

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 1:**

Provide an affidavit from publisher, Kevin Smith, affirming that the public notice of the hearing was published in compliance with 807 KAR 5:001, Section 9(2)(b).

**Response:** Please see the attached affidavit and tearsheet.

**Witness:** Legal



# Publisher's Certificate of Publication

## STATE OF KENTUCKY COUNTY OF BELL

Kevin Smith, being duly sworn, on oath says he is and during all times herein stated has been an employee of Middlesboro-Tazewell Newsmedia publisher and printer of the The Middlesboro Daily News (the "Newspaper"), has full knowledge of the facts herein stated as follows:

1. The Newspaper printed the copy of the matter attached hereto (the "Notice") was copied from the columns of the Newspaper and was printed and published in the English language on the following days and dates:

11/23/22

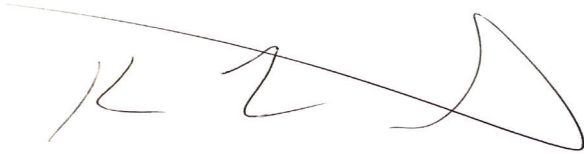
2. The sum charged by the Newspaper for said publication is the actual lowest classified rate paid by commercial customer for an advertisement of similar size and frequency in the same newspaper in which the Notice was published.

3. There are no agreements between the Newspaper, publisher, manager or printer and the officer or attorney charged with the duty of placing the attached legal advertising notice whereby any advantage, gain or profit accrued to said officer or attorney

### PUBLIC NOTICE

Notice is hereby given that the Public Service Commission of Kentucky has scheduled a public hearing in a case styled as "Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates and a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure and Approval Of Certain Regulatory Accounting Treatment," Case No. 2022-00147, beginning at 9 a.m. Eastern Standard Time on Wednesday, November 30, 2022, at the Commission's offices, 211 Sower Blvd., Frankfort, Kentucky, for the purpose of receiving evidence into the record. This hearing will be streamed live and may be viewed on the PSC website, [psc.ky.gov](http://psc.ky.gov). Public comments may be made at the beginning of the hearing. Those wishing to make oral public comments may do so by following the instructions listed on the PSC website, [psc.ky.gov](http://psc.ky.gov).

Middlesboro Daily News:  
Nov. 23, 2022  
**APPLICATION**



Kevin Smith, publisher

Subscribed and sworn to before me this  
2nd Day of December, 2022



Melanie Tackett, Notary Public  
Kentucky State at Large  
KYNP59534  
My commission expires 09-27-2026

Account #  
Ad # 1550999

WATER SERVICE CORP OF KENTUCKY  
102 WATER PLANT RD  
MIDDLESBORO KY 40965

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**PSC POST-HEARING DR 2:**

Refer to the hearing testimony, generally, of Quentin M. Watkins, regarding Middlesboro-area datasets containing confidential compensation data from a survey of other Kentucky regulated utilities and two proprietary compensation analysis tools. State the number of survey responses that are from Middlesboro or Bell County, Kentucky.

**Response:**

The number of survey responses from specific locations within Kentucky varied by data source and methodology and by position. For the two private, subscription-based data sources, Middlesboro, Kentucky was used as the pricing location for the non-allocated positions located in Middlesboro, Kentucky, and Mayfield, Kentucky was used as the pricing location for positions located in Clinton, Kentucky. The number of incumbents or survey responses that contributed to the comparative data point for each position is summarized in the table below.

**Table I – Range of Survey Responses by Position and Location**

#	Non-Allocated WSCK Positions	WSCK Location	Range of Incumbents per Location
1	Field Tech I	Clinton, KY	< 20
		Middlesboro, KY	< 20
2	Kentucky Operations Apprentice	Middlesboro, KY	< 20
3	Lead Water-Wastewater Operator	Middlesboro, KY	20-34
4	State Operations Manager	Middlesboro, KY	20-34
5	Water-Wastewater Operator I	Clinton, KY	95-139
		Middlesboro, KY	60-94
6	Water-Wastewater Operator II	Middlesboro, KY	60-94

For those with greater than 20 survey responses, the salary data are specific to the locations cited above. When observations for the selected position and location are below 20,

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then the data service provider uses surrounding area data for the position and applies the geographic differential for the specific location selected.

For the custom benchmarking survey of other regulated utilities in Kentucky, while we do not know the location of every matching position for which salary data was collected from the other four utilities, we can describe the services provided and the specific service territories as follows:

Services provided:

- One participant is a water and sewer utility
- One participant is a combination electric and gas utility
- Two participants are natural gas utilities

Service territories:

- One participant has a primarily suburban and urban service territory in northern Kentucky
- One participant has a mix of rural and suburban service territory in central and western Kentucky
- One participant has a mix of rural and urban service territory in central and eastern Kentucky, including the area in or near Middlesboro and Bell County, Kentucky
- One participant has a service territory that spans central and eastern Kentucky, primarily in rural and suburban areas of the Commonwealth.

In summary, though the sample sizes for the locations where the non-allocated WSCK positions are located are relatively small in a few instances, the combination of the three different

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methodologies described in detail in the Wage and Benefit study provides a robust and defensible basis of comparison for the analysis of WSCK's compensation and benefits.

**Witness:** Quentin M. Watkins

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**PSC POST-HEARING DR 3:**

Refer to the hearing testimony of Shawn M. Elicegui regarding an agreement between Water Services Corporation (WSC) and Water Service Kentucky for WSC to provide services necessary for Water Service Kentucky to meet its statutory obligations. State whether this agreement been approved by the Commission and, if so, provide a copy of the order approving the agreement.

**Response:** WSCK has filed copies of this agreement in prior rate cases. *See, e.g.,* Case No. 2020-00160 as Exhibit SME-2 with the Direct Testimony of Shawn Elicegui (filed June 16, 2020); Case No. 2018-00208 at WSCK Response to Staff DR 1-23 (filed July 27, 2018); Case No. 2015-00382 at WSCK Response to Staff DR 1-23 (filed December 12, 2015). While the Company does not believe the agreement has been formally “approved” by the Commission, expenses allocated to WSCK for services provided by WSC were included in Commission-approved rates in those cases.

**Witness:** Legal/James Kilbane

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**PSC POST-HEARING DR 4:**

Refer to the hearing testimony of Mr. Elicegui, generally. Provide a copy of any corporate policy, manual, or any other written support for the assertion that WSC officers, directors, managers, and employees have a fiduciary duty to Water Service Kentucky and Water Service Kentucky's customers.

**Response:**

The vision of Corix Infrastructure Inc. and its subsidiaries is to be the preferred utility delivering solutions our customers want. Our values focus on Safety, Integrity, Connection, and Excellence. Thematically, these values mean that we hold ourselves and each other accountable, we cultivate the trust of our customers and stakeholders, we do what we say, we know our customers, we invest in our customer's success, we know and understand our customers and we strive to develop sustainable relationships with our customers, and are documented in the mission, vision, and values statements. In addition, please see attached PSC PH 1-4 Corix Infrastructure Inc.'s Code of Ethical Business Conduct and Whistleblower Policy, which recognizes employees' obligations to all stakeholders, including customers. For instance, section 2.3.3. of the policy indicates that employees must "act fairly, professional and in good faith and otherwise in accordance with the principles set out in [the policy] when dealing with" customers.

**Witness:**

Shawn Elicegui



# Code of Ethical Business Conduct and Whistleblower Policy

January 2020

**Code of Ethical Business Conduct and Whistleblower Policy**

**CODE OF ETHICAL BUSINESS CONDUCT AND WHISTLEBLOWER POLICY**

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Code of Ethical Business Conduct and Whistleblower Policy

## CODE OF ETHICAL BUSINESS CONDUCT AND WHISTLEBLOWER POLICY

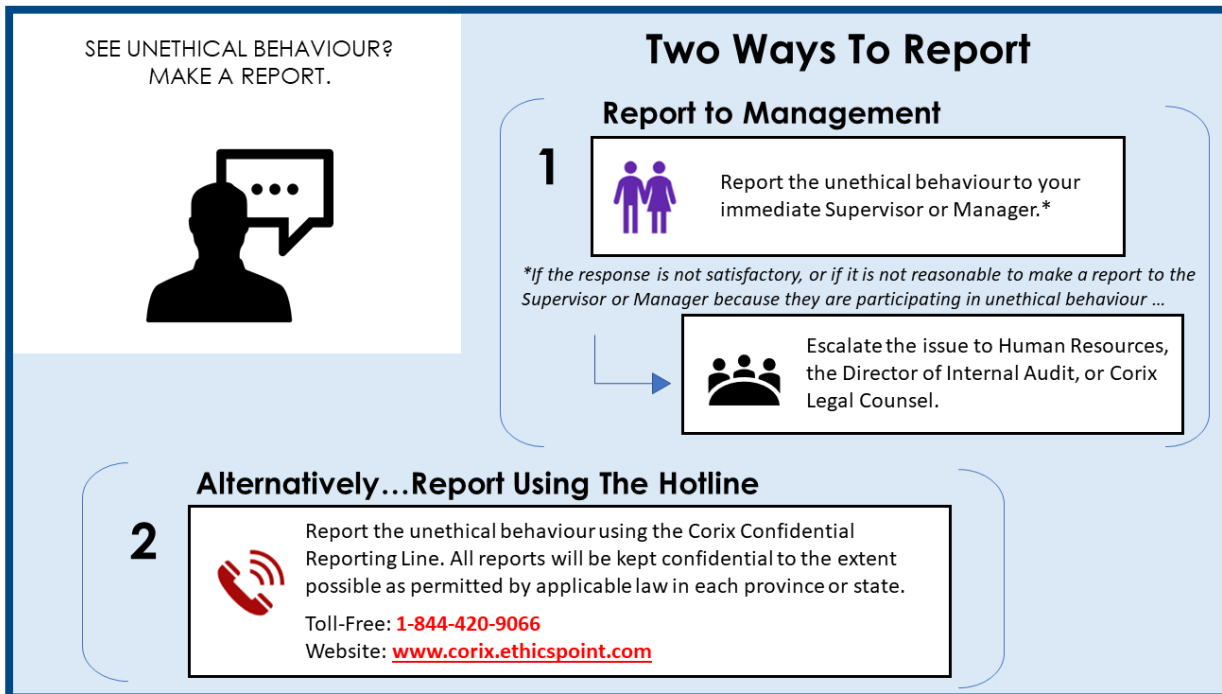
### 1.0 SECTION 1: Introduction

Corix Infrastructure Inc. and its subsidiaries (“Corix” or the “Company”), known collectively as Corix Group of Companies, has developed this Code of Ethical Conduct and Whistleblower Policy (the “Policy”) to further Corix’s corporate values and culture. It does not matter where employees work or what they do for Corix, everyone is responsible for exercising good judgement and following the Policy. To help deter wrongdoing, the Policy sets out principles and standards based on the following objectives:

- Do what is right
- Obey the law
- Avoid conflicts of interest
- Respect the rights of others
- Maintain the integrity and confidentiality of information
- Conduct oneself appropriately

Corix expects all individuals covered by this Policy to act in compliance with this Policy and that covered employees will act ethically and professionally at all times while executing their roles, duties, responsibilities or services for or on behalf of Corix.

**Corix takes all violations of this Policy seriously.** Corix employees should report any and all potential violations and violations of the Code of Ethical Business Conduct and Whistleblower Policy. Code violations may lead to disciplinary action, up to and including, termination of employment. Corix’s business success is based on integrity; integrity is ingrained in Corix’s culture, work, and reputation of the Company. The Policy helps when employees find themselves in a situation where doing the right thing might not be obvious. While the Policy cannot answer all potential questions, it directs employees where to go for guidance and assistance.



Please see Section 3 for more information on reporting of potential violations of the Policy.

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### 1.1 Application

This Policy applies to every person who falls under the Corix Group of Companies (“Corix”, “Company” or “We”), whether employees of Corix Infrastructure Inc. (“CII”), Water Service Corporation (“WSC”), Fairbanks Sewer & Water (“FSW”), Corix Infrastructure Services (US) Inc. (“CISUS”) or any other employee of a wholly owned company owned directly or indirectly by CII, except employees of Tribus Services Inc. and includes:

- Executives
- Managers
- Supervisors
- Employees
- Independent Contractors performing work for the Company or on Company premises
- Corix Board of Director Members

For the purposes of this Policy and for further clarity, “employee” or “employees” includes all officers and employees on Corix’s payroll, plus all Directors of the Corix Board of Directors and all Contractors who receive remuneration from Corix.

Acquired business entities may, for an agreed interim transitional period of no more than one (1) year from date of acquisition close, have a similar code of business conduct and ethics policy or guidelines, provided in each case that such policy or guidelines, are not inconsistent with this Policy in all material respects, and are approved in advance by the Corix Board of Directors, as well as the President & Chief Executive Officer of Corix Infrastructure Inc. In the alternative, this Policy shall apply immediately to all employees of the acquired business entity.

### 1.2 Expectations

All Corix employees, Directors and/or Contractors are expected to:

**Understand.** Corix expects employees to understand the requirements of their position including Corix expectations and all laws, rules and regulations that apply to them in their position.

**Comply.** Corix expects employees to comply with this Policy and all applicable laws, rules and regulations in all respects of their day-to-day business activities.

**Report.** Corix expects employees to report any violation of this Policy of which they become aware as set out in Section 3 of this Policy.

**Be Accountable.** Corix holds employees accountable for complying with this Policy. Supervisors are also responsible and accountable for ensuring that employees under their direct supervision are aware of the principles and standards in this Policy.

**Commit.** Corix expects all employees to review this Policy periodically throughout the year and to take the opportunity to discuss with management any circumstance that may have arisen that could be an actual or potential violation of these ethical standards of conduct. All

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employees are required to review and acknowledge their review and understanding of this Policy annually.

**Be Aware.** Corix expects employees to conduct their work in a conscientious and thoughtful manner and to consider, not only whether they are acting in compliance with this Policy, but also how their decisions and actions will be perceived. In all cases, employees should be conscious of both acting ethically and ensuring their actions are perceived as ethical.

## 2.0 SECTION 2: Principles for Ethical Business Conduct

### 2.1 Do What is Right

This Policy points all employees at Corix in the right direction, but no document can itself achieve the level of principled compliance that is required. In reality, all employees must maintain awareness of these issues and comply with the Policy's principles to the best of their ability. Ethical action requires knowing the difference between right and wrong, and doing what is right. Before taking any action, ask the following questions:

- Is it legal?
- Does it violate a professional code of conduct to which I am subject?
- Is it fair?
- Is it ethical in every way?
- Could it create an appearance of impropriety?
- Does it feel right?
- Am I trying to fool anyone, including myself, about the propriety of the action?

If an action would elicit a negative response to any of these questions, do not take it. If an employee is uncertain about the ethics or legality of any planned action, it is their responsibility to consult with a Supervisor or Manager or to seek advice from any of the sources listed in Section 4 of this Policy. If the employee acts in bad faith, or fails to report illegal or unethical behavior, the employee will be subject to disciplinary procedures, up to and including termination. Corix expects employees to be honest and forthright at all times.

### 2.2 Fraud

Fraud is a broad concept that touches many of the elements discussed in this Policy. Fraud typically involves dishonesty or deceit and is intended to result in unfair or unlawful personal and/or financial gain. Examples of fraud include, but are not limited to, the following:

- Stealing or misappropriating assets
- Offering or receiving something of value as a means to improperly influence a procurement process
- Forging or improperly altering documents
- Falsifying an employee expense reimbursement claim
- Falsifying a workers' compensation or other employee benefits claim
- Forging or improperly altering a check/cheque, bank draft, or other financial instrument
- Falsifying accounting records

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Employees must not at any time during their engagement with Corix commit any form of fraud. Further, employees have an obligation to report to Corix any reasonable suspicion they have that someone else may have committed fraud. Details of an employee's reporting requirements and Corix's investigation process are set out in Section 3 of this Policy.

### 2.3 Respect the Rights of Others

#### 2.3.1 Employee Rights

One of Corix's core corporate values is teamwork. Respect for the rights and dignity of others and dedication to the good of Corix are essential, while working as a team to fulfill our objective. If an employee is in a managerial role, the manager must make decisions regarding hiring and promoting employees in accordance with Corix's employment policies based on merit, any applicable collective agreements or law or regulation. All employees have the right to carry out their responsibilities at Corix free from discrimination and harassment based on any classification prohibited by law, including, but not limited to:

- Race
- Creed
- Color
- Ancestry
- Place of origin
- Religion
- Family status
- Marital status
- Pregnancy-related condition
- Physical disability
- Predisposing genetic characteristics
- Mental disability
- Sex
- Age
- Sexual orientation
- Gender identity or expression
- Military status
- Political belief
- Domestic victim status
- Conviction of a criminal offense unrelated to their employment
- Opposing unlawful discriminatory practices
- Any other characteristics protected by law

No personal relationship between an employee and another employee should compromise or appear to compromise the ethical principles set out in this Policy.

In addition to this Policy, employees are expected to know and comply with all applicable Corix policies addressing employee rights and diversity and harassment issues, including, but not limited to, the **Respectful Workplace and Anti-Harassment Policy**.

#### 2.3.2 Corix Property

For business purposes, many employees are provided telephones and computer workstations and software, including network access to the Internet and e-mail. As with other equipment and assets of Corix, each employee is responsible for appropriate use of these assets for business purposes. Managers and Supervisors are expected to adopt appropriate procedures and controls to ensure appropriate use.

