

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 398

OCTOBER 14, 2022

In the Matter of
Application by Carolina Water Service, Inc.)
of North Carolina, 5821 Fairview Road,)
Suite 401, Charlotte, North Carolina 28209,)
for Determination of Fair Value of Utility)
Assets Pursuant to N.C. Gen. Stat. § 62-)
133.1A and Establishing Rate Base for)
Acquisition of the Carteret County Water)
System)

**TESTIMONY OF
CHARLES JUNIS
ON BEHALF OF
THE PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

1 **Q. Please state your name, business address, and present**
2 **position.**

3 A. My name is Charles Junis. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Director of the Water, Sewer, and Telephone Division of the Public
6 Staff – North Carolina Utilities Commission.

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to present to the Commission the
11 Public Staff's review and recommendations regarding the application
12 filed on July 26, 2022, and revised on August 11, 2022, by Carolina
13 Water Service, Inc. of North Carolina (CWSNC) requesting
14 determination of fair value of utility assets pursuant to N.C. Gen. Stat.
15 § 62-133.1A and establishment of rate base for acquisition of the
16 Carteret County Water System (Application).

17 The following table of contents serves as a convenient reference to
18 the areas of my investigation presented in detail with my findings and
19 accompanying recommendations:

1 Table 1

Topic	Beginning Page No.
N.C.G.S. § 62-133.1A Commission Rules R7-41 and R10-28	Page 4
Application and Engineering Assessment	Page 7
Site and Visit Plant Conditions and Operations	Page 14
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2 **Q. Please briefly summarize your investigation and**
3 **recommendations.**

4 A. I have reviewed the application and exhibits filed in the subject
5 docket and accompanying filings in Docket No. W-354, Sub 399. I
6 have conducted discovery of CWSNC, Hartman Consultants, LLC
7 (Hartman), Carteret County (County), and Gannett Fleming
8 Valuation and Rate Consultants, LLC (Gannett Fleming). I have
9 worked with Public Staff Financial Manager Lynn Feasel to evaluate
10 the fair value, purchase price, and rate impacts.

11 The average of the three appraisals is \$10,935,667 and exceeds the
12 purchase price of \$9,500,000. CWSNC estimates that the fees and
13 closing costs will be a total of \$175,000, but could be higher.

1 The monthly metered residential bill for a Carteret County customer
 2 using 4,000 gallons under present rates and after establishing the
 3 Carteret County water customers as a system specific rate division
 4 of CWSNC, and treating the associated \$9.5 million purchase price
 5 and \$0.175 million estimated fees and closing costs as rate base,
 6 are shown in the table below.

7 Table 2

County Present Rates	CWSNC System Specific
\$70.55	\$113.71

8 The rate impact of the purchase price and associated costs as shown
 9 in the table above is not reasonable. The Carteret County Water
 10 System is not troubled. CWSNC has failed to show material benefits
 11 will be provided to the acquired customers without harm to them or
 12 its existing customers. Based on these considerations, which are
 13 further detailed in my testimony, the fair value is not reasonable and
 14 the public interest is not served, therefore, I recommend that the
 15 Commission deny the fair value application.

16 **Q. What is fair value of utility assets pursuant to N.C.G.S. § 62-**
 17 **133.1A?**

18 A. The procedure for a fair value determination of an existing water or
 19 wastewater system owned by a municipality or county or an authority
 20 or district established under Chapter 162A of the General Statutes

1 was enacted by Session Law 2018-51 (House Bill 351), N.C.G.S. 62-
2 133.1A (Fair Value Statute), which became effective June 25, 2018.
3 Although there are similar statutes in other states, the appraisal
4 process for potentially determining rate base is new to North
5 Carolina. Fair value, for rate-making purposes under N.C.G.S. § 62-
6 133, shall be the average of the three appraisals (buyer, seller, and
7 Public Staff). N.C.G.S. § 62-113.1A(b)(1)(c). Alternatively, if the
8 Commission finds that the average of the three appraisals will not
9 result in a reasonable fair value, the Commission may adjust the fair
10 value as it deems appropriate and in the public interest. N.C.G.S. §
11 62-113.1A(e). The rate base value of the acquired system, which
12 shall be reflected in the acquiring public utility's next general rate
13 case for rate-making purposes, shall be the lesser of the purchase
14 price negotiated between the parties to the sale or the fair value plus
15 the reasonable fees and costs. N.C.G.S. § 62-113.1A(b)(4).

16 **Q. Has the Commission adopted rules to implement the Fair Value**
17 **Statute pursuant to N.C.G.S. § 62-133.1A(f)?**

18 A. Yes, on December 31, 2019, in Docket No. W-100, Sub 60, Aqua
19 North Carolina, Inc. (Aqua), and CWSNC (together, Companies) filed
20 a petition requesting that the Commission establish a rulemaking
21 proceeding in this docket for the purpose of considering and adopting
22 rules to implement N.C.G.S. § 62-133.1A. After receiving comments
23 from the Public Staff and reply comments from the Companies and

1 North Carolina Attorney General's Office (AGO), the Commission
2 issued its Order Adopting Commission Rule R7-41 and Commission
3 Rule R10-28 on December 30, 2020. Noteworthy from the discussion
4 and conclusions of the order, the Commission agreed with the parties
5 that the burden of proof is appropriately on the acquiring utility in all
6 respects in the proceeding on the utility's application and for
7 demonstrating that the acquisition of the Local Government Utility is
8 in the public interest. The Commission therefore incorporated
9 paragraph (h) into R7-41 and Rule R10-28.¹

10 **Q. What safeguards are included in the statutory provisions of**
11 **N.C.G.S. § 62-113.1A?**

12 A. The AGO succinctly highlighted key statutory provisions on page 4
13 of its reply comments filed on June 1, 2020, in Docket No. W-100,
14 Sub 60, as follows:

15 The Commission has been provided three significant
16 tools in the new statute in order to protect North
17 Carolina consumers from unreasonable rate increases.
18 First, the Commission is authorized to adjust the fair
19 value determined by the three appraisals if it finds that
20 the average will not result in a reasonable fair value
21 that is appropriate and in the public interest. N.C. Gen.
22 Stat. § 62-113.1A(e). Second, it may classify the
23 acquired system as a separate entity for ratemaking
24 purposes. Id. Treating the acquired system as a
25 separate rate class for ratemaking purposes serves to
26 protect the public utility's existing customers from

¹ (h) Burden of Proof.—The utility shall have the burden of proof regarding all aspects of the proceeding on an application filed pursuant to G.S. 62-133.1A and this Rule, and for demonstrating that the acquisition of the Local Government Utility is in the public interest.

