

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Old North State Water)	
Company, LLC, 3212 6 th Avenue South, Suite)	JOINT SETTLEMENT
200, Birmingham, Alabama 35222, for)	AGREEMENT AND
Authority to Adjust and Increase Rates for)	STIPULATION
Water Utility Service in All Service Areas in)	
North Carolina)	

The Public Staff – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Christopher J. Ayers, and Old North State Water Company, LLC (ONSWC or Company), by and through counsel (collectively the Stipulating Parties), pursuant to N.C. Gen. Stat. § 62-69 and Rule R1-24(c) of the Rules and Regulations of the North Carolina Utilities Commission (Commission), respectfully submit the following Joint Settlement Agreement and Stipulation (Stipulation) for consideration by the Commission in this proceeding. The Stipulating Parties hereby stipulate and agree as follows with regard to settling all of the issues in this docket:

I. BACKGROUND

- A. On April 4, 2021, ONSWC gave 30-days’ notice of its intent to file a general rate case.

- B. On June 29, 2021, ONSWC filed an Application for Rate Increase (Application), along with testimony by the following witnesses:
- 1) John McDonald, the Managing Member of ONSWC; and
 - 2) Laurie Oakman, Accounting Manager for Integra Water, LLC.
- C. On July 26, 2021, the Commission declared the proceeding to be a general rate case and suspended rates for up to 270 days.
- D. On July 29, 2021, ONSWC filed a revised version of John McDonald's direct testimony.
- E. On September 21, 2021, the Commission issued an *Order Establishing Discovery Guidelines, Scheduling Hearings, and Requiring Public Notice* (Procedural Order).
- F. On September 22, 2021, ONSWC filed a Certificate of Service of Notice to Customers.
- G. On October 6, 2021, the Commission issued an *Order Canceling Public Hearing*, which specifically cancelled a public hearing session scheduled for 1:30 p.m. on October 7, 2021.
- H. A public hearing in this matter was held virtually on October 7, 2021, beginning at 6:30 pm. Twelve witnesses testified, and responses to concerns raised at the public hearing were filed by ONSWC on October 27, 2021.
- I. Twelve consumer statements were submitted and filed in Docket No. W-1300, Sub 60CS.

- J. On October 13, 2021, ONSWC filed rate case updates, schedules, and supporting data.
- K. On November 16, 2021, the Commission issued an *Order Rescheduling Expert Witness Hearing and Extending Time to Provide Testimony* (First Extension Order).
- L. ONSWC filed a confidential and public version of its rate case updates, schedules, and supporting data on November 23, 2021, and November 24, 2021, respectively.
- M. On November 29, 2021, ONSWC filed a Notice of Intent to Place Temporary Rates into Effect, and Motion for Approval of an Undertaking and for Approval of Notice of Temporary Rates and Approval of Notice of Rescheduled Hearing (Temporary Rates Notice and Motion).
- N. On December 14, 2021, the Commission issued an *Order Accepting Financial Undertaking and Approving Notice to Customers of Rescheduled Hearing and Temporary Rates* (Interim Rates Order).
- O. On January 11, 2022, ONSWC filed a Certificate of Service demonstrating that its customers were provided notice of interim rates and the rescheduled expert witness hearing.
- P. On February 1, 2022, the Commission issued an *Order Granting Motion of the Public Staff for Extensions of Time* (Second Extension Order).
- Q. On February 8, 2022, the Public Staff filed Direct Testimony and Exhibits of Charles M. Junis, Director of the Water, Sewer, and Telephone Division of the Public Staff; Iris Morgan, Financial Analyst in the Water Section for

the Public Staff; and John R. Hinton, Director of the Economic Research Division of the Public Staff.

