



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

July 10, 2018

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

Re: Docket No. W-1075, Sub 12 - Application for General Rate Increase  
Public Staff's Late-Filed Exhibits of Gina Y. Casselberry and Iris Morgan

Dear Ms. Jarvis:

During the June 20th, evidentiary hearing in the above-captioned docket, the Commission requested that Public Staff witnesses Iris Morgan and Gina Casselberry respond to four Commission questions and file their responses as late-filed exhibits. Pursuant to the Commission's request, please find enclosed Morgan Late-Filed Exhibit 1 and Casselberry Late-Filed Exhibit 1 in question and answer format. The Public Staff respectfully requests that the Commission enter the attached late-filed exhibits into evidence in this docket.

The stipulating parties, KRJ and the Public Staff, engaged in difficult good faith negotiations and reached an agreement relying on the Public Staff's calculations of KRJ's operating expenses to agree on the revenue requirements. Unfortunately, the Public Staff erroneously calculated the loss on disposal of property for both the Southern Trace and Rockbridge water systems. KRJ did not in any way contribute to this error. KRJ's Rob Butler cooperated fully with the Public Staff's investigation and audit and provided detailed responses and documentation. The Public Staff believes it would be unfair to KRJ to lessen the agreed upon revenue requirements for Southern Trace water and Rockbridge water. KRJ in agreeing to the Stipulation relinquished several significant issues that KRJ planned to litigate. The Public Staff requests that the Commission approve in full the Stipulation filed on June 7, 2018, including all of the revenue

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

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requirements stated in Stipulation paragraph 4. F, which were achieved through good faith difficult negotiations.

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

Sincerely yours,

Electronically submitted  
/s/ William E. Grantmyre,  
Staff Attorney  
[william.grantmyre@psncuc.nc.gov](mailto:william.grantmyre@psncuc.nc.gov)

**KRJ, INC. D/B/A KRJ UTILITIES  
W-1075, SUB 12**

**IRIS MORGAN  
LATE-FILED EXHIBIT I**

1 **Q. On Morgan Exhibit I, Schedule 3, Page 1 of 2, Line 5 contains an**  
2 **amount of \$13,888 related to “Loss from disposal of equipment”**  
3 **provided by KRJ in its application. Please explain what this expense**  
4 **item relates to. What specific equipment was disposed of? What**  
5 **caused the loss on disposal? Do you expect this type and amount of**  
6 **loss on disposal to be recurring each year? Or does the \$13,888**  
7 **amount represent an amount being amortized? Please explain.**

8 **A. According to KRJ, the submersible pumps at Well #2 and Well #3 in the**  
9 **Southern Trace failed. The Company removed the cost of the failed pumps**  
10 **and related accumulated depreciation from its accounting records and**  
11 **recorded the undepreciated balance of the failed pumps as a loss on**  
12 **disposal of equipment. The Public Staff expects the replacements of failed**  
13 **equipment with the undepreciated balances occurring at frequencies**  
14 **depending upon the extent of the utility’s equipment. The amounts of the**  
15 **losses will vary depending upon the equipment replaced and the**  
16 **undepreciated balances. The Public Staff believes the annual losses on**  
17 **disposal of equipment will usually be less than the \$13,888. The \$13,888**  
18 **does not represent an amount being amortized.**

1 Q. On Morgan Exhibit II, Schedule 3(a), Page 1 of 2, Line 5 contains an  
2 amount of \$10,156 related to “Loss from disposal of equipment”  
3 provided by KRJ in its application. Please explain what this expense  
4 item relates to. What specific equipment was disposed of? What  
5 caused the loss on disposal? Do you expect this type and amount of  
6 loss to be recurring each year? Or does the \$10,156 amount represent  
7 being amortized? Please explain.

8 A. Parts from an original uranium removal system were reused in the  
9 installation of a new and properly functioning uranium removal system that  
10 was placed into operation at the Rockbridge Subdivision. Only one-third of  
11 the original uranium removal disposal system was considered to have been  
12 disposed of. The remaining parts, consisting of vessels, control panel, and  
13 bag filters, from the original uranium removal system were reused in the  
14 installation of the new system. KRJ removed one-third of the original cost  
15 of the uranium removal system and associated accumulated depreciation  
16 from its accounting records and recorded the undepreciated cost of the  
17 uranium removal system as a loss on disposal of equipment. The Public  
18 Staff expects the replacements of failed equipment with the undepreciated  
19 balances occurring at frequencies depending upon the extent of the utility’s  
20 equipment. The amounts of the losses will vary depending upon the  
21 equipment replaced and the undepreciated balances. The Public Staff  
22 believes the annual losses on disposal of equipment will usually be less

1 than the \$10,156. The \$10,156 does not represent an amount being  
2 amortized.