1 upward pressure on their rates due to the acquisition,
2 but could result in very high rates for the customers in
3 the acquired system, depending on the particular
4 circumstances. Id. Third, the Commission may deny
5 the application. N.C. Gen. Stat. § 62- 133.1A(d).

6 **Q. Please briefly summarize the Application.**

7 A. The Application pleading on page one states, “CWSNC requests
8 Commission approval of the “fair value” determination contained
9 herein, and of the subsequent calculation of rate base value of these
10 assets that is derived by use of the “fair value” mechanism,
11 authorized under N.C.G.S. § 62-133.1A.” The Company describes
12 the statutory authorization and rules, the parties and contract to
13 purchase, determination of fair value, determination of rate base, and
14 the required elements of the application. On Form Application Exhibit
15 4, CWSNC lists the results of the three appraiser’s valuations and
16 the average as \$10,935,667.

17 **Q. Please briefly summarize the direct testimony of Donald H.
18 Denton.**

19 A. Donald H. Denton, Senior Vice President, East Operations for Corix,
20 and President of CWSNC and Blue Granite Water Company, filed
21 testimony in support of the Application and verified the contents as
22 true and accurate as required by the Commission form. CWSNC
23 witness Denton contends that purchase of a governmental system by
24 a Commission-regulated utility could not happen without fair value.

1 He further testifies to the benefits of consolidation, including capital
2 investment, cost efficiencies, and rate stability, which the Company
3 contends serves the public interest of both Carteret County and
4 CWSNC customers.

5 **Q. Do you have concerns about the testimony of CWSNC witness**
6 **Denton?**

7 A. Yes. Regarding the benefits to customers, witness Denton neither
8 quantifies the cost impact of the purchase price if established as rate
9 base or cost savings to be passed to customers, nor substantiates
10 the need for additional capital investment in the Carteret County
11 Water System, in either his testimony or in response to discovery,
12 shown in **Junis Exhibits 1 and 2.**²

13 **Q. Do you agree with any of the testimony of CWSNC witness**
14 **Denton?**

15 A. Yes. Witness Denton testifies to specific protections for customers of
16 the combined systems as follows³:

17 CWSNC emphasizes, in support of this filing, that the
18 “Fair Value” statute is replete with tools whereby the
19 Commission can protect ratepayers and maintain the
20 public interest. The NCUC retains the authority to set
21 rates for the acquired system in future rate cases, has
22 the discretion to classify the acquired system as a
23 separate rate entity in future rate cases, and has the

² Data request responses to Public Staff Data Requests 3 and 4, respectively.

³ Page 5, line 21, through page 6, line 5, Direct Testimony of Company witness Donald H. Denton filed in Docket No. W-354, Sub 398, on July 26, 2022.

1 authority to adjust the “fair value” as the Commission
2 deems appropriate and in the public interest.

3 These tools generally mirror those recognized by the AGO in its
4 rulemaking reply comments with the exception that the Commission
5 can approve, deny, or adjust the fair value as it deems appropriate
6 and in the public interest.

7 **Q. Please briefly summarize the engineering assessment.**

8 A. The Fair Value Statute requires that, “[t]he acquiring public utility and
9 selling utility shall jointly retain a licensed engineer to conduct an
10 assessment of the tangible assets of the system to be acquired, and
11 the assessment shall be used by the three appraisers in determining
12 fair value.”⁴ In this case, the starting point for the engineering
13 assessment is a document prepared by Draper Aden Associates
14 (Draper Aden) entitled “Feasibility Study for Water System Merger”
15 dated December 2019.⁵ For the use of the appraisers, CWSNC and
16 Carteret County retained Draper Aden “to conduct an assessment of
17 the tangible assets of the system to be acquired” and Draper Aden
18 produced “Update to Present Value of Water System” dated
19 December 2021.⁶

⁴ N.C.G.S. § 62-133.1A(b)(2).

⁵ Form Application Exhibit 5B.

⁶ Form Application Exhibit 5C.

1 **Q. What was the purpose of the Feasibility Study for Water System**
2 **Merger?**

3 A. In response to Public Staff Data Request 6, Question 5, shown in
4 **Junis Exhibit 3**, Carteret County states that it “applied and received
5 a Water System Merger Grant from the State of North Carolina in
6 2019.” The Executive Summary⁷ states as follows:

7 Carteret County (the County) retained Draper Aden
8 Associates (DAA) to evaluate the feasibility of a
9 “merger” of the County’s water systems with Town of
10 Beaufort’s (the Town) water system. The proposed
11 “merger” would entail the Town of Beaufort taking over
12 the ownership and operation of the County’s water
13 systems.

14 **Q. What was the recommendation?**

15 A. Draper Aden recommended that the County transfer the water
16 systems to the Town of Beaufort for one dollar (\$1). It was further
17 recommended that with the continued collection of special water tax
18 district revenues, the County would pay off its water fund debts in the
19 amount of approximately \$2,066,128 (principal only) and contribute
20 to the Town’s upgrades and expansions to the system over the next
21 11 years. Draper Aden also recommended modified water rates that
22 would have lowered the average monthly bill for 5,000 gallons

⁷ Form Application Exhibit 5B, at E1.