- R. On February 22, 2022, ONSWC filed Rebuttal Testimony of Company witnesses McDonald and Oakman.
- S. On March 1, 2022, the Public Staff filed Supplemental Testimony of Public Staff witnesses Junis and Morgan.
- T. On March 3, 2022, the Commission issued an *Order Allowing Supplemental Testimony and Supplemental Rebuttal Testimony and Providing for Limited Discovery* (Supplemental Testimony Order).
- U. On March 4, 2022, ONSWC filed Supplemental Rebuttal Testimony and Exhibit of Company witness Oakman.
- V. The Public Staff will file Settlement Testimony, Exhibits, and Supporting Schedules of Public Staff witnesses Junis, Morgan, and Hinton on March 8, 2022.
- W. ONSWC will file Settlement Testimony of Company witness McDonald on March 8, 2022.
- X. The Public Staff and ONSWC diligently worked together throughout this proceeding. The Public Staff engaged in substantial discovery and examined the relevant books and records of ONSWC with respect to the Company's Application.
- Y. Following completion of the Public Staff's investigation of the Company's Application and accompanying documents, review of the results of its examination of the Company's books and records, review of the Company's

responses to the Public Staff's Data Requests, and after the Public Staff filed its direct and supplemental testimony and the Company filed its rebuttal testimony, the Stipulating Parties met to discuss possible settlement.

- Z. After settlement negotiations, in which some concessions from their respective litigation positions were made by both Stipulating Parties, the Stipulating Parties were ultimately able to arrive at a joint settlement proposal addressing all issues in dispute, the terms of which are reflected in the following sections of this Stipulation and the schedules and exhibits attached hereto. The Stipulating Parties agree and stipulate as follows:

II. REVENUE REQUIREMENTS AND REVENUE INCREASE

- A. The Stipulating Parties have reached agreement regarding certain revenue requirement issues that are identified on Stipulation Exhibits I and II, which are incorporated herein by reference and attached hereto. The revenue requirement effects of this Stipulation provide sufficient support for the annual revenue required on the issues agreed to in this Stipulation. No Stipulating Party waives any right to assert any position in any future proceeding or docket before the Commission or in any court, as the adjustments agreed to in this Stipulation are strictly for purposes of compromise and are intended to show a rational basis for reaching the agreed-upon revenue requirement adjustments without either party

conceding any specific adjustment. The Stipulating Parties agree that settlement on these issues will not be used as a rationale for future arguments on contested issues brought before the Commission. The areas of agreement are as follows:

- 1) The Application test year is the 12 month period ending on December 31, 2020. The test period appropriate for use in this proceeding is the 12 month period ending on August 31, 2021.
- 2) Based on its February 22, 2022 rebuttal filing, ONSWC proposed a total revenue increase of \$472,016.
- 3) Based on its March 1, 2022, supplemental filing, the Public Staff proposed a total revenue increase of \$423,518.
- 4) The Stipulating Parties mutually agree and stipulate that the Company should be authorized to increase its revenues by a total of \$423,518, as detailed on the schedules in Stipulation Exhibit I.
- 5) The agreed upon revenue increase is based upon an authorized return on equity of 9.40%, a hypothetical capital structure composed of 50% debt and 50% equity, and an embedded cost of debt of 4.6%. The foregoing factors produce an overall cost rate of 7.0%.
- 6) ONSWC and the Public Staff both accept the \$423,518 revenue requirement and related adjustments shown on the attached Stipulation Exhibits I and II.
- 7) The original cost rate base used and useful in providing service to the Company's customers is \$1,666,352.

- 8) The appropriate level of operating revenues under present rates for use in this proceeding is \$929,771. This amount is comprised of \$915,716 of service revenues, \$14,907 of miscellaneous revenues, and \$852 of uncollectibles.
- 9) The appropriate level of operating and maintenance expense under present rates is \$1,066,484.
- 10) The Stipulating Parties have agreed to a methodology for calculating regulatory commission expense, also known as rate case expense, and will update the number in Stipulation Exhibit I, Line 25, for actual and estimated costs through the end of this proceeding in a late-filed exhibit. The Stipulating Parties agree to remove rate case expense from rate base and amortize rate case expenses over a 3-year period without a return or carrying costs. The parties also agree that the Company can request the unamortized balance in computing rate case expense in a future proceeding if ONSWC files a rate case prior to the end of the 3-year amortization period.
- 11) The appropriate level of total operating revenue deductions, which includes depreciation expense and CIAC amortization expense of \$351,728 and (\$227,870), respectively, is \$1,212,733 under present rates.

