

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 411
DOCKET NO. W-1148, SUB 22

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service,)	
Inc. of North Carolina, 5821 Fairview)	
Road, Suite 401, Charlotte, North)	
Carolina 28209 and Mountain Air Utilities)	REBUTTAL TESTIMONY OF
Corporation, Post Office Box 1090,)	DONALD H. DENTON III ON
Burnsville, North Carolina 28714, for)	BEHALF OF CAROLINA WATER
Authority to Transfer the Mountain Air)	SERVICE, INC. OF NORTH
Water and Wastewater Utility Systems)	CAROLINA
and Public Utility Franchise in Yancey)	
County, North Carolina, and for Approval)	
of Rates)	

July 28, 2023

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 (US) Inc. ("CRU US"). I oversee the operations of Carolina Water Service,
7 Inc. of North Carolina ("CWSNC" or "Company"), Blue Granite Water
8 Company in South Carolina, and Sunshine Water Services in Florida, all of
9 which are subsidiaries of CRU US. In addition, I serve as President of
10 CWSNC and BGWC.

11 **Q. ARE YOU THE SAME DONALD DENTON WHO FILED DIRECT**
12 **TESTIMONY IN THIS DOCKET?**

13 A. I am.

14 **Q. WHAT IS THE PRIMARY PURPOSE OF YOUR TESTIMONY?**

15 A. My primary purpose is two-fold: to support use of the Docket No. W-354
16 Sub 400 base rates for the Mountain Air Utilities Corporation ("Mountain
17 Air") system, and for approval of recovery of the \$950,000 Purchased
18 Acquisition Adjustment ("PAA"). I explain why CWSNC believes these
19 outcomes are central requirements for effectuation of this transaction, why
20 they are just and reasonable conditions of the Transfer Application and the
21 Asset Purchase Agreement, and how they are consistent with North

1 Carolina regulatory principles and precedents. I offer this testimony in
2 opposition to Public Staff witnesses Feasel's and Franklin's positions
3 regarding rates and the PAA.

4 **Q. WHY HAS CWSNC REQUESTED THE UNIFORM BASE YEAR RATES**
5 **THAT WERE RECENTLY APPROVED BY THE COMMISSION IN**
6 **DOCKET NO. W-354, SUB 400 ("WSIP RATE CASE")?**

7 A. CWSNC's current policy is to seek uniform rate application for all systems
8 upon acquisition, subject to adjustments as necessary to avoid rate shock,
9 in which case the Company supports an up-front determination of a planned
10 transition to uniform rates. This accomplishes at least two goals: it facilitates
11 transfers of acquired systems into CWSNC's existing operations by
12 standardizing and consolidating as much as possible into the "uniform"
13 category, and it uses the uniform rate category to reflect and blend costs of
14 systems that are below the uniform rate level with systems whose costs are
15 above. This strategy helps avoid the very problem that system consolidation
16 was designed to remedy, which is the proliferation of costly rate cases
17 driven by a multitude of small systems with stand-alone rates and the
18 generation of benefits from economies of scale. CWSNC believes that
19 prioritizing transition to uniform rates also acknowledges the inherent value
20 in consolidation of smaller systems, whether deemed "troubled" or not, into
21 larger, more professionally qualified, competent operations. Changes in

1 environmental sensitivities and increased demands exerted on systems and
2 supply combine to put pressure on the adequacy of small, aging systems.
3 The industry is fundamentally more complex, and a recognition of the
4 inherent value of, and benefits associated with, more sophisticated
5 providers is a legitimate regulatory response that the Commission has
6 embraced in its previous actions.

7 **Q. ARE THERE ADDITIONAL CONSIDERATIONS IN THIS CASE THAT**
8 **ARE RELEVANT IN SUPPORTING CWSNC'S POSITION ON**
9 **APPROVING TRANSITION TO UNIFORM RATES FOR MOUNTAIN AIR?**

10 A. Yes. There is an important, practical nexus between the agreement among
11 CWSNC, the Public Staff and Mountain Air for CWSNC to assume
12 emergency operatorship, and the inclusion of specific terms and conditions
13 in the Asset Purchase Agreement. For a company like CWSNC, the
14 agreement to become Emergency Operator, the decision to invest over
15 \$2,000,000 in this system, and the decision to seek acquisition on terms
16 and conditions that anticipate cost recovery are all part of an inter-related,
17 comprehensive process of prudent analysis and decision-making by
18 management.