1 charged to Carteret County water system customers from \$55.10 to
2 \$46.09.⁸

3 **Q. Did Carteret County meet with the Town of Beaufort and discuss**
4 **the Town acquiring the water system?**

5 A. Yes. Carteret County states it met and discussed assuming the water
6 system assets and debt with the Town of Beaufort and even offered
7 the system to the Town in early 2020. However, the Town responded
8 that it did not wish to pursue merger at the time.⁹

9 **Q. Is there anything else in the Feasibility Study for Water System**
10 **Merger that is relevant to this proceeding?**

11 A. Yes. Regarding the County's capital improvement plan, Draper Aden
12 states¹⁰:

13 In 2013, the County completed a \$3.51 million water
14 system improvement project. Since 2013, there has
15 been little need for significant capital projects; there
16 were no capital projects scheduled in FY2019 and the
17 FY2020 budget does not include any. The County
18 continues to fund "pay as you go" capital projects, as
19 needed.

20

21 Overall, the water system is in good condition and the
22 County is not expecting any major capital investment
23 in the near future.

⁸ *Id.* at E2.

⁹ Junis Exhibit 3, Response to Question 5.

¹⁰ Form Application Exhibit 5B, at 6.

1 A significant portion of the document describes Draper Aden's
2 assumptions, calculations, and development of its estimate of the
3 water system assets' net worth of \$12,335,392. Of this amount,
4 \$10,241,142 is an estimate of present book value of existing land,
5 wellhouses, water treatment plant, and piping with no original cost,
6 discount rate, or depreciation. It is unclear why this was done at all
7 as it is not plainly required to receive the grant. Eligible projects for
8 Merger/Regionalization Feasibility Grants are described on the North
9 Carolina Department of Environmental Quality (DEQ), Division of
10 Infrastructure (DWI), website as "[s]tudies to evaluate the potential
11 consolidation or two or more systems into one system into one
12 system and the potential physical interconnection with another
13 system for regional wastewater treatment or regional water
14 supply."¹¹

15 The County has extensive accounting records to establish the
16 original cost less depreciation. Furthermore, the County has
17 maintained records detailing contributions in aid of construction and
18 funding sources. For example, part of Form Application Exhibit 5A,
19 pages 55 through 61 appears to be a document or partial email chain
20 from approximately 2009 that describes the development of the
21 water systems and finances, including the use of \$2.08 million from

¹¹ Available at <https://deg.nc.gov/about/divisions/water-infrastructure/i-need-funding/mergerregionalization-feasibility-grants> (last visited on October 12, 2022).

1 the Community Development Block Grant (CDBG) Program, \$3
2 million in state grants, \$0.1 million in sales tax refunds, and \$2.8
3 million in debt. In addition, Carteret County provided an Excel
4 spreadsheet detailing infrastructure by funding sources, which
5 shows a breakdown as follows: Grants (\$6,491,452 / 54.27%), Loan
6 (\$4,435,608 / 37.08%), Developer Paid (\$305,944 / 2.56%), Other
7 (\$727,732 / 6.08%), and Total (\$11,960,736 / 100.00%). This clearly
8 shows over half the capital investment was contributions. Shown in
9 **Junis Exhibit 4.**

10 **Q. How was the purchase price negotiated between the buyer and**
11 **seller?**

12 A. According to Carteret County Board of Commissioners meeting
13 minutes, CWSNC submitted an offer of \$4.9 million.¹² Based on
14 Board of Commissioners meetings, meeting minutes, and local news
15 articles, around that same time, Aqua submitted a bid of \$7 million.
16 At the February 15, 2021 meeting of the Board of Commissioners,
17 the high offer was accepted and the upset bid process began. My
18 understanding of the bids are summarized in the table below:

¹² Minutes from the February 15, 2021, Board of Commissioners' meeting.
<https://www.carteretcountync.gov/AgendaCenter/ViewFile/Minutes/02152021-1179> (last
visited on October 8, 2022).

1 Table 3

Date	Company	Bid Amount
January 13, 2021	CWSNC	\$4.9 million
February 2021	Aqua	\$7.0 million
March 1, 2021	CWSNC	\$7.5 million
March 23, 2021	CWSNC	\$8.5 million
April 18, 2021	Aqua	\$8.925 million
April 27, 2021	CWSNC	\$9.5 million

2 After the upset bid period expired and the County voted to accept the
3 \$9.5 million bid on September 20, 2021, and approve the contract on
4 October 18, 2021, as a result the County and CWSNC entered into
5 the Utility Asset Purchase Agreement dated October 18, 2021.

6 **Q. Have you visited the Carteret County Water System?**

7 A. Yes. On April 29, 2022, I, along with Public Staff Public Utilities
8 Engineer Mike Franklin and Attorney Zeke Creech and NewGen
9 Strategies and Solutions Consultant Mike Lane traveled to Beaufort
10 to meet with Carteret County staff, including Eugene Foxworth, Tony
11 Cahoon, and Arrington Moore, and visually inspected the North
12 River/Mill Creek (PWSID NC0416197) and Merrimon (PWSID
13 NC0416198) water systems.

- 1 **Q. Please briefly summarize your observations from the site visit.**
- 2 A. The wellhouses were well maintained and clean. The elevated
3 storage tanks were in various states of acceptable to good condition
4 based on staggered recoating schedules and are regularly
5 inspected, maintained, and recoated pursuant to a water tank
6 management agreement with Southern Corrosion Incorporated. The
7 water treatment plant, including greensand filters, water softeners,
8 ortho-polyphosphate feed system, chloramines disinfection, and
9 onsite backup generator, was in good condition. The North River/Mill
10 Creek distribution system is sprawling, including over 55 miles of
11 water lines, nearly 600 valves, 175 hydrants, and interconnections
12 with the Town of Beaufort and Craven County, to serve 1,200 plus
13 customers as of June 2022. The Merrimon system is approximately
14 18 miles away and serves about 20 customers.
- 15 **Q. What is your expert opinion of the condition of the utility**
16 **assets?**
- 17 A. Overall, it is my professional opinion that the utility assets are in good
18 condition and have been well maintained.
- 19 **Q. Were any deficiencies identified in the engineering**
20 **assessment?**
- 21 A. Form Application Exhibit 2 summarizes, “[n]o deficiencies noted.”

1 **Q. Did CWSNC include in its application a five-year plan for**
2 **prudent and necessary infrastructure improvements as**
3 **required by Commission Form FV1?**

4 A. No. Form Application Exhibit 2 states in pertinent part, “CWSNC
5 plans no significant improvement above routine O&M, such as tank
6 coatings which are covered in the current maintenance contract and
7 chlorine conversion from gas to liquid due to safety concerns.”