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Limited or restricted use by employees of Corix property for personal purposes may be permitted by Corix policy, or otherwise, if the following conditions are met:

- the extent of personal use is not a significant portion of total asset use
- personal use does not compromise or impair the value or utility of the asset to Corix
- such use does not confer a significant financial benefit to the employee
- such use is consistent with common business practice and would not be considered unethical or unusual by an objective third party aware of the relevant facts

In addition to this Policy, employees are expected to know and comply in all respects with specific Corix policies addressing corporate asset use, including, but not limited to, the **Infrastructure Services Asset Usage Policy**.

Employees should not expect any right to privacy with respect of their e-mail or Internet use on Corix property. All e-mails or Internet use on Corix property or equipment may be subject to monitoring.

Any and all discoveries, inventions, improvements to inventions or intellectual property developments made during the term of each employee's employment by Corix and in connection with Corix' business are the sole and exclusive property of Corix. Employees are required, whenever requested by Corix, to execute and deliver to Corix any and all applications, and/or assignments which Corix considers necessary to assign and convey to Corix the sole and exclusive right, title and interest in and to any such inventions or improvements. Each employee's obligations under this clause will continue after termination of the employee's employment with Corix with respect to any and all inventions or improvement to inventions conceived or made during the term of an employee's employment with Corix. These obligations shall also be binding on each employee's heirs, executors, administrators, successors and assigns.

### 2.3.3 Customer, Vendors and Supplier Rights

Corix's relationships with customers, vendors, suppliers and other third parties are critical to the continuing success of Corix. Employees must act fairly, professionally and in good faith and otherwise in accordance with the principles set out in this Policy when dealing with customers, vendors, suppliers and other third parties. This includes protecting customers' confidential information and avoiding conflicts of interest with vendors or suppliers, as further described below.

## 2.4 Obey the Law

Corix operates within a complex framework of federal, state, provincial and municipal laws, rules and regulations in the USA, Canada, and foreign countries in which we do or may do business.

All employees are expected to act according to high ethical standards and to comply with all applicable laws, rules and regulations. All illegal activities and illegal conduct are prohibited, whether or not they are specifically identified in this Policy, and no Director or employee may

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commit, condone or instruct another person to commit an illegal act. Where a law does not govern a situation or where the law is unclear or conflicting, employees should discuss the situation with their supervisor and seek advice from the sources described in Section 4.

## **2.5 Maintain Integrity and Confidentiality of Information**

### **2.5.1 Corporate Records and Accounting Practices**

Each Corix business unit and/or business entity will make and keep books, records and accounts that reasonably detail accurately and present fairly the transactions, assets and liabilities of Corix. All employees are prohibited from directly or indirectly manipulating an audit, and from destroying or tampering with any record, document or tangible object with the intent to obstruct a pending or contemplated audit, review or investigation. The commission of, or participation in, one of these prohibited activities or any other illegal conduct will subject an employee to discipline by Corix, up to and including termination of employment or contract, as applicable as well as potential government penalties.

All employees are expected to follow internal policies and procedures designed to protect the integrity of corporate data. This includes adherence to policies and procedures related to requirements for authorization and execution of documents, accounting and financial matters and controls, audit processes and security of computer systems.

Employees are expected to question and report transactions that they reasonably believe to be contrary to law or established Corix policies and procedures relating to corporate records and accounting practices. Details of an employee's reporting requirements and Corix's investigation process are outlined in Section 3 of this Policy.

### **2.5.2 Confidential and Proprietary Information of Corix**

During their employment, Corix employees will have access to Corix's confidential and proprietary information. It is imperative that all of these materials be treated in a professional and confidential manner.

Corix confidential information includes all employee, contractor, vendor, supplier or third party information and records and other confidential and proprietary information and records of Corix or its employees, including without limitation formulas, processes, trade secrets, budgets, financial information, employees and payroll records, names, addresses and phone numbers, pricing and sales policies, proposals, contracts, business operation or financing details and files.

Corix has exclusive property rights to all of its confidential and proprietary information. The unauthorized disclosure of this information could destroy its value to Corix, give others an unfair advantage and/or cause Corix irreparable harm. Corix employees are responsible for safeguarding Corix confidential and proprietary information and complying with established security controls and procedures. Employees are prohibited at all times during or after an employee's employment with Corix, from disclosing,



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distributing or discussing such information with any person other than an employee of Corix, except to the extent that the President & Chief Executive Officer has specifically agreed in writing or as required by applicable law. All documents, records, notebooks, notes, memoranda and similar repositories containing information of a secret, proprietary, confidential or generally undisclosed nature relating to Corix or its operations and activities shall be held by the employee in trust solely for the benefit of Corix and shall be delivered to Corix by the employee on the termination of the employee's association with Corix or any other time upon the Company's request.

Employees are required to know and comply with all other applicable Corix policies and procedures regarding the privacy, confidentiality and security of Corix information in effect from time to time, including, but not limited to, the **Employee Privacy Policy**.

### 2.5.3 Confidential Information Belonging to Others

Corix employees must respect the confidentiality of third-party information, including without limitation trade secrets and other information provided in confidence by partners, suppliers, contractors, competitors, customers of Corix, just as Corix employees are required to protect Corix's own confidential information. However, certain restrictions on the information of others may place an unfair burden on Corix's future business. Accordingly, all employees should coordinate with Corix Legal Counsel to ensure appropriate agreements are in place prior to receiving any confidential third-party information. All such agreements must be approved in accordance with Corix's **Designation of Authority Policy ("DOA")** and other applicable policies and procedures. In addition, any confidential information that an employee may possess from an outside source, such as a previous employer, must not, so long as such information remains confidential, be disclosed to or used by Corix. Unsolicited confidential information submitted to Corix should be refused, returned to the sender where possible and deleted, if possible.

## 2.6 Avoiding Conflicts of Interest

Corix expects and requires that all employees conduct business in a lawful and ethical manner and act in the best interest of Corix at all times. A conflict of interest arises when an individual's private interests (including through a spouse or other family member) interfere or conflict with the interests of Corix. Any situation where an employee's judgment may be compromised, where they show undue favoritism to any party or where they receive a benefit of some kind is potentially a conflict of interest.

All Corix employees must strive to avoid business, financial or other relationships or situations with suppliers, customers, other employees, government agencies or competitors that might impair or appear to impair the exercise of their judgment. Employees should report to their Manager or Supervisor any actual or potential conflict of interest involving themselves or others of which the employee becomes aware. Details of employee reporting requirements and Corix's investigation process are set out in Section 3 of this Policy.

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Corix employees are strictly prohibited from engaging in any of the following:

### 2.6.1 Personal Interest in Transactions

**Taking for themselves, friends or family opportunities that are discovered through the use of Corix property, information or position.** For example, during and after the employee's engagement with Corix, employees must not solicit or encourage a client or vendor or supplier of Corix to take its business elsewhere. Employees have a duty to Corix to advance its legitimate interests when the opportunity arises.

Employees are also personally responsible and accountable for the proper expenditure of Corix funds, including money spent for travel expenses or business entertainment. Employees are further prohibited from undertaking any obligation or performing any services on behalf of Corix, other than the services related to the employee's position or role, unless specifically agreed in writing by an Executive Vice President of Corix in advance.

**Using Corix property, information or position for personal gain (or for friends or family).** For example, it is a conflict or potential conflict of interest for an employee's spouse to provide goods or services to Corix, in any circumstance where the employee, directly or indirectly, makes or approves the decision to purchase such goods or services.

**Using their position or role to solicit or conduct business for personal benefit or gain.** For example, consider a hypothetical situation where an employee also owns a small plumbing company. It would be inappropriate for the employee to solicit business for the plumbing company while visiting a Corix customer's residence while working on behalf of Corix or performing Corix business. Employees and their immediate family members shall not have a direct personal interest in a transaction to which Corix is a party, unless fully disclosed and previously approved by a Corix executive.

**Competing with Corix (whether by engagement in, employment by, or having a direct financial or other interest in any competitor, client or supplier of Corix).** For example, a potential conflict of interest exists where an employee, their spouse, or other immediate family member, owns a share or has an interest in a business that competes with Corix or that Corix may wish to acquire. This does not prohibit small holdings of shares in public companies that compete with Corix so long as the interest is disclosed, in writing, to Corix.

### 2.6.2 Gifts and Benefits

**Receiving and giving gifts and benefits in a business context that creates or could be perceived as a conflict of interest.** Corix employees must not accept gifts, money, merchandise, commissions, free services, gratuities or other benefits from customers, vendors, suppliers, business associates or other companies who do or wish to do business with Corix or who compete with Corix, if such gifts might be perceived as a bribe or appear to influence business decisions. The same principle applies to giving gifts

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or benefits on behalf of Corix and to gifts given to, or received by, an employee's family members and spouses.

Generally, gifts or other benefits may be given and accepted by employees only when they:

- are consistent with local business practice and custom
- are not excessive in value (no more than \$150)
- are not in contravention of applicable laws or ethical standards
- are able to withstand public scrutiny

It is prohibited to receive or give a gift in cash or cash equivalent.

Gifts of more than the value noted above are to be refused where possible. Where an employee feels such a gift must be accepted to avoid damaging business relationships, the employee must consult with their Manager or immediate Supervisor as to determine the appropriate course of action. All questionable gifts, whether received, offered or given, should be immediately reported to Corix Legal Counsel, the Director of Internal Audit or the President & Chief Executive Officer.

All Corix employees are expected to deal with advisors, vendors and suppliers who best serve the needs of Corix as to price, quality and service when making decisions concerning the use or purchase of materials, equipment, property or services.

### 2.6.3 Abuse of Position

Employees must not inappropriately use their position for personal benefit or to the detriment of Corix or other employees or stakeholders.

For example, consider the following hypothetical situation. A Corix Manager is involved in a dispute with an external contractor over poor workmanship related to renovation work at the manager's home. The dispute is a personal matter between the manager and the external contractor and is in no way connected to the manager's role at Corix. It is an abuse of position, and a breach of this Policy, if the manager threatens or implies that the external contractor's utility service might be shut off by Corix if the problems at the manager's home are not quickly corrected.

### 2.6.4 Taking a Second Job / Engaging in Other Business Interests

It is acceptable for employees to have a second job, act as a director of another business, or to otherwise have business interests outside of Corix, provided such job, action or interest does not reduce work efficiency, interfere with the employee's ability to act conscientiously in Corix's best interest, or require an employee to utilize Corix proprietary or confidential procedures, plans or techniques. The second job or other business interest or role must, however, not create, or appear to create, a conflict of interest.

For example, it is not acceptable for employees to work for a direct competitor of Corix or to engage (as a director or otherwise) in a competing business. If an employee currently has a second job, side business or directorship role with another company or

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an employee is considering taking on any of these roles, potential conflicts must be discussed with the employee's Manager or immediate Supervisor.

### 2.7 Conduct Oneself Appropriately

#### 2.7.1 Government Relations: Bribery and Foreign Public Officials Legislation

Employees are strictly prohibited from offering, promising or giving anything of value, directly or indirectly, to any government official, employee, agent or other intermediary which is prohibited by law. Violations of this Policy could subject Corix and the employee to civil and criminal penalties. Employees must immediately report to Corix Legal Counsel, the Director of Internal Audit or the President & Chief Executive Officer any offer of money or gifts that is intended to influence a business decision.

Employees in supervisory or managerial roles making a personal political contribution of \$500 or more must review it with an Executive Vice President and Corix Legal Counsel before it is made.

#### 2.7.2 Government Relations: Political Contributions and Funded Lobbying Activities

Company political contributions and funded lobbying activities are permissible only if they are reviewed and approved by both Corix Legal Counsel and the President of a Corix Company/Business Unit and comply with any applicable law/legislative provisions.

The President of each Corix Company/Business Unit is responsible for ensuring compliance with this requirement and reporting each activity (including purpose, date, amounts, name(s), and any other pertinent information) to the Executive Vice President, Risk Management ("EVP, RM") on a semi-annual basis. The EVP, RM will provide a summary of all donations provided and/or funded lobbying activities participated in, in a report submitted to the Audit Committee of the Corix Board of Directors on a semi-annual basis to ensure oversight and compliance with legislative requirements and internal policy.

*The Corruption of Foreign Public Officials Act (Canada), United States Foreign Corrupt Practices Act, and UK Bribery Act* contain certain prohibitions with respect to giving anything of value, directly or indirectly, to foreign government officials or foreign political candidates to obtain, retain or direct business. Accordingly, corporate funds, property or anything of value may not be, directly or indirectly, offered or given by the employee or any agent acting on Corix's behalf, to a foreign official, foreign political party or official thereof or any candidate for a foreign political office for the purpose of influencing any act or decision of such foreign person or inducing such person to use their influence to assist in obtaining or retaining business for, or directing business to, any person.

#### 2.7.3 Government Relations: Public Office

Subject to reasonable and approved work arrangements, employees may seek and hold public office, but must comply with the conflict of interest restrictions associated with that role and in accordance with this Policy. Employees holding public office are asked

## Code of Ethical Business Conduct and Whistleblower Policy

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to avoid involvement in and voting on any decisions which could promote or damage the legitimate interests of Corix, or give the appearance of a conflict of interest.

### 2.7.4 Community and Public Relations

Corix's standing in the communities in which it does business and the perceptions of the general public, shareholders and the investment community are critical to its success. In the employee's role for Corix, the employee acts as an ambassador and needs to be conscious of how their actions, conduct and public statements can impact the public perception of Corix. Employees are expected to know and comply with all Corix guidelines and procedures in effect from time to time concerning the media and making public statements and to seek advice from their Manager or Supervisor where required.

### 2.7.5 Health, Safety, Environmental and Corporate Social Responsibility

Corix is committed to managing and operating our assets in a manner that protects human health and safety and the environment and promotes corporate social responsibility. It is our policy to comply in all material respects with applicable health, safety and environmental laws and regulations.

Corix supports and participates in charitable, civic, educational, cultural and political affairs pursuant to its **Giving Policy** and otherwise at a level consistent with generally accepted business practices so long as support/participation is not prohibited by this Policy.

All employees are also expected to comply with Corix's policies, programs, standards and procedures with respect to human health and safety, the environment and corporate social responsibility in connection with their role with Corix.

### 2.7.6 Professional Standards

Employees holding professional credentials such as, but not limited to, lawyers, accountants, engineers and water treatment operators are required to comply with all relevant professional standards and rules of conduct when practicing their vocation in the service of Corix.

## 2.8 Compliance with this Policy

It is critical to Corix's success that all employees, Directors and Contractors comply with this Policy and conduct themselves ethically and legally in every aspect of their business activities for Corix.

Supervisors and Managers can fulfill this responsibility through prudent management including, but not limited to:

- ensuring this Policy is clearly communicated to all reporting employees on a regular basis
- establishing and maintaining internal and management controls designed to prevent or detect breaches in corporate policies
- leading by example and exhibiting high standards of ethical behavior
- appropriately investigating situations which may indicate a breach of this Policy
- dealing with known breaches of this Policy in a prompt and appropriate manner

**Code of Ethical Business Conduct and Whistleblower Policy**

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Compliance with this Policy, both personally and in respect of reporting requirements will be a factor in the Company's periodic performance reviews.

Disciplinary actions for violations of this Policy can include, but are not limited to, oral or written reprimands, suspension without pay or termination of employment with cause. Violation of laws, rules or regulations, which can subject Corix to fines and other penalties, may result in an employee's civil or criminal prosecution.

### **3.0 SECTION 3: Reporting Policy Violations & Whistleblower Policy**

#### **3.1 What to Report**

Corix employees should be alert and sensitive to situations that could result in actions that might violate, or be perceived to violation, federal, state, provincial or municipal laws, or the standards of conduct set forth in this Policy. If the employee reasonably believes they or someone else has violated any such laws or this Policy, the employee has an obligation to report the matter to an appropriate Corix official as set out below. At minimum, all instances of suspected fraud, impropriety or dishonesty must be reported.

If an employee knowingly fails to report illegal or unethical behavior or a violation of this Policy or perceived illegal unethical behavior or violation of this Policy, the employee will be subject to disciplinary procedures, up to and including termination.

#### **3.2 Reporting Procedure**

If any employee reasonably believes they or someone else has violated any such laws or this Policy, the employee has an obligation to promptly report the matter to an appropriate Corix official as set out below. At minimum, all instances of suspected fraud, impropriety or dishonesty must be reported.

Possible violations should be reported to an employee's Supervisor or Manager. However, if the employee is uncertain as to how to report a violation of this Policy, are not comfortable reporting to the employee's Supervisor or Manager and/or believe their Supervisor or Manager is involved in a possible violation, employees should consult with a member of the Human Resources Department, Internal Audit or Corix Legal Counsel.

Supervisors, Managers, department heads, business unit leaders must report all breaches of this Policy, or perceived breaches of this Policy including incidents of theft or fraud, to the Corix Human Resources Department, Internal Audit, the Executive Vice President & Chief Financial Officer or Corix Legal Counsel.

The Executive Vice President & CFO; Executive Vice President, Risk Management (or designate) or Internal Audit should notify all breaches of this Policy, or perceived breaches of this Policy including, in particular, incidents of theft or fraud to the Chair of the Audit Committee of the Board of Directors.

**Code of Ethical Business Conduct and Whistleblower Policy**

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### **3.3 Corix Confidential Reporting Line**

The Corix Confidential Reporting Line is a convenient and confidential way to seek assistance and report potential violations regarding ethics and compliance issues. All submissions will remain confidential, to the extent possible and as permitted by applicable laws.