19 I believe this reality is important to the regulators, whose job it is to find
20 emergency operators when systems are or are becoming non-viable. The
21 difficulties of both securing emergency operators and being one are

1 increasingly well understood by the Commission, the Public Staff, and
2 utilities, and these are recognized as significant commitments by a utility.
3 By any measure, CWSNC has responded robustly with respect to its
4 acceptance of emergency operator status for many systems in the State,
5 and particularly in stewardship of the Mountain Air system and its
6 customers. As witness Schellinger has noted, CWSNC has to-date invested
7 over \$2 million in updates and replacements to system assets, while
8 operating at a financial deficit due to limited revenues.

9 We are increasingly influenced in our decisions about acquisitions and
10 emergency operatorships by our experience with the time and resources
11 required to secure adequate cost recovery.

12 As witness Schellinger notes in his Rebuttal Testimony, use of the uniform
13 base case rates from the WSIP Rate Case still leaves CWSNC in an under-
14 recovery position upon acquisition, based on a comparison of those uniform
15 base rates to the stand-alone costs presented by witness Schellinger's
16 testimony. However, the Company supports prioritizing application of
17 uniform rates in its acquisitions to address the long-term goal of rate
18 consolidation and in managing the potential for rate shock to acquired
19 customers. CWSNC supports that outcome here, unless and until some
20 more suitable cost recovery mechanism is employed.

1 **Q. PLEASE SUMMARIZE YOUR POSITION ON THE PROPRIETY OF THE**
2 **PURCHASED ACQUISITION ADJUSTMENT.**

3 A. Simply put:

4 • The existing utility does not own - and thus cannot convey clear title to -
5 the property on which essential utility assets are located. The
6 Public Staff identified this obvious anomaly as an issue in Docket No.
7 W-1148, Sub 20 when it discussed the “Real Emergency”. See *Public*
8 *Staff Petition for Appointment of Emergency Operator, W-1148 Sub 20*
9 *(April 29, 2021)*, ¶ 11, page 4 [https://starw1.ncuc.gov/NCUC/](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=2ed103a0-3745-44d4-bf6e-3892445cd40c)
10 [ViewFile.aspx?Id=2ed103a0-3745-44d4-bf6e-3892445cd40c](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=2ed103a0-3745-44d4-bf6e-3892445cd40c)

11 According to the referenced Public Staff filing in Docket No. W-1148 Sub
12 20, judgment liens in the amount of approximately \$15,000,000,
13 accruing interest, encumber the “utility” property. CWSNC submits those
14 liens must be released if clear title is to convey to CWSNC or any other
15 purchaser.

16 • No entity - private or governmental - has formally attacked the legitimacy
17 of those liens. Although there has been random speculation and concern
18 about the origin and propriety of the liens and the application of N.C.
19 Gen. Stat. § 62-160, no entity has stepped forward with any suggestion
20 for resolution of the issue, other than to imply or assume that CWSNC

- 1 could satisfy the encumbrances through a purchase price of \$950,000,
2 without cost recovery.
- 3 • No entity has offered an estimated comparison of the costs - in terms of
4 time and money - to litigate the legitimacy of the liens versus the cost of
5 reflecting in rates the \$950,000 necessary to settle the dispute as a
6 purchase price.
 - 7 • The original lien amounts have been negotiated to a settlement figure of
8 \$950,000, as verified by Mountain Air President Randy Banks, and
9 CWSNC has agreed to supply that amount as purchase price in order to
10 secure clear title to essential utility property, provided the purchase price
11 is afforded full cost recovery in the regulatory process. In order for
12 CWSNC to proceed with this transaction, the title must be cleared to the
13 encumbered property - this is a fundamental business and regulatory
14 necessity for the future viability of the system.¹

15 **Q. ARE THERE OTHER WAYS THAT THE COST OF CLEARING TITLE**
16 **COULD BE ADDRESSED?**

17 A. Yes, but the alternatives posited seem unlikely to elicit popular support
18 because apparently no stakeholder either wishes to be --- or can afford to
19 be --- exposed to the costs and risks, which under any scenario could be

¹ Compare to the situation in Riverbend discussed later in my testimony, where the Public Staff supported a plan to accept PAA recovery in rate base to facilitate CWSNC funding the necessary payment to the Town of Franklin of amounts owed for service.