8 **Q. Does CWSNC anticipate the need for any major**
9 **improvements/additions in the next five to ten years?**

10 A. No. On page 8 of its Application for a Certificate of Public
11 Convenience & Necessity and for Approval of Rates filed in Docket
12 No. W-354, Sub 399, CWSNC states, “[n]o major improvements /
13 additions planned.”

14 **Q. Does CWSNC anticipate the need for any major replacements in**
15 **the next five to ten years?**

16 A. No. On page 8 of its Application for a Certificate of Public
17 Convenience & Necessity and for Approval of Rates filed in Docket
18 No. W-354, Sub 399, CWSNC states, “[n]o major replacements
19 planned.”

20 **Q. How would you describe the technical operations of Carteret**
21 **County?**

1 A. According to Public Water Supply Section records available on
2 Drinking Water Watch system, neither of the water systems have had
3 any violations issued or enforcement actions taken for over the last
4 six years. To my knowledge, the County provides safe, reliable, and
5 compliant service to the North River/Mill Creek and Merrimon water
6 systems.

7 The public hearing witness hearing on both the Fair Value
8 Application and the CPCN Application is scheduled at 7:00 pm on
9 Tuesday, October 18, 2022. CWSNC is required to file a report
10 addressing all customer service and service quality complaints
11 expressed at the public hearing within 14 days after the public
12 witness hearing. A Public Staff Utilities Engineer will attend the public
13 hearing and be available to answer questions before and afterwards.
14 A Public Staff Attorney will participate in the public hearing by
15 sponsoring customers who attend and choose to testify. Depending
16 on the content of customers' testimony at the public hearing and the
17 Company's report, the Public Staff may further investigate quality of
18 service and request the Commission's approval for an opportunity to
19 submit supplemental testimony.

20 It should be noted that CWSNC and the County entered into an
21 operation and maintenance oversight agreement dated January 24,
22 2022. Under the agreement, CWSNC provides a certified operator to

1 serve as Operator in Responsible Charge (ORC) and provides
2 consultation services to County staff for a maximum of one hour per
3 day pursuant to the terms and conditions.

4 **Q. How would you describe the management of the utility?**

5 A. According to Attachment 2B of Junis Exhibit 3, Carteret County has
6 operated the water fund, before transfers from other funds, at a loss
7 annually from 2003 through 2021. However, according to the
8 unaudited fiscal year 2022 data, the water fund had a profit of
9 \$39,605, or 3.7%. After transfer from other funds and capital
10 contributions from developers, the audited profit total over the life of
11 the system (2003-2022) is \$3,535,341. The ending equity through
12 2022, is \$5,805,173. While the operating losses were concerning,
13 the County has increased rates to cover its expenses, including debt,
14 and intends to accumulate a reserve in the future. The County has
15 also effectively sought and been awarded “cost free” capital grants
16 and below market interest rate loans to fund a significant portion of
17 capital needs. According to the FY23 Budget, the water fund is 0.7%
18 of the revenue in FY23. The County management is capable and has
19 shown the ability to improve its water fund financial outlook while also
20 managing a County-wide budget of over \$163 million.

21 **Q. Are Carteret County’s present rates sufficient to cover its**
22 **costs?**

1 A. Not quite. On June 21, 2021, the Carteret County Board of
2 Commissioners voted to increase the water rates by 95% and
3 reduced the water tax district rate from 5.5 cents to 0 cents per one
4 hundred dollars valuation of property effective July 1, 2021. On
5 September 20, 2021, the Carteret County Board of Commissioners
6 voted to decrease the water rates by 25%. On June 20, 2022, the
7 Carteret County Board of Commissioners voted to adopt the county
8 budget ordinance and the water rates were maintained at a basic
9 charge of \$40.25 per month, including the first 1,000 gallons, and a
10 volume charge of \$10.10 per 1,000 gallons after the first 1,000
11 gallons.¹³ The FY2023 Adopted Budget includes Water Fund
12 operating revenues of \$1,085,000 and expenditures of \$1,160,000,
13 therefore a budgeted deficit of \$75,000 is netted against the water
14 fund balance resulting in a water fund balance of \$5,783,118.¹⁴

15 **Q. Does Carteret County have sufficient access to capital?**

16 A. Yes. Carteret County significantly expanded the water system in the
17 2000s. Please also see the discussion of capital investment and
18 funding on page 12 above.

¹³ Water Service FY 23 Fee Schedule. Available at
<https://www.carteretcountync.gov/DocumentCenter/View/10202/Water-Service-Fee-Schedule-FY2022-2023> (last visited on October 13, 2022).

¹⁴ 2023 Carteret County Budget. Available at
<https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1409> (last visited on October 13, 2022).

1 **Q. Is the Carteret County Water System designated as distressed?**

2 A. Yes. As of September 27, 2022, Carteret County has been
3 designated as distressed by the State Water Infrastructure Authority
4 and the Local Government Commission.¹⁵ A distressed unit is a
5 public water system or wastewater system operated by a local
6 government unit exhibiting signs of failure to identify or address those
7 financial or operating needs necessary to enable that system to
8 become or to remain a local government unit generating sufficient
9 revenues to adequately fund management and operations,
10 personnel, appropriate levels of maintenance, and reinvestment that
11 facilitate the provision of reliable water or wastewater services.¹⁶
12 Carteret County has received assessment scores of eight based on
13 2019 data and nine based on 2021 data. A unit providing only one
14 service, either drinking water or wastewater, is identified as
15 distressed if the total assessment criteria score is equal to or greater
16 than eight.

17 **Q. Does being designated a distressed unit have benefits?**

18 A. Yes. As a distressed unit, in addition to the Drinking Water State
19 Revolving Fund and Drinking Water Reserve Program, Carteret
20 County is eligible to apply for funds from the Viable Utility Reserve

¹⁵ Local Government Units Assessment Scores. Available at <https://deq.nc.gov/water-infrastructure/vur-assessment-unit-list-sept-2022/download?attachment> (last visited on October 8, 2022).

