues which must
11 be addressed at Echota and Seven Devils once the transfer of ownership
12 is approved.

13 The implied criticism from the Public Staff is misplaced. More
14 importantly, the Public Staff has not taken issue with or questioned, at
15 least up to this point in time, the need for any of the capital improvements
16 discussed in my direct testimony.

17 The Public Staff's criticism also fails to recognize that the
18 Commission's transfer application form at page 7 asks, in pertinent part,
19 as follows: "Are there any major improvements/additions required in the
20 next five years and the next ten years?" Because there is no definition of
21 the term "major improvements/additions" in the form application, there is

1 ambiguity as to what should be listed. I addressed this ambiguity in my
2 direct testimony by providing a list of recently identified capital projects
3 and the estimated cost of each. I hope that this explanation adequately
4 and clearly responds to witness Franklin's statement at page 15,
5 lines 10 - 13, of his prefiled testimony.

6 **Q. PLEASE ADDRESS THE TESTIMONY OFFERED BY CUSTOMERS**
7 **WINN AND MOORE THAT TEN INDIVIDUAL SERVICE AREA**
8 **WATEWATER RATES WERE APPROVED BY THE COMMISSION IN**
9 **THE SUB 384 RATE CASE.**

10 A. The testimony regarding this issue by customers Winn and Moore is inapt
11 in that it does not recognize or discuss the following significant differences
12 between customers on CWSNC's Uniform Wastewater Rates and the ten
13 cited sewer systems.

14 First, CWSNC is organized into four rate divisions, as follows:
15 Uniform Water Rate Division; Uniform Sewer Rate Division; Bradfield
16 Farms/Fairfield Harbour/Treasure Cove ("BF/FH/TC") Water Rate
17 Division; and Bradfield Farms/Fairfield Harbour ("BF/FH") Sewer Rate
18 Division.

19 The other nine of the sewer systems referenced by customers Winn
20 and Moore are part of the Company's Uniform Sewer Rate Division. Of

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1 those nine sewer systems, six³ are purchased sewer systems, which
2 means that CWSNC does not itself treat their wastewater, but, instead,
3 purchases bulk treatment services from another utility. The rates for
4 purchased sewer systems are set differently by the Commission than
5 those systems where CWSNC provides the treatment services. For this
6 reason, the comparison of the rates charged by CWSNC to customers in
7 purchased sewer systems by customers Wynn and Moore is also
8 inappropriate.

9 Three additional systems on the Sub 384 chart (Regalwood and
10 White Oak, White Oak High School, and Child Castle Daycare) are not
11 part of a purchased sewer system, but the residential customers at
12 Regalwood/White Oak are charged the Company's Uniform Sewer Flat
13 Rate (the same rate which would be applicable to Seven Devils). Rates
14 for the White Oak High School and Child Castle Daycare are customer-
15 specific based on their unique circumstances. Thus, any rate comparison
16 here is also inappropriate.

³ College Park, Kings Grant – Charlotte, White Oak Plantation/Winston Point/Lee Forest, Mt. Carmel, Ridges at Mountain Harbour, and Fairfield Mountain/Apple Valley.

1 **Q. DO YOU CONTINUE TO MAINTAIN THAT THE PUBLIC INTEREST**
2 **AND PUBLIC CONVENIENCE AND NECESSITY WILL BE SERVED BY**
3 **APPROVAL OF THE CWSNC/WRM TRANSFER APPLICATION?**

4 A. Yes. The purpose of this Application is to facilitate the transfer of the water
5 and sewer systems owned by WRM to CWSNC at a price which is fair and
6 reasonable to both the seller and the buyer and on terms which are
7 beneficial and not detrimental to the current customers of CWSNC or
8 those of WRM. I again reiterate that, in this instance, the water and sewer
9 systems currently owned by WRM, while not yet operationally troubled to
10 the extent that there is a need for appointment of an emergency operator,
11 is in financial and operational difficulty. The water and sewer systems at
12 issue will unquestionably benefit from the significant financial and local
13 operational resources and expertise which CWSNC will provide upon
14 approval of the transfer application. It is prudent to do reasonable things
15 to support avoidance of a descent into “officially” troubled status, which
16 this transfer will do.

17 In addition, consistent with my direct testimony, I want to reiterate
18 that significant warning signals have been emanating from these water
19 and sewer systems, as demonstrated by even a cursory review of the
20 Annual Reports heretofore filed by WRM. The WRM operational financial
21 losses have not been a secret and, unsurprisingly, CWSNC continues to

1 discover and evaluate additional system needs as it has conducted its due
2 diligence and as it has served as contract operator.

