

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 412

In the Matter of

Application by Carolina Water Service, Inc. of North Carolina, along with Corix Infrastructure (US) Inc. and SW Merger Acquisition Corp., for Approval of a Business Combination Transaction, Pursuant to N.C. Gen. Stat. § 62-111))))))))))	FIRST ANNUAL REPORT ON EFFORTS TO DEVELOP AND RETAIN QUALIFIED OPERATORS
--	---------------------	--

NOW COMES Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”) to file the first annual report (“First Report”) in the referenced docket regarding the Company’s efforts to develop and retain qualified operators. In support of this First Report, CWSNC states the following:

BACKGROUND

1. By order of November 13, 2023, in Docket No. W-354, Sub 412, the North Carolina Utilities Commission (“Commission” or “NCUC”) approved by Final Order the Application of Corix Infrastructure (US) Inc., SouthWest Merger Acquisition Corp., and CWSNC pursuant to N.C.G.S. § 62- 111(a) to engage in a business combination transaction, subject to compliance with the provisions of the Final Order, the Customer Protection Commitments contained in the Application, and the Regulatory Conditions attached thereto as Appendix B.
2. Appendix B of the Final Order includes the Regulatory Condition that:

CWSNC shall report annually on April 30, for the period beginning upon the closing of the Proposed Transaction through the filing of the next general rate case or WSIP that occurs at least five

years after the closing of the Proposed Transaction, on efforts to develop and retain qualified operators.

3. The business combination referenced in the Application in this Docket was consummated on April 1, 2024. As such, the Company is submitting the First Report below on its efforts to develop and retain qualified operators.

FIRST REPORT

4. CWSNC, through its affiliation with its direct parent, Corix Regulated Utilities (US), Inc. ("CRU US") and the Corix Infrastructure Inc. ("Corix") group of companies, has developed and implemented several programs, methodologies, and philosophies to support delivering competitive employee wage, benefits, and other employment opportunities to its staff. Additionally, CWSNC has embarked on activities to focus on attracting and retaining qualified staff to support the provision of quality service to its customers.

MARKET PAY PHILOSOPHY

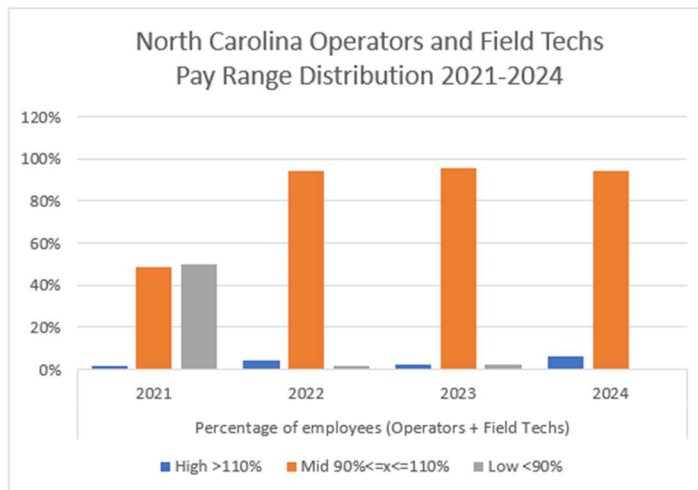
5. In recent years, Corix's People & Culture Team in the Support Services function endeavored to update the Market Midpoint analysis and pay ranges, focusing on entry point wage rates. The completed analysis resulted in a one-time market adjustment to be implemented for operations positions throughout Corix's Business Units, including CWSNC. While the People & Culture Team's resulting recommendations were provided to the Business Unit management, the local management team was given discretion above the entry point – determined to be 95% of the midpoint for each Grade - as to the eventual wage adjustments applied to each employee.

6. Corix's compensation philosophy as an employer is to pay an employee at the Market Midpoint (or P50) when the employee meets all the requirements of the job and can perform them competently. With this market midpoint pay philosophy in mind, Corix established entry points that were reflective of the time it would take for an employee without experience to become competent at the job, based on the requirements of each job description. For example, the job description for an Operator I describes the experience necessary:

"Requires 2-4 years of mechanical experience, including at least 1 year specializing in chemical treatment of water and/or wastewater and/or a minimum of 1 year in the water and/or wastewater utility field with experience in the operation and maintenance of ground-water supplied water systems and associated distribution system."

