

**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 14, 2022

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

Re: Docket No. W-354, Sub 398 – 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

Dear Ms. Dunston:

Attached for filing on behalf of the Public Staff in the above-referenced docket are the following:

1. Notice of Affidavit;
2. Affidavit of Lynn Feasel, Financial Manager, Accounting Division;
3. Direct Testimony of Mike Lane, Partner, NewGen Strategies and Solutions, LLC; and
4. Direct Testimony of Charles Junis, Director, Water, Sewer, and Telephone Division.

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

Ms. A. Shonta Dunston, Chief Clerk
October 14, 2022
Page 2 of 2

Sincerely,

Electronically submitted

/s/ Gina C. Holt

Manager, Legal Division, Water, Sewer,
Telephone, & Transportation Sections

gina.holt@psncuc.nc.gov

/s/ William E. H. Creech

Staff Attorney

zeke.creech@psncuc.nc.gov

Attachments

OFFICIAL COPY

Oct 14 2022

Executive Director
(919) 733-2435

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Economic Research
(919) 733-2267

Energy
(919) 733-2267

Legal
(919) 733-6110

Transportation
(919) 733-7766

Water/Telephone
(919) 733-5610

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-354, SUB 398

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

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

Lynn Feasel, Financial Manager, Accounting Division
Public Staff - North Carolina Utilities Commission
430 North Salisbury Street - Dobbs Building
4326 Mail Service Center
Raleigh, North Carolina 27699-4300

will be used in evidence at the hearing in this docket scheduled for November 3,
2022, pursuant to N.C.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 or the Commission
demands the right of cross-examination by notice mailed or delivered to the
proponent at least five days prior to the hearing, pursuant to N.C.G.S. § 62-68.

THEREFORE, the Public Staff moves that the Affidavit of Lynn Feasel be
admitted into evidence in the absence of notice pursuant to N.C.G.S. § 62-68.

Respectfully submitted this the 14th day of October 2022.

PUBLIC STAFF
Christopher J. Ayers
Executive Director

Lucy E. Edmondson
Chief Counsel

Electronically submitted
/s/ Gina C. Holt
Manager, Legal Division, Water, Sewer,
Telephone, & Transportation Sections
gina.holt@psncuc.nc.gov

/s/ William E. H. Creech
Staff Attorney
zeke.creech@psncuc.nc.gov

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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 398

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Carolina Water Service, Inc. of)
North Carolina, for Determination of Fair Value)
of Utility Assets Pursuant to N.C.G.S. § 62-)
133.1A)

**AFFIDAVIT OF
LYNN FEASEL**

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Lynn Feasel, first being duly sworn, do depose and say:

I am a Financial Manager in the Accounting Division of the Public Staff - North Carolina Utilities Commission. A summary of my duties, education, and experience is attached to this affidavit as Appendix A.

N.C. Gen. Stat. § 62-133.1A states that a water or wastewater public utility, as defined by N.C.G.S. § 62-3(23)a.2., may elect to establish rate base by using the fair value of the utility property instead of original cost when acquiring an existing water or wastewater system owned by a municipality or county or an authority or district established under Chapter 162A of the General Statutes.

N.C.G.S. § 62-133.1A(b) further states that the fair value of a system to be acquired shall be based on three separate appraisals conducted by accredited, impartial valuation experts chosen from a list to be established by the Commission. One appraiser shall represent the public utility acquiring the

system, another appraiser shall represent the utility selling the system, and another appraiser shall represent the Public Staff of the Commission. Fair value, for ratemaking purposes under N.C.G.S. § 62-133, shall be the average of the three appraisals. The rate base value of the acquired system, which shall be reflected in the acquiring public utility's next general rate case for ratemaking purposes, shall be the lesser of the purchase price negotiated between the parties to the sale or the fair value plus the fees and costs authorized in subdivision (3) of N.C.G.S. § 62-133.1A (b).

The Public Staff Accounting Division's specific responsibilities in this Fair Market Value proceeding are: (1) to participate in the overall Public Staff investigation of the Company's filing; (2) to review the purchasing contract agreement between the buying and selling parties; and (3) to calculate the revenue requirement impact of the rate base additions and the O&M expense per customer.

The purpose of my affidavit is to present the results of the Public Staff's investigation into the revenue requirement impact of purchase price, the Operating and Maintenance expense (O&M expense) per customer calculation based on the most recent Carolina Water Services of North Carolina, Inc. (CWSNC) rate case, Docket No. W-354, Sub 384, and a comparison of rate base per customer calculation based on the most recent rate cases of CWSNC and Aqua Americas, Inc. (Aqua), Docket No. W-218, Sub 526.

In its application, the Company indicates that it purchased the system for \$9,500,000, which is less than the average of the three appraisers' valuation in

the amount of \$10,935,667, as shown on Form Application Exhibit 4. Therefore, I use \$9,500,000 plus the Company's estimate of \$175,000 in fees and closing costs to calculate the revenue requirement impact of this application. The revenue requirement is \$1,181,882 based on rate base additions of \$9,675,000. The revenue requirement includes recovery of the depreciation expenses from the cost of the plant plus the return on the \$9,675,000 rate base based on rate of return from the most recent CWSNC rate case. I applied a depreciation rate of 4% in my calculation.

I used a customer count of 29,317 and an O&M expense of \$12,880,932 as authorized from the most recent rate case to calculate the O&M expense per uniform water customer, resulting in an O&M expense per customer of \$439. The O&M expense does not include depreciation expense, amortization expense, and taxes.