The **Corix Confidential Reporting Line** can be reached as follows:

- Toll-Free: **1-844-420-9066**
- Website: [www.corix.ethicspoint.com](http://www.corix.ethicspoint.com)

Reports to the Corix Confidential Reporting line should be specific and include as many of the following details as possible, including but not limited to:

- Nature of the alleged fraud or other Policy violation
- When and where the events are alleged to have occurred
- List of individuals involved, including potential witnesses
- Details around how the alleged action or violation occurred

### **3.4 Anonymous and Confidential Reporting**

Reports of suspected or actual Policy violations may be made on an anonymous basis. All anonymous reports will be treated as such, and all reports of suspected or actual Policy violations will be treated on a confidential basis, in each case to the extent possible and as permitted by applicable laws in each province or state.

### **3.5 Non-Retaliation for Reporting or Whistleblowing**

Corix will not take or allow any reprisal or retaliation against any individual for reporting or threatening to report or whistleblowing in good faith of any suspected violation of this Policy and/or applicable laws. If an employee is the subject of any report made pursuant to this Policy, this employee is expected to act professionally and otherwise in full compliance with this Policy upon becoming aware of such report. Any retaliation taken against an employee who makes a complaint or is involved in the investigation of a complain, direct or indirect, will result in discipline, up to and including termination of employment.

If an employee who reports a violation or potential violation was involved in any improper activity in contravention of this Policy or applicable law, however, that individual may be appropriately disciplined even if they were the one who disclosed the matter to Corix. In those circumstances, the Company may consider the conduct of the whistleblower in reporting the information as a mitigating factor in any disciplinary decision.

If the reporting individual knowingly makes a false report or an employee fails to report illegal or unethical behavior or perceived illegal or unethical behavior and/or contravention of this Policy or applicable law, the employee will be subject to disciplinary procedures, up to and including termination.

## Code of Ethical Business Conduct and Whistleblower Policy

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### 3.6 Investigation

All reported instances of breaches of this Policy, perceived breaches of this Policy, incidents of theft or fraud, impropriety, dishonesty or other violations of the law will be promptly and thoroughly investigated by Corix.

- The CEO or her/his designate will approve the person who will conduct the investigation and the complainant will be notified as to who will lead the investigation.
- If a complaint is regarding or against the President & CEO, a Corix Executive Member or the Director of Internal Audit, the complainant (i.e. Whistleblower) may submit the complaint directly to either the Human Resources Department, the Corix Senior Legal Counsel or the Corix Confidential Reporting Hotline, or alternatively, the complainant may submit the complaint directly to the Chair of the Corix Audit Committee. The Corix Audit Committee has an ethical duty to investigate and handle the complaint appropriately while maintaining the confidentiality of the Whistleblower as much as possible under the investigation process and applicable laws and regulations. The Audit Committee may also assign internal or external resources to assist in the investigation as they determine.

Once the investigation has been completed, appropriate next steps will be taken. Those steps can include, but are not limited to, initiating disciplinary action as appropriate, taking legal action and conducting an assessment to ensure any internal controls are able to identify and prevent fraud, impropriety or dishonesty and, where required, make changes to strengthen those controls.

### 4.0 SECTION 4: Where To Go For Answers

Corix encourages employees to ask questions about the provisions of this Policy and ethical business practices in general. Everyone is encouraged to discuss such questions with fellow employees, Supervisors, Managers, department heads, executives, Directors and officers of Corix.

Communication regarding business- and work-related issues should continue to follow established organizational channels. However, all issues involving possible violations of this Policy should be directed to the appropriate person as identified in Section 3. All Policy clarifications should be directed to the Human Resources Department, Internal Audit or Corix Legal Counsel.



## 5.0 WAIVERS AND AMENDMENTS

### 5.1 Waivers

There will be no waiver of any part of this Policy for any employees except by the President & Chief Executive Officer, who will ascertain whether a waiver is appropriate under all the circumstances. A waiver for a matter involving an Executive or Corix Director will require the approval of the Corix Board of Directors or a designated Board of Directors committee. No other waivers of this Policy are permitted.

### 5.2 Amendments to the Policy

There will be no amendment to this Policy except by a vote of the Board of Directors or a designated Corix Board committee that will ascertain whether an amendment is appropriate.

## 6.0 RELATED POLICIES

### Corix Group of Companies Policies:

Respectful Workplace and Anti-Harassment Policy

### Corix Group of Companies – Business Unit Policies:

Designation of Signing Authority Policy (Canada)

Employee Privacy Policy (Canada)

Giving Policy (Canada)

Infrastructure Services Asset Usage Policy (Canada)

*Note: As at January 2020, the above referenced Business Unit related policies may not be applicable to all business units as Corix is in the process of updating and standardizing policies across the Corix Group of Companies; these are noted here for reference purpose and will be addressed over the next year and standardized and/or updated accordingly.*

## 7.0 HISTORY

Policy Owner: Human Resources

Corix Group of Companies – New Policy: January 2020

Effective Date: January 2020

Version: Corix Group of Companies - Version 1.0

*Note: This Policy has been established effective January 2020 for all Corix Group of Companies (as defined within this policy document) and shall replace and supersede similar policies that had existed at Corix Infrastructure Inc. and/or its subsidiaries (except Tribus Services Inc.).*

**Code of Ethical Business Conduct and Whistleblower Policy**

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**APPENDICES – ADDITIONAL SPECIFIC JURISDICTION LAWS AND REGULATIONS**

The appendices below specify the current laws and regulations in place at the time of this Policy's approval; however, Corix at all times complies with all the minimum required laws and regulations in place in whatever jurisdiction it operates.

**USA**

**Appendix A: New Jersey**

All Corix employees shall receive a copy of this Policy either in writing or electronically (it is also available on the Company's intranet website). Employees may report any violations or potential violations of this Policy to Steve Lubertozi, President, MidWestMidAtlantic, Corix Group of Companies at [slubertozi@uiwater.com](mailto:slubertozi@uiwater.com)

**Appendix B: Ohio**

Employees in Ohio should alert their Supervisor, Manager or Supervisor or other responsible officer of any alleged violation of this Policy and provide the Supervisor, Manager or officer a written report that describes details about the violation or potential violation. Employees must make a reasonable and good-faith effort to verify the accuracy of any information reported and must provide the Company with 24 hours to address or correct the violation or perceived violation before the employee files a report or complaint with the public official or agency, unless the complaint involves criminal violation of certain environmental protection laws. The Company will inform complaining employees, in writing either that no violation or hazard exists, or explain any efforts they are taking to correct alleged violations or hazards within 24 hours of receiving the complaint or the next regular business day, whichever is later.

**Code of Ethical Business Conduct and Whistleblower Policy**

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**CODE OF ETHICAL BUSINESS CONDUCT AND WHISTLEBLOWER POLICY –  
ACKNOWLEDGEMENT**

I acknowledge that I have received the Code of Ethical Business Conduct and Whistleblower Policy. I understand that it is my responsibility to read and comply with this policy and any revisions made to it.

\_\_\_\_\_  
Employee Name (Printed)

\_\_\_\_\_  
Employee Signature

\_\_\_\_\_  
Date

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 5:**

Refer to the hearing testimony of Mr. Elicegui, generally. Provide the name and nature of employment of the WSC employee who reviews and approves on behalf of Water Service Kentucky the allocation of expenses from WSC to Water Service Kentucky.

**Response:**

Colby Wilson, the State Operations Manager, reviews and approves the allocation of expenses from WSC to Water Service Kentucky.

**Witness:**

Colby Wilson

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 6:**

Refer to the hearing testimony of Dylan W. D'Ascendis. Also refer to the Direct Testimony of Mr. D'Ascendis, page 22, which includes a portion of an order from the South Carolina Public Service Commission, Docket No. 2017-292-WS. Provide a complete copy of the cited Order.

**Response:**

Please see attachment PHDR 1-6 Carolina Water Service Rate Case Order W-354.

**Witness:**

Dylan D'Ascendis

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 363  
DOCKET NO. W-354, SUB 364  
DOCKET NO. W-354, SUB 365

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 363 )  
)  
In the Matter of )  
Application by Carolina Water Service, Inc. )  
of North Carolina, 4944 Parkway Plaza )  
Boulevard, Suite 375, Charlotte, North )  
Carolina, 28217, for an Accounting Order to )  
Defer Incremental Storm Damage Expenses )  
Incurred as a Result of Hurricane Florence )

DOCKET NO. W-354, SUB 364 )  
)  
In the Matter of )  
Application by Carolina Water Service, Inc. )  
of North Carolina, 4944 Parkway Plaza )  
Boulevard, Suite 375, Charlotte, North )  
Carolina, 28217, for Authority to Adjust and )  
Increase Rates for Water and Sewer Utility )  
Service in All of its Service Areas in North )  
Carolina )

**ORDER GRANTING PARTIAL  
RATE INCREASE AND  
REQUIRING CUSTOMER NOTICE**

DOCKET NO. W-354, SUB 365 )  
)  
In the Matter of )  
Application by Carolina Water Service, Inc. )  
of North Carolina, 4944 Parkway Plaza )  
Boulevard, Suite 375, Charlotte, North )  
Carolina, 28217, for an Accounting Order to )  
Defer Post-In-Service Depreciation and )  
Financing Costs Related to Major New )  
Projects That Are or Will Be In-Service Prior )  
to the Date of An Order in Petitioner’s )  
Pending Base Rate Case )

HEARD: Thursday, September 5, 2019, at 7:00 p.m., in Courtroom 5350, Mecklenburg County Courthouse, 832 East 4th Street, Charlotte, North Carolina

Tuesday, September 10, 2019, at 7:00 p.m., in Courtroom A, Dare County Courthouse, 962 Marshall C. Collins Drive, Manteo, North Carolina

Tuesday, October 8, 2019, at 7:00 p.m., in Courtroom #1, Watauga County Courthouse, 842 W. King Street, Boone, North Carolina

Wednesday, October 9, 2019, at 7:00 p.m., in Courtroom 1A, Buncombe County Courthouse, 60 Court Plaza, Asheville, North Carolina

Monday, October 14, 2019, at 7:00 p.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

Tuesday, October 22, 2019, at 7:00 p.m., in the Superior Courtroom, Onslow County Courthouse, 625 Court Street, Jacksonville, North Carolina

Monday, December 2, 2019, at 2:00 p.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell; and Commissioners Lyons Gray, Daniel G. Clodfelter, Kimberly W. Duffley, and Jeffrey A. Hughes

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

Jo Anne Sanford, Sanford Law Office, PLLC, Post Office Box 28085, Raleigh, North Carolina 27611

Robert H. Bennink, Jr., Bennink Law Office, 130 Murphy Drive, Cary, North Carolina 27513

Mark R. Alson, Ice Miller LLP, One American Square, Suite 290, Indianapolis, Indiana 46282-0200

Christina D. Cress, Nichols, Choi & Lee, PLLC, 4700 Homewood Court, Suite 220, Raleigh, North Carolina 27609

For Corolla Light Community Association, Inc.:

Brady W. Allen, The Allen Law Offices, PLLC, 1514 Glenwood Ave.,  
Suite 200, Raleigh, North Carolina 27608

For the Using and Consuming Public:

Gina C. Holt, William E. Grantmyre, John Little, and William E. H. Creech,  
Staff Attorneys, Public Staff – North Carolina Utilities Commission,  
4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: On January 17, 2019, in Docket No. W-354, Sub 363 (Sub 363) Carolina Water Service, Inc., of North Carolina (CWSNC or Company) filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss.

On May 24, 2019, pursuant to Commission Rule R1-17(a), CWSNC submitted notice of its intent to file a general rate case application in Docket No. W-354, Sub 364 (Sub 364).

On June 6, 2019, the Commission entered an order consolidating Sub 363 and Sub 364.

On June 28, 2019, CWSNC filed its verified application for a general rate increase (Application) in Sub 364 seeking authority to: (1) increase and adjust its rates for water and sewer utility service in all of its service areas in North Carolina, including the service areas of Riverbend Estates and Pace Utilities Group, Inc., which have been recently transferred to CWSNC; (2) consolidate rates for the Corolla Light/Monteray Shores (CLMS) service area with the Uniform Sewer Rate Division rates; and (3) pass through any increases in purchased bulk water rates and any increased costs of wastewater treatment performed by third parties and billed to CWSNC, all subject to CWSNC providing sufficient proof of such increases. In addition, the Company included as part of its rate case filing certain information and data required by NCUC Form W-1.

As part of the its Application CWSNC filed direct testimony of the following witnesses: Catherine E. Heigel, President of CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company;<sup>1</sup> Dante M. DeStefano, Director of Financial Planning and Analysis for CWSNC; Gordon R. Barefoot, President and CEO of Corix Infrastructure, Inc.;<sup>2</sup> J. Bryce Mendenhall, Vice President of Operations for CWSNC; Anthony Gray,

<sup>1</sup> On November 1, 2019, CWSNC filed notice that Donald H. Denton would adopt the prefiled direct testimony of Catherine E. Heigel.

<sup>2</sup> On November 8, 2019, CWSNC filed notice that Shawn EliceGUI would adopt the prefiled direct testimony of Gordon R. Barefoot.



Senior Financial and Regulatory Analyst, CWSNC; and Dylan W. D'Ascendis, Director at ScottMadden, Inc.

The Company stated in its Application that it presently has approximately 34,915 water customers and 21,403 sewer customers in North Carolina (including water and sewer availability customers).<sup>3</sup> The present rates for water and sewer service have been in effect since February 21, 2019, pursuant to the Commission's Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase and Requiring Customer Notice issued in CWSNC's last general rate case in Docket No. W-354, Sub 360 (Sub 360 Order).

On June 28, 2019, in Docket No. W-354, Sub 365 (Sub 365), CWSNC also filed a Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects.

On July 15, 2019, the Commission issued an Order Establishing General Rate Case and Suspending Rates. By that order, the Commission declared the matter to be a general rate case pursuant to N.C. Gen. Stat. § 62-137, suspended the proposed new rates for up to 270 days pursuant to N.C.G.S. § 62-134, and established the test year period for this case as the 12-month period ending March 31, 2019.

On August 2, 2019, the Commission issued an Order Scheduling Hearings and Requiring Customer Notice (Scheduling Order) which required the parties to prefile testimony and exhibits, scheduled the matter for hearing, and required notice to all affected customers. That order scheduled customer hearings to be held in Charlotte, Manteo, Boone, Asheville, Raleigh, and Jacksonville, North Carolina, and set the expert witness hearing to be held in Raleigh, North Carolina.

Also on August 2, 2019, CWSNC witness DeStefano filed supplemental testimony, and on August 23, 2019, CWSNC filed an amended exhibit to witness DeStefano's supplemental testimony.

On August 21, 2019, CWSNC filed a certificate of service demonstrating that the Company provided notice of this general rate case proceeding to customers as required by the Commission's Scheduling Order.

On August 22, 2019, Corolla Light Community Association, Inc. (CLCA), filed a Petition to Intervene, which the Commission granted by order dated September 5, 2019.

<sup>3</sup> The Company did not indicate the specific date related to its present number of customers stated in the Application. The number of customers presented in Finding of Fact No. 13 herein is based on the detailed billing analysis prepared by Public Staff witness Casselberry for the 12-month period ended March 31, 2019, and is not disputed by the Company.

The Public Staff – North Carolina Utilities Commission’s (Public Staff) participation in this proceeding is recognized pursuant to N.C.G.S. § 62-15(d) and Commission Rule R1-19(e).

Public witness hearings were held as scheduled. A total of 23 Company customers testified as public witnesses at the public witness hearings held in this proceeding.

CWSNC responded to public witness testimony by its filings of September 25 (combined Charlotte and Manteo), October 24 (combined Boone and Asheville), October 30 (Raleigh), and November 8, 2019 (Jacksonville).

On October 4, 2019, CWSNC filed its rate case updates, schedules, and supporting data as required by Ordering Paragraph No. 6 of the Commission’s Scheduling Order.

The Public Staff filed its direct testimony on November 4, 2019, consisting of testimony and exhibits of Public Staff witnesses Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Telephone Division; Charles M. Junis, Utilities Engineer, Water, Sewer, and Telephone Division; Lindsey Q. Darden, Utilities Engineer, Water, Sewer, and Telephone Division; Windley E. Henry, Manager, Water, Sewer, and Telephone Section, Accounting Division; Michelle M. Boswell, Staff Accountant, Accounting Division; Lynn L. Feasel, Staff Accountant, Accounting Division; and John R. Hinton, Director, Economic Research Division.

The Public Staff filed the supplemental testimony of witness Casselberry on November 15, 2019.

On November 15, 2019, the Company filed a request to consolidate Sub 365 with this rate case. The Commission issued an order consolidating Sub 364 and Sub 365 on November 19, 2019.

The Public Staff filed revised exhibits of Public Staff witnesses Feasel and Henry on November 18, 2019.

On November 18, 2019, CWSNC withdrew its request for consideration of the Company’s proposed Consumption Adjustment Mechanism and Conservation Rate Pilot Program proposed for The Point Subdivision.

CWSNC filed the rebuttal testimony of Company witnesses DeStefano, Mendenhall, and D’Ascendis on November 20, 2019.

On November 26, 2019, Public Staff witness Hinton filed supplemental testimony and exhibits, revising his recommended rate of return on common equity and updating four exhibits filed with his testimony on November 4, 2019.