**KRJ, INC. d/b/a KRJ UTILITIES  
DOCKET NO. W-1075, SUB 12**

**GINA Y. CASSELBERRY  
LATE- FILED EXHIBIT I**

1 **Q. The Stipulating Parties have agreed to a monthly flat rate of \$58.25**  
2 **for sewer utility service in Rockbridge Subdivision which represents**  
3 **a 14.75% decrease from the present monthly flat rate of \$68.33**  
4 **established in the CPCN docket. What do you believe are the main**  
5 **reasons for the recommended decrease in the current monthly flat**  
6 **rate?**

7 A. The main factors that contributed to the stipulated decrease of the flat  
8 sewer rate in the Rockbridge Subdivision are: 1) that the sewer rate of  
9 \$72.69 established in the 2006 original franchise proceeding was based  
10 on estimated expenses and estimated rate base, and 2) the agreed upon  
11 monthly flat rate of \$58.25 is based upon KRJ's actual March 31, 2018,  
12 rate base, the actual operating expenses for the twelve months ending  
13 March 31, 2018, the actual customers on March 31, 2018, and the  
14 imputed connection fees, totaling \$664,000 for the remaining 83 future  
15 customers, as excess capacity.

16 In the original franchise for the Rockbridge Subdivision, which was  
17 granted in Docket No. W-1075, Sub 5, a flat sewer rate of \$72.69  
18 (currently \$68.33 due to the tax docket) was agreed to in the stipulation  
19 between KRJ Utilities and the Public Staff. The rate was negotiated based

1 on estimated operational expenses and estimated costs for constructing  
2 the wastewater treatment plant and effluent spray fields. The Public Staff  
3 and Company stipulated and agreed that approximately 20 percent of the  
4 estimated cost for plant in service would be included in rates and that the  
5 remaining amount would be recovered through tap fees for the 407 total  
6 connections.

7 This is the first rate increase for Rockbridge Subdivision since the  
8 franchise was granted. The rates recommend by the Public Staff in this  
9 proceeding are based on the Public Staff's audit of actual expenses and  
10 the actual cost of plant in service. The test year was updated to March 31,  
11 2018, including customer growth. Adjustments to expenses related to  
12 customer growth were made; however, the increase in revenue resulting  
13 from customer growth was much greater than the increase in expenses.  
14 In addition, as previously stated, the Public Staff made an excess capacity  
15 adjustment by imputing \$664,000 for 83 future connection fees, which  
16 further reduced the original cost of rate base.

17

1 **Q. With respect to the Stipulating Parties agreement to eliminate the**  
2 **requirement to notify prospective customers of KRJ regarding what**  
3 **the water and sewer rates in Rockbridge will be before they execute**  
4 **a contract to purchase a home, what has changed (other than the**  
5 **Rockbridge Subdivision is now at approximately 80% build-out) that**  
6 **would make this requirement no longer necessary?**

7 A. In the original franchise, the Public Staff was concerned with rate shock  
8 for potential buyers and thought it necessary that the developer disclose  
9 the current rate. At the time, the average flat sewer rate in North Carolina  
10 was \$37.16 and the rate agreed to by the parties in the Rockbridge CPCN  
11 docket was \$72.69. In comparison, Carolina Water Service, Inc. of North  
12 Carolina's (CWSNC) flat sewer rate was \$35.50 and Heater Utilities flat  
13 rate sewer was \$48.81. Therefore, the Public Staff recommended that  
14 KRJ, by duly executed agreement with developer, Stafford Land  
15 Company, the homebuilder, K Hovnanian Homes, and their successors  
16 and assigns, disclose the rates in marketing materials, lot purchase  
17 agreements, and the restrictive covenants pertaining to all of the lots in  
18 Rockbridge Subdivision. It is the Public Staff's position that the  
19 requirement is no longer necessary. The stipulated flat sewer rate of  
20 \$58.25 for Rockbridge Subdivision is in line with CWSNC's current flat  
21 sewer rate of \$56.57 and below Aqua North Carolina's current rate of  
22 \$64.98. Furthermore, the Public Staff believes the referenced notice  
23 requirement was unique to KRJ, as it is unaware of the Commission



- 1 having imposed a similar requirement on another water and/or sewer
- 2 public utility in North Carolina.