1 extensive. Problems, costs, and objections attach to any solution, including
2 the problems that attach to the recommendation that CWSNC fund the effort
3 without cost recovery. Witness Schellinger makes another proposal, which
4 is for the \$950,000 (with interest) to be recovered by a rider on the rates of
5 the Mountain Air customers. This should mitigate any Public Staff concerns
6 about protecting other ratepayers from having to share in the costs of this
7 contested, system-specific expense.

8 **Q. HAS THE PUBLIC STAFF BEEN SUPPORTIVE OF THE APPOINTMENT**
9 **OF CWSNC AS EMERGENCY OPERATOR OF THE MOUNTAIN AIR**
10 **SYSTEM?**

11 A. Yes. Public Staff has shared its appreciation and support of our role as EO
12 for Mountain Air.

13 **Q. IS IT YOUR UNDERSTANDING THAT THE PUBLIC STAFF SUPPORTS**
14 **A TRANSITION OF TROUBLED SYSTEMS INTO OWNERSHIP BY**
15 **STABLE SYSTEMS?**

16 A. I have thought that to be the case, and I believed that to be the case
17 throughout this iteration of negotiations about the emergency management
18 and future disposition of Mountain Air. However, effective support for the
19 goal of migrating systems into the management of professional providers
20 necessitates a realistic understanding of the financial impact on all parties,
21 including the acquiring utility. To the extent the utility necessarily expends

1 capital - even if to alleviate mistakes or shortcomings of others - in order to
2 allow for long-term viability of the system, cost recovery must be allowed.

3 Emergency operator status is not intended to be perpetual.

4 **Q. HAS CWSNC BEEN CLEAR - WITH THE PUBLIC STAFF AND**
5 **MOUNTAIN AIR - THROUGHOUT BOTH ITERATIONS OF ITS PERIODS**
6 **OF NEGOTIATION FOR THIS SYSTEM, THAT ACQUISITION OF**
7 **MOUNTAIN AIR REQUIRED RELEASE OF THE ENCUMBRANCES ON**
8 **TITLE OF THE UTILITY PROPERTY?**

9 A. Yes.

10 **Q. DOES CWSNC HAVE ANY RESPONSIBILITY OR ACCOUNTABILITY**
11 **FOR THE CIRCUMSTANCES THAT RESULTED IN THE ATTACHMENT**
12 **OF LIENS TO THIS PROPERTY?**

13 A. No. However, more detail about the origin of the liens that give rise to the
14 proposed purchase price is provided in the testimony of Randy Banks,
15 President of Mountain Air. CWSNC was not a part of any of the history that
16 includes the creation of encumbrances on crucial utility assets. The
17 Company now seeks to be part of a fair solution, but the underlying problem
18 is not of CWSNC's creation. Mr. Banks' testimony is also instructive
19 regarding the history of the attempts to sell the system to a qualified
20 provider. Those efforts spanned over eight years and CWSNC participated
21 in the second and fourth iterations of negotiations. An original and persistent

1 issue in negotiations to which CWSNC was a party had to do with the
2 existence of the aforementioned judgment liens.