On November 27, 2019, CWSNC and the Public Staff (Stipulating Parties) filed a Joint Partial Settlement Agreement and Stipulation (Stipulation). On that date, the Public Staff also filed exhibits and supporting schedules for the Stipulation.

On December 2, 2019, CLCA filed a resolution opposing CWSNC's rate increase Application but requesting that CLMS' rates be set as part of CWSNC's uniform rate division.

The expert witness hearing was held as scheduled beginning on December 2, 2019. All prefiled testimony and exhibits filed in the consolidated dockets were admitted into evidence without objection. All parties agreed to waive cross-examination on all prefiled direct testimony with respect to the issues the parties resolved by Stipulation.

During the hearing the Commissioners requested certain additional information in the form of late-filed exhibits. The Public Staff filed the late-filed exhibits of Public Staff witnesses Casselberry and Henry on December 9 and 11, 2019, respectively. CWSNC filed the late-filed exhibits of Company witnesses DeStefano, D'Ascendis, and Mendenhall on December 13, 2019.

On January 10, 2020, CWSNC filed the affidavit of its Financial Planning and Analysis Manager, Matthew Schellinger, providing the updated amount of regulatory commission expense agreed to by CWSNC and the Public Staff.

On January 13, 2020, the Public Staff filed Revised Settlement Exhibits I and II providing the final expense information of CWSNC and the Public Staff's final revised recommendation.

Based upon the foregoing, including the verified Application and accompanying NCUC Form W-1, the testimony and exhibits of the public witnesses appearing at the hearings, the testimony and exhibits of the expert witnesses received into evidence, the Stipulation, and the entire record herein, the Commission makes the following:

## **FINDINGS OF FACT**

### **General Matters**

1. CWSNC is a corporation duly organized under the laws of and is authorized to do business in the State of North Carolina. It is a franchised public utility providing water and sewer utility service to customers in 38 counties in North Carolina. CWSNC is

a wholly-owned subsidiary of Corix Regulated Utilities, Inc. (Corix),<sup>4</sup> previously known as Utilities, Inc.

2. CWSNC is properly before the Commission pursuant to Chapter 62 of the North Carolina General Statutes for a determination of the justness and reasonableness of its proposed rates and charges for the water and sewer utility service it provides to customers in North Carolina.

3. The appropriate test year for use in this proceeding is the 12-month period ending March 31, 2019, updated for known and measurable changes through the close of the expert witness hearing.

4. CWSNC's present rates for water and sewer service have been in effect since February 21, 2019, pursuant to the Commission's Sub 360 Order.

### **The Stipulation**

5. On November 27, 2019, the Stipulating Parties filed the Stipulation, resolving all but two of the contested issues between CWSNC and the Public Staff in this matter.

6. The Stipulation is the product of give-and-take in negotiations between the Stipulating Parties, is material evidence in this proceeding, and is entitled to be given appropriate weight in this case along with the other evidence of record, including that submitted by the Company, the Public Staff, and the public witnesses who testified at the public witness hearings.

7. The Stipulation is a settlement of matters in controversy in this proceeding as between the Stipulating Parties and was not joined in nor objected to by CLCA, the other party to the proceeding.

8. The two remaining contested issues (Unsettled Issues) which were not resolved by the Stipulation between CWSNC and the Public Staff are:

- a. Rate of return on common equity; and
- b. CWSNC's request for deferred accounting treatment of certain costs related to the Automatic Meter Reading (AMR) meter installation projects in the Fairfield Mountain and Conestee Falls systems.

<sup>4</sup> Pursuant to the Articles of Amendment filed with the Illinois Secretary of State, Department of Business Services on July 25, 2019, Utilities Inc, changed its corporate name to Corix Regulated Utilities, Inc. Corix owns regulated utilities which provide water and sewer utility service to approximately 190,000 customers in 17 states, with primary service areas in Florida, North Carolina, South Carolina, Louisiana, and Nevada.

## Acceptance of Stipulation

9. The Stipulation will provide CWSNC and its ratepayers just and reasonable rates when combined with the rate effects of the Commission's decisions regarding the Unsettled Issues in this proceeding.

10. The provisions of the Stipulation are just and reasonable to all parties to this proceeding, as well as the CWSNC ratepaying customers, and serve the public interest.

11. It is appropriate to approve the Stipulation in its entirety.

## Customer Concerns and Service

12. As of the 12-month period ended March 31, 2019, CWSNC served approximately 30,724 water customers and 20,105 wastewater customers, including CLMS. For the same period, CWSNC also had 3,532 water availability customers in Carolina Forest, Woodrun, Linville Ridge, Sapphire Valley, Connestee Falls, and Fairfield Harbour; and 1,274 sewer availability customers in Sapphire Valley, Connestee Falls, and Fairfield Harbour. CWSNC operates 96 water utility systems and 37 sewer utility systems.

13. A total of 23 witnesses testified at the six public witness hearings held for the purpose of receiving customer testimony.<sup>5</sup> In general, public witness testimony at those hearings primarily dealt with objections to the rate increase with some customers raising concerns about quality of service, including, but not limited to, old equipment, delays in attention to meter repair, hardness of the water, digital meter boxes installed below the water table, boil water notices (including incidents and related communication), sewer spills in the lake at Connestee Falls, fluoride in the water, the ratio of base to fixed charges, response time to some inquiries, mineral content, the proposed Consumption Adjustment Mechanism, and the requirement of paying sewer charges while a home was unoccupied due to hurricane damage.

14. As of November 15, 2019, the Public Staff had received approximately 316 written customer statements of position from CWSNC customers. The service areas represented by those submitting such statements are: Belvedere (1), Brandywine Bay (2), Carolina Pines (1), Carolina Trace (11), Corolla Light/Monteray Shores (1), Connestee Falls (48), Fairfield Harbour (33), Kings Grant (1), Sapphire Valley (2), The Point (161), Treasure Cove (1), Ski Mountain (1) Waterglyn, (1) Woodhaven (1), and unspecified service areas (51).<sup>6</sup> All of the customers objected to the magnitude and frequency of the

<sup>5</sup> As noted above in the procedural history, there were no witnesses in Manteo, four in Charlotte, none in Boone, nine in Asheville, four in Raleigh, and six in Jacksonville.

<sup>6</sup> Approximately 80% of the customer statements came from four subdivisions or systems. Public Staff witness Casselberry testified that nearly all of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program.

Company's rate increases. Their primary concern was that CWSNC's request for another rate increase was so soon after the most recent increase was granted in February 2019. Customers were also concerned about the rate of return on common equity requested, the increase in rates compared to inflation, the impact of recent federal corporate income tax reductions, and the ratio of the base facility charge to volumetric charges. The majority of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program.<sup>7</sup>

15. CWSNC filed four verified reports with the Commission addressing the service-related concerns and other comments by witnesses who testified at the public witness hearings. The reports described each of the witnesses' specific service-related concerns and comments, the Company's response, and how each concern and comment was resolved or addressed, if applicable.

16. The Company's customers in the Bradfield Farms Subdivision, Brandywine Bay, and the Fairfield Harbour Service Area testified to hardness of the water and unpleasant taste, conditions that are not regulated by the North Carolina Department of Environmental Quality (DEQ).

17. It is appropriate for CWSNC to provide an estimate of the cost of installing a central water filter system for Bradfield Farms Subdivision and the Fairfield Harbour Service Area, for the homeowners' association's consideration, within 60 days of the final order in this case, as recommended by the Public Staff.<sup>8</sup>

18. CWSNC has continued its course of increased attention to the communications component of service to customers since the Company's last rate case, with a positive emphasis on more proactive communications and the expansion of several social media platforms.

19. The Public Staff's description of the quality of service provided by CWSNC as "good" is supported by the record in this case.

20. The overall quality of service provided by CWSNC is adequate.

<sup>7</sup> Public Staff witness Casselberry testified that the primary objections of customers at The Point Subdivision were that: (1) customers in The Point Subdivision were being penalized and that the block rates should apply to all CWSNC customers, (2) the average consumption did not take into account customers who live on the lake and use lake water for irrigation, (3) the covenants do not allow individual wells for irrigation, and (4) the conditions and rules for landscaping would increase the average bill by approximately 30% if the block tiered rates were approved.

<sup>8</sup> Public Staff witness Casselberry testified that in CWSNC's previous rate case, Sub 360, filed in 2018, the Public Staff investigated whether installing a central water filter system for Fairfield Harbour was a prudent investment. In that proceeding the Public Staff determined it was not a prudent investment because most customers had individual water softeners and filter systems in their homes and the cost in 2011 to install the system was approaching \$1 million dollars. However, since it still remains an issue with customers at Fairfield Harbour and Bradfield Farms, the Public Staff recommended that if the majority of homeowners want a central water filter system, a monthly surcharge could be added to customer bills in those service areas to recover the costs for the systems.

**Rate Base**

21. The appropriate level of rate base used and useful in providing service is \$132,897,368 for CWSNC’s combined operations, itemized as follows:

Item	Amount
Plant in service	\$238,212,084
Accumulated depreciation	<u>(57,897,943)</u>
Net plant in service	180,314,141
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	(0)
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$132,897,368</u></u>

**Operating Revenues**

22. The appropriate level of operating revenues under present rates for use in this proceeding is \$33,968,582, consisting of service revenues of \$33,852,232 and miscellaneous revenues of \$387,492, reduced by uncollectibles of \$271,142.

**Maintenance and General Expense**

23. The appropriate level of maintenance expense and general expense for combined operations for use in this proceeding is \$14,897,501 and \$6,560,142, respectively.

24. It is appropriate for CWSNC to recover total rate case expenses of \$519,416 related to the current proceeding and \$649,806 of unamortized rate case costs related to the prior proceedings in Docket Nos. W-354, Sub 356 (Sub 356) and W-354, Sub 360 (Sub 360).

25. It is appropriate to amortize the total rate case costs for the current and prior proceedings over five years and to include an annual level of costs in the amount of

\$73,911 related to miscellaneous regulatory matters, resulting in an annual level of rate case expense of \$307,755, as agreed to by the Stipulating Parties.

### **Storm Reserve Fund and Normalized Storm Damage Expense**

26. It is reasonable and appropriate for CWSNC to include in rates an annualized level of storm expenses in its maintenance and repair expense, based on a ten-year average of the Company's actual storm costs. This is the first general rate case proceeding in which CWSNC has sought Commission approval of a normalized level of storm expenses to be included in base rates. As part of the Stipulation CWSNC and the Public Staff agreed that CWSNC would rescind its request for a storm reserve fund and that the calculation of normalized storm damage expense would be based on a ten-year average of the Company's actual storm costs rather than utilizing the Company's requested three-year average.

27. The appropriate annual amount of normalized storm costs that should be included in the Company's rates in this case is \$34,567, as set out in the Stipulation.

### **Hurricane Florence Expense**

28. It is reasonable and appropriate for CWSNC to include in rates the incremental operating and maintenance (O&M) costs amounting to \$146,773 incurred by the Company related to Hurricane Florence.

29. The Company and the Public Staff have agreed to use deferral accounting treatment for Hurricane Florence storm-related expenses, which will be amortized over three years.

30. It is appropriate to include in the Company's maintenance and repair expense Hurricane Florence storm-related costs in the amount of \$48,924, as set out in the Stipulation.

### **Deferral of Wastewater Treatment Plant and AMR Meter Installation Projects**

31. In its Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects in Sub 365 CWSNC requested deferral accounting treatment for post-in-service depreciation expense and financing costs (carrying costs) related to the Connestee Falls wastewater treatment plant (WWTP) project in Buncombe County; the Nags Head WWTP project in Dare County; the Fairfield Mountain AMR meter installation project in Transylvania County; and the Connestee Falls AMR meter installation project, also in Buncombe County.

32. During the test year for this rate case CWSNC earned a return on equity per books of 1.63% on a consolidated basis. The Company's current rates were set in the Sub 360 rate case effective for service rendered on and after February 21, 2019, based upon an authorized rate of return on common equity of 9.75%. CWSNC invested



approximately \$22 million of additional capital in its North Carolina water and sewer systems since the Sub 360 rate case, which served to depress its post-test year earned rate of return on common equity.

33. Each of the four capital projects covered by the Petition requesting deferral accounting treatment was completed and placed in service prior to the expert witness hearing in these proceedings. As evidenced by the Stipulation, CWSNC and the Public Staff agreed to the Company's deferral of incremental post-in-service depreciation expense and financing costs of the two WWTP projects and to the amount of the costs to be included in the rate case.

34. The Public Staff did not agree to deferral accounting treatment for the incremental post-in-service depreciation expense and return on capital expenditures relating to the two AMR meter installation projects.

35. In this case the two WWTP projects subject to the Company's deferral request were prudent and necessary to the provision of service, and the costs for each of those projects were reasonable and prudently incurred. CWSNC and the Public Staff agree that the Company should be authorized to defer post-in-service costs of \$1,098,778 for the two WWTP projects (\$520,144 for Connestee Falls and \$578,634 for Nags Head). CWSNC and the Public Staff also agree that the rate of return on common equity impact is 434 basis points for the Uniform Sewer Rate Division.

36. The project costs for each of the two WWTP projects, considered both collectively and singularly, are unusual or extraordinary in that they represent major capital investments in the Company's infrastructure; they are non-routine projects which are of considerable complexity and major significance; and they are necessary to CWSNC's provision of safe, adequate, reliable, and affordable utility service in this state. The WWTP costs are of a magnitude that would have an adverse material impact on the Company's financial condition if they are not afforded deferral accounting treatment.

37. It is reasonable and appropriate for CWSNC to receive deferral accounting treatment for the post-in-service depreciation expense and carrying costs related to the Company's capital investments in the WWTPs placed in service at Nags Head and Connestee Falls during the pendency of this proceeding.

38. The Company should be authorized to defer and amortize post-in-service depreciation expense and carrying costs in the amount of \$1,098,778 related to its capital investments in the Nags Head and Connestee Falls WWTPs for the ten- and eight-month periods, respectively, from their in-service dates until the projects are included for recovery in base rates, as stipulated between CWSNC and the Public Staff. These costs should be amortized over a period of five years.

39. CWSNC expects significant ongoing capital needs at levels comparable to the \$22 million additional capital it invested in its North Carolina water and sewer systems since the Sub 360 rate case. Deferral accounting treatment for the post-in-service costs

related to the two WWTPs is appropriate to support the Company's ability to earn its authorized return and, as a result, could impact CWSNC's ability to finance needed investments on reasonable terms. Accordingly, deferral accounting treatment for the two WWTP costs will have a favorable impact on CWSNC's earnings and financial standing in general thereby enhancing the Company's ability to access and obtain capital on favorable terms and such results will accrue to the benefit of the Company's customers as well as to its investors.

40. The two AMR meter installation projects included in CWSNC's deferral accounting request were prudent and the costs for the installation were reasonable and prudently incurred. CWSNC and the Public Staff agree that the rate of return on common equity impact is 24 basis points for the Uniform Water Rate Division.<sup>9</sup> CWSNC and the Public Staff also agree that the requested cost deferral amount related to the AMR meter installation costs is \$64,736 for the eight-month period from their in-service dates until the projects are included for recovery in base rates in this case.

41. The two AMR meter installation projects in the Fairfield Mountain and Connestee Falls service areas are not unusual or extraordinary, and thus the incremental post-in-service depreciation expense and carrying costs related to the two projects are not appropriate for deferral accounting treatment.

### **Depreciation and Amortization Expense**

42. The appropriate level of depreciation and amortization expense for combined operations for use in this proceeding is \$5,026,554.

### **Franchise, Property, Payroll, and Other Taxes**

43. The appropriate level of franchise, property, payroll, and other taxes for use in this proceeding is \$795,507 for combined operations, consisting of (\$655) for franchise and other taxes, \$268,734 for property taxes, and \$527,428 for payroll taxes.

### **Regulatory Fee and Income Taxes**

44. It is reasonable and appropriate to calculate regulatory fee expense using the regulatory fee rate of 0.13% effective July 1, 2019, pursuant to the Commission's June 18, 2019 Order issued in Docket No. M-100, Sub 142. The appropriate level of regulatory fee for use in this proceeding is \$44,159.

<sup>9</sup> Calculated on a rate division basis, per Public Staff DeStefano Cross-Examination Exhibit 2. The total company ROE impact is 13 basis points as shown on Public Staff witness Henry Late-Filed Exhibit 4, Line 9.

45. It is reasonable and appropriate to use the current North Carolina corporate income tax rate of 2.50% to calculate CWSNC's revenue requirement. The appropriate level of state income taxes for use in this proceeding is \$75,474.

46. It is reasonable and appropriate to use the federal corporate income tax rate of 21.00% to calculate CWSNC's revenue requirement. The appropriate level of federal income taxes for use in this proceeding is \$618,133.

47. It is appropriate to calculate income taxes for ratemaking purposes based on the adjusted level of revenues and expenses and the tax rates for utility operations.

### **The Federal Tax Cuts and Jobs Act**

48. CWSNC's federal protected EDIT should continue to be flowed back in accordance with the Reverse South Georgia Method (RSGM) as ordered by the Commission in the Sub 360 Order.

49. It is reasonable and appropriate, for purposes of this proceeding, for CWSNC to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in the Sub 360 Order.

50. CWSNC's North Carolina EDIT recorded pursuant to the Commission's May 13, 2014 Order Addressing the Impacts of HB 998 on North Carolina Public Utilities issued in Docket No. M-100, Sub 138 should continue to be amortized in accordance with the Commission's Sub 356 Order.

