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INFORMATION SHEET

PRESIDING: Chairman Finley, Commissioners Beatty, Brown-Bland, Dockham, Patterson, Gray and Clodfelter

PLACE: Dobbs Building, Raleigh, NC

DATE: August 28, 2017

TIME: 7:00 p.m. – 7:40 p.m.

DOCKET NO.: W-354, Sub 356

COMPANY: Carolina Water Service, Inc. of NC

DESCRIPTION: Application for Authority to Adjust and Increase Rates for Water and Sewer Utility Service in All of Its Service Areas in North Carolina, Except Corolla Light and Monteray Shores Service Area and Elk River Development

VOLUME: 6

APPEARANCES

FOR CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA:

Jo Anne Sanford, Esq.

FOR THE USING AND CONSUMING PUBLIC:

Gina Holt, Esq.

William E. Grantmyre, Esq.

WITNESSES

Vincent P. Roy

Judith Basset

William Glance

Ben Farmer

EXHIBITS

✓ Roy Exhibit 1 (I/A)

JUDICIAL NOTICE

COPIES ORDERED: Email: Sanford – 1; Holt -1; Casselberry -1; Quant -1

REPORTED BY: Kim Mitchell

TRANSCRIBED BY: Kim Mitchell

DATE TRANSCRIBED: September 12, 2017

TRANSCRIPT PAGES: 37

PREFILED PAGES:

TOTAL: 37

FILED

SEP 14 2017

Clerk's Office
N.C. Utilities Commission

Statement

By

Vincent P. Roy

Carolina Trace, Sanford, NC

Carolina Water Service

Application for Rate Increase

Docket No. W-354, Sub 356

UNIFORM RATES:

CWSNC has combined disparate water and sewer communities into a consortium that are non-uniform with respect to size, age, geography, physical condition, customer base and rate structure.

The combination of these disparate communities into a single rate base will cause those in the 'lower' cost group to subsidize those in the 'higher' cost group.

The CWSNC proposal states their goal is to provide "...a fair return to shareholders." The Public Staff appears sympathetic to CWSNC of not attaining the desired 9.75% profit. Nowhere is there any evidence that CWSNC has made any effort to control costs and increase efficiency to attain the profit goal. Companies with competition will always look inward to control expenses to remain competitive before raising prices. I see no evidence that the Public Staff has looked to see if CWSNC has made any attempt to be more efficient and control their costs to meet their profit goals.

A uniform rate program provides for more efficient communities to subsidize lesser efficient communities.

As a business man, I can appreciate the CWSNC desire to use 'uniform' rates and the benefits that will accrue to them. If the commissioners are going to allow this to happen, then I strongly suggest that it be phased in by carefully designing uniform groups whose current rates are closer to each other. Then, over a matter of years, phase in those smaller communities into one big community. This transition format will ease the pain on the consumer.

For example: Water Operations

<u>Lower Group:</u>	<u>Middle Group;</u>	<u>Higher Group:</u>
Carolina Forest	Sapphire Valley	Treasure Cove
High Vista	Carolina Trace	Clearwater Syst.
Whispering Pines	Connestee Falls	Forest Hill
White Oak	River Pointe	Fairfield Mtn.
Winston Plant/Pointe		
Woodrun, Yorktown		

Conclusion: The uniform rate program needs to be reprogrammed to avoid having a small group of customers subsidize the entire program.

BASE RATE (GUARANTEED INCOME) VS RISK & CONSERVATION:

With high, fixed base rates there is little or no incentive for CWSNC to encourage efficiency in their operations.

There is no mechanism available to Public Staff to investigate if CWSNC or any other provider is operating at max efficiency which favors the provider.

There is virtually NO RISK involved to the CWSNC or any provider of water and sewer services.

Should there be a manmade or natural disaster caused interruption of services, such as Hurricane Harvey, CWSNC would still receive 80% of its normal bill to Carolina Trace customers (based on an Avg of 3,400/gal /mo).

The commodity of water is not a NYSE or NASDAQ traded item, there is NO competition. There is NO substitute available for customers to use. Raising the base rate is merely a tool to ensure that the provider makes his desired level of income which he will make anyway if the system stays as it currently is.

However, a high base rate for water in fact discourages conservation of natural resources which is and always has been a goal in this country.

CWSNC promotes conservation of resources on their web site but discourages it with high base rates.