3 I also reaffirm my direct testimony where I stated that if the requested
4 transfer is approved, the WRM customers will clearly receive substantial
5 benefit in two essential ways: first, from the operational expertise and
6 service improvements which will be timely and prudently provided by the
7 Company; and, secondly, from the financial integrity offered by CWSNC
8 as a well-run and well capitalized public utility able to provide consistently
9 safe, reliable, and compliant service.

10 **Q. ARE THERE ADDITIONAL COMMENTS THAT YOU WISH TO OFFER**
11 **REGARDING PUBLIC INTEREST AND RATEMAKING**
12 **CONSIDERATIONS?**

13 A. Yes. Clearly, the public interest will be served by approval of this pending
14 transfer application. CWSNC has the technical, managerial, operational,
15 and financial capacity to provide adequate, safe, efficient, and reasonable
16 water and sewer utility service on an ongoing basis to existing customers
17 as well as customers in the current WRM service area.

18 Accordingly, consistent with G.S. 62-111(a), CWSNC requests that
19 the Commission conclude that approval of the pending transfer application
20 is justified by the public convenience and necessity and is in the
21 public interest. CWSNC also requests that the Commission approve the

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1 Company's proposed phased in rate implementation proposal and
2 determine the Company's rate base request consistent with this
3 testimony. The Company further requests that the Commission not
4 approve the Public Staff's recommendation that CWSNC should be
5 required to install water meters in the Echota service area within one year
6 of taking ownership of the water system.

7 CONCLUSION

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

9 A. Yes, it does.

1 MR. BRADY ALLEN: Thank you,
2 Ms. Sanford, Mr. Rhodes.

3 CROSS EXAMINATION BY MR. BRADY ALLEN:

4 Q. Mr. Denton, on page 3 of your rebuttal
5 testimony -- Mr. Denton, lines 5 and 6 you state that
6 Water Resource Management's rates are very low; do you
7 not?

8 A. I do.

9 Q. Is that conclusion based on your intuitive
10 knowledge of what constitutes a low rate, or is it
11 based on Water Resource Management's cost of service?

12 A. It's based on comparison for what we see for
13 other similar type service providers.

14 Q. So based on Water Resource Management's cost
15 of service, you don't know if those rates are low or
16 not?

17 A. Well, based on the cost of -- what we've seen
18 from the numbers, the numbers are reflective, as you've
19 stated, at least from the sewer side, those numbers.
20 But where we look at it, we look at it from WRM, and
21 this was the entire water and wastewater, looking at it
22 from purchase, that these are low in comparison to the
23 cost that they were currently incurring.

24 Q. If those rates are actually low, as you say

1 they were, is there any reason why the Water Resource
2 Management could not have filed a general rate case and
3 then chosen to do so?

4 A. Well, I don't know what the Harrells had
5 intended but they could have.

6 Q. In fact, do you understand that it's actually
7 a simpler process for a smaller company to file a rate
8 case as opposed to a larger company like Carolina
9 Water?

10 A. Well, it is, but I wouldn't say anything
11 that's associated with rates is simple.

12 Q. Is it your view that customers, in the
13 future, should be required to pay rates significantly
14 in excess of the cost of service because their current
15 provider failed to file the general rate case?

16 A. Can you repeat the question?

17 Q. Yeah. Is it your -- so customers, in the
18 future, should they be required to pay higher rates
19 just because -- when a system is acquired, just because
20 the current utility didn't go for a general rate case?

21 A. As part of an acquisition?

22 Q. As part of an acquisition?

23 A. Well, I think that the fact that the Harrells
24 hadn't filed for a rate case, at least from my

1 perspective, is not material to what we're discussing
2 here. They could have, but -- as I said earlier, but
3 they didn't. And I'm not trying to judge what they had
4 or had not done.

5 Q. Now, if the hearing examiner or the
6 Commission accepts the cost of service determined for
7 wastewater, or, excuse me, for the Seven Devils
8 Wastewater System as determined by the Public Staff,
9 and then they gave the rates that you proposed, that
10 would result in you earning a return well above the
11 revenue requirement; is that correct?

12 A. For the system, yes. For the near term until
13 capital investment was required, yes.

14 Q. Now, on page 4, line 5 of your rebuttal
15 testimony, you kind of paraphrase or restate the
16 testimony of witnesses Winn and Moore; is that correct?