¹⁶ N.C.G.S. § 159G-20.(4a).

1 and additional construction grants¹⁷ funded by allocation from the
2 American Rescue Plan Act (ARPA).

3 **Q. After closing, would CWSNC have access to the benefits**
4 **available to a distressed unit?**

5 A. No. The distressed unit designation is limited to public water or
6 wastewater systems operated by a local government unit, as defined
7 in N.C.G.S. § 159G-20(4a) and (13). CWSNC will not have access
8 to millions of dollars of grants and below market interest rate loans.

9 **Q. Is it your understanding that distressed means something**
10 **different from the term troubled that is used commonly before**
11 **the Commission?**

12 A. Yes. The assessment criteria summary for the 2022 assessment and
13 assessment criteria scorecard specific to the Carteret County Water
14 System based on 2021 Audit data are provided as **Junis Exhibit 5**.
15 Carteret Count scored points for the following criteria:

- 16
- Population served of less than 10,000 people;

17

 - Debt service coverage ratio of less than 1.1;

18

 - Transfers of money from other sources into the water fund to

19

 - cover expenditures in at least 2 or more of the last 5 years;

¹⁷ Division of Water Infrastructure American Rescue Plan Act (ARPA) Administration Plan-Feb.2022. Available at <https://deq.nc.gov/water-infrastructure/dwi-arpa-administration-plan-feb-2022/download?attachment> (last visited on October 8, 2022).

- 1 • Service population of less than 100 people per mile of water
- 2 lines;
- 3 • Monthly water bill for 5,000 gallons in excess of \$50;
- 4 • Revenue deficit after expenses and debt service;
- 5 • Depreciation of utility assets exceeds 50%; and
- 6 • Operating margin less than 0.

7 A relatively small rural system with low rates, especially if revenues
8 are insufficient to cover expenses or supplemented by other sources,
9 will score highly in the assessment. However, Carteret County being
10 designated distressed for these criteria is correctable but has some
11 benefits as described above. Carteret County does not need
12 CWSNC to acquire the system at a cost premium to correct these
13 issues. The Carteret County Water System is not troubled in the
14 sense that the utility assets are beyond their useful life, there are
15 serious or widespread environmental compliance issues, lack of
16 capital funding, or is devoid of technical, managerial, and/or financial
17 expertise and capabilities.

18 **Q. Is it your understanding that the purpose of the Fair Value**
19 **Statute was intended to facilitate the sale and consolidation of**
20 **troubled systems?**

21 A. Yes. In support of the legislation, Aqua provided a summary
22 document on February 26, 2017, that states, in pertinent part, the
23 following:

1 North Carolina's water and wastewater industry is both
2 fragmented and in need of infrastructure infusion. This
3 fragmentation and lack of adequate funding sources
4 often result in systems that may lack operational
5 expertise and access to capital necessary to fund
6 investments that will keep their systems safe, reliable
7 and in compliance with environmental standards.

8 Shown on **Junis Exhibit 6**. The Carteret County Water System does
9 not lack access to capital and already provides service that is safe,
10 reliable, and in compliance with environmental standards. Aqua also
11 contends that the proposed legislation "[p]rotects customers of both
12 the governmental system and of the currently regulated system."

13 **Q. Please summarize the three appraisals.**

14 **A.** N.C.G.S. § 62-133.1A(b)(1) subsections a. and b. state as follows:

15 a. One appraiser shall represent the public utility
16 acquiring the system, another appraiser shall represent
17 the utility selling the system, and another appraiser
18 shall represent the Public Staff of the Commission.

19 b. Each appraiser shall determine fair value in
20 compliance with the uniform standards of professional
21 appraisal practice, employing cost, market, and income
22 approaches to assessment of value.

23 Hartman Consultants, LLC on behalf of CWSNC, Gannett Fleming
24 Valuation and Rate Consultants, LLC on behalf of Carteret County,
25 and NewGen Strategies and Solutions, LLC on behalf of the Public
26 Staff, each assessed the value of the Carteret County Water System.
27 The appraiser's valuations are as follows: Hartman – \$10,900,000,
28 Gannett Fleming – \$14,575,000, and NewGen – \$7,332,000, which
29 totals to \$32,807,000 and averages to \$10,935,667.

1 **Q. Do you have concerns about the appraisal performed by**
2 **Hartman?**

3 A. Yes. The valuation of \$10,900,000 is equal to \$8,536 per customer.
4 The cost approach heavily relied on the engineering assessment for
5 the original cost new less depreciation instead of County financial
6 records. The income approach was not exhaustively considered and
7 not relied upon. The market approach was highly selective and relied
8 on the top half average of the selected water system sales with
9 significant and unsubstantiated, upward rounding.

10 **Q. Do you have concerns about the appraisal performed by**
11 **Gannett Fleming?**

12 A. Yes. The valuation of \$14,575,000 is equal to \$11,413 per customer.
13 The cost approach heavily relied on the engineering assessment for
14 the original cost new (OCN) instead of County financial records and
15 calculated a theoretical accumulated depreciation (24% of OCN),
16 which is significantly lower than the County's records (over 50%).
17 These methods inflate the OCN and original cost new less
18 accumulated depreciation (OCNLD) that are the starting points for
19 the replacement cost method. The market approach relied on a
20 "Comparable Group." In comparison, the Carteret County Water
21 System is a government-owned utility with revenues, customer base,
22 and population of less than 2% of the smallest company of the
23 selected Comparable Group of IOUs.

1 **Q. As part of its application, did CWSNC include a statement about**
2 **the public utility’s future plans for integrating the acquired**
3 **system into an existing rate division?**

4 A. Yes, CWSNC proposes to transfer the customers at existing
5 rates as charged by Carteret County and then integrate them into its
6 uniform water rate division as part of its next general rate case.
7 CWSNC projects the present rates to be charged for the next four
8 years and then an increase of 28.19% in the average residential bill
9 in 2027. Form Application Exhibit 3. The Utility Asset Purchase
10 Agreement¹⁸ states as follows:

11 CWSNC would retain your current rates at the time of
12 APA execution until our next approved rate case, at
13 which time Carteret customers would move into our
14 then current rate structure. We anticipate the next rate
15 case filing would occur in July 2022 with new uniform
16 rates becoming effective 12-18 months after filing.