### **Capital Structure, Cost of Capital, and Overall Rate of Return**

51. The cost of capital and revenue increase approved in this order is intended to provide CWSNC, through sound management, the opportunity to earn an overall rate of return of 7.39%. This overall rate of return is derived from applying an embedded cost of debt of 5.36%, and a rate of return on common equity of 9.50%, to a capital structure consisting of 50.90% long-term debt and 49.10% common equity.

52. A 9.50% rate of return on common equity for CWSNC is just and reasonable in this general rate case.

53. A 49.10% equity and 50.90% debt ratio is a reasonable and appropriate capital structure for CWSNC in this case.

54. A 5.36% cost of debt for CWSNC is reasonable and appropriate for the purpose of this case.

55. Any increase in the Company's rate for service will be difficult for some of CWSNC's customers to pay, in particular for those considered to be low-income customers.

56. Continuous safe, adequate, reliable, and affordable water and wastewater utility service by CWSNC is essential to CWSNC's customers.

57. The rate of return on common equity and capital structure approved by the Commission appropriately balances the benefits received by CWSNC's customers from CWSNC's provision of safe, adequate, and reliable water and wastewater utility service with the difficulties that some of CWSNC's customers will experience in paying the Company's increased rates.

58. The 9.50% rate of return on common equity and the 49.10% equity capital structure approved by the Commission balance CWSNC's need to obtain equity and debt financing with its customers' need to pay the lowest possible rates.

59. The authorized levels of overall rate of return and rate of return on common equity set forth above are supported by competent, material, and substantial record evidence; are consistent with the requirements of N.C.G.S. § 62-133; and are fair to CWSNC's customers generally and in light of the impact of changing economic conditions.

### Revenue Requirement

60. CWSNC's rates should be changed by amounts which, after all pro forma adjustments, will produce the following increases in revenues:

<u>Item</u>	<u>Amount</u>
CWSNC Uniform Water	\$ 1,778,015
CWSNC Uniform Sewer	2,929,386
BF/FH/TC Water	96,561
BF/FH Sewer	<u>141,797</u>
Total	<u>\$4,945,759</u>

These increases will allow CWSNC the opportunity to earn a 7.39% overall rate of return, which the Commission has found to be reasonable upon consideration of the findings in this order.

### Rate Design

61. Regarding the CLMS sewer service area, CWSNC has maintained the CLMS system at the same rates for the last four general rate cases (Docket No. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates. In this proceeding the Company proposes to consolidate the CLMS sewer service area rates with the Uniform

Sewer Rate Division rates, as the total Uniform Sewer revenue requirement is currently sufficient to allow for such consolidation of rate structures. It is reasonable and appropriate at this time to consolidate the CLMS sewer service area rates with the Company's Uniform Sewer rates. This rate design is supported by both the Public Staff and CLCA.

62. It is reasonable and appropriate for CWSNC's rate design for water utility service for its Uniform Water and Bradfield Farms/Fairfield Harbour/Treasure Cove (BF/FH/TC) Water residential customers to be based on a 50/50 ratio of base charge to usage charge, and to use an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers, as set out in the Stipulation.

63. The rates and charges included in Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are just and reasonable and should be approved.

### **Water and Sewer System Improvement Charges**

64. Consistent with Commission Rules R7-39(k) and R10-36(k), CWSNC's WSIC and SSIC surcharges will reset to zero as of the effective date of the approved rates in this proceeding.

65. Pursuant to N.C.G.S. § 62-133.12, the cumulative maximum charges that the Company can recover between rate cases cannot exceed 5% of the total service revenues approved by the Commission in this rate case.

### **Recommendations of the Public Staff**

66. It is reasonable and appropriate for the Company, in its next general rate case filing, to ensure that its NCUC Form W-1, Item 26 has been carefully reviewed so that the filing does not include double bills, that the Company accounts for multi-unit customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills, are not included in the filing.

67. It is reasonable to approve an increase in the Company's reconnection fee from \$27.00 to \$42.00.

68. The connection charge of \$1,080 for water and \$1,400 for sewer for Winston Pointe Subdivision, Phase IA, recommended by the Public Staff is reasonable and appropriate.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1–4

### General Matters

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings are informational, procedural, and jurisdictional in nature and are not contested by any party.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5–11

### The Stipulation and Acceptance of Stipulation

The evidence supporting these findings of fact is found in the Stipulation, the testimony of both CWSNC's and the Public Staff's witnesses, the affidavit of Matthew Schellinger, and Revised Settlement Exhibits I and II.

On November 27, 2019, CWSNC and the Public Staff entered into and filed a Partial Settlement Agreement and Stipulation, which memorializes their agreements on some of the issues in this proceeding. Attached to the Stipulation is Settlement Exhibit 1, which demonstrates the impact of the Stipulating Parties' agreements on the calculation of CWSNC's gross revenue for the test year ended March 31, 2019. Thus, the Stipulation is based upon the same test period as the Company's Application, adjusted for certain changes in plant, revenues, and costs that were not known at the time the case was filed, but are based upon circumstances occurring or becoming known through the close of the expert witness hearing. In addition to the Stipulating Parties' agreements on some of the issues in this proceeding, the Stipulation provides that CWSNC and the Public Staff agree that the Stipulation reflects a give-and-take partial settlement of contested issues, and that the provisions of the Stipulation do not reflect any position asserted by either CWSNC or the Public Staff, but instead reflect compromise and settlement between them. The Stipulation provides that it is binding as between CWSNC and the Public Staff, and that it is conditioned upon the Commission's acceptance of the Stipulation in its entirety. No party filed a formal statement or presented testimony indicating opposition to the Stipulation. During the expert witness hearing in response to a question from the Commission, CLCA indicated that it has no objection to the Stipulation. Tr. vol. 9, 200–01. There are no other parties to this proceeding.

The key aspects of the Stipulation are as follows:

- **Tariff Rate Design** – The Stipulating Parties agree that rate design in this case should be based on a 50/50 ratio of fixed/volumetric revenues for the Uniform Water and BF/FH/TC Water residential customers and an 80/20 ratio of fixed/volumetric revenues for the Uniform Sewer residential customers.

- **Capital Structure** – The Stipulating Parties agree that the capital structure appropriate for use in this proceeding is a capital structure consisting of 49.10% common equity and 50.90% long-term debt at a cost of 5.36%.
- **Property Insurance Expense** – The Stipulating Parties agree to the Company's rebuttal position of \$279,912.
- **Treatment of Water Service Corporation (WSC) Rent Expense** – The Stipulating Parties agree to the Public Staff's calculation of WSC's rent expense for its Chicago, Illinois office lease as reflected in Revised Feasel Exhibit I, Schedule 3-11.
- **Water Loss Adjustment for Purchased Water Expense** – The Stipulating Parties agree upon a 20% water loss threshold for Whispering Pines, Zemoso Acres, Woodrun, High Vista, and Carolina Forest subdivisions.
- **Purchase Acquisition Adjustment (PAA) Amortization Expense Rates** – The Company agrees to the Public Staff's PAA amortization rates per Revised Feasel Exhibit I, Schedule 3-15.
- **Storm Reserve Fund and Storm Expense** – The Company agrees to rescind its request to implement its proposed Storm Reserve Fund, and to utilize the Public Staff's position per Revised Feasel Exhibit I, Schedule 3-4.
- **Application of Hurricane Florence Insurance Proceeds** – The Public Staff agrees to the Company's rebuttal position removing insurance overpayments to date from the insurer.
- **Accumulated Deferred Income Taxes (ADIT)** - The Company agrees to the Public Staff's proposed calculations of ADIT regarding unamortized rate case expense. The Stipulating Parties agree to revise ADIT for any updates made to rate case expense deferrals.
- **Deferral Accounting for Capital Investments in WWTPs** - The Stipulating Parties agree that deferral accounting treatment for post-in-service depreciation expense and carrying costs related to the Company's capital investments in WWTPs placed in service at Nags Head and Connestee Falls during the pendency of this proceeding is reasonable and appropriate.
- **Regulatory Commission Expense** - The Stipulating Parties agree to a methodology for calculating regulatory commission expense, also known as rate case expense, and agreed to update the number in Settlement Exhibit 1, Line 41, for actual and estimated costs once supporting documentation is provided by the Company. The Stipulating Parties agreed to amortize rate case expenses for a five-year period.

- **Revenue Requirement** – The Stipulating Parties agree to certain other revenue requirement issues designated as “Settled Items” on Settlement Exhibit 1, which was attached to the Stipulation and is incorporated by reference therein.

As the Stipulation has not been adopted by all of the parties to this docket, its acceptance by the Commission is governed by the standards set out by the North Carolina Supreme Court in *State ex rel. Utils. Comm’n v. Carolina Util. Customers Ass’n, Inc.*, 348 N.C. 452, 500 S.E.2d 693 (1998) (*CUCA I*), and *State ex rel. Utils. Comm’n v. Carolina Util. Customers Ass’n, Inc.*, 351 N.C. 223, 524 S.E.2d 10 (2000) (*CUCA II*). In *CUCA I*, the Supreme Court held that:

a stipulation entered into by less than all of the parties as to any facts or issues in a contested case proceeding under Chapter 62 should be accorded full consideration and weighed by the Commission with all other evidence presented by any of the parties in the proceeding. The Commission must consider the nonunanimous stipulation along with all the evidence presented and any other facts the Commission finds relevant to the fair and just determination of the proceeding. The Commission may even adopt the recommendations or provisions of the nonunanimous stipulation as long as the Commission sets forth its reasoning and makes “its own independent conclusion” supported by substantial evidence on the record that the proposal is just and reasonable to all parties in light of all the evidence presented.

348 N.C. at 466, 500 S.E.2d at 703. However, as the Court made clear in *CUCA II*, the fact that fewer than all of the parties have adopted a settlement does not permit the Court to subject the Commission’s order adopting the provisions of a nonunanimous stipulation to a “heightened standard” of review. *CUCA II*, 351 N.C. at 231, 524 S.E.2d at 16. Rather, the Court said that Commission approval of the provisions of a nonunanimous stipulation “requires only that the Commission ma[k]e an independent determination supported by substantial evidence on the record [and] . . . satisf[y] the requirements of [C]hapter 62 by independently considering and analyzing all the evidence and any other facts relevant to a determination that the proposal is just and reasonable to all parties.” *Id.* at 231-32, 524 S.E.2d at 17.

Based upon the foregoing and the entire record herein, the Commission finds that the Stipulation was entered into by the Stipulating Parties after full discovery and extensive negotiations, that the Stipulation is the product of give-and-take in settlement negotiations between CWSNC and the Public Staff, and that the Stipulation represents a reasonable and appropriate resolution of certain specific matters in dispute in this proceeding. In making this finding the Commission gives substantial weight to the testimony of CWSNC witness DeStefano and the testimony and supporting exhibits of Public Staff witnesses Henry and Feasel which support the Stipulation, and notes that no party expressed opposition to the provisions of the Stipulation. In addition when the provisions of the Stipulation are compared to CWSNC's Application and the recommendations included in the testimony of the Public Staff's witnesses, the Stipulation



results in a number of downward adjustments to the expenses sought to be recovered by CWSNC, and resolves issues, some of which were more important to CWSNC and, others of which were more important to the Public Staff. Therefore, the Commission further finds that the Stipulation is material evidence to be given appropriate weight in this proceeding, along with all other evidence of record, including that submitted by CWSNC, the Public Staff, CLCA, and the public witnesses who testified at the hearings.

In addition, the Commission finds that the Stipulation is a nonunanimous settlement of matters in controversy in this proceeding and that the Stipulation resolves only some of the disputed issues between CWSNC and the Public Staff. The Stipulation leaves the following Unsettled Issues to be resolved by the Commission: (1) rate of return on common equity; and (2) the deferral of expenses related to the installation of AMR meters in the Company's Fairfield Mountain and Connestee Falls service areas.

After careful consideration the Commission finds that when combined with the rate effects of the Commission's decisions regarding the foregoing Unsettled Issues, the Stipulation strikes a fair balance between the interests of CWSNC to maintain its financial strength at a level that enables it to attract sufficient capital on reasonable terms, on the one hand, and its customers to receive safe, adequate, reliable, and affordable water and sewer service at the lowest reasonably possible rates, on the other. The Commission finds that the resulting rates are just and reasonable to both CWSNC and its ratepayers. In addition, the Commission finds that the provisions of the Stipulation are just and reasonable to all parties to this proceeding and serve the public interest, and that it is appropriate to approve the Stipulation in its entirety.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-20**

### **Customer Concerns and Service**

The evidence supporting these findings of fact is found in the testimony of the public witnesses appearing at the hearings, in the testimony of Public Staff witness Casselberry, in the testimony and exhibits of CWSNC witnesses DeStefano and Mendenhall, and in the verified reports filed by CWSNC in response to the concerns testified to by the public witnesses at hearings.

On June 28, 2019, CWSNC filed an application for a general rate increase, which was verified by CWSNC's Financial Planning and Analysis Manager. The Application stated that CWSNC presently serves approximately 34,915 water customers and 21,403 sewer customers in North Carolina. The Company's service territory spans 38 counties in North Carolina, from Corolla in Currituck County to Bear Paw in Cherokee County.

The Commission held hearings throughout CWSNC’s service territory for the purpose of receiving testimony from members of the public, and particularly from CWSNC’s water and wastewater customers, as follows:

<u>Hearing Date</u>	<u>Location</u>	<u>Public Witnesses</u>
September 5, 2019	Charlotte	William Colyer, Rachel Fields, William Michael Wade, and James Sylvester
September 10, 2019	Manteo	None
October 8, 2019	Boone	None
October 9, 2019	Asheville	Chuck Van Rens, Jack Zinselmeier, Jeff Geisler, Phil Reitano, Jeannie Moore, Linda Huber, Brian McCarthy, Ron Shuping, and Steve Walker
October 14, 2019	Raleigh	Alfred Rushatz, Vince Roy, Mark Gibson, and David Smoak
October 22, 2019	Jacksonville	Danny Conner, Ralph Tridico, James C. Kraft, John Gumbel, David Stevenson, and Irving Joffe

Public Staff witness Casselberry testified that her investigation included a review of customer complaints, contact with the DEQ Division of Water Resources (DWR) and Public Water Supply Section (PWSS), review of Company records, and analysis of revenues at existing and proposed rates. Tr. vol. 8, 78. Witness Casselberry testified that she contacted the seven regional offices in North Carolina. The PWSS identified four water systems – Riverwood, Meadow Glen, Wood Trace, and Sapphire Valley – which required action by CWSNC; DWR identified three wastewater treatment plants – CLMS, Carolina Trace, and Asheley Hills – which required action by CWSNC. Witness Casselberry investigated each concern and testified that CWSNC has taken the necessary actions and that the Public Staff is satisfied that the concerns reported by PWSS and DWR have been addressed or are in the process of being resolved. Tr. vol. 8, 81.

In addition, witness Casselberry testified that she had reviewed approximately 316 consumer statements of position from CWSNC customers received by the Public Staff as a result of this proceeding. Witness Casselberry stated that the service areas represented by those submitting statements are Belvedere (1), Brandywine Bay (2), Carolina Pines (1), Carolina Trace (11), Corolla Light/Monteray Shores (1), Connestee Falls (48), Fairfield Harbour (33), Kings Grant (1), Sapphire Valley (2), The Point (161), Treasure Cove (1), Ski Mountain (1), Waterglyn (1), Woodhaven (1), and unspecified service areas (51). Tr. vol. 8, 96. She testified that all customers objected to the magnitude of the rate increase. She indicated that public witnesses’ primary concern was

that CWSNC's request for another rate increase was filed just four months after it had been granted an increase in rates in February 2019. Most of the customers in Connestee Falls said there was no justification for such a large increase, that they had to pay the base charge for service when they were not occupying their homes, and that they experienced numerous leaks and boil water advisory notices over the summer. The customers in Fairfield Harbour said that they were still recovering from Hurricane Florence and that they could not afford an increase. They also stated that the water quality was poor and that they had to install individual softeners and filter systems. Nearly all of the customers in The Point Subdivision opposed CWSNC's proposed Pilot Program. Their primary objections were that (1) customers in The Point were being penalized, and that the block rates should apply to all CWSNC customers, (2) the average consumption did not take into account customers who live on the lake and use lake water for irrigation, (3) the covenants do not allow individual wells for irrigation, and (4) the conditions and rules for landscaping would increase the average bill by approximately 30 percent if the block tiered rates were approved. Tr. vol. 8, 96–101. Customer concerns were addressed in Public Staff witness Casselberry's supplemental testimony filed on November 15, 2019.

Witness Casselberry also testified regarding service and water quality complaints registered by customers at each of the five public hearings. Tr. vol. 8, 111. She stated that she had read each of the four reports filed by CWSNC in response to the customer concerns and complaints which were included in testimony at the public hearings. Witness Casselberry testified that there were a few isolated service issues which the Company had addressed or was in the process of resolving.

After reviewing the testimony and complaints of the customers regarding water quality and hardness in the Fairfield Harbour and Bradfield Farms service areas, witness Casselberry stated CWSNC should provide an estimate of the cost of installing a central water filter system for Bradfield Farms Subdivision, Tr. vol. 8, 102–03, and the Fairfield Harbour Service Area, Tr. vol. 8, 109–110, for the homeowners' associations' consideration.

With the exception of her recommendation for Bradfield Farms Subdivision and the Fairfield Harbour Service Area, witness Casselberry had no additional comments or recommendations. Tr. vol. 8, 111. She testified that CWSNC's quality of service is good. Tr. vol. 8, 111. Witness Casselberry also testified that the quality of water meets the standards set forth by the Safe Drinking Water Act and is satisfactory. Tr. vol. 8, 111.

