



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 7, 2018

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

Re: Docket No. W-1075, Sub 12 - Application by KRJ, Inc., dba/KRJ Utilities
to Increase Rates in Its Service Areas in Wake County

Dear Ms. Jarvis:

Enclosed for filing in the above-referenced docket is the Stipulation of
KRJ, Inc., d/b/a KRJ Utilities, and the Public Staff.

By copy of this letter, I am forwarding a copy to all parties of record.

Yours very truly,

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

Enclosure

Executive Director (919) 733-2435	Communications (919) 733-2810	Economic Research (919) 733-2902	Legal (919) 733-6110	Transportation (919) 733-7766
Accounting (919) 733-4279	Consumer Services (919) 733-9277	Electric (919) 733-2267	Natural Gas (919) 733-4326	Water (919) 733-5610

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JUN 07 2018

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1075, SUB 12

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by KRJ, Inc., d/b/a KRJ Utilities, Post)
Office Box 2369, Swansboro, North Carolina)
28584, for Authority to Increase Rates for Water) STIPULATION
and Sewer Utility Service in its Southern Trace)
and Rockbridge Subdivisions in Wake County,)
North Carolina)

KRJ, Inc., d/b/a KRJ Utilities (KRJ or Company), and the Public Staff – North Carolina Utilities Commission (Public Staff), collectively, the “Stipulating Parties”, through counsel and pursuant to Section 62-69 of the North Carolina General Statutes and Rule R1-24(c) of the Rules and Regulations of the North Carolina Utilities Commission (Commission), respectfully submit the following Stipulation for consideration by the Commission in this proceeding. The Stipulating Parties hereby stipulate and agree as follows:

1. Background.

A. On January 10, 2018, KRJ filed an application with the Commission seeking authority to increase its rates for water utility service in Southern Trace Subdivision and water and sewer service in Rockbridge Subdivision in Wake County, North Carolina.

B. By letter dated and filed on January 25, 2018, the Public Staff informed the Company that, pursuant to Commission Rule R1-17(f)(1), certain additional information needed to be filed to complete the Company’s rate increase application.

C. On January 30, 2018, the Company filed a response to the Public Staff's letter, which provided the identified additional information in compliance with the provisions of Commission Rule R1-17(b).

D. By Order dated February 6, 2018, the Commission declared the above-captioned docket a general rate case, suspended rates, scheduled hearing, and required customer notice.

E. The Commission Order specified that the Public Staff and intervenors should pre-file testimony on or before May 21, 2018, and also provided that KRJ should file any rebuttal testimony no later than June 4, 2018.

F. The Certificate of Service was filed by the Company on February 20, 2018.

G. The Company filed on May 4, 2018, the testimony and exhibits of James R. Butler, P.E.

H. On May 18, 2018, the Public Staff filed a motion for extension of time to file testimony until May 25, 2018, which was granted by Commission Order on that same date.

I. On May 24, 2018, the Public Staff filed a second motion for extension of time to file testimony until May 31, 2018, which was granted by Commission Order on May 25, 2018.

J. On May 30, 2018, the Company filed a Report on Customer Comments from the Public Hearing held on May 15, 2018.

K. On May 31, 2018, the Public Staff filed a third motion for extension of time to file testimony until June 7, 2018, which was granted by Commission Order on June 1, 2018.

L. Subsequent to the filing of the Company's Application in this docket, the Public Staff engaged in substantial discovery of KRJ regarding the matters addressed by the Company's Application and further examined the relevant books and records of KRJ with respect to the Company's Application. The Public Staff's discovery efforts spanned a period of 19 weeks, entailed ten sets of data requests directed to the Company and numerous informal follow-up questions. The Public Staff also conducted field inspections of the water system at Southern Trace Subdivision and the water and sewer system at Rockbridge Subdivision.

M. 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, and review of the Company's responses to the Public Staff's data requests, the Stipulating Parties corresponded and participated in meetings and conference calls over the course of several business days to discuss possible settlement.

N. After significant negotiations, the Stipulating Parties were ultimately able to arrive at a settlement of all issues in this case. The Stipulation reflects the stipulated rate of return on rate base and operating margin and the Company's revenue requirements. The Stipulation reflects an increase in the Company's combined water and wastewater revenues by approximately 16.1% of the

Company's total operating revenues or roughly 21.8% of the combined rate increase requested in the Application.

O. On June 7, 2018, the Public Staff prefiled the testimony and exhibits of Public Staff witnesses Iris Morgan and Gina Casselberry, and the affidavit of Public Staff Economist Calvin Craig, III. KRJ has reviewed the Public Staff's prefiled testimony, affidavit, and exhibits and accepts the Public Staff's recommended revenue requirements, rate design, and other recommendations.

P. The Stipulating Parties agree that the levels of rate base, revenues and expenses set forth in Morgan Exhibit I and Morgan Exhibit II, which are incorporated by reference herein, are the appropriate levels for use in this proceeding.