III. TARIFF RATE DESIGN

- A. The Stipulating Parties agree that the rate design in this case should be based on a 40/60 ratio of fixed/volumetric (or base/usage) revenues for Uniform Water.
- B. The Stipulating Parties agree that the volumetric rates for the Blawell and Rocklyn systems should be based upon pass-through rates from the Town of Stedman and City of Winston-Salem, respectively.

IV. OTHER ISSUES

- A. As the authorized representative of Integra Water, LLC, John McDonald commits Integra Water, LLC, to continue financing the capital needs of ONSWC and inject any necessary funding to allow ONSWC to continue meeting its capital and operational needs in an amount sufficient to permit ONSWC to meet its reasonable capital expenditure needs as well as its normal day-to-day operational expenses necessary to provide good quality, reliable, water service to the customers of ONSWC consistent with environmental and regulatory requirements.
- B. The Public Staff withdraws its recommendation for an infusion of equity to achieve an actual capital structure of 50% debt and 50% equity and its recommendation that ONSWC file audited financial statements with the Commission for the next three years.

- C. The Stipulating Parties agree that ONSWC will hold ratepayers harmless for the uncollected contributions in aid of construction (CIAC) income tax gross-up attributable to the Arlington Manor, Bella Terra, and Brook Meadow systems in this and future rate case proceedings. The Public Staff and ONSWC agree to continue to work together on how the uncollected income tax gross-up should be treated in ONSWC's accounting system to ensure that ratepayers are not negatively impacted in this rate case proceeding or future rate case proceedings.
- D. The Stipulating Parties agree that they will continue to work together on the methodology for calculating any customer refunds that might be due once the Commission approves final rates.

V. AGREEMENT TO SUPPORT SETTLEMENT; NON-WAIVER

- A. The Stipulating Parties will act in good faith to support the reasonableness of this Stipulation in any hearing before the Commission and any proposed order or brief in this docket. The Stipulating Parties further agree that this Stipulation is in the public interest because it reflects a give-and-take settlement of contested issues.
- B. The provisions of this Stipulation do not reflect any position asserted by any of the Stipulating Parties but reflect instead the compromise and settlement between the Stipulating Parties as to all of the issues covered

hereby. No Stipulating Party waives any right to assert any position in any future proceeding or docket before this or any other Commission and in any court except insofar as the Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not be cited as precedent by any of the Stipulating Parties regarding any issue in any other proceeding or docket before this Commission or in any court.

- C. This Stipulation is a product of negotiation between the Stipulating Parties, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.

VI. INTRODUCTION OF TESTIMONY AND WAIVER OF CROSS-EXAMINATION

- A. The pre-filed testimony and exhibits of the Stipulating Parties may be received in evidence without objection, and each Stipulating Party waives all right to cross-examine any witness with respect to such pre-filed testimony and exhibits. If, however, questions are asked by any Commissioner, then any Stipulating Party may respond to such questions by presenting testimony or exhibits and cross-examining any witness with respect to such testimony and exhibits.

- B. The Stipulating Parties agree that ONSWC's Application and the testimony and exhibits of the Stipulating Parties provide sufficient support for the annual revenue requirement amounts agreed to in this Stipulation.

VII. STIPULATION BINDING ONLY IF ACCEPTED IN ITS ENTIRETY

This Stipulation is the product of negotiation and compromise of a complex set of issues, and no portion of this Stipulation is or will be binding on either of the Stipulating Parties unless the entire Settlement Agreement and Stipulation is accepted by the Commission. If the Commission rejects any part of this Stipulation or approves this Stipulation subject to any change or condition, or if the Commission's approval of this Stipulation is rejected or conditioned by a reviewing court, the Stipulating Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Stipulating Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Stipulating Party withdraws from the Stipulation, each Stipulating Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues addressed by the Stipulation and shall not be bound or prejudiced by the terms and conditions of the Stipulation.

VIII. COUNTERPARTS

This Stipulation may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. Execution by facsimile or electronic signature shall be deemed to be, and shall have the same effect as, execution by original signature.

The foregoing is agreed and stipulated to this the 8th day of March, 2022.

Electronically Submitted

Old North State Water Company, LLC

By: /s/ David T. Drooz

Public Staff – North Carolina Utilities

Commission

By: /s/ Dianna W. Downey

Chief Counsel, Public Staff - NCUC