

**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

March 25, 2015

Ms. Gail L. Mount, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Re: Docket Nos. W-1230, Sub 1, and W-1300, Sub 9

Dear Ms. Mount:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff the

- (1) Testimony of Laura D. Bradley, Staff Accountant, Water Section, Accounting Division;
- (2) Testimony of Babette McKemie, Utilities Engineer, Water Division; and the
- (3) Notice of Affidavit and Affidavit of Calvin C. Craig, III, Financial Analyst, Economic Research Division.

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

Sincerely yours,

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

WEG/bl

Enclosures

c: Parties of Record

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

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-1230, SUB 1
DOCKET NO. W-1300, SUB 9

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Old North State Water Company,)
LLC, 1620 Old Chalk Road, Wake Forest, North)
Carolina 27587, and Briar Chapel Utilities, LLC,)
16 Windy Knoll Circle, Chapel Hill, North Carolina) NOTICE OF AFFIDAVIT
27516, for Authority to Transfer Sewer Franchise)
in Briar Chapel Subdivision in Chatham County,)
North Carolina, to Old North State Water)
Company, LLC, and for Approval of Rate)

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission,
by and through its Executive Director, Christopher J. Ayers, as constituted by G.S.
62-15, and gives notice that the Affidavit of:

Calvin C. Craig, III, Financial Analyst, Economic Research Division
Public Staff – North Carolina Utilities Commission
430 North Salisbury Street – Dobbs Building
4326 Mail Service Center
Raleigh, North Carolina 27699-4326

will be used in evidence at the hearing in this docket scheduled for the 31st day of
March, 2015, pursuant to G.S. 62-68. The affiant will not be called to testify orally
and will not be subject to cross-examination unless an opposing party demands
the right of cross-examination pursuant to G.S. 62-68.

WHEREFORE, the Public Staff moves that the Affidavit of Calvin C. Craig,
III, be admitted into evidence in the absence of notice from any opposing party
pursuant to G.S. 62-68.

Respectfully submitted this the 25th day of March, 2015.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Electronically submitted
/s/ William E. Grantmyre
Staff Attorney

430 North Salisbury Street
4326 Mail Service Center
Raleigh, North Carolina 27699-4326
Telephone: (919) 733-6110
Facsimile: (919) 733-9565
william.grantmyre@psncuc.nc.gov

CERTIFICATE OF SERVICE

I certify that a copy of this Notice of Affidavit has been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 25th day of March, 2015.

Electronically submitted
/s/ William E. Grantmyre

**OLD NORTH STATE WATER COMPANY, LLC
DOCKET NO. W-1300, SUB 9**

**BRIAR CHAPEL UTILITIES, LLC
DOCKET NO. W-1230, SUB 1**

**TESTIMONY OF LAURA D. BRADLEY
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION**

March 25, 2015

1 Q. MS. BRADLEY, WILL YOU STATE FOR THE RECORD YOUR
2 NAME, ADDRESS, AND PRESENT POSITION?

3 A. My name is Laura Bradley. My business address is 430 N.
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant
5 with the Public Staff of the North Carolina Utilities Commission.
6

7 Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC
8 STAFF?

9 A. I joined the Accounting Division of the Public Staff on August 15,
10 2001.
11

12 Q. WHAT ARE YOUR DUTIES?

13 A. I am responsible for the performance of the following activities: (1)
14 the examination and analysis of testimony, exhibits, books and
15 records, and other data presented by utilities and other parties
16 involved in Commission proceedings; and (2) the preparation and

1 presentation to the Commission of testimony, exhibits, and other
2 documents in those proceedings.

3

4 Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND
5 EXPERIENCE?

6 A. I have a Bachelor of Arts Degree from the University of North
7 Carolina at Chapel Hill. I have an Associate Degree in Applied
8 Science from Wake Technical Community College. Since joining
9 the Public Staff, I have presented testimony and exhibits in Maxwell
10 Water Co., Docket No. W-339, Sub 5; Scientific Water and
11 Sewerage Corporation, Docket No. W-176, Subs 32 and 37; and
12 Holiday Island Property Owners Association, Docket No. W-386,
13 Subs 14 and 15. I have also filed affidavits in other water utility rate
14 proceedings, assisted on Carolina Water Service, Inc. of North
15 Carolina, CWS Systems, and Aqua North Carolina, Inc., rate cases,
16 and worked on various projects dealing with utility matters.