With regard to the concerns expressed by customers about the Company's proposed Pilot Program to test conservation rates in The Point Subdivision, the Commission acknowledges that this matter is no longer an issue in this proceeding because CWSNC withdrew its request for authority to implement its proposed Pilot Program on November 18, 2019. CWSNC stated its withdrawal of the Pilot Program was based on the Public Staff's opposition to CWSNC's proposed Pilot Program in the present case and the existence of the Commission's generic rate design proceeding in Docket No. W-100, Sub 59 (Sub 59). CWSNC noted that the Company will continue to actively

participate in the Commission's Sub 59 generic rate design proceeding to explore and consider rate design proposals that may better achieve the Company's desire for revenue sufficiency and stability, while also sending appropriate signals to consumers that support and encourage water efficiency and conservation.

Additionally, in CWSNC's November 18, 2019 filing, the Company withdrew its request for the consumption adjustment mechanism (CAM) proposed in this proceeding. CWSNC stated its withdrawal for the CAM was prompted by the Commission's initiation of a rulemaking proceeding in Docket No. W-100, Sub 61 on November 14, 2019; the Public Staff's testimony in this matter recommending that the Commission deny CWSNC's request to implement a CAM; and the Company's expectation that other water and wastewater providers will seek to have input on the implementation of any CAM guidelines. CWSNC maintained that the contested issues concerning the requested CAM are more suitable for resolution in the generic proceeding than in this rate case proceeding.

Based upon the foregoing, and after careful review of the testimony of the customers at the public hearings, the Company's reports on customer comments, the Public Staff's engineering and service quality investigation, and the late-filed exhibits submitted by CWSNC and the Public Staff, the Commission concludes that, consistent with the statutory requirements of N.C.G.S. § 62-131(b), the overall quality of service provided by CWSNC is adequate, efficient, and reasonable.

## **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21**

### **Rate Base**

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Company witness DeStefano, the testimony of Public Staff witnesses Feasel and Henry, the Stipulation, and Revised Settlement Exhibits I and II.

The following table summarizes the differences between the Company's level of rate base from its Application and the amounts recommended by the Public Staff:

Item	Company Per Application	Difference	Amount Per Public Staff
Plant in service	\$217,460,239	\$20,751,845	\$238,212,084
Accumulated depreciation	(\$55,739,757)	(\$2,158,186)	(\$57,897,943)
Net plant in service	161,720,483	18,593,659	180,314,141
Cash working capital	2,467,676	(62,876)	2,404,800
Contributions in aid of construct.	(40,916,105)	645,430	(40,270,675)
Advances in aid of construction	(32,940)	0	(32,940)
Accum. deferred income taxes	(6,699,939)	704,495	(5,995,444)
Customer deposits	(304,114)	(11,333)	(315,447)
Inventory	271,956	0	271,956
Gain on sale and flow back taxes	(131,695)	(286,116)	(417,811)
Plant acquisition adjustment	(873,734)	35,856	(837,878)
Excess book value	(331)	331	0
Cost-free capital	(261,499)	0	(261,499)
Average tax accruals	125,013	(268,211)	(143,198)
Regulatory liability for EDIT	(3,941,344)	0	(3,941,344)
Deferred charges	2,252,645	(129,938)	2,122,707
Pro forma plant	17,195,228	(17,195,228)	0
Original cost rate base	\$130,871,300	\$2,026,068	\$132,897,368

On the basis of the Stipulation and revisions made by the Public Staff in its Revised Settlement Exhibits I and II, the Company and the Public Staff are in agreement concerning all components of rate base except for the amount of cash working capital. Therefore, the Commission finds that the uncontested adjustments to rate base recommended by the Public Staff are appropriate adjustments to be made in this proceeding.

CWSNC and the Public Staff disagree on the amount of cash working capital to include in rate base for use in this proceeding due to the unsettled issue concerning the deferral accounting treatment of the AMR meter installation projects in Fairfield Mountain and Connestee Falls. Based on the testimony of Company witness DeStefano, CWSNC disagrees with the Public Staff's recommendation to deny deferral accounting treatment for the two AMR meter installation projects. As a result of their differing positions concerning this issue and its effect on their respective recommended level of maintenance and repair expense, CWSNC and the Public Staff recommend different amounts for cash working capital to include in rate base, \$2,406,418 and \$2,404,800, respectively.

Based on the conclusions reached elsewhere in this order concerning the deferral accounting treatment for AMR meter installation projects in Fairfield Mountain and Connestee Falls, the Commission concludes that the appropriate amount for cash

working capital is \$2,404,800. Consequently, the appropriate level of rate base for combined operations for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Plant in service	\$238,212,084
Accumulated depreciation	(\$57,897,943)
Net plant in service	180,314,141
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	0
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	0
Original cost rate base	<u>\$132,897,368</u>

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 22

### Operating Revenues

The evidence supporting this finding of fact is found in the testimony of Public Staff witnesses Feasel and Casselberry, and Company witness DeStefano. The following table summarizes the differences between the Company's level of operating revenues under present rates from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
<u>Operating Revenues:</u>			
Service revenues	\$33,269,517	\$582,715	\$33,852,232
Miscellaneous revenues	353,280	34,212	387,492
Uncollectible accounts	<u>(246,348)</u>	<u>(24,794)</u>	<u>(271,142)</u>
Total operating revenues	<u>\$33,376,449</u>	<u>\$592,133</u>	<u>\$33,968,582</u>

Based on the Stipulation and the revisions made by the Public Staff in its Feasel Revised Exhibits I and II, the Company does not dispute the following Public Staff adjustments to operating revenues under present rates:

<u>Item</u>	<u>Amount</u>
Reflect pro forma level of service revenues	\$582,715
Adjustment to forfeited discounts	10,128
Adjustment to sale of utility property	24,084
Adjustment to uncollectible accounts	<u>(24,794)</u>
Total	<u>\$592,133</u>

For reasons discussed elsewhere in this order, the Commission has found that the adjustments listed above are appropriate adjustments to be made to operating revenues under present rates in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of operating revenues under present rates for combined operations for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Service revenues	\$33,852,232
Miscellaneous revenues	387,492
Uncollectible accounts	<u>(271,142)</u>
Total operating revenues	<u>\$33,968,582</u>

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 23-25**

### **Maintenance and General Expenses**

The evidence for these findings of fact is found in the verified Application and the accompanying NCUC Form W-1; the testimony of Public Staff witnesses Feasel, Henry, and Darden; the testimony of Company witnesses DeStefano and Mendenhall; the affidavit of Matthew Schellinger; and the Revised Settlement Exhibits I and II.

The following table summarizes the differences between the Company's requested level of maintenance and general expenses and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company Per Application</u>	<u>Difference</u>	<u>Amount Per Public Staff</u>
<b><u>Maintenance Expenses:</u></b>			
Salaries and wages	\$5,143,430	(\$193,719)	\$4,949,710
Purchased power	2,110,722	(7,679)	2,103,043
Purchased water & sewer	2,171,965	47,278	2,219,243
Maintenance and repair	2,955,315	165,620	3,120,935
Maintenance testing	546,264	(1,832)	544,432
Meter reading	206,176	0	206,176
Chemicals	713,452	(19,856)	693,596
Transportation	539,115	(4,915)	534,200
Operating expenses charged to plant	(615,663)	(49,470)	(665,133)
Outside services - other	1,219,715	(28,417)	1,191,299
Total maintenance expenses	<u>\$14,990,492</u>	<u>(\$92,991)</u>	<u>\$14,897,501</u>
<b><u>General Expenses:</u></b>			
Salaries and wages	\$2,386,901	(\$382,491)	\$2,004,409
Office supplies and other office expense	569,400	(536)	568,864
Regulatory commission expense	303,485	4,269	307,754
Pension and other benefits	1,531,096	69,062	1,600,158
Rent	392,552	(62,244)	330,308
Insurance	664,043	118,519	782,562
Office utilities	751,728	(4,058)	747,670
Miscellaneous	355,931	(137,513)	218,417
Total general expenses	<u>\$6,955,135</u>	<u>(\$394,993)</u>	<u>\$6,560,142</u>

***Regulatory Commission Expense***

In his January 10, 2020 affidavit, Matthew Schellinger provided an amount of \$519,416 for the actual costs incurred to date and the estimated expense to be incurred related to this rate case. Affiant Schellinger requested that the Commission approve total rate case costs of \$1,169,222 to be amortized over five years. He stated that the \$1,169,222 includes \$649,806 for unamortized rate case expense from prior proceedings plus \$519,416 related to this case. Affiant Schellinger commented that the annual amortization expense for rate case costs for this proceeding total \$233,844 (\$1,169,222 amortized over five years). Affiant Schellinger also requested that the Commission include in regulatory commission expense an annual amount of \$73,911 in miscellaneous regulatory costs for filings and compliance type activities not directly related to rate case costs. He maintained that these expenses are a direct cost of service, are not disputed, and were agreed upon between CWSNC and the Public Staff in the Stipulation. In sum, Affiant Schellinger requested that the Commission include a total annual amount of



\$307,755 in regulatory commission expense in this proceeding, consisting of rate case costs of \$233,844 and miscellaneous regulatory costs of \$73,911.

The Public Staff stated that it has reviewed the invoices and other supporting documents along with the rate case expense spreadsheet provided by CWSNC and found that the types of rate case expense in this rate case matched the nature of the expense in prior rate cases and the amount of these expenses in the current proceeding are appropriate and reasonable to be included in this rate case. The Public Staff and the Company are in agreement that the miscellaneous regulatory matters costs in the Company's books as provided in the affidavit of Matthew Schellinger should also be included as regulatory commission expense to be recovered in this rate case as a reasonable cost of service incurred by CWSNC. Therefore, in light of the foregoing the Commission finds that it is appropriate and reasonable to amortize the sum of the total rate case costs of \$519,416 for the current proceeding and the unamortized rate case cost balance of \$649,806 from the prior rate cases over five years and to include an annual level of costs in the amount of \$73,911 related to miscellaneous regulatory matters, resulting in an annual level of regulatory commission expense of \$307,755 to be recovered in this proceeding.

On the basis of the Stipulation and revisions made by the Public Staff in Henry Revised Exhibit I, Feasel Revised Exhibits I and II, and Revised Settlement Exhibits I and II, the Company and the Public Staff are in agreement concerning all adjustments recommended by the Public Staff to maintenance and general expenses except for maintenance and repair expense. Therefore, the Commission finds that the uncontested adjustments to maintenance and general expenses recommended by the Public Staff are appropriate adjustments to be made in this proceeding.

CWSNC and the Public Staff disagree on the amount of maintenance and repair expense to include in maintenance and general expenses in this proceeding due to the unsettled issue concerning the deferral accounting treatment of the AMR meter installation projects in Fairfield Mountain and Connestee Falls. Based on the testimony of Company witness DeStefano, CWSNC disagrees with the Public Staff's recommendation to deny deferral accounting treatment for the two AMR meter installation projects. As a result of their differing positions concerning this issue, CWSNC and the Public Staff recommend differing amounts for maintenance and repair expense, \$3,133,882<sup>10</sup> and \$3,120,935, respectively. The Company included an amount of \$12,947 (\$64,736 amortized over five years) in maintenance and repair expense related to its requested deferral accounting treatment for the two AMR meter installation projects whereas the Public Staff did not.

Based on the conclusions reached elsewhere in this Order concerning the deferral accounting treatment for the AMR meter installation projects in Fairfield Mountain and

<sup>10</sup> See page 160 of the Company's proposed order filed on January 10, 2020, in these dockets which includes the agreed-upon pro forma adjustments per the Stipulation and CWSNC's recommendations concerning the two unsettled issues in this rate case.

Connestee Falls, the Commission concludes that the appropriate level of maintenance and repair expense for combined operations for use in this proceeding is \$3,120,935.

Based upon the foregoing, the Commission concludes that the appropriate level of maintenance and general expenses for combined operations for use in this proceeding are as follows:

Item	Amount
<u>Maintenance Expenses:</u>	
Salaries and wages	\$4,949,710
Purchased power	2,103,043
Purchased sewer	2,219,243
Maintenance and repair	3,120,935
Maintenance testing	544,432
Meter reading	206,176
Chemicals	693,596
Transportation	534,200
Operation exp. charged to plant	(665,133)
Outside services - other	1,191,299
Total maintenance expenses	<u>\$14,897,501</u>
<u>General Expenses:</u>	
Salaries and wages	<u>\$2,004,409</u>
Office supplies and other office expense	568,864
Regulatory commission expense	307,754
Pension and other benefits	1,600,158
Rent	330,308
Insurance	782,562
Office utilities	747,670
Miscellaneous	218,417
Total general expenses	<u>\$6,560,142</u>

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 26-27**

### **Storm Reserve Fund and Normalized Storm Damage Expense**

The evidence for these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Public Staff witnesses Feasel and Henry, and the Stipulation and Revised Settlement Exhibits I and II.

In the Company's Application, it requested to establish a storm reserve fund to support extraordinary O&M costs resulting from damages sustained in severe storms such as Hurricane Florence. CWSNC witness DeStefano testified that CWSNC proposes to create a monthly, flat surcharge for each active customer's water and sewer service bill until the reserve threshold of \$250,000 is reached. Witness DeStefano commented that CWSNC proposed to collect a monthly surcharge of \$0.42 per customer per month

based on the threshold of \$250,000. In addition, this is the first general rate case proceeding in which CWSNC seeks Commission approval of a normalized level of storm expenses to be included in base rates. In NCUC Form W-1, Item 10, Schedule 24, the Company used three years (2016–2018) to calculate the average storm cost requested to be recovered in this rate case. Witness DeStefano maintained that the storm reserve fund would only be utilized if the Company's storm costs for the last 12 months exceed the level of normalized storm expenses included in the base rate revenue requirement.

Public Staff witness Henry testified that in addition to the storm reserve fund, CWSNC applied to include in rates a normalized level of storm expense calculated using a three-year average of actual storm expenses incurred, excluding Hurricane Florence expenses. Witness Henry stated that ten years has historically been used to calculate the average storm cost because a ten-year time period would include some years in which storm costs were high and others in which they were low, resulting in a more reasonable average than that which would result from using only the three most recent years. Additionally, witness Henry stated that using a ten-year time period has been approved by the Commission in prior decisions. For the reasons set forth in his prefiled testimony, witness Henry recommends that the Commission deny CWSNC's request for a storm reserve fund. In the Stipulation the Company agreed to rescind its request to implement its proposed storm reserve fund and also agreed to the Public Staff's use of a ten-year average for storm costs. The Stipulating Parties have agreed to a normalized level of storm expenses in the amount of \$34,567, to be included in maintenance and repair expense.

Therefore, in light of the foregoing the Commission concludes that it is appropriate and reasonable to continue its historical practice of using a ten-year time period as the standard for calculating average annualized storm costs to be recovered in the Company's rates as an ongoing level of expense. Consequently, the appropriate annual level of normalized storm costs that should be included in CWSNC's rates in this proceeding is \$34,567, as set out in the Stipulation.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 28-30**

### **Hurricane Florence Expense**

The evidence supporting these findings of fact is found in the Company's Petition for Accounting Order in Sub 363, the testimony of Company witness DeStefano, the testimony of Public Staff witnesses Henry and Feasel, the Stipulation, Settlement Exhibit I, and Revised Settlement Exhibits I and II in Sub 364.

On January 17, 2019, CWSNC filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss in Sub 363 requesting an accounting order authorizing it to establish a regulatory asset and defer until the Company's next general rate case costs incurred in connection with damage to the Company's water and wastewater systems resulting from the impacts of Hurricane Florence. Additionally, the Company

sought Commission approval to defer O&M costs, lost revenues, and depreciation expense on its capital investments. According to the Sub 363 Petition, CWSNC's facilities suffered extensive damage due to the storm, particularly in the coastal region of the Company's service territory.

CWSNC stated that it incurred extraordinary, unplanned operating and capital costs, as well as lost revenues from customers who were forced to disconnect their service due to damage to their homes. Additionally, the Company provided invoices to the Public Staff showing that it has incurred, to date, \$146,773 in storm-related incremental O&M expenses, \$582,570 in capital investments, and \$46,320 in estimated revenue loss. In its comments filed on April 4, 2019, the Public Staff did not object to CWSNC's recovery of a substantial portion of its 2018 verified storm O&M costs and deferral accounting treatment for the incremental O&M costs related to Hurricane Florence; however, it opposed CWSNC's request to defer depreciation expense associated with the Company's capital investments and lost revenues. Additionally, the Public Staff recommended that the amortization period begin as of October 2018, the date of the storm, and not begin with the effective date of the Company's next general rate case, which is the instant case, Sub 364, filed on June 28, 2019.

After considering prior cases and the tests applied by the Commission, the Public Staff determined that "the damage to CWSNC's system from Hurricane Florence was greater than that caused by any other storm in the Company's history, which will affect the Company's rate of return on common equity. The Public Staff concluded that this is an exceptional circumstance justifying some deferral of costs." Public Staff's Sub 363 Comments. However, in opposing CWSNC's request to defer depreciation expense associated with the Company's capital costs and lost revenues, the Public Staff cited the Commission's order in the last Duke Energy Progress, LLC. (DEP), general rate case, Docket No. E-2, Sub 1142, where DEP's request for deferral of depreciation expense, return on the undepreciated balance of capital costs, and the carrying costs on the entirety of the deferred costs was denied.