17 A. That's correct.

18 Q. You restate that -- Mr. Winn and Mr. Moore's
19 point that the 10 service areas rates -- individual
20 wastewater rates were approved in Carolina Water's last
21 rate case, and that this -- this is what they say --
22 and that demonstrates that both the Commission and
23 Carolina Water recognize that a uniform rate is neither
24 mandatory nor applicable across the Carolina Water

1 System. That was Mr. Winn and Mr. Moore's testimony
2 and you're just restating, correct?

3 A. Correct. That's correct.

4 Q. Do you deny that the Commission has the
5 authority and discretion to prescribe different rates
6 when it determines that conditions justify it?

7 A. They have that authority.

8 Q. And isn't it true that, in previous rates --
9 the previous rate increases previous times Carolina
10 Water has even proposed different rates for different
11 customers in its service areas?

12 A. It has.

13 Q. Now, on page 13, line 10, you state that
14 Mr. Moore and Mr. Winn's testimony is inapt, but you
15 don't think the uniform rate is mandatory, do you?

16 A. It is not.

17 Q. And do you agree that the Commission has the
18 authority to provide for different rates when
19 circumstances are justified?

20 A. As stated, yes.

21 Q. Now, on page 6, line 17 -- well, that might
22 actually be the wrong reference, but do you recall in
23 your testimony where you state there are savings both
24 in time and money for the Company, Public Staff, and

1 Commission, should the Company not be required to file
2 a standalone rate case for the Echota and Seven Devils?

3 Do you remember that?

4 A. Yes.

5 Q. If for whatever reason the Commission chooses
6 to differentiate rates, you filed dispart rates in
7 those rate cases, and if the Commission has decided a
8 dispart rate, you can go ahead and file and that's
9 what's required by the Commission, right?

10 A. We would.

11 Q. And if you filed another general rate
12 increase for Carolina Water in the future, and the
13 Commission had determined the particular circumstance
14 existed that involved in the acquisition and a dispart
15 rate was required, how much time or cost would it take
16 you to file that separate tariff sheet?

17 A. It's not just the tariff sheet. It's the
18 appearance in this room as well and all the prep that
19 goes along with it.

20 Q. But you were asked --

21 A. And so there are significant costs that
22 associate with any time that we --

23 Q. But you would already be here for the general
24 increase?

1 A. You're saying for the -- as combined with the
2 general rate. I thought you're saying it's a separate
3 rate case.

4 Q. Your general case, and you have to file a
5 tariff. For each tariff -- how much does it cost you
6 to make that one separate tariff go in? You're already
7 here for the general rate case.

8 A. I don't know exactly what that number would
9 be.

10 Q. It's not very significant in -- compared to
11 the overall general rate case, is it?

12 A. I don't know what that number would be.

13 Q. Does -- does the Public Staff and the
14 Commission have a legal obligation to see that the
15 rates charged by Carolina Water are fair and
16 reasonable?

17 A. Yes.

18 Q. And your phased-in approach would triple the
19 rates paid by Seven Devils wastewater customers in 36
20 months; is that correct?

21 A. Based on their current rate, yes.

22 Q. And you state on page 7, line 3, "That this
23 proposed phase-in will address customers' concerns
24 about rate shock."

1 A. It was raised that phase-in, including what
2 the Public Staff had in their testimony, and this was
3 what was proposed as a phase in.

4 Q. And it says that it will address customers'
5 concerns, correct?

6 A. It did.

7 Q. What did you base your conclusion on that
8 that phased-in approach of tripling rates in 36 months
9 will address those concerns for rate shock?

10 A. That the customers and the Public Staff both
11 asked for a phase-in of rates, and that's what we
12 proposed.

13 Q. But you didn't know, necessarily, that your
14 36 months would address those concerns or not?

15 A. They weren't specific on the timeframe.

16 Q. Now, have you or anyone at Carolina Water
17 asked the customers whether that would address their
18 concerns?

19 A. Not to my knowledge.

20 Q. Now, did you or anyone at Carolina Water
21 Service meet with customers or send notice to customers
22 while you were operating the system advising them that
23 their system that was serving was in operational or
24 financial distress?

1 A. Not to my knowledge.

2 Q. In fact, the first time that the customers
3 ever would've been aware that Carolina Water thought
4 the system was in operational distress or financial
5 distress was when you filed your testimony on
6 October 10; is that not correct?