17

18 Q. MS. BRADLEY, WHAT IS THE PURPOSE OF YOUR TESTIMONY
19 IN THIS PROCEEDING?

20 A. Old North State Water Company, LLC, (Old North State) and Briar
21 Chapel Utilities, LLC, (Briar Chapel) filed a joint application to
22 transfer the ownership and assets of Briar Chapel to Old North
23 State on November 7, 2014.

1

2 The purpose of my testimony is to establish the reasonable amount
3 of rate base.

4

5 My investigation included a review of the current application, Briar
6 Chapel's initial franchise application in Docket No. W-1230, Sub 0,
7 annual reports, data request responses, books and records, and
8 Public Staff notes from that initial filing.

9

10 Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE
11 APPROPRIATE AMOUNT OF RATE BASE?

12 A. I am recommending that the rate base at the time of transfer be
13 established at zero as Old North State is not paying a purchase
14 price at closing.

15

16 Schedule 7, filed with the current application, contains a previous
17 developer Agreement between NNP-Briar Chapel, LLC,
18 (Developer) and Briar Chapel, dated October 30, 2009 (Developer
19 Agreement). The Developer Agreement provides for the
20 installation, conveyance, and operations of the wastewater utility
21 system serving Briar Chapel and Herndon Woods in Chatham
22 County, North Carolina. Pursuant to Developer Agreement section
23 4.1, the Developer was to install a complete wastewater system in

1 Briar Chapel and Herndon Woods, and was to contribute 80% of
2 the total construction cost as a Contribution In Aid of Construction
3 (CIAC) to Briar Chapel. The remaining 20% was to be recovered
4 through connection fees and rates. Briar Chapel currently has an
5 approved connection fee of \$1,500.

6
7 Section 3.2 of the Asset Purchase Agreement (APA), between Old
8 North State, Developer, and Briar Chapel, dated October 31, 2014
9 requires Old North State to continue to collect the \$1,500
10 connection fee, which will be paid back to Briar Chapel on a
11 quarterly basis as new connections are made. Each \$1,500
12 connection fee paid is CIAC which will offset the \$1,500 purchase
13 price payment resulting in zero rate base for that new connection.

14
15 Section 3.3 of the APA requires that the wastewater treatment plant
16 (WWTP) be expanded at some unknown point in the future as a
17 capital investment of Old North State. Old North State estimated
18 expansion cost of \$2,450,000, which has not yet been incurred, is
19 not a factor at this time in determining rate base.

20
21 Section 4.2 of the APA provides that Developer construct at
22 Developer's expense, all remaining expansions of the Briar Chapel
23 wastewater utility system with the exception of the expansion of the

1 future WWTP which the APA requires to be performed by Old North
2 State. The future expansions required of Developer include all
3 collection system extensions, including collection system lift
4 stations, reclaimed, spray and reuse irrigation facilities, effluent
5 storage ponds, if required, and the necessary land and easements
6 for the collection system, lift stations, reclaimed, spray, and reuse
7 irrigation facilities, and effluent storage pond.

8

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

10 A. Yes, it does.

OLD NORTH STATE WATER COMPANY, LLC,
DOCKET NO. W-1300, SUB 9

BRIAR CHAPEL UTILITIES, LLC
DOCKET NO. W-1230, SUB 1

TRANSFER OF SEWER FRANCHISE
TESTIMONY OF BABETTE MCKEMIE
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION

March 31, 2015

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS
2 ADDRESS, AND PRESENT POSITION.

3 A. My name is Babette McKemie. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Utilities Engineer with the Public Staff of the North Carolina Utilities
6 Commission (Commission).

7

8 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE
9 RELATING TO YOUR PRESENT POSITION WITH THE PUBLIC
10 STAFF.

11 A. I am a graduate of North Carolina State University; having earned a
12 Bachelor of Science Degree in Chemical Engineering. I have twenty-
13 seven years of environmental engineering experience, and since
14 joining the Public Staff in November 2001, I have worked on rate
15 increase applications, new franchise applications, and other aspects

1 of sewer utility regulation. I am a registered Professional Engineer in
2 North Carolina.

