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INFORMATION SHEET

PRESIDING: Commissioner Charlotte A. Mitchell, presiding; and Commissioners Patterson
PLACE: NCUC Hearing Room, Raleigh, NC
DATE: May 15, 2018
TIME: 7:00 p.m. – 9:00 p.m.
DOCKET NO.: W-1075, Sub 12
COMPANY: KRJ, Inc., d/b/a KRJ Utilities Company
DESCRIPTION: Application for Authority to Increase Rates for Water and Sewer Utility Service in its Southern Trace and Rockbridge Subdivisions in Wake County, North Carolina
VOLUME: 1

APPEARANCES

FOR KRJ, INC., d/b/a KRJ UTILITIES COMPANY:

Robert H. Bennink, Jr., Esq.

FOR THE USING AND CONSUMING PUBLIC:

William E. Grantmyre, Esq.

Gina Holt, Esq.

WITNESSES

Thomas Rains

Craig Buzak

Pat Foran

Robert C. Herbert, Jr.

Taunia Teel

Brian Maxwell

Gerald Daniel

Kathleen Kendzierski

Jacqueline Walker

Shelley Iverson

Ginger Rodgers

EXHIBITS

Rains Exhibit 1 - Admitted

EMAIL COPIES ORDERED: E-mail: Grantmyre, Holt, Drooz

PRINTED COPIES ORDERED: 0

REPORTED BY: Kim Mitchell

TRANSCRIPT PAGES: 113

TRANSCRIBED BY: Kim Mitchell

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DATE TRANSCRIBED: May 24, 2018

TOTAL PAGES: 113

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MAY 29 2018

Clerk's Office
N.C. Utilities Commission

NORTH CAROLINA UTILITIES COMMISSION
PUBLIC STAFF - APPEARANCE SLIP

DATE 5/15/18 DOCKET #: W-1075, Sub 12

PUBLIC STAFF MEMBERS William E. Grantmyre, Gina Holt

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Signature of Public Staff Member

NORTH CAROLINA UTILITIES COMMISSION
APPEARANCE SLIP

DATE May 15, 2018
DOCKET #: W-1075, Sub 12
NAME OF ATTORNEY Robert H. Bennink, Jr.
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APPEARING FOR: KRJ, INC., d/b/a KRJ UTILITIES

APPLICANT COMPLAINANT _____ INTERVENOR _____
PROTESTANT _____ RESPONDENT _____ DEFENDANT _____

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KRJ, Inc.

dba KRJ Utilities

P O Box 2369 ♦ Swansboro NC 28584
Phone: 919.827.8055

06-Feb-2018

Dear Customers,

The time has come when KRJ must apply to the N C Utilities Commission ("Commission") for authority to raise our water and sewer rates. Accompanying this letter is the "Notice to Customers" issued by the Commission.

In order that you may have a more complete understanding of both the public utility rate making process and the system(s) that go into providing water and, at Rockbridge, sewer service to your residences, we are providing the following discussion.

Rate making for public utilities by the Commission is a foreign concept to most people, so we would like to provide you some insight into what goes into the process. First, the process of filing a request for a Rate Increase (aka "Rate Case") is a laborious and drawn out process, taking several months. This is largely the reason why KRJ has delayed in filing a rate case for as long as we have. Southern Trace's last rate increase was granted in January 2005, whereas Rockbridge's rates have never been increased since they were granted in November of 2006. Larger public utility companies have staff that may concentrate on preparing rate cases; that way they are able to file applications to increase their rates more frequently. KRJ doesn't enjoy the luxury of a rate-making staff, and so we have waited, probably longer than we should have, to file a rate case.

! The basis for a request for increase in rates is the documented operating expenses for a test year (12-month period picked by the utility; in our case the period 07/01/2015 - 06/30/2016), plus cost of depreciation of capital assets paid for by the company to provide service, like the wells, treatment works, etc., plus a profit margin. Once the rate case is filed, the Public Staff (the independent consumer advocate which is required by law to represent the interests of the public utility customers before the Commission) will assign a team consisting of one or more lawyers, engineers, economists, and accounting auditors to the case. The auditor(s) will request and analyze data to support the expenses and capital asset values that are presented by KRJ in the rate case filing. The engineer(s) will evaluate the condition and operation of the physical facilities of the utility system(s). The lawyer(s) and economist(s) also play important roles in the case on behalf of the Public Staff. The Utility Company is allowed a profit margin in their rates which is generally in the range of 7.5% - 8.5% for water/sewer utilities in North Carolina. Essentially, the Utility must spend its money to build and operate its system(s) and then apply for a rate increase to subsequently recover those expenses and investments plus a profit margin.

Once new rates are authorized by the Commission, they stay in effect until the utility files another rate case. As such, the profit authorized in a rate case is gradually eroded by inflation, increased costs of operation, equipment replacement requirements, and new processes that may be required by environmental regulatory entities.

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Is there
a report
available?

We are sure that you have noted the difference between the water rates, both existing and proposed, for Southern Trace and Rockbridge. There are several reasons for the difference.

- There are three wells distributed within Southern Trace. Treatment is performed at each well, which consists of addition of a sequestering agent to address the potential for iron coloration of the water, and chlorine, a disinfectant that has been mandated by EPA for public water supply systems since the early 70s. Each well is a 'treatment plant' which means that regulatory testing for compliance with the Federal Safe Drinking Water Act must be performed at each well as well as within the water distribution system.
- There are also three wells in Rockbridge, but they are relatively close to each other and have greater yield than the wells at Southern Trace. (The production rate, or yield, of a given well is dictated by the available water in the rock fracture zones.) The three Rockbridge wells are piped to a single treatment plant where chemicals are added to: adjust the pH, and alkalinity; a filtration system removes uranium, which naturally occurs in the rock strata beneath Rockbridge; and, chlorine is added as a disinfectant. Having a single 'treatment plant' reduces the number of samples at the treatment plant by approximately two-thirds, compared to Southern Trace. The number of samples within the distribution system are greater at Rockbridge, due to the greater number of service connections than at Southern Trace.
- Economy of scale also has a bearing on the cost of operation and therefore rates, as there are currently only 190 customers on the Southern Trace system whereas Rockbridge currently has over 300 customers.
- Operator time requirements are also different. Although the processes at the single Rockbridge water treatment plant are more complex than those at Southern Trace, requiring more operator attention at the single 'treatment plant', there are three treatment plants at Southern Trace requiring routine visitation for sampling, chemical batching and adjustment, etc.

within 5 mins of each other

Wastewater utility service is only provided by KRJ at Rockbridge, thus the rate for it. The wastewater collection system, which is the same as it would be in a municipal system, conveys the wastewater to the water reclamation facility. The wastewater is treated, both physically and biologically, such that the resulting water is defined as "reclaimed" water. Many municipalities, including Raleigh and Cary, sell the reclaimed water for irrigation. In the case of Rockbridge, we reuse the reclaimed water on a number of sites within the subdivision. KRJ made the decision to not sell the reclaimed water because selling reclaimed water would require that a system of reclaimed water mains, duplicating the drinking water mains, be constructed in order to deliver the reclaimed water to every residence; an expense that was considered far too great to warrant implementation.

We hope that the above discussion provides you with helpful information into both the system(s) that serve your residence, and also what goes into the making of the water and sewer rates for that service.

We appreciate and value you, our customers, and your continued support.

Respectfully,

KRJ Utilities