7. Corix extrapolates from this requirement that two (2) years' experience are required to perform the job competently. By positioning an employee at an entry point equal to 0.95 compa-ratio, we expect them to gain the knowledge necessary to perform the job competently over two years. In doing so, they are likely to receive performance-based merit increases between two and four percent (2 - 4%) each year, moving them over time to the midpoint. The 0.95 compa-ratio also accounts for the midpoint's likelihood of being "aged" and shifting over that period. Ultimately, the entry-point starts an inexperienced employee within appropriate striking distance of the market midpoint so that when they become competent at their position, they are compensated appropriately. The below table and chart show the improvements made in market-level pay in recent years as this strategy was put into action:

		Percentage of employees (Operators + Field Techs)				
Pay Range Distribution	Compa-ratio	2021	2022	2023	2024	
	High	>110%	2%	4%	2%	6%
	Mid	90<=x<=110%	48%	94%	96%	94%
	Low	<90%	50%	1%	2%	0%



8. Maintaining market-competitive salary and wage structures is vital for the Company to retain quality employees for several reasons:

a. **To remain competitive within the job market in our industry.** The most recently published AWWA Compensation Survey Data identified new market midpoints for our operator roles. The study also identified a jump in compensation of more than ten percent (10%) for our Operator I position since the last compensation review.

b. **To remain competitive within the job market across other industries.** In the aftermath of COVID19, there has been increased volatility within the job market in general. We see hourly positions within retail, quick-service restaurants and other industries increasing significantly as the economy recovers and employers overcome labor shortages. When it comes to entry-level talent, the list of industries that

we compete against for talent has expanded. Other industries are also interested in the types of candidates that we hire for our Field Tech and Operator roles. Ensuring we are paying competitively at the time of hire and appropriately based on the work being performed ensures we can attract and retain talent in the near and long-term.

- c. ***Appropriately value new and recent hires relative to their experience and the market.*** By focusing on employees being aligned with the current market entry points, we are placing our entry level employees in appropriate proximity to the midpoint based on their skills and experience. It is a priority to do so to ensure we retain and pay employees appropriately when they become competent within their positions and perform all required tasks capably.
- d. ***To continue to provide uninterrupted service.*** Our operations team are the most critical members of our team. When North Carolina went into various lockdowns during the pandemic, our operations team continued to report to work when most of the workforce transitioned to remote work. Without these employees, CWSNC would not be able to provide essential services to the communities in which we operate.
- e. ***To reduce field employee turnover.*** Our most critical staff are our field staff –market-level pay helps reduce staff turnover by appropriately compensating employees for the work they perform and staying competitive to other potential employers.

ON-CALL PAY

9. The Company's on-call pay structure for field operations staff was updated in February 2022. This increase was made across all CRU US business units and was necessary to ensure a competitive pay structure within the marketplace. CRU US's (and CWSNC's) previous on-call rate was a flat \$15 per day. Employees are typically on-call for a full week and were previously paid \$105 for that period. During a typical on-call week, field staff are prepared to be called out for emergency work during all hours, including night and weekend hours. The low per diem on-call rate was a frequent topic of objection made by field employees. In order to retain skilled and valued employees, CRU US increased daily on-call compensation to an amount based on an employee's overtime rate. Under the new on-call pay structure, field employees are paid their overtime rate for each weekday and twice their overtime rate for each weekend day. For example, an employee with a \$30 overtime rate is now paid \$150 for five weekdays and \$120 for two weekend days, for a total weekly on-call rate of \$270, which is a \$165 increase over the old rate.

EMPLOYEE CERTIFICATIONS AND EDUCATION

10. In several ways, CWSNC supports its employees' development and progression in their career path. First, the Company provides a range of certification bonuses depending on the specific certification and level achieved. This support is enhanced by the Company covering employee costs to complete the certification process, such as books/materials, travel, and lodging. CWSNC also covers continuing education costs for employees to ensure maintenance of the attained certifications. For employees pursuing

formal education to develop or enhance skills, CWSNC offers educational assistance through tuition reimbursement for courses that are aligned with the employee's career path or job responsibilities.

RECOGNITION PROGRAM

11. The Company has instituted a Recognition and Rewards Program, where co-workers and supervisors can nominate employees who show exemplary service and performance for "spot" awards, such as points that can be redeemed for an array of goods. Nominations can be for any number of positive contributions, such as identifying or implementing cost savings or process improvement measures, excellent safety performance, or going above and beyond their responsibility to help a co-worker or customer. This program provides a clear and direct way to give positive, tangible feedback to team members and celebrate the successes of our employees.