Conclusion: There is little to no risk for CWSNC with these increased base rates, even with a total interruption of services, because the base rate in the customer's bill would still cover 80% of its normal bill. See attached charts.

CWSNC PROFIT REQUEST:

CWSNC is requesting a profit of 9.75% based upon Docket W-354 SUB 344 which is a water/sewer rate cast of 2015 for several separate communities. The rate of profit approved for ^{CUT} ~~this~~ case should be based upon the financial facts of the concerned communities and not those of other, different communities.

In addition, should the NCUC seriously consider a uniform rate structure, it must calculate in the cost savings that will accrue to

CWSNC for reduced manpower and other costs associated with filing of multiple rate cases versus a single uniform case.

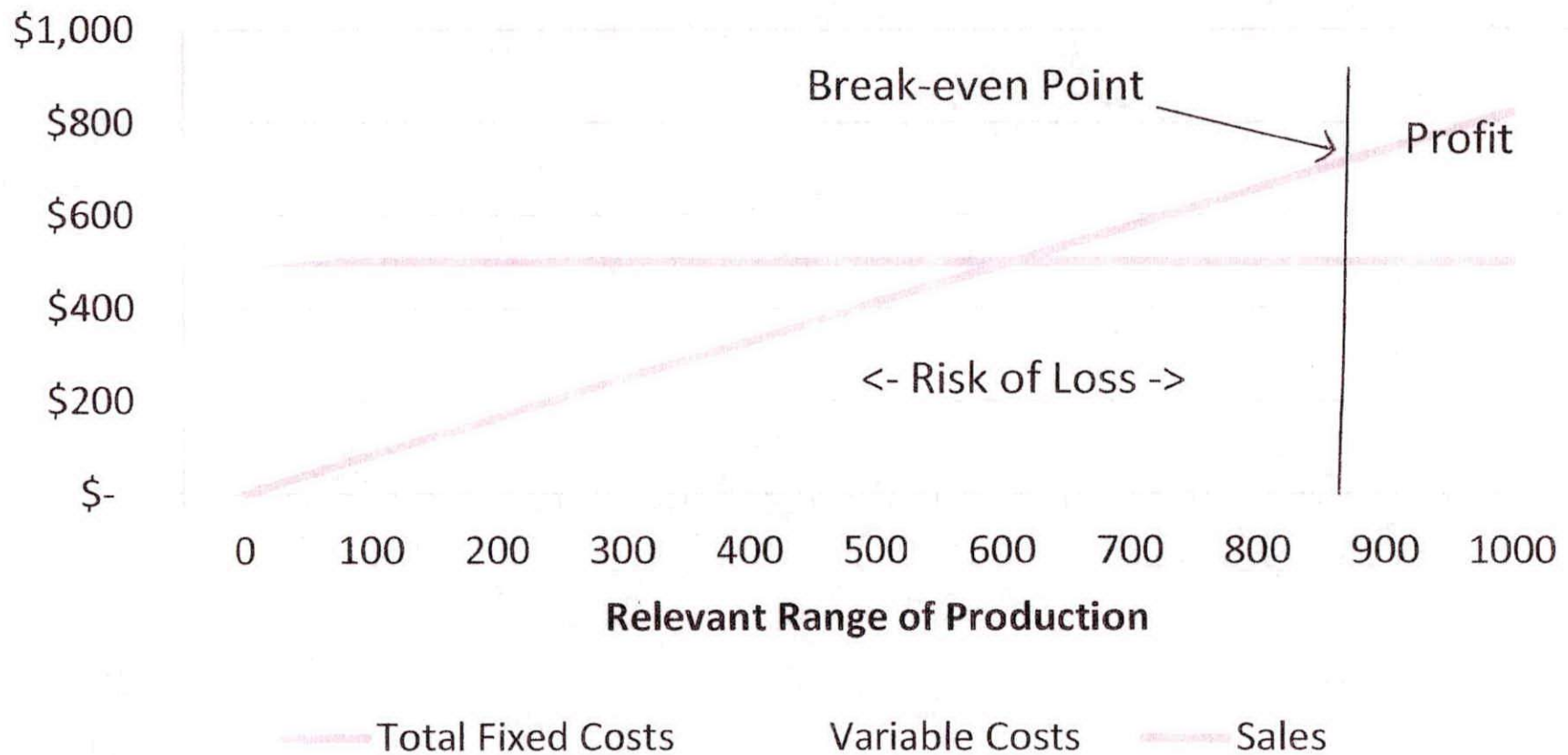
PERCEPTIONS:

Chairman Finley and Director Ayers should recuse themselves from any involvement with CWSNC's rate increase proposal because of their previous association with UI and CWSNC.