3 **Q. WHAT SPECIFICALLY LED TO APPOINTMENT OF CWSNC AS**
4 **EMERGENCY OPERATOR AND TO MOUNTAIN AIR’S EFFORTS TO**
5 **SELL THE SYSTEM, AND HAS THE PUBLIC STAFF ACKNOWLEDGED**
6 **THE RESOLUTION OF THE LIENS AS A KEY OBSTACLE TO**
7 **TRANSFERRING THE SYSTEM OWNERSHIP?**

8 A. In 2021, Mountain Air, the Mountain Air Property Owners’ Association
9 (“MAPOA”), and the Public Staff all requested appointment of an emergency
10 operator, citing system permit issues, sanitary sewer overflows, equipment
11 failures, deferred maintenance, Notices of Violation, material non-
12 compliance, service disruptions and deficiencies, outages and leaks,
13 financial viability, and system ownership issues. The Public Staff itself
14 observed, in the litany of indicia of trouble, that “...**not all the utility system**
15 **real property was conveyed to the utility MAUC. The ownership of**
16 **important water and wastewater utility system components is**
17 **unclear.”** (Emphasis added) *See Docket No. W-1148, Sub 20, Public Staff*
18 *Petition, April 29, 2021, pp. 3-4.* At paragraph 11 of that same Petition, the
19 Staff wrote:

20 With liens reportedly totaling approximately \$15 million
21 against MAUC properties plus accruing interest, there can be
22 no question that a real emergency exists. Due to the

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ownership issues and the liens against the MAUC property and facilities, the conveyance of the MAUC water and wastewater utility to a new owner will be a very complex and lengthy process.

Q. WILL CWSNC PURSUE THE TRANSFER WITHOUT ELIMINATION OF THE LIENS?

A. No.² Application of 20/20 hindsight regarding how the liens came to be and whether they are legitimate seems pointless for the determination of how to deal with the sale of these particular assets but may be applicable going forward for other owners and systems as lessons learned. The current state of affairs is that the liens exist, and the lienholders assert claims that are a legal obstacle to securing clear title to essential utility property, and therefore, to the long-term viability of the system. Any effort to clear title will require expenditure of money and time, under any approach. None of the entities with a statutory, personal, or economic interest in a solution have stepped forward to undertake that effort – other than the offer proposed. The entity that can most naturally and efficiently fund a solution by way of the purchase price is CWSNC. There is a natural path forward to solve a longstanding problem that requires swift action, but it cannot be at the expense of CWSNC shareholders. Mountain Air, the MAPOA, and the Public Staff all have sufficient knowledge that CWSNC will not take

² See Article V. of the Asset Purchase Agreement, entered into between CWSNC and MAUC; Exhibit 4 of the Application for approval of transfer.

1 ownership of the system without clear title to utility assets. Indeed, I would
2 expect that regulators would object to the transfer should any purchaser of
3 the system ignore the risks inherent from the title defects.

4 **Q. PLEASE DESCRIBE YOUR VIEW OF THE FLAWS IN THE PUBLIC**
5 **STAFF POSITION.**

6 A. My testimony responds to Public Staff witnesses Franklin and Feasel, who
7 set forth a Public Staff position that:

- 8 • Fails to fully acknowledge the extent to which there is a financial
9 consequence of restoring the Mountain Air system to stability, a
10 consequence which should specifically include cost recovery for a new
11 owner who provides the funds to extinguish the liens³.
- 12 • Ignores the imperative of recovery of the costs associated with the timely
13 and necessary remediation of the deficiencies regarding property
14 ownership, operation, and financial stewardship, none of which were the
15 responsibility or fault of CWSNC;
- 16 • Undervalues the necessity and the costs associated with the “fresh start”
17 that must be made if this system is to be freed from encumbrances that
18 exist on utility assets and placed, long term, under the management of
19 a stable utility;

³ Liens which the Public Staff identified as part of a “Real Emergency”.

- 1 • Ignores the plethora of regulatory decisions which support approval and
2 recovery of PAA under troubled-system circumstances;
- 3 • Appears to reject the necessity of securing clear title to essential utility
4 assets as a predicate to sound owner/operatorship, and as a benefit to
5 customers⁴;
- 6 • Unrealistically expects CWSNC to finance, without adequate
7 compensation, the acquisition of essential utility assets in order to
8 facilitate continuation of proper service;
- 9 • Seeks to predicate its position about rate-setting on the vote of
10 customers, based on facts involving application of complex regulatory
11 principles --- a practice which is fraught with practical, policy, and
12 precedential issues;
- 13 • Rejects the adequacy of the prior support of the MAPOA for this
14 acquisition as an indication of customer views and discounts the
15 rationale for the reluctance of the MAPOA to conduct the poll the Public
16 Staff requested;
- 17 • Would effectively thwart the transfer by objecting to rate base
18 recognition of the \$950,000 that is required to extinguish liens on

⁴ The alternative, as noted, would be for CWSNC to assume ownership and therefore the burden of resolving the liens, with significant risk of substantially higher costs.