7 A. It's possible, yes.

8 Q. Over a year after you've been operating the
9 system; is that not correct?

10 A. That's correct.

11 Q. Eight days before the intervention deadline
12 of this proceeding. That's not a significant amount of
13 notice, is it, Mr. Denton?

14 A. The timelines are what they are.

15 Q. Now, on page 5, line 5, you reference the
16 wastewater revenue requirement of \$66,261 that was
17 calculated by the Public Staff; is that correct?

18 A. Yes. Yes.

19 Q. Do you dispute that calculation?

20 A. Well, the calculation and the revenue
21 requirements, one of the things that we look at is a
22 little different than what witness Feasel says, and I
23 think I've talked about this, that the difference
24 between, for instance, the depreciation rates and other

1 things that we utilize as part of the analysis.

2 Q. If Carolina Water were permitted to charge
3 \$85.12 to Seven Devils sewer, how much in excess of
4 that revenue requirement would you -- would you be
5 recovering?

6 A. I'd have to run those numbers. I don't have
7 them in front of me.

8 Q. It would be significant, would it not?

9 A. It's different. It's very different.

10 Q. Now, on page 6, line 14, you talk about the
11 presidential value of a Commission decision; is that
12 correct? I think we were talking about the
13 stipulation, and that it would have no presidential
14 value in view of the Company's offered compromised
15 position?

16 A. Correct.

17 Q. Would you agree that, from a ratemaking
18 standpoint, each case stands on its own, and previous
19 Commission decisions based on different facts do not
20 establish the precedent?

21 A. Well, I think precedents are utilized as part
22 of rate cases and are discussed at length during the
23 case.

24 Q. Now, on page 6, line 18, you state that the

1 revenue requirement will increase due to necessary
2 investments in the systems, including meters?

3 A. Correct, yes.

4 Q. And when you mention meters, you're referring
5 to water meters?

6 A. Water meters, yes.

7 Q. Do you have any estimate as to what the
8 increased revenue requirement will be for the
9 wastewater system over the next year?

10 A. Over the next year? Again, I don't have that
11 number directly in front of me.

12 Q. What about two years?

13 A. Again, don't have that number directly in
14 front of me.

15 Q. Last time. Three years?

16 A. No.

17 Q. Okay. If Carolina Water can achieve its
18 revenue requirement by charging \$37.06 rather than
19 \$85.61, as you proposed, would customers be better off
20 with the standalone rates?

21 A. Again, it gets back to the philosophy of the
22 purpose for uniform. The purpose of uniform is to
23 provide that capital infusion when it's required and
24 balance that across a much larger base of customers.

1 Okay. And what we're talking about is, at some point,
2 there's going to be a failure, okay? And don't know
3 what the probability is. Haven't run -- haven't done
4 that analysis. But at some point there will be a
5 failure, and we see it every day. And that's the
6 benefit of uniform rates is, no single community is
7 bearing the burden of that individual failure if it
8 occurred in their community, of that community, if
9 they're sharing that across the uniform component.

10 Q. But that failure will be in the future,
11 correct?

12 A. Correct. It could be tomorrow.

13 Q. Now, you're familiar -- we've discussed that
14 North Carolina's regulatory principals -- and
15 regulatory -- we're a least-cost state, correct?

16 A. Correct.

17 Q. Now, do you know whether rates set based on a
18 historic test period or future test period?

19 A. Well, we're in the middle of that right now.

20 Q. Which is it?

21 A. Well, we're looking at a three-year
22 multi-year rate plan.

23 Q. But is that based on future test periods or
24 historic test periods?

1 A. It has a base historic test period, but that
2 you then build off of for three future years.

3 Q. Base historic test period. Okay. Now, on
4 page 7, lines 8 to 10, you state that Carolina Water
5 will address rate disparity in future rate cases in a
6 reasonable and incremental manner so that rate shock
7 can be reasonably avoided; is that right?

8 A. Correct. That's correct.

9 Q. Is it your position that increasing rates
10 threefold in three years is a reasonable way to avoid
11 rate shock?

12 A. This was our proposal in order to address the
13 concerns that were by both the staff and the homeowners
14 association.