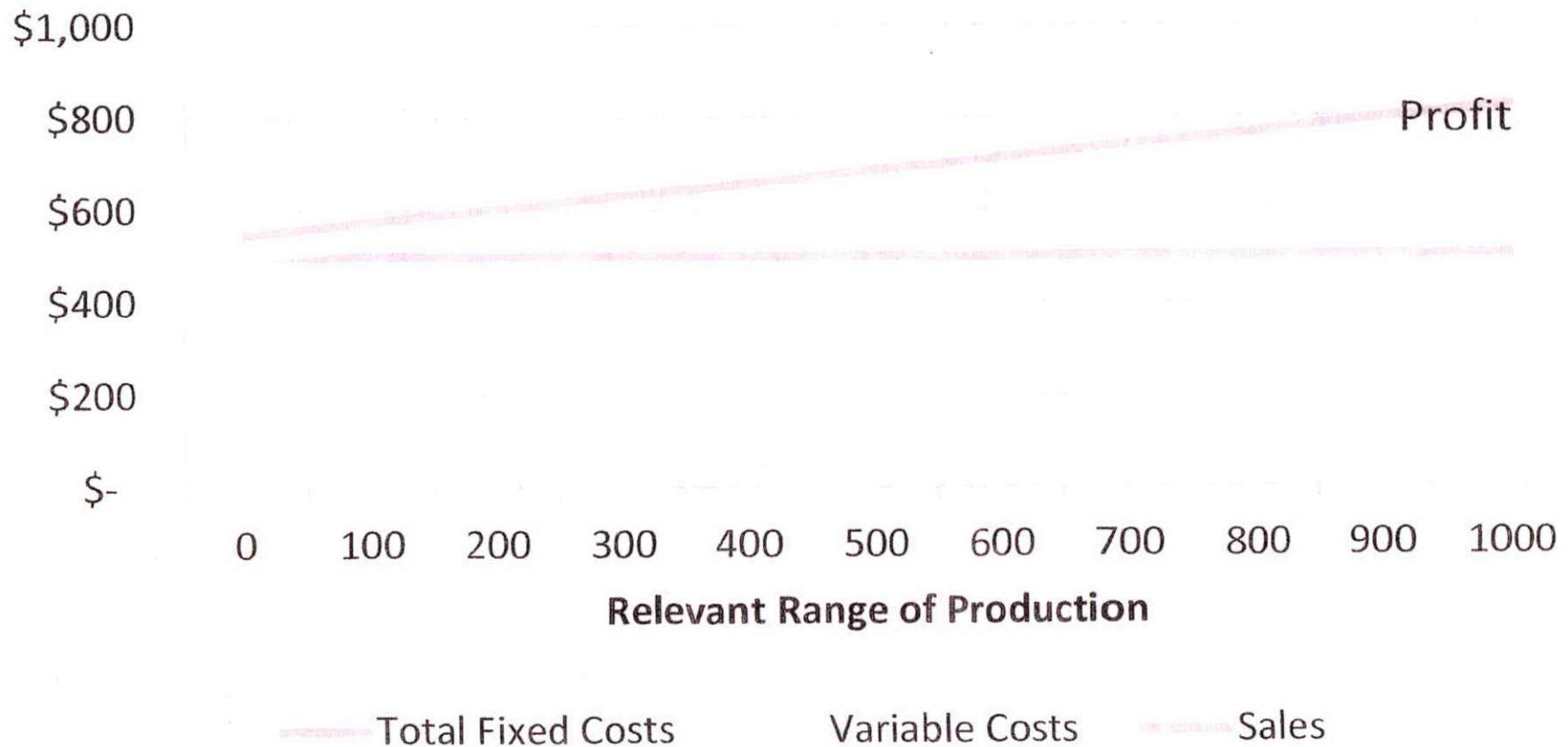
ATTACHMENT:

I have attached a copy of our CPA's report to ensure that it is addressed for its thorough review of this situation.