1 property on which utility assets exist, because the fee parcels "...should
2 have been owned and controlled by MAUC for it to be granted a
3 certificate of public convenience and necessity." See *Franklin*
4 *Testimony*, p. 21, l. 8–10. Agreement on what should have happened
5 does not avoid the necessity and implementation of remedial measures,
6 such as the appointment of emergency operators. Neither should it
7 impede clearly beneficial transfers by blocking fair and reasonable cost
8 recovery.

9 **Q. PLEASE EXPLAIN YOUR POSITION THAT ESTABLISHED N.C.**
10 **REGULATORY PRACTICE SUPPORTS ALLOWANCE IN THIS CASE**
11 **OF RECOVERY OF A \$950,000 PAA IN RATE BASE.**

12 A. Prior cases have established a Commission policy of restraint with respect
13 to rate base treatment of an acquisition adjustment unless the purchasing
14 utility establishes, by the greater weight of the evidence, that the price the
15 purchaser agreed to pay for the acquired utility was prudent and that both
16 the existing customers of the acquiring utility and the customers of the
17 acquired utility would be better off (or at least no worse off) with the
18 proposed transfer, inclusive of rate base treatment of any acquisition
19 adjustment, than would otherwise be the case.⁵ Mountain Air and this

⁵ See Order Approving Transfer and Denying Acquisition Adjustment, Petition of Utilities, Inc. for Transfer of the Certificate of Public Convenience and Necessity for Providing Sewer Utility Service

1 transaction are a straightforward example of an exception to the general
2 resistance to acquisition adjustments. The \$950,000 price is prudent, as it
3 is the amount required to clear title to essential utility property. The existing
4 customers obviously benefit from operation and ownership of their water
5 and sewer systems by a competent professional provider, and from clearing
6 title to the essential utility assets to establish unencumbered ownership of
7 the utility. As the North Topsail order recited, a wide range of factors have
8 been considered relevant in resolving the question of allowance of PAA's,
9 including: the prudence of the purchase price paid by the acquiring utility;
10 the extent to which the size of the acquisition adjustment resulted from an
11 arm's length transaction; the extent to which the selling utility is financially
12 or operationally "troubled"; the extent to which the purchase will facilitate
13 system improvements; the size of the acquisition adjustment; the impact of
14 including the acquisition adjustment in rate base on the rates paid by
15 customers of the acquired and acquiring utilities; the desirability of
16 transferring small systems to professional operators; and a wide range of
17 other factors. None of these factors have been deemed universally
18 dispositive; however, the facts of this Mountain Air transaction include
19 almost all of the considerations that support allowance of a PAA:

on North Topsail Island and Adjacent Mainland Areas in Onslow County from North Topsail Water and Sewer, Inc. and for Temporary Operating Authority, Docket No. W-1000, Sub 5 (N.C.U.C. January 6, 2000) (W-1000, Sub 5 Order). Id. at 27 ("North Topsail").

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- The size of the acquisition adjustment is driven entirely by the amount necessary to clear title to the property and is thus prudent and necessary.
- The transaction agreement was executed at arms-length and came after years of extensive efforts to address the mounting Mountain Air issues.
- The selling utility is unquestionably troubled, as evidenced by the appointment of an emergency operator due to operational and financial shortcomings.
- The purchase will facilitate continued improvement - as necessary in the short- and long-term - in the Mountain Air infrastructure and will continue the significant improvements implemented thus far, with over \$2,000,000 in investment under CWSNC as emergency operator.
- The impact on Mountain Air customers of simply being included in CWSNC's newly approved uniform base rates is a modest and eminently reasonable proposal, particularly in light of the facts that there has been no increase in Mountain Air's base rates since 2001, CWSNC has made significant improvements in the system, and the proposed rates, inclusive of PAA recovery, are not excessive. The desirability of transferring smaller, less stable systems into

1 ownership of larger, more competent, professional operators is well
2 settled.