The Public Staff, therefore, recommends the following:

- (a) that the Commission approve a deferral of \$146,773 in 2018 Hurricane Florence storm O&M expenses, but no deferral of CWSNC's depreciation expense or lost revenues;
- (b) that CWSNC be required to amortize the costs deferred over a three-year period beginning in October 2018;
- (c) that upon final determination of the actual amount of costs of Hurricane Florence the Company be required to file a final accounting of said costs with the Commission for review and approval;
- (d) that approval of this accounting procedure is without prejudice to the right of any party to take issue with the amount of or the ratemaking treatment accorded these costs in any future regulatory proceeding; and
- (e) that any applicable insurance proceeds received by CWSNC will be used to offset the deferred O&M expenses.

As shown in Settlement Exhibit I, witness Feasel calculated a total deferral amount of \$146,773 for the incremental O&M costs related to the 2018 storm costs with an amortization period of three years beginning in October 2018, using the procedure recommended by witness Henry. The Company and the Public Staff agree to the amount of Hurricane Florence storm-related costs included in Settlement Exhibit I as noted in the Stipulation.

The Commission finds and concludes that it is just and reasonable for the Company to receive deferral accounting treatment for the incremental O&M costs amounting to \$146,773 in Hurricane Florence storm costs and that these costs should be amortized over three years. Consequently, it is appropriate to include in CWSNC's maintenance and repair expense Hurricane Florence storm-related costs in the amount of \$48,924, as set out in the Stipulation.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 31-41**

### **Deferral of WWTP Projects and AMR Meter Installation Projects**

The evidence for these findings of fact is found in the record of Sub 365, including the initial comments of the Public Staff and the reply comments of the Company; the testimony of Company witnesses DeStefano and Mendenhall; the testimony and exhibits of Public Staff witnesses Henry, Feasel, and Junis; the Stipulation, and Revised Settlement Exhibits I and II.

#### ***Summary of the Evidence***

On June 28, 2019, contemporaneously with the Sub 364 rate case application, the Company filed a Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects in Sub 365.

On September 20, 2019, the Public Staff filed comments, and on October 21, 2019, CWSNC filed reply comments. On November 15, 2019, the Company filed a motion to consolidate the Sub 365 docket with the Sub 364 rate case proceeding, which was granted by Commission order dated November 19, 2019.

In its Sub 365 petition, CWSNC describes four major new projects that were in progress and would be placed in service after the close of the test year but during the pendency of this general rate case proceeding. The Company requests authority to defer the incremental post-in-service depreciation expense and financing costs of those projects and then to recover those costs in the rates approved in Sub 364, amortized over a five-year period. The four projects are:

- (a) Connestee Falls WWTP in Buncombe County;
- (b) Nags Head WWTP in Dare County;
- (c) Fairfield Mountain AMR meters installed in Transylvania County; and
- (d) Connestee Falls AMR meters installed in Buncombe County.

CWSNC witness DeStefano's testimony explained that the accounting and cost recovery treatment of these projects would have a material impact on the Company's ability to earn its authorized return from its last rate case. The Company requests deferral of incremental post-in-service depreciation expense and financing costs on these four projects from their respective in-service dates until the projects are included for recovery in base rates in this case.

Company witness Mendenhall described the four projects. He stated that the Connestee Falls WWTP project involved the installation of a "sequencing batch reactors" treatment facility which replaced a 300,000 gallons per day (gpd) concrete plant installed in the early 1970s. He noted that the plant is located in the mountains and exposed to winter weather, including cold, ice, and snow. These conditions led to the serious erosion of exposed areas of concrete, most significantly the above-the-waterline walls and walkways, due to years of "freeze/thaw" cycles. Witness Mendenhall maintained that the concrete deterioration had reached the point of "end of life" of the asset and that the old plant presented a high risk of failure. He stated that the build-out needs of the community require 460,000 gpd of wastewater treatment capacity and that the new plant was built adjacent to the existing plant. He commented that the cost of the project was \$7,177,326 and that it was placed in-service on July 31, 2019.

Witness Mendenhall testified that the Nags Head WWTP project consisted of the installation of a new membrane treatment facility to allow for effluent disposal below permitted nitrate levels in groundwater monitoring wells. He explained that the purpose of this project was to modify the existing Aeromod 0.400 million gallon per day (mgd) plant with membrane filtration to provide reuse-quality effluent to meet groundwater nitrate and total dissolved solids (TDS) compliance testing limits. Witness Mendenhall noted that in 2018, the Division of Water Quality, DEQ, issued a Notice of Violation requiring the plant to comply with current groundwater testing limits of 500 mg/L for TDS and 5 mg/L for nitrates. He stated that the previous plant met the wastewater treatment plant effluent limits but was unable to meet the newly imposed groundwater limits for the monitoring wells. Witness Mendenhall maintained that had the new facility not been constructed, the risk of imposition of severe penalties or a consent decree was high. He noted that the cost of the project was \$6,876,116, and it was placed in-service on May 31, 2019.

Witness Mendenhall further stated that in 2019, CWSNC continued to expand its AMR meter footprint in its mountain systems. He commented that approximately 2,500 AMR meters were installed in the Connestee Falls and Fairfield Mountain Subdivisions. Witness Mendenhall testified that benefits of AMR meter technology to customers and the Company include: (1) customer satisfaction with data and billing accuracy; (2) improved customer service; (3) reduction in re-read/re-billing; (4) employee safety, especially during hazardous weather events; (5) replacement of inaccurate meters which can improve non-revenue water percentages; and (6) customer interaction with respect to personal consumption habits and trends. He noted that while AMR technology would be beneficial to CWSNC customers across the state, the mountain area systems, in particular, benefit due to the extreme weather events and related safety hazards that are common in this region. Witness Mendenhall testified that the Connestee Falls and

Fairfield Mountain AMR meter installation projects were completed by July 31, 2019, at a total cost of \$880,209.

At the time this rate case and CWSNC's deferral accounting Petition were filed Company witness DeStefano estimated that implementing these four projects would create a material drag on the consolidated Company's earned rate of return on common equity of 193 basis points. Witness DeStefano testified that the Company included in its rate case filing both a calculation of the deferral balances and proposed amortizations of the deferrals, as well as a pro forma adjustment relating to O&M savings that will result from the implementation of the AMR meter projects<sup>11</sup>. Public Staff witness Darden confirmed in her testimony that the Company included in this rate case proceeding a pro forma adjustment of \$21,000 to remove the meter reading expense for the Fairfield Mountain and Connestee Falls water systems because AMR meters do not require an operator to read each meter individually.

According to Public Staff witness Henry, all of the foregoing projects were completed and in service as of the date of the expert witness hearing as verified by Public Staff witness Casselberry, and final invoices were reviewed by the Public Staff. Tr. vol. 8, 172.

In its Sub 365 comments, the Public Staff recommended that the requested deferral accounting treatment with respect to the cost of the WWTPs at Nags Head and Connestee Falls be granted and that the requested deferral accounting treatment with respect to the AMR meters installed in Fairfield Mountain and Connestee Falls be denied in its entirety.

The Public Staff commented that in its Order Approving Deferral Accounting with Conditions in Docket No. E-7, Sub 874, the Commission stated:

[T]he Commission has historically treated deferral accounting as a tool to be allowed only as an exception to the general rule, and its use has been allowed sparingly. That is due, in part, to the fact that deferral accounting, typically, provides for the future recovery of costs for utility services provided to ratepayers in the past; and . . . the longer the deferral period, the greater the likelihood that the ratepayers who are ultimately required to pay rates including the deferred charges, which are related to resources consumed by the utility in providing services in earlier periods, may not be the same ratepayers who received the services. The Commission has also been reluctant to allow deferral accounting because it, typically, equates to single-issue ratemaking for the period of deferral, contrary to the well-established, general ratemaking principle that all items of revenue and costs germane to the ratemaking and cost-recovery

<sup>11</sup> See NCUC Form W-1, Item 10, Schedules 26 and 34, filed June 28, 2019.

process should be examined in their totality in determining the appropriateness of the utility's existing rates and charges.

Order Approving Deferral Accounting with Conditions, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Environmental Compliance Costs and the Incremental Costs Incurred From the Purchase of a Portion of Saluda River's Ownership in the Catawba Nuclear Station*, No. E-7, Sub 874, at 24 (N.C.U.C. Mar. 31, 2009) (DEC Sub 874 Order).

In addition the Public Staff noted that in its Order Approving in Part and Denying in Part Request for Deferral Accounting in Docket No. E-7, Sub 1029, the Commission stated, "In determining whether to allow deferral requests, the Commission has consistently and appropriately based its decision on whether, absent deferral, the costs in question would have a material impact on the company's financial condition, and in particular, the company's achieved level of earnings." Order Approving in Part and Denying in Part Request for Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Advanced Clean Coal Cliffside Unit 6 Steam Generating Plant, the Dan River Natural Gas Combined Cycle Generating Plant, and the Capacity-Related Modifications at the McGuire Nuclear Generating Plant*, No. E-7, Sub 1029, at 12-13 (N.C.U.C. Apr. 3, 2013).

Thus, the Public Staff maintained that the Commission's receptivity to deferral requests is not unlimited or without regard for traditional ratemaking principles. Rather, the Public Staff stated that the Commission requires a clear and convincing showing that the costs in question were of an unusual or extraordinary nature and that, absent deferral, the costs for which deferral was requested would have a material impact on the Company's financial condition.

In determining whether to grant a deferral request the Public Staff noted that the Commission analyzes the impact the costs would have on currently achieved earnings of the utility. The Public Staff stated that the appropriate test and criteria are as follows:

The impact on earnings, typically, has been measured and assessed in terms of ROE, considered in conjunction with (1) the return on equity (ROE) realized and (2) the company's currently authorized ROE. Also . . . current economic conditions; the Company's need for new investment capital; and the impact that the Commission decision will have on future availability and cost of such capital are also relevant to the appropriate resolution of matters of this nature. Additionally, whether the company has requested or is contemplating requesting a general rate increase and the timing, or proposed timing, of the filing of such a request is also pertinent.

DEC Sub 874 Order at 26.

The Public Staff stated in its Sub 365 comments that it had evaluated the deferrals requested in CWSNC's petition against the above criteria. Based on these criteria and



other Commission decisions, the Public Staff supported deferral accounting treatment for the costs related to the WWTP projects at Nags Head and Connestee Falls. The Public Staff based its recommendation on the fact that (1) costs for the WWTPs were related to major construction projects that, at the time the Sub 365 comments were filed, were not yet in service but expected to be completed and in operation prior to the date of the expert witness hearing in this general rate case; (2) the deferral accounting request was made contemporaneously with the filing of the rate case application; and (3) the deferral period would not be so long as to cause undue concern that the ratepayers who pay rates including the deferred WWTP costs during the deferral period may not be the same ratepayers who receive service from the WWTPs. Sub 365 Comments at 6–7. Additionally, the Public Staff stated that “the impact of the costs, if not deferred, on the Company’s rate of return on common equity of 9.75% approved in the Sub 360 Rate Case, will be significant. Without deferral, the Company’s earnings can be expected to decline due to the WWTPs becoming plant in service.” *Id.* at 7. Thus, the Public Staff contended that the WWTPs at Nags Head and Connestee Falls presented the kind of circumstances in terms of nature, impact, and timing for which deferral accounting treatment is appropriate.

Moreover, as evidenced by the Stipulation filed on November 27, 2019, the Company and the Public Staff are in agreement that the Company’s request to defer incremental post-in-service depreciation expense and financing costs of the WWTPs at Nags Head and Connestee Falls is appropriate and have agreed that the Company should be authorized to defer its costs of \$1,098,778 related to its WWTPs, and these costs should be amortized over five years, for an annual amount to be included in rates of \$219,756.

With respect to the Public Staff’s recommendation that the Commission deny deferral accounting treatment for the AMR meters installed in Fairfield Mountain and Connestee Falls, the Public Staff stated it used the same criteria for evaluating the Company’s request for deferral of the WWTPs and the AMR meter costs and concluded that CWSNC’s request for deferral of the AMR meter costs should be denied. Witness Henry contended that CWSNC failed to make a clear, complete, and convincing showing, in view of the entire record, that the costs of the AMR meters are of an unusual or extraordinary nature and, absent deferral, will have a material impact on the Company’s financial condition. In his direct testimony, witness Henry referred the Commission to the Public Staff’s initial comments filed on September 20, 2019 in Sub 365.

In its Sub 365 initial comments, the Public Staff contended that meter replacement of any kind (AMR, AMI, traditional, etc.) is not an extraordinary or unusual project but should be considered routine and as part of a properly planned and managed meter replacement program. The Public Staff stated that water meters have an industry recognized 10- to 20-year useful life before degradation of functionality and accuracy necessitate replacement. Additionally, the Public Staff stated that CWSNC has water meters in service that range in age and condition, and that it is not unusual for a water and sewer utility to undertake, during one time period, to replace a large number of aged meters in an entire subdivision or service area because doing so promotes efficiency of

time and cost. Due to the nature of meter replacement being an expected and usual occurrence, the Public Staff stated that the only different or unusual aspect of the Company's replacement project is the increased cost of the new AMR meters over the cost of analog meters. The Public Staff further noted that although the Company stated that the upgraded technology will benefit the Company and the customers, the Company's decision to upgrade does not change the nature of the typical and expected meter replacement project. The Public Staff maintained that the increased cost of AMR meters and the number of meters replaced is the result of management decisions within CWSNC's control and a failure of the Company to implement a systematic and measured meter replacement program.

On cross-examination witness Henry confirmed that the Public Staff's accounting investigation did not raise any prudence issues with respect to the costs incurred by the Company to complete the AMR meter installation projects, that the Public Staff did not recommend any significant disallowance of any part of these costs for ratemaking purposes, that this is the third rate case in which the Company has included costs for AMR meters for its mountain systems, and that the Public Staff did not raise any objections or questions about the prudence of the installations or of the costs of prior AMR meter installations in the previous two cases. He also agreed that deferred accounting is one way to address the issue of regulatory lag faced by a utility.

Further, witness Henry agreed that the \$22 million in additional investment made by the Company since its last rate case is a significant amount of investment of capital for a company the size of CWSNC and that those investments result in regulatory lag, depending on the timing of the investments and when those investments are incorporated for recovery in rates. He also updated his estimate of earnings erosion that would occur if CWSNC's request for deferral of costs related to AMR meter installation projects is denied based upon the Company's updated project costs. He testified that the Company's rate of return on common equity for the Uniform Water Rate Division would be negatively impacted by 24 basis points if the Commission denies deferral accounting treatment for the AMR meter installation projects. Witness Henry testified that he added the AMR meter installation projects to the rate case model that was used to calculate the gross revenue and overall rate of return allowed by the Commission in the Sub 360 Rate Order. Witness Henry stated that by including the AMR meter installation projects in that model for the Uniform Water Rate Division the rate of return on common equity granted in the Sub 360 case was decreased from 9.75% to 9.51%, a decrease of 24 basis points. Tr. vol. 8, 180. Witness Henry maintained that it was appropriate to evaluate the rate of return on common equity impact at the Rate Division level because CWSNC has four separate rate divisions: Uniform Water, Uniform Sewer, BF/FH/TC Water, and BF/FH Sewer. He stated that each of these rate divisions has a separate rate base, revenues, expenses, and rate of return. Tr. vol. 8, 217-18. Witness Henry further stated that rates have not been established on a total company basis in this rate case nor in prior rate cases filed by CWSNC.

Witness Henry agreed that, in addition to the basis point impact on rate of return on common equity, the Commission has considered the actual earned rate of return on

common equity of the utility requesting deferral accounting when addressing whether non-deferral of project costs would have a material negative impact on a company's financial condition. Further, he agreed that the Commission considers deferral requests on a case-by-case basis.

On cross-examination Public Staff witness Junis expanded upon witness Henry's conclusion that the Company's AMR meter installation projects did not meet the Commission's criteria for deferral accounting. He maintained that the projects were not unusual or extraordinary because they were the result of a business choice by the Company to install AMR meter technology. Tr. vol. 8, 191. He stated that the Company could have installed traditional meters rather than AMR meters. Witness Junis testified that meter replacement should be a part of normal business. Further, he stated that AMR meters are not providing service to customers or improving service to customers and thus they are not integral to providing service. Tr. vol. 8, 198. Witness Junis distinguished AMR meters from new electricity generation investments or wastewater treatment plant investments, stating that the latter are integral to providing quality service. *Id.*

Witness Junis discounted CWSNC's claim that the Company is underearning because the underearning took place primarily under previously set rates, before the current rates were established by the last rate order in Sub 360. Tr. vol. 8, 205. Witness Junis contended that for this reason, the test period would not be the "proper window to look at when considering are they under-earning or over-earning" for purposes of the Commission's test to determine whether deferral accounting is appropriate. Tr. vol. 8, 205–06. He testified that the utility decides when it files rate cases; the Company's management decides how much consequence of regulatory lag it can accept and financially tolerate between rate cases. Tr. vol. 8, 195.

On cross-examination, witness Junis acknowledged that the Public Staff's position is that AMR meter installation projects are not eligible for cost recovery in WSIC proceedings because the WSIC statute calls for "in-kind" replacements. Witness Junis testified that the Public Staff does not consider AMR meters as in-kind with regard to differing kinds of meters. Tr. vol. 8, 195–96. He further testified that both deferral accounting and the WSIC and SSIC statute minimize regulatory lag for cost-recovery purposes. He agreed that the fact that the AMR meter installation projects do not qualify for WSIC treatment is worth considering in the context of a deferral accounting request. However, he testified that it should not be a major factor in the determination and ultimately this fact did not change the Public Staff's position that deferral should be denied.