15 Q. Is it reasonable?

16 A. We believe it was, yes. Yes.

17 Q. Now, what will your new rate be if the Sub,
18 400 pending rate case is approved for the uniform
19 sewer?

20 A. It was, we mentioned -- I think it was
21 mentioned earlier, it was north of \$110 in the third
22 year, I believe after. But there again, if you think
23 about the timing of this, you're in the third year,
24 which is '23, '24, '25, '26 end of -- or beginning of

1 '26, and then if we were to file another case, you're
2 at least another year beyond that. And so before rates
3 are implemented, there is a time lag associated with,
4 obviously, a case of any magnitude and these are all
5 large cases.

6 Q. Right. So you don't disagree with me that,
7 after 36 months, Carolina Water Service might have a
8 new rate case. They might try to put the Seven Devils
9 system in the new uniform system and that rate could be
10 well over \$110 per month; is that correct?

11 A. It is possible.

12 Q. So potentially we could be talking about a
13 quadruple rate in four years?

14 A. It is possible.

15 Q. Do you think quadrupling rates in four years
16 is a reasonable way to avoid rate shock?

17 A. Well, our proposal was trying to get to that
18 point with going to the Sub, 384 rates and not the Sub,
19 400 rates.

20 Q. Well, I think this is my last line of
21 questions, Mr. Denton.

22 On page 12 and 13, I think it's at the
23 bottom, you suggest that you didn't include some
24 capital costs in your application because the form was

1 ambiguous; is that correct?

2 A. Well, the definition of major project
3 improvements, as I mentioned earlier, we define major
4 project improvements as anything that is large risk
5 and/or above between \$15,000 and \$75,000, which we
6 normally put in our GL budgets.

7 Q. Right. And major improvement additions is
8 what it says on the form?

9 A. Yes. That's right.

10 Q. Okay. Now, how many filings does Carolina
11 Water Service make with the Commission in a year?

12 A. Depends on the year. This year we've had
13 quite a number.

14 Q. A lot. Would you agree that a lot would be a
15 fair characterization?

16 A. This year we have had more than the average.
17 We have, yes.

18 Q. And does Carolina Water, or do you, yourself,
19 regularly engage in conversations with the Public Staff
20 or the Commission staff about procedural issues?

21 A. We leave that to our counsel.

22 Q. But your counsel might?

23 A. They might.

24 Q. Your Counsel probably does; do you think so?

1 A. They do.

2 Q. Could they have raised this ambiguity with
3 them prior to filing the application?

4 A. It's possible. They could have.

5 Q. And isn't the point of your testimony really
6 that you just weren't sure what constituted a major
7 improvement and so you just left it blank?

8 A. I wouldn't say that. We just didn't foresee.
9 And I'm not saying that what was listed in the direct
10 is what we're considering major improvements, right? I
11 mean, they are improvements, don't get me wrong, but we
12 look for improvements to operate the facilities more
13 efficiently and encourage that of our operations teams,
14 right? Because that benefits customers. And, as I
15 stated earlier, there's some safety related issues and
16 we look out for our employees. No question.

17 Q. But it benefits the Company as well, right?
18 It raises your rate base?

19 A. It's -- that's not significantly what we're
20 looking at, right? I mean, there is a -- when we look
21 at -- we're not investing just for the purpose of
22 return. That is not what we're doing. It is
23 specifically looking at the appreciations and what is
24 necessary to provide compliance service. That you've

1 got -- you're meeting your safety requirements. You're
2 meeting your compliance requirements. You're meeting
3 all those requirements that are out there, which
4 continue to grow daily, right? We're all seeing
5 tighter regulations.

6 Q. All right. Just a few more questions,
7 Mr. Denton. On page 10, line 11 of your testimony, you
8 specifically point out that you want to recover \$706
9 for new customers connections and include those in your
10 rate base; is that correct?

11 A. That's correct.

12 Q. Can we conclude from that, that you viewed,
13 including \$706 per connection as a worthy of mention,
14 but the \$175,000 that you suggested in the wastewater
15 system that you needed to make was simply not viewed as
16 major?

17 A. No. Because that was part of the construct
18 of what's put in the rate base with regards to the
19 purchase price, and so that was a different context, so
20 you're comparing apples to oranges, I think.

21 MR. BRADY ALLEN: No further questions.

22 MR. DENTON: Okay.

23 MR. BRADY ALLEN: Thank you.

24 HEARING EXAMINER RHODES: Thank you,

1 Mr. Allen.

2 I know up next we do have cross
3 examination by the Public Staff, but, for everybody
4 let's take a short break -- a 10 minute break --
5 and come back at 1:35, and then hopefully conclude
6 the hearing shortly thereafter.