The rate base per customer calculated based on the last rate cases for CWSNC and Aqua are set out in the table below:

Rate Division	Rate Base	Customer Count	Rate Base Per Customer
Aqua Uniform Water	\$135,909,810	62,534	\$2,173.37
Aqua Uniform Sewer	\$60,371,609	16,515	\$3,655.56
Brookwood Water	\$27,073,706	13,821	\$1,958.88
Fairways Water	\$3,345,093	4,775	\$700.54
Fairways Sewer	\$10,435,206	3,042	\$3,430.38
CWSNC Uniform Water	\$68,514,633	29,317	\$2,337.03
CWSNC Uniform Sewer	\$62,678,740	17,209	\$3,642.21
BF/FH Water	\$3,321,564	3,533	\$940.15
BH/FH Sewer	\$9,141,959	3,613	\$2,530.30

This completes my affidavit.

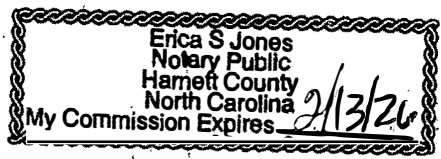
Lynn Feasel

Lynn Feasel

Sworn to and subscribed before me this the 14th of October 2022.

Erica S Jones

Notary Public



My Commission Expires: February 13, 2026

LYNN FEASEL

Qualifications And Experience

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas companies, supervised and audited workflow for my team, filed testimony and affidavits in various general rate cases, prepared exhibits and presented my investigation results to the Commission. I have audited and examined Aqua and CWSNC Water and Sewer Improvement Charge application, coordinated with the engineering team to finalize adjustments for the potentially non-eligible for recovery capital projects, drafted notice, agenda, and proposed order to present the investigation results to the Commission. For Piedmont and PSNC companies, I have audited the biannual IMT filings for accuracy and I have also reviewed and examined TIMP and DIMP expenses in the 2021 rate cases. For DEC and DEP, I have assisted in reviewing the annual Competitive Procurement of Renewable Energy Rider, Joint Dispatch Agreement, and the Joint Agency Asset Rider. I have participated in the drafting and providing comments to certain regulations, such as W-100, Sub 63 and W-100 Sub 64. I have also calculated quarterly

earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc., calculated quarterly earnings for various natural gas companies, calculated refunds to consumers from AH4R and Progress Residential and reviewed franchise, transfer and contiguous filings for multiple water and sewer companies.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 398

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
MICHAEL G. LANE
ON BEHALF OF
PUBLIC STAFF –
NORTH CAROLINA
UTILITIES COMMISSION**

OCTOBER 14, 2022

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Michael G. Lane. My business address is 49 Music Square West, Suite 505, Nashville, Tennessee 37203. I am a Partner for NewGen Strategies and Solutions, LLC.

Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. I received an Associate Degree in Applied Science and Nuclear Engineering Technology from Thomas Edison State College in Trenton, New Jersey in 1994. In 1999, I earned a Bachelor of Business Administration Degree from Belmont University in Nashville, Tennessee, and in 2003 I earned a Master of Business Administration Degree (Finance) from the Jack Massey Graduate School of Business at Belmont University in Nashville, Tennessee. Also, in 2003, I earned the designation of Accredited Senior Appraiser (Utility Specialization) from the American Society of Appraisers. Accredited Senior Appraisers with a Utility Specialization are required to pass appraisal education classes, to have a minimum of five years full time experience appraising and valuing utility property, and to pass an eight-hour, comprehensive public utility appraisal exam administered by the American Society of Appraisers. I have participated in the preparation of appraisals of electric, water, wastewater, and gas facilities throughout the United States. Attached as Attachment MGL-1 is a list of independent utility appraisals that I have performed.

From 1985 to 1994, I was with the United States Navy as a submarine-based nuclear power plant operator. From 1994 until 1998 I was employed by Hartford Steam Boiler Inspection and Insurance Company as a boiler inspector. I joined R. W. Beck in 1998. R. W. Beck changed its name to SAIC Energy Environment and Infrastructure (SEE&I) in 2010. I was employed by SEE&I as a Senior Consultant and Accredited Senior Appraiser until December 2012. I joined NewGen in January 2013.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to sponsor the appraisal performed by NewGen of the Carteret County Water System (the System). In undertaking the study and analyses required to provide an opinion with respect to the FV of the System, NewGen relied on generally accepted valuation methods and procedures. This appraisal report was prepared in conformance with the 2020-2021 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation (extended through December 31, 2022). The Appraisal is attached to my testimony as Attachment MGL-2.

Q. WHAT WERE THE FINDINGS OF NEWGEN'S APPRAISAL?

A. Based on our analyses, NewGen is of the opinion that the Fair Value estimate of the Carteret County Water system as of January 1, 2022, is approximately \$7,332,000. A summary of the indicators of value is provided in the table below.

Summary of Value Indicators

		Value Indicators
Cost Approach		
OCLD		\$ 5,750,000
RCNLD *		\$ 13,032,000
Sales Comparison Approach		
		Not relied upon
Income Approach		
DCF		\$ 7,332,000
Fair Market Value		\$ 7,332,000

* Excludes adjustment for economic obsolescence

Note: Table values may not equal exhibit values due to rounding to the nearest \$1,000

NewGen relied on the income approach to value because a buyer, evaluating the System on a purely financial basis, should not be willing to pay more than the income value unless external factors specific to the buyer's situation are influencing the purchase, which would be at odds with the definition of Fair Value. NewGen did not rely upon the Sales Comparison Approach due to difficulties in comparing transaction data. Difficulties are due to the fact that no two utilities are exactly alike - the technologies employed differ; the customer composition, use, and growth all differ; and the regulatory environments sometimes differ.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.