Classic Cost-Volume-Profit Model



CWSNC Risk-Free Model



Statement

By

Vincent P. Roy

CPA Report

Carolina Water Service Rate Application

Docket No. W-354, Sub 356

I am writing to express several concerns regarding the subject Docket Number presently before the North Carolina Utilities Commission ("NCUC"). I have read the NOTICE TO UNIFORM WATER AND SEWER RATE DIVISION CUSTOMERS, Appendix A-1 that was mailed to customers of Carolina Water Service, Inc. of North Carolina ("CWSNC"); the ORDER SCHEDULING HEARINGS AND REQUIRING CUSTOMER NOTICE posted on the NCUC website; the Mission Statement of the NCUC; and the website of CWSNC; all of which contribute to the basis of my comments that follow.

Based on my own analysis of data from my residential water and sewer bills, I conclude that the proposed rate structure, if approved, would result in a negligible financial impact to me. However, I am concerned that the Uniform Water and Sewer Rate Application is contrary to both a capitalist economic system and to well-established public policy.

Firstly, I believe the economic benefits of the proposed rate structure accrue overwhelmingly in favor of the utility shareholders at the expense of utility consumers. Financed by private equity investors, CWSNC has grown rapidly through the acquisition of numerous small water and sewer companies. This is the hallmark of a "roll-up" strategy in which sophisticated investors exploit a highly fractured supplier base to achieve the financial benefits of economies of scale. It is a legitimate strategy, proven to be sound, albeit risky, and for which investors demand a return commensurate with the risks taken. As noted on the CWSNC website, one element of its mission statement is to provide "... a fair return for our shareholders..."; a concept with which I strongly concur. However, a capitalist economy demands risk-adjusted rates of return without the pejorative of "fairness". In this scenario, CWSNC undertook a risky strategy and yet, through its proposal to substantially increase the base charges while reducing the usage-based charge, CWSNC is asking the NCUC to provide it a risk-free rate of return. To do so results in great inequity to rate payers.

Secondly, each of the water and sewer systems operated by the companies acquired by CWSNC were presumably subject to individual rate structures that had been justified by the owner, examined by the Public Staff, and approved by the Commission. Those separate, widely disparate rate structures were presumably based on the attributes unique to each system and achieved the desired rate of return to each set of investors, while being in concert with the mission of NCUC. Abandonment of those established rate structures in favor of the proposed uniform rate structure begs the question of "what

happened to render those previously vetted and approved rate structures now inappropriate?" The only things that have changed are the ownership of those systems and the legal entity in which they are contained. While the former legal entities were merged into a new legal entity, the utility systems themselves remain separate and unconnected. They are not now one system. The unique underlying attributes of those separate water and sewer systems did not change; nor did the underlying economics. It would seem implausible that the "fairness" of the returns yielded by the previous rate structures has changed either. By virtue of the subject application, CWSNC is asking the NCUC to approve a rate structure that effectively pools the otherwise unique risks of disparate systems and spreads those pooled risks across a combined pool of disparate customer sets. CWSNC is seeking approval of a "uniform" rate structure for a set of utility systems that are non-uniform with respect to size, age, geography, physical condition, customer base and cost structure. I submit it is no less inappropriate for consumers of privately-owned utility systems situated across the State from the coastal plains to the western mountains to be subject to a "uniform" rate structure than it is to impose a single structure on the customers of municipally-owned systems in New Hanover County and Buncombe County. In both scenarios, the distribution systems are separate and distinct, the water sources are separate and distinct, and the customer bases are separate and distinct. The fixed-costs of each utility system should be borne by the respective consumer base served. Under the proposed uniform rate structure, consumers served by relatively efficient, low-cost systems will, by definition, subsidize consumers served by less efficient, more costly systems. What rationale supports a model whereby customers in the western mountains should subsidize customers in the coastal plains, or vice versa? These water and sewer systems represent individual investments; the returns for which should be related to the operating performance and cost structure of each individual investment. Please do not be fooled into evaluating these systems as a single investment that merits a "uniform" return.

Thirdly, during my career as a CPA and CFO, I exercised my knowledge of fixed costs, economies of scale, and business combinations on a daily basis. Virtually every introductory level management accounting textbook will make note that fixed costs are not absolutely fixed, nor are they non-discretionary. Rather, they are defined as those costs that do not change **over a relevant range of production**. The relevant range of production is as unique and specific to a given enterprise as are the respective fixed costs. Furthermore, fixed costs include both direct and indirect (overhead) components. The direct fixed costs incurred by CWSNC for operations in the Rumbling Bald service area are completely and totally distinct from the direct fixed costs incurred in the Carolina Trace Development, or any of the other service areas. The direct fixed costs and the portion of indirect fixed costs that originate from a given utility system should be recovered over the relevant range of production of that specific system. It is customary in regulated industries for indirect fixed costs originating at a parent company level to be allocated to each operating segment based on the respective segment's proportionate share of total production. The range of production relevant to one utility system is irrelevant to all others. The sum of the direct fixed costs of all systems bears no relationship to the sum of the relevant ranges of production; and it seems wholly inappropriate to approve a rate structure that presumes otherwise.