7 (At this time, a recess was taken from
8 1:25 p.m. to 1:37 p.m.)

9 HEARING EXAMINER RHODES: All right.
10 Let's go back on the record, please. And where we
11 left off was we were at Mr. Denton's rebuttal and
12 the Lakes Community POA just finished their cross
13 examination. I just want to confirm with
14 Mr. Allen that you're good on your cross.

15 MR. BRADY ALLEN: Yes, no further
16 questions.

17 HEARING EXAMINER RHODES: Next up we
18 have the Public Staff's cross examination.

19 MR. LITTLE: The Public Staff has no
20 questions for Mr. Denton.

21 HEARING EXAMINER RHODES: Okay. Thank
22 you, Mr. Little.

23 And with that, we go to any redirect
24 from Carolina Water, or possibly Water Resource.

1 REDIRECT EXAMINATION BY MS. SANFORD:

2 Q. All right. Mr. Denton, you're back with me.
3 Mr. Allen made the comment that a process or an option
4 is simpler if WRM filed a rate case.

5 With respect to filing rate cases, WRM hasn't
6 filed one, correct?

7 A. Not to my knowledge.

8 Q. And in your experience, does it take
9 different kinds of expertise and support to file rate
10 cases?

11 A. Yes.

12 Q. What kind?

13 A. Financial, operational, regulatory, legal.

14 Q. Rate design, that sort of thing?

15 A. Yes.

16 Q. And Mr. Harrell and Harrell family, owners of
17 WRM, they're developers; is that right?

18 A. That's correct.

19 Q. With respect to the level of rates, you have
20 testified that you think they're low?

21 A. I have.

22 Q. Correct. And could a reason for that be that
23 they haven't filed a rate case?

24 A. Yes.

1 Q. Consistent with your opinion that the rates
2 are low, then does it follow from that that ultimately
3 there's a catch-up?

4 A. At some point there is, yes.

5 Q. If the rates are lower than they should be.
6 And your proposal here would phase in part of
7 that catch-up over the next three years, correct?

8 A. Correct.

9 Q. But still wouldn't be caught up, because
10 presumably, there would be another set of rates out
11 there?

12 A. At some point, plus whatever unknown capital
13 investment surfaces. Should surface.

14 Q. Moving to a different topic. There was
15 discussion about the ambiguity or the confusion or
16 whatever the words were with respect to the transfer
17 application form on page 7?

18 A. Yes.

19 Q. You talked about what were major improvements
20 and additions in your world and in your analysis,
21 right?

22 A. Correct.

23 Q. Did you address that ambiguity in your
24 testimony by providing a list of recently identified

1 capital projects?

2 A. Yes.

3 Q. Has anybody disputed the legitimacy of your
4 determination?

5 A. To -- not to my knowledge, no.

6 MS. SANFORD: Okay. I have no more
7 questions.

8 HEARING EXAMINER RHODES: All right.

9 Thank you, Mr. Sanford.

10 EXAMINATION BY HEARING EXAMINER RHODES:

11 Q. And I have just a few clarifying questions
12 for you, Mr. Denton.

13 A. Okay.

14 Q. And I believe I'm the one that's holding us
15 up for lunch, so I will be brief. Mr. Denton, on
16 page 11 of your rebuttal testimony, you indicated --
17 I'll give you a moment to get there. I'm sorry.

18 A. I'm there. I got it.

19 Q. You indicated challenges with the Company's
20 ability to install the water meters for the Echota
21 service area within one year of the acquisition, which
22 was recommended by the Public Staff. You cited the
23 supply chain issues as one of the problems, and also
24 the ability to locate the service lines for each of the

1 customers.

2 Do you have -- I know in your direct
3 testimony, I believe, you proposed a two-year timeline
4 after acquisition, but given the Public Staff's
5 recommendation of one year, do you have any update to
6 that timeline for installation of the water meters?

7 A. We actually would want to do it as soon as
8 possible. The supply chain -- and these are digital
9 meters that we are talking about, AMI, AMR-type
10 meters -- they currently are seeing a lead time from
11 the purchases -- time of purchase order to delivery of
12 8 to 12 months currently. In fact, I know that we just
13 purchased for a number of communities this week. I saw
14 one of our purchase orders go out, but that, in
15 conjunction with the issue that these buildings are
16 hard piped into the laterals or hard piped into the
17 main supply without any meter boxes, and so either
18 locating those lines either out in the street or in the
19 yards is difficult, at best. Or one thing we're
20 looking at is a lot of these buildings have sizable,
21 what I would call, cross bases. It's not a a cross
22 base. It's very tall, but there's potential access to
23 put the meters inside what would be considered the
24 cross base of the building.