3

4 Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?

5 A. My duties with the Public Staff are to monitor the operation of
6 regulated sewer utilities regarding rates and service. Included in
7 these duties are field investigations to review and evaluate the design,
8 construction, and operations of regulated sewer utilities, preparing
9 reports and data to be used by the Commission, testifying in formal
10 hearings, and making recommendations to the Commission
11 concerning initial and revised rate structures for regulated sewer
12 utilities.

13

14 Q. WHAT IS THE NATURE OF THE APPLICATION IN THIS RATE
15 CASE?

16 A. Old North State Water Company, LLC, (ONSWC) and Briar Chapel
17 Utilities, LLC, (Briar Chapel) filed a joint application to transfer the
18 ownership and assets of Briar Chapel to Old North State on
19 November 7, 2014. ONSWC did not apply to revise rates.

20

21 Q. BRIEFLY EXPLAIN THE SCOPE OF YOUR INVESTIGATION
22 REGARDING THIS TRANSFER APPLICATION.

1 A. I have reviewed the operational status of the wastewater collection
2 and treatment system. I reviewed the Division of Water Quality (DWQ)
3 compliance inspection reports from July 31, 2013, August 23, 2013
4 and August 14, 2014. I reviewed the past twelve months Non-
5 Discharge Monitoring Reports. I conducted a visit to the site on March
6 12, 2015 and met with Mike Myer of ONSWC.

7 The plant appears to be well run and operating in compliance with
8 DWQ requirements and standards. The Contract Operator,
9 Envirolink, is providing adequate maintenance and service and will
10 continue to operate the plant after ONSWC takes ownership.

11

12 Q. HAVE YOU RECEIVED ANY CUSTOMER COMPLAINTS AS A
13 RESULT OF CUSTOMER NOTICE IN THIS DOCKET?

14 A. The Public Staff has not received any customer protests as a result of
15 the customer notice.

16

17 Q. WILL THIS TRANSFER HAVE ANY EFFECT ON THE
18 RESPONSIBILITY FOR MAINTAINING INDIVIDUAL GRINDER
19 PUMPS?

20 A. Currently, the fifteen (15) grinder pumps in Herndon Woods
21 Subdivision are maintained by Briar Chapel Utilities, LLC. After the
22 transfer, ONSWC will assume this responsibility and take
23 responsibility for the maintenance of the grinder pumps. There are

1 also another forty-one (41) grinder pumps throughout the Briar Chapel
2 Subdivision, which the homeowners own and maintain. The
3 responsibility for the operation and maintenance, repairs and
4 replacement of these will remain the homeowners.

5

6 Q. WHAT IS THE CAPACITY OF THE BRIAR CHAPEL WASTEWATER
7 TREATMENT PLANT AND IS AN EXPANSION GOING TO BE
8 ANTICIPATED IN THE NEAR TERM?

9 A. The Briar Chapel wastewater treatment and disposal system has been
10 operating at significantly lower flows than permitted. On September
11 30, 2013 Briar Chapel Utilities, LLC received approval for an Adjusted
12 Daily Sewage Flow Rate from DWQ. Based on the current flows and
13 the DWQ approved flow reduction, and the current rate of building, the
14 expansion of the wastewater treatment plant and disposal system is
15 not anticipated to be necessary in the near future.

16

17 Q. DOES THE PUBLIC STAFF WATER DIVISION RECOMMEND THE
18 COMMISSION APPROVAL OF THIS TRANSFER?

19 A. Yes, ONSWC owns and operates a number of other water and
20 wastewater utility systems pursuant to certificates of public
21 convenience and necessity issued by the Commission. ONSWC has
22 provided adequate service for these utility systems. The Public Staff

1 believes that ONSWC has the managerial and operation capacities to
2 provide adequate service to the Briar Chapel wastewater customers.

3

4 Q. WHAT BOND DOES THE PUBLIC STAFF WATER DIVISION
5 RECOMMEND THAT ONSWC BE REQUIRED TO POST FOR THIS
6 FRANCHISE?

7 A. There is currently a \$50,000 bond posted by Briar Chapel Utilities,
8 LLC for this franchise. I recommend that the required bond remain
9 \$50,000 for Briar Chapel.