17 In response to Public Staff Data Request 2, Question 1, shown in
18 **Junis Exhibit 7**, CWSNC provided the following response:

19 The original Form Application Exhibit 3 rates were
20 based on estimates of the expected rate case filing in
21 the Sub 400 Docket. It was unknown at the time the
22 specific rate increases that would be requested by rate
23 group. Subsequent to the Sub 400 rate filing, CWSNC
24 has more information available as to its rates in 2027
25 with the subsequent rate case filing that would be
26 applicable to Carteret customers. The 2027 rates are
27 still an estimate at an approximate 5% increase in the
28 filing after the current WSIP period ending. Please see
29 attached DR#2 – Exhibit 3 Update.xlsx, table included
30 below.

¹⁸ Exhibit O to Form Application Exhibit 6B.

Docket	CWSNC Uniform Water					Carteret Avg. Residential Bill	
	Avg. Us	BFC	Usage/1,	Avg Bil.	Increase	Water	Increase
Sub 384	4000	24.53	11.71	\$ 71.37		\$ 70.55	
Sub 400 WSIP Yr 1	4000	28.78	13.57	\$ 83.06	16.38%	\$ 70.55	0.00%
Sub 400 WSIP Yr 2	4000	29.76	14.03	\$ 85.88	3.40%	\$ 70.55	0.00%
Sub 400 WSIP Yr 3	4000	30.72	14.48	\$ 88.64	3.21%	\$ 70.55	0.00%
New Filing	4000	32.26	15.20	\$ 93.07	5.00%	\$ 93.07	31.92%

1

2 **Q. What would be the rate impact to customers of the purchase**
3 **price and estimated fees and closing costs?**

4 A. Based on the lesser of the purchase price (\$9.5 million) negotiated
5 between the parties to the sale or the fair value (~\$10.9 million) plus
6 the proposed reasonable fees and costs, which is \$9.5 million plus
7 estimated fees and closing costs of approximately \$0.175 million,
8 Public Staff Financial Manager Lynn Feasel calculated the annual
9 revenue requirement to be \$1,181,882. Assuming system specific
10 rates for 1,277 customers¹⁹ in Carteret County, the average monthly
11 rate impact of the purchase price and estimated fees and closing
12 costs is \$77.13 per customer.

13 **Q. What would be the estimated rate impact to customers of**
14 **CWSNC's operations and maintenance expenses?**

15 A. Utilizing the O&M expense levels for CWSNC Uniform Water in the
16 Sub 384 rate case, Ms. Feasel calculated an annual O&M expense
17 per customer of \$439, which is equal to an average monthly rate
18 impact of \$36.58 per customer. This is an appropriate method of

¹⁹ Junis Exhibit 3, Attachment 3A, FY 2022 Billing Information.

1 high-level estimation because the Carteret County Water System is
2 comprised of two water systems physically separated from each
3 other and the rest of CWSNC's systems.

4 **Q. How did the Public Staff calculate the estimated rate impact to**
5 **customers?**

6 A. The estimate of the Carteret County system specific average monthly
7 residential bill is calculated as the sum of the revenue requirement
8 of the purchase price and estimated fees and closing costs and the
9 CWSNC Uniform Water O&M expense per customer from the Sub
10 384 rate case. The County's present rates were approved by the
11 Board of Commissioners on September 20, 2021, effective
12 September 21, 2021. The monthly metered residential bill for a
13 Carteret County customer using 4,000 gallons under present rates
14 and after establishing the Carteret County water customers as a
15 system specific rate division of CWSNC, and the associated \$9.5
16 million purchase price and \$0.175 million estimated fees and closing
17 costs as rate base, are shown in the table below.

18 Table 2 (from above)

County Present Rates	CWSNC System Specific
\$70.55	\$113.71

19 CWSNC's present rates were approved on April 8, 2022, in Docket
20 No. W-354, Sub 384. The monthly metered residential bill for a

1 CWSNC Uniform Water customer using 4,000 gallons under present
2 rates and after incorporating the Carteret County water customers,
3 and the associated \$9.5 million purchase price and \$0.175 million
4 estimated fees and closing costs, are shown in the table below.

5 Table 4

Sub 384 – Uniform Water	Consolidated
\$71.37	\$74.59

6 As shown in Table 2 above, the rate impact of the purchase price far
7 exceeds any conceivable benefits and is prohibitively large. While
8 the rate impact of \$3.22 per month per customer, or 4.5%, on a
9 consolidated basis harms both the acquired and existing customers
10 at a magnitude comparable to the maximum allowable rate increases
11 in Rate Year 2 and Rate Year 3 of the WSIP, pursuant to N.C.G.S. §
12 62-133.1B.

13 **Q. Is the average of the three appraisals a reasonable fair value?**

14 A. No.

15 **Q. What is the original cost less depreciation of the Carteret**
16 **County Water System?**

17 A. As of June 30, 2022, Carteret County's unaudited financial records
18 indicate total capital assets less depreciation in the amount of
19 \$5,402,027.

1 **Q. Is the original cost less depreciation net of contributions in aid**
2 **of construction or “cost free” capital?**

3 A. No.

4 **Q. What is the significance of contributions in aid of construction**
5 **or “cost free” capital on ratemaking?**

6 A. The significance is contributions in aid of construction (CIAC) offset
7 associated plant in service, thereby, reducing the return on rate base
8 and depreciation expense for ratemaking purposes. Customers are
9 not charged for plant by the utility that customers, builders,
10 developers, or someone else has already paid for. CIAC includes
11 grants, connection or tap fees, capacity fees, meter installation fees,
12 cash contributions from developers, utility plant installed or paid for
13 by the contributor and conveyed to the utility, and land conveyed by
14 the contributor to the utility.