3 **Q. CAN YOU GIVE EXAMPLES OF INSTANCES IN WHICH PAA HAVE**
4 **BEEN APPROVED FOR RATE BASE TREATMENT, UTILIZING AS**
5 **RATIONALE FOR THE COMMISSION'S DECISION VARIOUS**
6 **EXCEPTIONS TO THE COMMISSION'S GENERAL POLICY?**

7 A. Yes: there are several examples of Commission approval of rate base
8 treatment for PAA (and of uniform rate application) in transfer cases.

9 1. Pace Utilities/Silverton Acquisition (Docket No. W-354, Sub 361;
10 W-1046 Sub 4)

11 [https://starw1.ncuc.gov/NCUC/page/docket-docs/PSC/DocketDetails.aspx](https://starw1.ncuc.gov/NCUC/page/docket-docs/PSC/DocketDetails.aspx?DocketId=1b678db8-603b-4572-8306-ed09db4a4629)
12 [?DocketId=1b678db8-603b-4572-8306-ed09db4a4629](https://starw1.ncuc.gov/NCUC/page/docket-docs/PSC/DocketDetails.aspx?DocketId=1b678db8-603b-4572-8306-ed09db4a4629)

13 In Ordering Paragraph 12, page 7 of the Hearing Examiner's
14 Recommended Order in CWSNC's application to purchase Pace Utilities,
15 the Hearing Examiner found:

16 12. CWSNC's acquisition of Pace Utilities' water and sewer
17 systems meets the Commission's criteria for debit acquisition
18 adjustments, because the purchase price is prudent and the
19 result of arm's length bargaining; there are present
20 deficiencies in Pace Utilities' water system that CWSNC
21 intends to address after the acquisition; and the benefits
22 accruing to the customers in the Silverton Subdivision and
23 CWSNC's Bradfield Farms/Fairfield Harbour/Treasure Cove
24 rate customers outweigh the costs of inclusion in rate base of
25 the excess purchase price.

26 See: [https://starw1.ncuc.gov/NCUC/ViewFile.aspx?id=2f9e4a1f-](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?id=2f9e4a1f-faec-4f6a-a125-23ee33a07627)
27 [faec-4f6a-a125-23ee33a07627](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?id=2f9e4a1f-faec-4f6a-a125-23ee33a07627)

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The purchase price to be paid by CWSNC for Pace Utilities' water and sewer systems was found to be prudent and the acquisition was determined to not have a negative impact on the customers and rates of both CWSNC and Pace Utilities because of the spreading of costs under a unified rate structure.

2. Old North State and Horse Creek Farms (Docket No. W-1300, Sub 19; Docket No. W-888, Sub 6)
<https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=5d368dcf-df9b-4726-8776-3313625bfe58>

The Commission's allowance of an acquisition adjustment in this case illustrates the beneficial flexibility in use of this regulatory mechanism. The transfer's acquisition adjustment was predicated on the poor condition of the system, the need for investment, and the decision to keep the system in stand-alone rates so that other customers are not negatively impacted by the higher rate base.

3. Heater Utilities Acquisition of Hardscrabble. (Docket No. W-274, Sub 122)
<https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=978d7038-f516-46cc-ae5b-eeb40c46ead>

"The Commission has articulated a position of encouraging the orderly transfer of water systems from developers and small owners to reputable water utilities..." See *Hardscrabble Order*, p. 11. Describing Heater Utilities

1 as a reputable water utility, with the technical, managerial, and financial
2 capacity to own and operate the water system, the Commission noted that
3 the decision to allow the acquisition adjustment, based upon the
4 circumstances, promoted and served the cause of orderly transfer and was
5 in the public interest. The Commission had heretofore allowed an
6 acquisition adjustment when: 1) the benefit to customers outweighs the cost
7 of inclusion in rate base of the excess purchase price; 2) the transaction is
8 prudent; and 3) the transaction is the result of arm's length bargaining. See
9 *Order Approving Transfer, Acquisition Adjustment, and Maintaining Current*
10 *Rates, Docket No. W-274, Sub 122, April 30, 1997 (the Hardscrabble*
11 *Order), Finding of Fact 14.*