2. Test Period. The test period for this rate case is the twelve months ended June 30, 2016, updated to March 31, 2018, adjusted for certain changes in plant, revenues, and costs that were not known at the time this case was filed but are based upon circumstances occurring or becoming known through May 31, 2018.

3. Rate Base. The original cost rate base used and useful in providing service to the Company's customers is \$83,398 for Southern Trace water operations, \$448,926 for Rockbridge water operations, and \$336,054 for Rockbridge sewer operations. The stipulated revenue requirements result in a 43.3% increase in water revenues at Southern Trace compared to the applied for 81.8% increase, a 90.4% increase in water revenues at Rockbridge, compared to the applied for 136.3% increase, and a 14.3% decrease in sewer revenues at Rockbridge compared to the applied for 52.4% increase.

4. Revenue Requirement.

A. The appropriate operating revenues under present rates by rate division are as follows:

	<u>Operating Revenues Under Present Rates</u>
Southern Trace Water	\$ 74,797
Rockbridge Water	\$ 85,093
Rockbridge Sewer	\$274,950

B. The overall level of operating revenue deductions including depreciation, regulatory fees, and taxes under the present rates appropriate for use in this proceeding is \$97,299 for Southern Trace, \$120,634 for Rockbridge water operations, and \$218,897 for Rockbridge sewer operations.

C. The Stipulating Parties stipulate and agree that an overall return on rate base and an operations margin of 7.75% are appropriate to use to establish rates in this proceeding. For purposes of this proceeding, this agreed overall rate of return is deemed by the Stipulating Parties to be a reasonable rate of return that will provide the Company with a reasonable opportunity, by sound management, to produce a fair return for its shareholders, considering changing economic conditions and other factors, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchises, and to compete in the market for capital funds on terms that are fair to its customers and to its existing investors. Each of the Stipulating Parties further agrees that such stipulated overall rate of return, together with the Company's supported levels of rate base and operating expenses, results in a revenue

requirement that is just and reasonable to the Company's customers in light of changing economic conditions.

D. The overall rate of return that the Company should be allowed an opportunity to earn on its rate base in Rockbridge Subdivision is 7.75%.

E. The Company should be allowed a 7.75% margin on operating revenue deductions requiring a return for the Southern Trace Subdivision, which results to an operating ratio of 92.97% (including taxes) or 92.81% (excluding taxes).

F. The Company should be authorized to increase its annual level of operating revenues through the rates and charges approved in this case by \$32,377 for water service at Southern Trace, by \$76,944 for water service at Rockbridge and a decrease of \$39,216 for sewer service at Rockbridge. The operating revenues under present rates, the stipulated increase in water operating revenues at Southern Trace and Rockbridge, the decrease in sewer operating revenues at Rockbridge, and resulting annual level of operating revenues by rate division are as follows:

	<u>Present Rates</u>	<u>Stipulated Increase (Decrease)</u>	<u>Stipulated Revenues</u>
Southern Trace Water	\$ 74,797	\$32,377	\$107,174
Rockbridge Water	\$ 85,093	\$76,944	\$162,037
Rockbridge Sewer	\$274,950	(\$39,216)	\$235,734

G. The Stipulating Parties agree that, in the next general rate case filed by KRJ for the Company's Southern Trace and Rockbridge service areas, the stipulated amounts agreed to in this case, if approved by the Commission, for plant

in service, accumulated depreciation, contributions in aid of construction (CIAC), depreciation and amortization expense, and original cost rate base, shall be used as the starting point for the Company's rate case application and the Public Staff's investigation.

H. The Stipulating Parties agree that KRJ should be allowed to: increase its reconnection charge at Southern Trace from \$23.91 to \$25.00, if water service is cut off by the Company for good cause; increase the reconnection charge at Southern Trace from \$19.12 to \$20.00, if water service is disconnected at the customer's request; and increase the Southern Trace returned check charge from \$23.96 to \$25.00. At Rockbridge, the Stipulating Parties agree that KRJ should be allowed to increase the Company's reconnection charge from \$14.40 to \$15.00 if water service is cut off for good cause or if water service is disconnected at the customer's request; and increase the returned check charge from \$23.96 to \$25.00. The Company's tariffs for Southern Trace and Rockbridge shall continue to reflect a late charge of 1% per month to be applied to the unpaid balance of all bills still past due 25 days after the billing date. In view of opposition by the Public Staff, KRJ agrees to withdraw its proposal, contained in its rate case application, to add a new disconnection charge and/or collection charge in addition to the reconnection charge.

5. Rate Design. The Stipulating Parties agree to the changes in rates set forth in Casselberry Exhibit No. 3 which show the calculation of the average monthly residential bills for the Southern Trace and Rockbridge Subdivisions, respectively.

6. Regulatory Fee Adjustment. The Stipulating Parties agree that the revenue requirement set forth herein reflects the statutory regulatory fee rate of 0.14%, applied to total operating revenues at present rates, Company proposed rates and Public Staff recommended rates.