15 **Q. In simple and concise terms, what would result from the**
16 **proposed sale at the current purchase price of \$9.5 million?**

17 A. The situation is analogous to a loan. Carteret County would collect
18 proceeds from the sale in the form of the purchase price that far
19 exceed its remaining liabilities (i.e., debt) and could use those net
20 proceeds to the benefit of the county government and its residents.

1 However, loans typically must be paid back.²⁰ Once the purchase
2 price is placed into rate base, the ratepayers would owe the balance
3 “of said loan,” \$9,500,000 plus reasonable fees, and interest to
4 CWSNC. Similar to a loan, the revenue requirement for annual
5 depreciation would function as payment of principal and the cost of
6 capital in the form of a return on the undepreciated balance and
7 interest on debt would function as the interest amount on the unpaid
8 balance.

9 **Q. Is rate base value established as \$9,675,000, which is the lesser**
10 **of the purchase price negotiated between the parties to the sale**
11 **and the fair value plus fees, in the public interest?**

12 A. No. There are a few considerations that should materially inform the
13 Commission’s decision when determining whether the purchase
14 price is in the public interest. Those include the rate base per
15 customer of the acquiring utility, and in this case the other bidder in
16 an upset bid process, the rate impact of the proposed acquisition, the
17 potential benefits to the acquired and existing customers and how
18 effectively and likely those benefits are to be realized, and the
19 Commission’s tried and effective acquisition adjustment criteria. The
20 rate base per customer amounts calculated by Public Staff Financial
21 Manager Lynn Feasel from the Commission’s orders in the most

²⁰ A relevant exception is funding offered by the State Revolving Fund, which may be eligible for principal forgiveness, and State Reserve Program Grants.

1 recently completed rate cases for CWSNC (W-354, Sub 384) and
2 Aqua (W-218, Sub 526) are as follows in the table below.

3 Table 5

Rate Division	Rate Base	Customer Count	Rate Base Per Customer
Aqua Uniform Water	\$135,909,810	62,534	\$2,173
Aqua Uniform Sewer	\$60,371,609	16,515	\$3,656
Brookwood Water	\$27,073,706	13,821	\$1,959
Fairways Water	\$3,345,093	4,775	\$701
Fairways Sewer	\$10,435,206	3,042	\$3,430
CWSNC Uniform Water	\$68,514,633	29,317	\$2,337
CWSNC Uniform Sewer	\$62,678,740	17,209	\$3,642
BF/FH Water	\$3,321,564	3,533	\$940
BH/FH Sewer	\$9,141,959	3,613	\$2,530

4 The weighted average rate base per customer of the five water rate
5 divisions listed in the table above is \$2,090, which is 10.6% less than
6 the CWSNC Uniform Water rate base per customer of \$2,337. Given
7 that 1) the acquisition cost of approximately \$7,576 per customer²¹
8 is extraordinarily high and if established as rate base would
9 negatively impact both the Carteret County customers to be acquired
10 and CWSNC's existing Uniform Water customers, 2) the Company
11 failed to quantify, let alone guarantee, cost efficiencies that result in

²¹ Based on the purchase price and estimated fees and closing costs, the proposed rate base per customer is \$9.675 million divided by 1,277 customers (as of June 2022 billing), which equals \$7,576.35.

1 cost savings to customers, and 3) the Company failed to show the
2 acquisition would provide material benefits to the acquired
3 customers, the public interest is not served by establishment of rate
4 base under N.C.G.S. § 62-133.1A.

5 It is a worthwhile exercise to consider for context the acquisition
6 adjustment criteria that would be used to evaluate the purchase price
7 prior to the Fair Value Statute, or if the system was not owned by a
8 governmental entity. As a general proposition, when a public utility
9 buys assets that have previously been dedicated to public service as
10 utility property, the acquiring utility is entitled to include in rate base
11 the lesser of the purchase price or the net original cost of the
12 acquired facilities owned by the seller at the time of the transfer. See
13 Order Approving Transfer and Denying Acquisition Adjustment
14 issued on January 6, 2000, in Docket No. W-1000, Sub 5; see *also*
15 *In re Carolina Water Service, Inc., of North Carolina*, Docket Nos. W-
16 354, Subs 74, 79, 81. The Commission has indicated "a strong
17 general policy against the inclusion of acquisition adjustments in rate
18 base subject to exceptions in appropriate cases." See Order
19 Approving Transfer and Denying Acquisition Adjustment issued on
20 January 6, 2000, in Docket No. W-1000, Sub 5. If not for the Fair
21 Value Statute, under which the acquiring utility has the discretion to
22 proceed, the potential acquisition of the Carteret County Water
23 System is not an exceptional situation that warrants an exception to

1 the general policy against including acquisition adjustments in rate
2 base. CWSNC has not demonstrated that an acquisition adjustment
3 will provide substantial benefits to all customers, and those benefits
4 outweigh the cost of including the acquisition premium in rate base.

5 In the Commission's Order Approving Transfer, Acquisition
6 Adjustment, and Maintaining Current Rates issued on April 30, 1997
7 for Heater Utilities, Inc.'s acquisition of the Hardscrabble Plantation
8 water utility system in Docket No. W-274, Sub 12, the Commission
9 found and concluded that the test for determining whether an
10 acquisition adjustment should be allowed in rate base is the following
11 three-prong test: (1) the benefit to ratepayers should outweigh the
12 cost of inclusion in rate base of the excess purchase price; (2)
13 system deficiencies would go unaddressed if not for the acquisition
14 of the acquiring company; and (3) the acquisition is the result of arm's
15 length bargaining. The Commission also noted that it is the
16 Commission's policy to encourage the orderly transfer of water and
17 wastewater systems from developers and small owners to reputable
18 water and wastewater utilities.