Lastly, a decision to substantially increase the base fixed charge while reducing the usage charge for a scarce, precious natural resource is totally contrary to any economic theory of conservation. For the last half-century governments across the USA and around the world have emphasized the fundamental necessity of natural resource conservation. If the NCUC lowers the variable cost of water consumption, it is irrational to expect anything other than a commensurate decrease in conservation. I implore you to query the internet for "water conservation" to find a single reputable source advocating lowering usage charges as an effective method for enhancing conservation. As I asked earlier, what rationale supports a notion that conservation-minded consumers should subsidize those who consume more?

Thus, while the applicant's proposal results in negligible financial cost or benefit to me as a consumer, I would ask the North Carolina Utilities Commission to disapprove the proposed uniform rate structure and retain separate rate structures suitable to the individual risks taken by CWSNC.

NORTH CAROLINA UTILITIES COMMISSION

Carolina Water Service, Inc.
of North Carolina
Company

Petition for General Rate
Increase
W-354, Sub 356
Title & Docket #

Dobbs - Commission Hearing Room,
2nd floor, Room 2115
8/28/17/7:00 PM
Location & Date

PUBLIC HEARING

Customer Name	Subdivision	Address	Do you wish to make a statement?
1. VINCE RY	Carolina Trace	237 Lakewood Dr SANFORD, NC	YES
2. William J. Glance	Carolina Trace	49 Indian Trail Sanford, NC	Yes
3. Judith Bassett	Amber Acres	5721 Wolf Pl. Knightdale, NC	Yes
4. Ben Farmer	Jordan Woods	6113 Jordan Woods Dr, NC ^{Raleigh} 27603	Yes
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NORTH CAROLINA UTILITIES COMMISSION
PUBLIC STAFF - APPEARANCE SLIP

DATE August 28, 2016 DOCKET # W-354, Sub 356

PUBLIC STAFF MEMBER Gina C. Holt

ORDER FOR TRANSCRIPT OF TESTIMONY TO BE **EMAILED** TO THE
PUBLIC STAFF - PLEASE INDICATE YOUR DIVISION AS WELL AS
YOUR EMAIL ADDRESS BELOW:

ACCOUNTING _____

WATER **gina.casselberry@psncuc.nc.gov;**
lindsay.quant@psncuc.nc.gov

COMMUNICATIONS _____

ELECTRIC _____

GAS _____

TRANSPORTATION _____

ECONOMICS _____

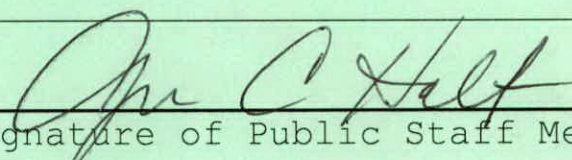
LEGAL **gina.holt@psncuc.nc.gov**

CONSUMER SERVICES _____

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the respective docket number.

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Signature of Public Staff Member

NORTH CAROLINA UTILITIES COMMISSION
APPEARANCE SLIP

DATE 8-28-17
DOCKET #: W-354 Sub 356
NAME OF ATTORNEY Jo Anne Sanford
TITLE Attorney @ Law
FIRM NAME Sanford Law Office, PLLC
ADDRESS PO Box 28085
CITY Raleigh, NC
ZIP 27611

APPEARING FOR: CWSNC

APPLICANT ☒ COMPLAINANT _____ INTERVENOR _____
PROTESTANT _____ RESPONDENT _____ DEFENDANT _____

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There will be a charge of \$5.00 for each emailed copy of transcript.

☐ Please check for an electronic copy of the transcript.

____ # of Copies

Email: Sanford@sanfordlawoffice.com
(Required for distribution)

☒ Please check for the confidential portion of the transcript, only if a confidentiality agreement has been signed.

____ # of Copies

Signature: Jo Anne Sanford
(Required for distribution)