7. Federal and State Income Tax. The Stipulating Parties agree that it is reasonable and appropriate to calculate the federal income tax at 21% and the state income taxes based on the statutory corporate rate effective January 1, 2018, of 3%.

8. Rate Case Expense. The Stipulating Parties agree that, for purposes of this rate case, it is appropriate to use total rate case costs of \$66,759, related to the current proceeding, to be amortized and collected over a three-year period, for an annual level of rate case expense of \$5,027 for Southern Trace water, \$8,652 for Rockbridge Subdivision water, and \$8,573 for Rockbridge sewer.

9. Tap Fees. The Stipulating Parties agree there will not be a change in the Commission previously approved tap fees which shall remain:

Rockbridge:

Water per Residential Equivalent Unit (REU)	\$1,000.00
Sewer per REU	\$8,000.00

Rockbridge:

Water per REU	\$ 500.00
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10. Availability Fees. The Stipulating Parties agree there will not be a change to the Commission previously approved availability fees for Rockbridge which shall remain:

Water – monthly availability rate per REU	\$ 15.00
Sewer – monthly availability rate per REU	\$ 70.00

11. Recommendations.

A. As appropriate and as directed by the Commission, the Company agrees to either file a written report or offer testimony at the evidentiary hearing concerning any customer complaints received during the hearing on this matter scheduled on June 20, 2018. If a written report is required, the Company agrees to file such report within 15 days of the evidentiary hearing.

B. The Stipulating Parties acknowledge that the Company is required, pursuant to Commission Order in Docket No. W-1075, Sub 5 (Sub 5 Order), and the Sub 5 Stipulation between the Public Staff and KRJ, which was incorporated by reference in the Order, to disclose the current Rockbridge water and sewer rates in marketing materials, with lot purchase agreements, and in the restrictive covenants pertaining to all lots in the Rockbridge Subdivision, to notify future customers in Rockbridge of the utility rates prior to their purchasing their lots or residences.

The Stipulating Parties recommend that the Commission no longer require the Company to publish notice of its rates as set forth above, as the Rockbridge Subdivision is now at approximately 80% build-out and the Company's resources could be better placed elsewhere. The Stipulating Parties assert that this requirement is no longer necessary and that it should be rescinded.

C. The Stipulating Parties acknowledge that, pursuant to decretal paragraph 5 of the Sub 5 Order, the Commission required KRJ to file annual

reports, beginning on October 31, 2007, on the status of the Rockbridge Subdivision and utility system. KRJ was also required to continue to file these annual reports until 90% (367) of the homes in Rockbridge are receiving utility service.

The Stipulating Parties recommend that the Commission no longer require the Company to file these Sub 5 Order required annual reports, as the Company currently serves 328 lots (approximately 80% build-out), and the Company's resources could be better placed elsewhere. The Stipulating Parties assert that this requirement is no longer necessary and that it should be rescinded. It is further noted that KRJ is still required to file a detailed annual report pursuant to G.S. 62-36 and Commission Rule R1-32.

12. Agreement to Support Settlement; Non-Waiver. The Stipulating Parties will support this Stipulation in any proposed order or brief and in any hearing before the Commission in this docket; provided, however, that, except as set forth in Paragraph 4.G above, the settlement of any issue pursuant to this Stipulation shall not be cited as precedent by any of the Stipulating Parties in any other proceeding or docket before this Commission. The provisions of this Stipulation do not necessarily reflect any position asserted by any of the Stipulating Parties. Rather, the provisions of this Stipulation reflect a settlement among the Stipulating Parties as to all issues, and the Stipulating Parties do not waive the right to assert a different position in any future docket before the Commission.

13. Final Order and Waiver of Right to File Exceptions and Appeal. The Stipulating Parties agree that any Order approving rates and charges agreed to in

this Stipulation may become the Final Order of the Commission upon issuance and waive the right to file exceptions and appeal the Final Order of the Commission incorporating the matters stipulated herein.

14. Introduction/Withdrawal of Testimony and Waiver of Cross Examination. The Stipulating Parties agree that all Company pre-filed testimony and exhibits, as well as the testimony, affidavit, and exhibits filed by the Public Staff, may be introduced into evidence without objection, and the Stipulating Parties waive their respective right to cross-examine all witnesses with respect to all such pre-filed testimony and exhibits. If questions should be asked by any person, including a Commissioner, who is not a Stipulating Party, the Stipulating Parties may present testimony and/or exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and/or exhibits; provided, however, that such testimony, exhibits, and/or cross-examination shall not be inconsistent with this Stipulation.

15. Binding Only if Entire Stipulation Accepted. This Stipulation is the product of give-and-take negotiations, and no portion of this Stipulation shall be binding on the Stipulating Parties unless the entire Stipulation is accepted by the Commission. The terms and conditions set forth above represent, in full, the agreement of the Stipulating Parties.

The foregoing is agreed and stipulated to this the 7th day of June, 2018.

KRJ, Inc., d/b/a KRJ Utilities

By: Electronically submitted
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