1 Now, there's communication issues that come
2 along with that and things that need to be worked out,
3 but we've done that at other places, so we are
4 evaluating that as a potential way to both speed up the
5 process as well as potentially save costs.

6 Q. Okay. Thank you for that clarification. My
7 next question I have, hopefully a short and sweet one,
8 but the Public Staff recommended a bond amount of
9 \$50,000 for the Echota and the Seven Devils System, and
10 that was on page 15 of the Public Staffs witness
11 Franklin's testimony.

12 A. Yes.

13 Q. Does the Company agree with that bond amount?

14 A. We have no issue with that.

15 Q. No issue. Okay. Thank you for that. And my
16 last question, Mr. Denton, on page 6 of your -- this is
17 Carolina Water's customer report after the public
18 witness hearing. You indicated Carolina Water was
19 reaching out to the Town of Seven Devils, which is the
20 water provider for the Seven Devils service area, to
21 see if you can get the regular water meter reading and
22 billing data from the Town of Seven Devils.

23 Have you made any additional progress since
24 the filing of that report with your communications with

1 the Town?

2 A. We have. And we have heard back from the
3 Town. The Town has said they cannot provide it to us
4 per statute, and so we're actually wanting to continue
5 that conversation with the Town, because we do get it
6 in other areas of the state. And so that dialogue is
7 continuing, but they've initially come back and said
8 that they cannot provide it to us.

9 Q. Okay. Thank you for that update.

10 HEARING EXAMINER RHODES: Those are all
11 the questions I had for Mr. Denton. Are there any
12 additional questions based on Hearing Examiner's
13 questions?

14 MR. DWIGHT ALLEN: Nothing from us.

15 MR. DROOZ: No questions.

16 MS. SANFORD: No questions.

17 HEARING EXAMINER RHODES: All right.
18 Well, I just have a few procedural things, and I
19 know this is the last thing holding us from lunch.
20 One thing, I got a list of the prefiled exhibits
21 here, and I note that also on November 14, 2022,
22 Water Resource prefiled its customer report
23 addressing the concerns from the public witness
24 hearing on November 1st.

1 November, 18th, we had a prefilled report
2 from Carolina Waters. That was their customer
3 report.

4 And then the Public Staff filed a
5 response on December 5th.

6 At this time, would the parties like to
7 make any motions to enter those items into
8 evidence?

9 I can start with Water Resource since
10 they filed their report first.

11 MR. DROOZ: Yes, we would move that
12 report be excepted into evidence.

13 HEARING EXAMINER RHODES: Okay. Hearing
14 no objection, that report will be entered into
15 evidence and marked as prefilled.

16 (Water Resource Responses to Customer
17 Concerns, was admitted into evidence.)

18 HEARING EXAMINER RHODES: And Carolina
19 Water's customer report.

20 MS. SANFORD: Yes. We will make a
21 similar motion for receipt of our customer report
22 into evidence, as well as, if it is necessary to do
23 so at this point, our application, our revised
24 exhibit, our second revised exhibit, which includes

1 a confidential exhibit and we've taken care of
2 direct and rebuttal, and so I believe those are all
3 the documents for us that we request be admitted.

4 MR. DWIGHT ALLEN: And just for
5 clarification, I think we entered the cross
6 examination exhibits and other things at the time
7 we did, but in case we didn't, can we assume that
8 all of the exhibits offered, direct and cross, will
9 be entered into evidence.

10 HEARING EXAMINER RHODES: Yes, sir.
11 Hearing no objection, those items will be entered
12 into evidence and marked as prefiled. That
13 includes Carolina Water's customer report and also
14 the transfer applications including the revised
15 exhibits, and we will note that the exhibit is
16 confidential and make sure it is marked or entered
17 that way into the docket or into the transcript.

18 (CWSNC Response to Customer Concerns,
19 Application of Water Resource and CWSNC
20 Revised Exhibit 4, Water Resource and
21 CWSNC Second Revised Exhibits
22 (Confidential Filed Under Seal)), was
23 admitted into evidence.)

24 HEARING EXAMINER RHODES: And then

1 finally, we have the Public Staff's response to the
2 customer reports. Would the Public Staff like to
3 make a motion.