APPRENTICE PROGRAM

12. In recent years, CWSNC has partnered with the North Carolina Rural Water Association's ("NCRWA") Registered Apprenticeship Program. The program is designed to create a pipeline of water and wastewater system operators into the workforce of the State. NCRWA's program provides occupational training to develop potential operators via classroom instruction on technical and employability skills. Utilities such as CWSNC can participate through an annual fee to facilitate the On the Job Training component – with an assigned company mentor - of the apprentice's development. The combination of classroom work and job training occurs over a 2-year period with requirements for hours worked

and defined timelines for pursuing operator certifications. Through that time, NCRWA monitors the apprentice's progress and elicits feedback from the utility to ensure the program runs smoothly and effectively. CWSNC currently has two apprentices from the program – one who has completed the course and one actively working through the requirements.

SUCCESSION PLANNING

13. Corix affiliates have instituted a “Ready Now, Ready Next” philosophy with regard to succession planning within the organization. This strategy involves identifying top performers and identifying what is needed to ensure their development to be ready for the next stage of their career. Management reviews performance data, excellence plans, organizational structure, and other data for the employee and organization to identify strengths and weaknesses to plan for how to meet future needs, in the short and long-term - “Ready Now” refers to the opportunity to utilize an employee in a new role immediately, while “Ready Next” refers to the need to develop potential top performers for the opportunities to come. Since 2022, CWSNC has promoted 18 of its current employees to more senior roles in operations, ranging from Field Tech I to Director of State Operations. Each of these promotions ensured continuity of service and limited turnover, and CWSNC believes such displays of upward mobility benefit its ability to retain staff. In addition, CWSNC can benefit from succession planning across the larger affiliated organization, as it significantly broadens the pool of potential qualified candidates who can support the provision of utility service by the Company.

POST-BUSINESS COMBINATION PROGRAMS

14. CWSNC's new affiliates within SouthWest Water Company offer developmental courses through a program provided through a third party, PILOT. This program follows a 6-month employee development process with a structured curriculum that is designed to enhance an employee's ability to drive and grow their career and increase satisfaction. This is accomplished through group and individual exercises such as coaching, leadership feedback, and peer-to-peer interactions. CWSNC employees will gain access to this program, which enhances the portfolio of options detailed above.

Wherefore, CWSNC submits for the Commission's consideration this First Report, and remains available for conversation with the Commission, the Public Staff, and other stakeholders.

Respectfully submitted, this the 30th day of April 2024.

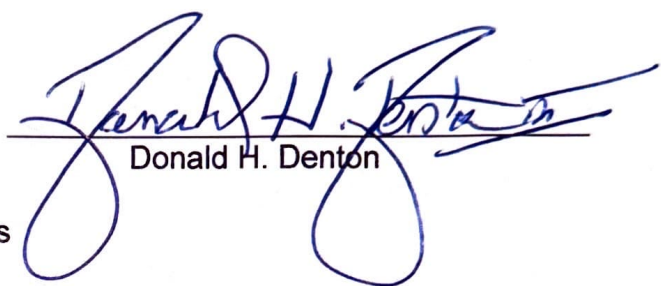
Sanford Law Office, PLLC
By: /s/Jo Anne Sanford
North Carolina State Bar No. 6831
P.O. Box 28085
Raleigh, North Carolina 27611-8085
Tel: 919.210.4900
sanford@sanfordlawoffice.com

**Attorney for Carolina Water Service,
Inc. of North Carolina**

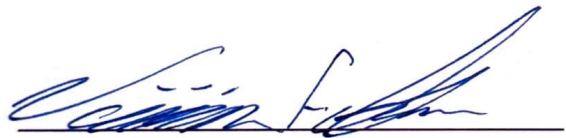
VERIFICATION - Carolina Water Service, Inc. of North Carolina

Donald H. Denton, being duly sworn, deposes and says:

That he is the President of Carolina Water Service, Inc. of North Carolina; that he is familiar with the FIRST REPORT filed herein, in Docket No. W-354, Sub 412; that he has read the foregoing FIRST REPORT and knows the contents thereof; and that the same are true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.


Donald H. Denton

Sworn to and subscribed before me this
the 27 day of April, 2024.


Victoria F. Kreeb

Notary Public

My commission expires: September 18, 2027

**Victoria F Kreeb
Notary Public
Mecklenburg County, NC**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **FIRST REPORT** by electronic delivery, on:

Megan Jost, Staff Attorney
North Carolina Utilities Commission - Public Staff

Submitted this the 30th day of April 2024.

By: **/s/Jo Anne Sanford**
State Bar No. 6831
Sanford Law Office, PLLC
P.O. Box 28085
Raleigh, North Carolina 27611-8085
Telephone: 919-210-4900
sanford@sanfordlawoffice.com