12 4. Aqua North Carolina Purchase of Fox Run. (Docket No. W-218,
13 Sub 335; Docket No. W-959, Sub 4)
14 [https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=fdd83d97-aecc-4014-](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=fdd83d97-aecc-4014-88d8-bfe914f67e9b)
15 [88d8-bfe914f67e9b](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=fdd83d97-aecc-4014-88d8-bfe914f67e9b)

16 In allowing an acquisition adjustment of \$360,000, the Commission took
17 note of the Public Staff's position that Fox Run was not considered to be
18 viable financially, managerially, and operationally.

19 5. CWSNC Acquisition of Riverbend Estates. (Docket No. W-354,
20 Sub 358; Docket Nos. W-390 Sub 13 & 14).
21 [https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=521248bf-f07b-4539-](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=521248bf-f07b-4539-8943-3dcaa78d8e5f)
22 [8943-3dcaa78d8e5f](https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=521248bf-f07b-4539-8943-3dcaa78d8e5f)

1 Finally, the position and the decisions involved in CWSNC's purchase of
2 Riverbend - including the participation of the Public Staff in the solution -
3 are uniquely relevant to the current case. As a pragmatic, legally
4 permissible solution to the broad problems of Riverbend, the Public Staff
5 supported payment of the \$53,821.28 purchase price by CWSNC that would
6 be payable to the Town of Franklin to resolve debt owed for outstanding
7 invoices. That amount was included in CWSNC's rate base as an
8 acquisition adjustment. The rate base treatment of an acquisition
9 adjustment to recover the resolution of debts that hinder a troubled system's
10 viability uses the mechanism to facilitate solutions to regulatory problems,
11 is sound policy, and is in the public interest.

12 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE**
13 **AFOREMENTIONED EXAMPLES OF RATE BASE TREATMENT OF**
14 **ACQUISITION ADJUSTMENTS?**

15 A. Each of the noted precedents for allowance of rate base treatment of
16 acquisition adjustments has clear corollaries to the current case. In each
17 instance, the system being acquired was troubled and needed the
18 operations transferred to a competent, professional owner. These acquired
19 systems were in need of near-term capital investment that could avoid
20 further deterioration of service levels or restore the system to proper service
21 standards.

1 The purchase prices and the impacts to customers were determined to be
2 reasonable. Particularly in the case of Riverbend, the owner was unable to,
3 on its own, to resolve outstanding debts and therefore the purchase price
4 was directly matched to the funds needed to resolve the debt. It is clear,
5 and CWSNC and Mountain Air have demonstrated in this case, that the
6 conditions for allowance of rate base treatment of acquisition adjustments
7 are well established with Mountain Air, especially in light of the Company's
8 EO status and significant efforts to resolve considerable system issues in a
9 short amount of time.

10 **Q. DO YOU WISH TO MAKE ADDITIONAL COMMENTS REGARDING**
11 **PUBLIC INTEREST AND RATEMAKING CONSIDERATIONS?**

12 A. I reiterate my Direct Testimony and renew CWSNC's request that the
13 Commission approve the Company's proposed Sub 400 uniform base rates
14 and that it approve the PAA of \$950,000. In all respects I request that the
15 Commission's approval be consistent with the core terms of the Asset
16 Purchase Agreement included in CWSNC's Application, specifically Article
17 V and concerning cost recovery. Approval of the PPA and of uniform rates
18 are essential to CWSNC's ability to move forward with this transaction, and
19 moreover, are consistent with regulatory principles and with sound
20 regulatory policy.

1 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
2 **KNOWLEDGE, INFORMATION, AND BELIEF?**

3 A. Yes.

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

5 A. Yes, it does. However, I reserve the right to update or amend this testimony
6 upon receipt of additional relevant data or other information that may
7 become available.