4 MR. LITTLE: Yes. The Public Staff will
5 make a motion to admit those, the response.

6 HEARING EXAMINER RHODES: Okay. Thank
7 you, Mr. Little. Hearing no objection to that, the
8 Public Staff's response to the customer's report
9 will be entered into evidence and marked as
10 prefiled in the docket system.

11 (Public Staff's Verified Response to
12 Water Resource Management, LLC, Public
13 Staff's Verified Response to Carolina
14 Water Service, Inc. of North Carolina
15 was admitted into evidence.)

16 HEARING EXAMINER RHODES: And I think
17 that gets us through most of the procedural
18 matters. I just have one more statement I would
19 like to make. I know our court reporter, it
20 benefits the court reporter to have any exhibits
21 from the parties, the cross exhibits we received
22 here today in our paper format. It would benefit
23 the court reporter to have that in their native
24 file format, the .PDF file. So I would ask that,

1 after the conclusion of the hearing today, if the
2 parties wouldn't mind e-mailing our court reporter
3 copies of the .PDFs of those cross exhibits. That
4 would be a little more legible, rather than to scan
5 a paper copy. And I ask that you can do that as
6 soon as possible after the hearing concludes. I'll
7 make sure to get you the e-mail address. At the
8 conclusion of the hearing, I'll get that e-mail
9 address for you.

10 And I will also ask the parties to file
11 proposed orders within 30 days after the notice of
12 the mailing of the transcript from today's hearing.
13 I know holidays are coming up, so we think it will
14 probably take a lot. I don't want to strap our
15 court reporter into a specific date, but over the
16 next couple of weeks we will hopefully have our
17 transcript prepared, and then 30 days from the
18 posting of the transcript we will ask that parties
19 to file proposed orders.

20 MR. DROOZ: Mr. Rhodes, given the
21 posture of WRM in this case, could they either just
22 file a brief statement in the outcome they believe
23 is supported by the evidence or just omit the
24 proposed order?

1 HEARING EXAMINER RHODES: Yes, sir,
2 Mr. Drooz. That is appropriate. That will be
3 allowed.

4 MR. DROOZ: Thank you.

5 HEARING EXAMINER RHODES: Do the parties
6 propose another date -- I know holidays are right
7 around the corner, but is 30 days something the
8 parties are okay with?

9 MR. DWIGHT ALLEN: Well, I've developed
10 quite a specialty in filing motions with extension
11 of time.

12 MS. SANFORD: And I'm a first-class
13 agreeer.

14 MR. DWIGHT ALLEN: Well, I actually -- I
15 thought you were more of a specialist in that
16 regard than I am, Sanford.

17 MS. SANFORD: I have actually developed
18 quite the specialty in that, unfortunately. I will
19 be happy to cheer you on or do it myself, but I
20 always like to -- I'm always foolishly optimistic
21 that maybe we can make the earlier date. So it
22 doesn't bother me to have it, but it's always with
23 a little bit of uncertainty, at least right now.

24 MR. LITTLE: I will note that, if we go

1 further than 30 days, we are into the timeframe for
2 the Carolina Water rate case proposed order. The
3 next 45 days for notice of the hearing that came
4 early this week. So if we don't get 30 days, then
5 we're writing two proposed orders at the same time.

6 HEARING EXAMINER RHODES: We will take
7 note. Commission will take note that, if an
8 extension of time is needed, the parties can feel
9 free to make a motion if necessary. I understand
10 we've got several matters we are dealing with at
11 the same time.

12 If there are no other matters to tend to
13 today, then that will conclude our hearing.

14 So thank you-all for coming out today.
15 Thank you so much for your testimony, Mr. Denton.
16 You may be excused too. I should have mentioned
17 that earlier. But, all right, I appreciate
18 everyone's time today. I really thank you-all for
19 coming out. Thank you for your time, and that
20 concludes our hearing.

21 (Proceedings concluded 1:50 p.m.)
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23
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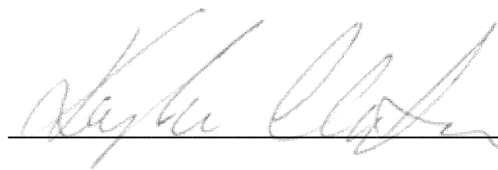
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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Kaylene Clayton, the officer before whom the foregoing hearing was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing hearing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 20th day of December, 2022.



KAYLENE CLAYTON

Notary Public #202228500270



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