10

11 Q. WHAT RATES DO YOU RECOMMEND FOR SEWER SERVICE?

12 A. The applicant has asked for the current rates to remain in effect.
13 After the adjustment to current rates due to the Implementation of
14 House Bill 998, the current rate is \$42.30 per month per REU. The
15 Public Staff recommends approval of the transfer and the current
16 rate.

17 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

18 A. Yes, it does.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 9
DOCKET NO. W-1230, SUB 1

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by Old North State Water Company,)
1620 Old Chalk Road, Wake Forest, North Carolina)
27587, and Briar Chapel Utilities, LLC, 16 Windy)
Knoll Circle, Chapel Hill, North Carolina, 27516 for)
Authority to Transfer Sewer Franchise in Briar)
Chapel Subdivision, in Chatham County,)
North Carolina, to Old North State Water Company,)
LLC, and for Approval of Rates

AFFIDAVIT OF
CALVIN C CRAIG, III

State of North Carolina

County of Wake

I, Calvin C. Craig, III, being first duly sworn do depose and say:

I am a Public Utilities Financial Analyst with the Economic Research Division of the Public Staff of the North Carolina Utilities Commission representing the using and consuming public.

I received a Bachelor of Science degree in Industrial Relations from the University of North Carolina at Chapel Hill in 1985, a Master of Business Administration degree from East Carolina University in 1993, and a Juris Doctor degree from North Carolina Central University in 2006. Since joining the Public Staff in November 1995, I have been involved with natural gas expansion projects, have conducted rate of return studies, and have filed affidavits assessing financial viability and a fair rate of return in numerous water and sewer

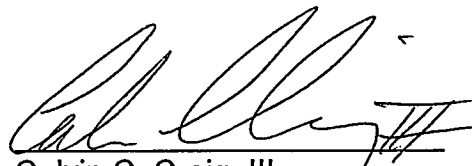
utility rate cases. Prior to joining the Public Staff, my professional experience included ten years in lending and financial analysis with the State Employees Credit Union of North Carolina.

The purpose of my affidavit is to make a recommendation to the Commission regarding the financial fitness of Old North State Water Company LLC (Old North State or Company), to provide sewer utility service at Briar Chapel Subdivision in Chatham County, North Carolina. In regard to the financial fitness of Old North State, I have evaluated the financial and accounting information in this docket and financial statements for Old North State and its affiliate company, Integra Water, LLC.

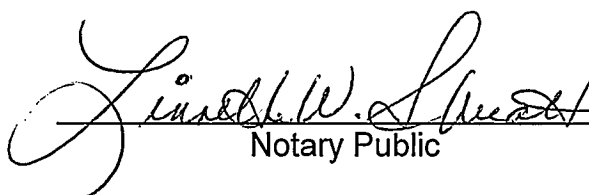
An examination of the financial condition of Old North State caused the Public Staff to develop significant concerns regarding the Company's financial ability to sustain operations and provide funding for necessary capital improvements. The Company's financial statements indicate a capital structure containing a high level of debt. The Company's affiliate company, Integra Water, LLC has a significantly stronger financial position than Old North State and has a reasonable capital structure that contains a significantly lower level of debt. Based on an examination of the financial statements for Integra Water, LLC, along with assurances from executives at Integra that their company was committed to provide capital to Old North State Water Company, LLC, as appropriate to provide adequate service, I conclude that Old North State is financially fit to provide the sewer utility service for which it has applied in this

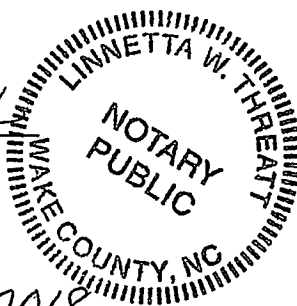
docket. Therefore, I recommend the Commission approve the transfer of the sewer franchise and sewer utility system to Old North State.

This concludes my affidavit.


Calvin C. Craig, III

Sworn to and subscribed before me
this the 25th day of March, 2015.


Notary Public



My Commission expires: 9-4-2018