19 In the Commission's Order Approving Transfer and Denying
20 Acquisition Adjustment issued on January 6, 2000 for the transfer of
21 North Topsail Water and Sewer, Inc. 's wastewater system to
22 Utilities, Inc., the Commission discussed the circumstances when the

1 rate base treatment of acquisition adjustments should be deemed
2 proper. On page 27, the Commission stated the following:

3 As should be apparent from an analysis of the
4 Commission's previous Orders concerning this subject,
5 a wide range of factors have been considered relevant
6 in attempting to resolve this question, including the
7 prudence of the purchase price paid by the acquiring
8 utility; the extent to which the size of the acquisition
9 adjustment resulted from an arm's length transaction;
10 the extent to which the selling utility is financially or
11 operationally "troubled;" the extent to which the
12 purchase will facilitate system improvements; the size
13 of the acquisition adjustment; the impact of including
14 the acquisition adjustment in rate base on the rates
15 paid by customers of the acquired and acquiring
16 utilities; the desirability of transferring small systems to
17 professional operators; and a wide range of other
18 factors, none of which have been deemed universally
19 dispositive. Although the number of relevant
20 considerations seems virtually unlimited, all of them
21 apparently relate to the question of whether the
22 acquiring utility paid too much for the acquired utility
23 and whether the customers of both the acquired and
24 acquiring utilities are better off after the transfer than
25 they were before that time. This method of analysis is
26 consistent with sound regulatory policy since it focuses
27 on the two truly relevant questions which ought to be
28 considered in any analysis of acquisition adjustment
29 issues. It is also consistent with the construction of G.S.
30 62-111 (a) adopted in *State ex rel. Utilities Commission*
31 *v. Village of Pinehurst*, 99 N.C App. 224,393 S.E.2d
32 111 (1990), *affd* 331 N.C. 278,415 S.E.2d 199 (1992),
33 which seems to indicate that all relevant factors must
34 be considered in analyzing the appropriateness of
35 utility transfer applications. As a result, . . . the
36 Commission should refrain from allowing rate base
37 treatment of an acquisition adjustment unless the
38 purchasing utility establishes, by the greater weight of
39 the evidence, that the price the purchaser agreed to
40 pay for the acquired utility was prudent and that both
41 the existing customers of the acquiring utility and the
42 customers of the acquired utility would be better off [or
43 at least no worse off] with the proposed transfer,

1 including rate base treatment of any acquisition
2 adjustment, than would otherwise be the case.

3 **Q. Do you recommend approval of the Fair Value Application?**

4 A. No. I recommend that the Commission deny CWSNC's request for
5 determination of fair value of utility assets pursuant to N.C.G.S. § 62-
6 133.1A and establishment of rate base for acquisition of the Carteret
7 County Water System. For the reasons described above the
8 acquisition of the Carteret County Water System at the purchase
9 price does not serve the public interest. The average of the three
10 appraisals of \$10,935,667 is not reasonable, because it exceeds the
11 purchase price and would exacerbate the negative impacts. The
12 water and sewer utility industry is already facing immense upward
13 rate pressure from increasing expenses, needed infrastructure
14 improvements and replacements, contributions in aid of construction
15 reaching full amortization, and emerging contaminants. Incentivizing
16 acquisitions at this magnitude of cost premium while also lacking
17 material benefits does not serve the public interest.

18 **Q. Do you have an alternative recommendation if the Commission**
19 **does not deny the application?**

20 A. Yes. If the Commission does not deny the application, I recommend
21 the Commission exercise its authority under N.C.G.S. § 62-
22 133.1A(e) to adjust the fair value to a reasonable amount consistent
23 with the public interest.

1 **Q. Under this alternative recommendation, what do you**
2 **recommend is a reasonable fair value consistent with the public**
3 **interest?**

4 A. For context, the average of the three appraisals of \$10,935,667 plus
5 estimated fees and closing costs of \$175,000 is equal to a rate base
6 per customer of \$8,701. As stated above, the purchase price and
7 estimated fees and closing costs totaling approximately \$9.675
8 million is equal to \$7,576 per customer and if the Carteret County
9 Water System is incorporated into CWSNC's Uniform Water rate
10 division, the CWSNC Uniform Water rate base would increase by
11 over 14% but only add 4.4% more customers to spread costs across.
12 Therefore, the fair value must be adjusted to a reasonable amount in
13 the public interest.

14 The weighted average rate base per customer of the five water rate
15 divisions listed in the table above is \$2,090. This amount is below the
16 rate base per customer of the CWSNC Uniform Water rate division.
17 If the per customer amount of \$2,090 is assumed to be reasonable
18 fair value, the rate base of the Carteret County Water System would
19 equal to \$2,668,930.

20 As of June 30, 2022, Carteret County's unaudited financial records
21 indicate total capital assets less depreciation in the amount of
22 \$5,402,027. As shown on Junis Exhibit 4, 56.83% of the capital

1 funding was CIAC (either in the form of grants or developer
2 contributions). Therefore, the original cost less depreciation and
3 amortization of CIAC would be equal to \$2,332,055.²²

4 After weighting the second method twice that of the first, I
5 recommend that the Commission, pursuant to its authority granted in
6 N.C.G.S. § 62-133.1A(e)²³ and in the public interest, adjust the fair
7 value to \$2,444,347.²⁴

8 **Q. Does this conclude your testimony?**

9 **A.** Yes, it does.

²² Calculated as \$5,402,027 multiplied by 43.17%.

²³ (e) Commission's Authority. – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

²⁴ \$2,668,930 plus two times \$2,332,055, and divided by three.

QUALIFICATIONS AND EXPERIENCE

CHARLES JUNIS

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering in May 2011. I am a licensed Professional Engineer in North Carolina since December 2015. I have over eleven years of water and wastewater engineering experience, and since joining the Public Staff in April 2013, have worked on general rate cases, new franchise and transfer applications, emergency operations proceedings, customer complaints, rulemakings, and other aspects of utility regulation. More specifically, I have assisted in the investigation and drafting of petitions and/or testified in the Webb Creek (Docket No. W-864, Sub 11), Riverbend Estates (Docket No. W-390, Sub 13), Mountain Air (Docket No. 1148, Sub 20), and Kinnakeet Shores (Docket No. W-1148, Sub 20) emergency operator proceedings. I also contributed to the Public Staff's Initial Comments and Recommended Rules filed in Docket No. W-100, Sub 60. Prior to joining the Public Staff, I worked for Farnsworth Group, an engineering and architectural consulting firm. Through this education and experience, I have gained considerable knowledge of relevant engineering and construction principles and utility operations, maintenance, and capital planning.