Witness DeStefano presented rebuttal testimony explaining the appropriateness of deferral accounting treatment for the Company's two AMR meter installation projects. First, he testified that major technological upgrades such as the Company's AMR meter projects are the type of projects for which deferral accounting is appropriate. He noted that the Company's AMR meter program involves the mass replacement and technological upgrade of aged analog meters in certain targeted geographical areas, as opposed to the typical individual meter replacements that occur due to aging or damaged

individual meters. He emphasized that this AMR meter program differs dramatically from individual and routine meter replacements in scope, scale, purpose, and financial impact. Witness DeStefano generally testified that the large-scale meter replacement at issue was undertaken to improve service through efficiencies, safety, and advanced technology, and that the project benefitted customers by saving some costs associated with manual meter reading and reducing system water loss. He further testified that the Company would face significant adverse impact if either the four projects subject to the petition to defer or the AMR meter projects alone were not afforded deferral accounting treatment. He explained that the Company's current overall rate of return of 7.75% authorized by the Commission in Sub 360 was not being achieved and that the Company's consolidated actual earned overall return during the test year for the instant rate case was only 3.69%.

Witness DeStefano maintained that the Public Staff's proposed rejection of deferral accounting for the two AMR meter installation projects, as well as the inability of the Company to recover the costs of depreciation and a return on the full investment of AMR meters in a WSIC filing, has the effect of significantly penalizing the Company through denial of timely cost recovery for investments in modernizing its water system operations. Witness DeStefano contended that if the Company's cost recovery for AMR meters is limited solely to a final decision in a general rate case, with no interim deferral accounting, the Company's earnings will be materially affected to its detriment. He reported that other state regulatory commissions have authorized deferral accounting in connection with meter replacement projects although he did not state whether such deferrals related specifically to the deferral of post-in-service depreciation expense and carrying costs from the AMR meter replacement projects in-service dates until the projects are included for recovery in base rates as requested by CWSNC in its petition.

Witness DeStefano urged the Commission to consider the collective financial impact of the four projects, noting that the Commission has previously considered projects on a collective basis when making deferral accounting determinations. Witness DeStefano commented that in the DEC Sub 874 Order, the Commission authorized a utility to use deferred accounting combining costs for two projects, wherein it allowed deferral accounting for both an environmental compliance cost project and the purchase of a portion of a nuclear facility on the grounds that the authorized rate of return on common equity would be eroded due to the rate of return on common equity impact of costs of 114 basis points — 67 for the environmental costs and 47 points for the facility purchase. In its reply comments CWSNC maintained that when considering the four major new projects together, the financial impact to the total Company earnings would be materially adverse, having a rate of return on common equity impact of 187 total basis points.<sup>12</sup>

<sup>12</sup> See updated Schedule 1 attached to CWSNC's reply comments filed on October 21, 2019 in Sub 365. In its Petition filed on June 28, 2019 CWSNC calculated a rate of return on common equity impact of 193 basis points for the four major new projects on a total Company basis.

Finally, witness DeStefano argued that even if the Commission were to evaluate the WWTP and the AMR meter projects separately, the rate of return on common equity impact of the AMR meter costs would still have an adverse material effect on the Company's earnings, and, thus, deferral accounting for the meter projects is merited – particularly given the Company's current underearning position. Witness DeStefano stated that given the Company's size and current underearning status, a 20-basis point AMR meter impact for the Uniform Water Rate Division<sup>13</sup> is unquestionably material to the Company.

During cross-examination Company witness DeStefano was questioned about Public Staff DeStefano Cross-examination Exhibit 1, which contained witness DeStefano's responses to Public Staff Data Request No. 81. Witness DeStefano confirmed that the Company had sought and received rate recovery in its Docket No. W-354, Sub 344 (Sub 344) rate case for AMR meter installation projects that occurred in 2015 in seven systems. The evidence presented confirmed that the Company's Sub 344 rate increase included the costs of 1,157 AMR meters for a total cost of over \$1.2 million, and in the Company's Sub 356 rate case, CWSNC received rate recovery for AMR meter installation projects in three systems, including 2,440 meters, for a total cost of over \$1.8 million. Tr. vol. 9, 158–59. Witness DeStefano also confirmed that the Company planned to complete eight similar projects over the next four years, including nearly 4,000 AMR meter replacements. Witness DeStefano further confirmed that the Company has already completed ten AMR meter projects, including 3,597 meters at a total capital cost of over \$3 million, prior to the two projects presented in this case at a cost of less than \$900,000.

Upon further questioning by the Public Staff witness DeStefano explained why CWSNC requested deferral accounting for two AMR meter projects at issue, but not for its previous AMR meter projects. He explained that the AMR meter projects currently being made are part of a much larger overall capital investment by the Company. He noted that in prior years overall capital investments made by the Company were in the \$10 million per year range, versus \$20 million invested in the current year. As a result, according to witness DeStefano, the deferral accounting request is due in part to the additional regulatory lag impact being experienced by the Company beyond the impact of the AMR meter projects alone. Additionally, he testified that the two AMR meter installation projects for which deferral accounting treatment is currently requested are larger than every meter system previously installed.<sup>14</sup> He explained that installing AMR meters in these two systems in this one year and trying to gain the efficiencies of completing the projects this year increases the financial implications to the Company and the significance of the projects to the Company. In summary witness DeStefano testified that with the magnitude of the capital spending CWSNC anticipates over the next few

<sup>13</sup> During the expert witness hearing, witness DeStefano agreed with Public Staff witness Henry's calculation of a 24-basis point negative impact on CWSNC's earned rate of return on common equity for the Uniform Water Rate Division if deferral accounting treatment for the AMR meter projects is not approved by the Commission.

<sup>14</sup> Company witness Mendenhall added that the 2,500 AMR meters at issue represent about 40% of the total AMR meters installed and about 8% of CWSNC's total meters in service in the State.

years to address aging system needs, the Company is looking for ways to mitigate the effect of regulatory lag on earned returns.

### ***Discussion and Conclusions***

In its Sub 365 Petition CWSNC has requested that the Commission enter an accounting order allowing the Company to defer certain post-in-service costs that were incurred in connection with two WWTP projects and two AMR meter installation projects. The related costs for which the Company seeks deferral include the incremental post-in-service depreciation expense and cost of capital (financing costs) from their respective in-service dates until the projects are included for recovery in base rates in this case. According to the evidence of record, the amounts of such costs with respect to the WWTP projects and the AMR meter installation projects are \$1,098,778 and \$64,736, respectively. The Company contends that the financial impact of these costs is material and would, absent deferral, equate to a significant basis point reduction in the Company's rate of return on common equity. Evidence submitted by the Public Staff confirmed that such projects when included in plant in service would individually equate to a 434-basis point rate of return on common equity reduction for the WWTPs and a 24-basis point rate of return on common equity reduction for the AMR meter installation projects for the Uniform Sewer Rate Division and the Uniform Water Rate Division, respectively. No party has suggested that either the WWTP projects or the AMR meter installation projects are imprudent in any way. Moreover, the Company and the Public Staff are in agreement regarding the amount of costs included in plant in service in this proceeding for the WWTP projects and the AMR meter installation projects.

Under the Company's proposal the costs in question would not be charged against revenues realized during the accounting period in which the costs were actually incurred. Rather, such costs would be deferred and accumulated in a regulatory asset account. As a result, the deferred costs, in effect, would be specifically reserved for recovery prospectively. The period over which the costs would be accumulated in a regulatory asset account would begin when the assets were placed in service and end on the date the Company is authorized to begin charging rates reflecting the inclusion of the WWTPs and the AMR meter installation projects in CWSNC's water and wastewater cost of service. Consequently, approval of CWSNC's deferral and cost recovery proposal would ultimately result in a level of rates, to be charged prospectively, that would specifically include an allowance providing for the recovery of the present deferred costs. On the other hand, if the request for deferral is denied, the Company would then be required to recognize the costs for which it seeks deferral as items of expense in the period in which they were incurred. In this instance, the Company would then be required to recognize those costs during a period in which it contends it is already significantly under-recovering its Commission-authorized return.

Deferral accounting should only be used sparingly as an exception to the general rule that all items of revenue and costs germane to the ratemaking and cost-recovery process should be examined in their totality in determining the appropriateness of the utility's existing rates and charges. DEC Sub 874 Order at 24. Deferral is not favored, in

part, because deferral accounting typically provides for the future recovery of costs for utility services provided to ratepayers in the past. The Commission has also been reluctant to allow deferral accounting because it typically equates to single-issue ratemaking for the period of deferral. *Id.* The Commission acknowledges that considering an increase in one or a few expense items in isolation, without considering reductions in other costs, brings with it the increased risk of over-recovery. However, the Commission gives significant weight in this instance that the consolidation of the Sub 365 petition for deferral accounting with the Sub 364 general rate case means that the concern regarding single-issue ratemaking and the related risk of such over-recovery should be reduced and of lesser concern because all revenues and expenses will have been examined close in time to any possible deferral.

While deferral accounting must not be used routinely or frequently, the Commission has found that an exception can be made when the costs at issue “were reasonably and prudently incurred, unusual or extraordinary in nature, and of a magnitude that would result in a material impact on the Company's financial position (level of earnings).” Order Denying Request to Implement Rate Rider and Schedule Hearing to Consider Request for Creation of Regulatory Asset Account, *Application of Duke Energy Carolinas, LLC, for Approval of Rate Rider to Allow Prompt Recovery of Costs Related to Purchases of Capacity Due to Drought Conditions*, No. E-7, Sub 849, at 19 (N.C.U.C. June 2, 2008) The Commission has, over the years, on infrequent but appropriate occasions, approved requests proposing the use of deferral accounting. Such requests, by necessity, must be examined and resolved on a case-by-case fact-specific basis and will be approved only where the Commission is persuaded by clear and convincing evidence that the costs in question are unusual or extraordinary in nature and that, absent deferral, would have a material impact on the utility's financial condition. *Id.* See also, Order Approving Deferral Accounting with Conditions, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Environmental Compliance Costs and the Incremental Costs Incurred From the Purchase of a Portion of Saluda River's Ownership in the Catawba Nuclear Station*, No. E-7, Sub 874 (N.C.U.C. Mar. 31, 2009); Order Approving Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Buck Natural Gas Combined Cycle Generating Plant and the Bridgewater Hydro Generating Plant*, No. E-7, Sub 999 (N.C.U.C. June 20, 2012) (DEC Sub 999 Order); Order Approving Deferral and Amortization, *Request by Duke Power, A Division of Duke Energy Corporation for Approval of Accounting Treatment*, No. E-7, Sub 776 (Dec. 28, 2004).

In determining whether the costs sought to be deferred or the events or circumstances leading to the costs are of such an unusual or extraordinary nature as to justify an exception to the rule against allowing deferral accounting treatment, the Commission historically examines the record for clear and convincing evidence that the costs in question represent major non-routine, infrequent, non-regularly occurring investments of considerable complexity and significance or were beyond the control of the utility such as storm costs or new operating requirements/standards imposed by newly-enacted legislation or other governmental action. See, Order Approving Deferral Accounting, *Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer*

*Certain Environmental Compliance Costs at Unit 5 of the Cliffside Steam Station*, No. E-7, Sub 966 at 10 (N.C.U.C. June 27, 2011); *Order Ruling on Petition*, Petition of Duke Energy Carolinas, LLC, for an Accounting Order to Defer 2009 and 2010 Non-Fuel Energy Costs Excluded from Cost Recovery in the Commission's August 6, 2010 Order in Docket No. E-7, Sub 934, No. E-7, Sub 967, at 14-15 (N.C.U.C. June 14, 2011); *Order Approving in Part and Denying in Part Request for Deferral Accounting*, Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Capital and Operating Costs Incurred for the Advanced Clean Coal Cliffside Unit 6 Steam Generating Plant, the Dan River Natural Gas Combined Cycle Generating Plant, and the Capacity-Related Modifications at the McGuire Nuclear Generating Plant, No. E-7, Sub 1029, at 13, 15 (N.C.U.C. April 3, 2013); *Order Adopting and Amending Rules, Rulemaking Proceeding to Implement G.S. 62-110.8*, No. E-100, Sub 150 at 22 (November 16, 2017).

In certain circumstances the Commission may find that the magnitude or level of the costs requested for deferral make the costs major, non-routine, or extraordinary. In some cases, the Commission has looked to determine whether costs were unanticipated, unplanned, beyond the control of the utility, and of an infrequent, non-recurring nature; that is, whether the costs and the circumstances of the costs are sufficiently unusual or extraordinary to warrant deferral accounting treatment – a tool not to be used routinely but sparingly as discussed above. *Order Approving Amended Schedule NS and Denying Deferral Accounting, Application by Virginia Electric and Power Company, d/b/a Dominion North Carolina Power, for Approval of Amended Schedule NS*, No. E-22, Sub 517, at 11–12 (N.C.U.C. Mar. 29, 2016). A finding that the magnitude of the costs supports a determination that they are unusual or extraordinary may not, in some circumstances also support a finding that these costs, if not deferred, will have a material adverse impact on the company's financial condition to warrant deferral accounting treatment. In determining whether deferral or non-deferral will have a material impact on the company's financial condition while the Commission may consider other matters, it often examines whether and to what extent the costs incurred will have a significant impact on the level of company earnings and the company's ability to achieve its currently authorized rate of return on common equity. DEP Sub 874 Order at 25–26. In determining materiality, while the Commission may consider other matters, it often examines whether and to what extent the costs incurred will have a significant impact on the level of company earnings and the company's ability to achieve its currently authorized rate of return on common equity. *Id.*

With regard to the WWTP projects, the Commission is persuaded that the costs are of an unusual, extraordinary nature. Both the Company and the Public Staff also agree that the costs associated with the WWTP projects are unusual or extraordinary in nature, as the Commission has used those terms in previous deferral accounting orders and as those terms are commonly understood. The Commission observes as stated in a previous deferral accounting case, “[t]he costs in question are unusual or extraordinary in the sense that they are associated with the incorporation of the costs of two [WWTP] facilities – representing major investments – into the Company's rate structure; which is not a simple, regularly occurring, inconsequential event, but rather, is a major non-routine matter of considerable complexity and major significance.” DEC Sub 999 Order, at 18. In the present proceeding, the evidence demonstrates that the WWTP projects were not an



everyday, regular occurrence but were in fact non-routine, complex, and of major significance and that the associated costs are similarly unusual or extraordinary. The WWTP projects involved the installation of new treatment facilities that were integral to providing wastewater utility service and that were necessitated by conditions causing the old facilities to present unacceptable risks of failure and inability to comply with environmental requirements exposing the company to the further high risk of severe penalties and imposition of a consent decree. Such circumstances and replacement of such major facilities that are at risk of both functional and environmental compliance failure do not occur on a frequent basis.

The Commission is likewise persuaded that absent deferral, the costs will have a material impact on the Company's financial condition. The evidence demonstrates that the Company is not meeting its currently authorized rate of return on common equity and that even if the Sub 360 rate increase had been in effect for a full year, the rate of return on common equity impact of the costs of the WWTP projects would have an adverse impact on the Company's financial condition. The Commission gives significant weight to the undisputed testimony of witness DeStefano that CWSNC's consolidated actual earned rate of return on common equity during the test year for this rate case (the 12-month period ended March 31, 2019) was 1.63%. The Commission further finds credible the evidence that the rate increase in the last rate case was approximately \$1.1 million, which would not make up the difference from an actual rate of return on common equity of 1.63% to 9.75%, CWSNC's authorized rate of return on common equity granted in the Sub 360 Rate Order. Further, the evidence shows that the WWTP investments of approximately \$14 million would result in a 434-basis point rate of return on common equity reduction for the Uniform Sewer Rate Division. The Commission concludes that if the requested deferral for the WWTP projects is not allowed, it would appear that the Company's already low rate of return on common equity would be further eroded and that the Company would not have a reasonable opportunity to earn its authorized rate of return on common equity.

Furthermore, given the Company's depressed level of current earnings and its expected near-term significant financing needs, the Commission determines that deferral of the WWTP costs as requested by CWSNC will have a favorable impact on CWSNC's earnings and financial standing in general. As such, the deferral will enhance the Company's ability to access and obtain capital on more favorable terms, as it will help assure investor confidence in the Company. Such results will ultimately accrue to the benefit of CWSNC's customers.

Moreover, the Company and the Public Staff have agreed by Stipulation that the Company should be allowed to defer the incremental post-in-service depreciation expense and financing costs of the WWTPs at Nags Head and Connestee Falls as requested by CWSNC because they are both unusual in nature and material to the Company's financial condition. In light of the Commission's having accepted the Stipulation in its entirety and in light of the foregoing independent determination based on the evidence of record that the costs at issue are both unusual, non-routine, and material to the Company's financial well-being, the Commission finds the Company's request to

defer post-in-service depreciation and financing costs for the WWTP projects is just and reasonable and should be approved.

Thus, as provided in the Stipulation, Revised Settlement Exhibits I and II, and the testimony of witness Henry (as revised on the stand) and in Henry Late-Filed Exhibits 2, 3, and 4, the Commission finds and concludes that the Company should be authorized to defer its WWTP costs of \$1,098,778 related to its WWTPs (consisting of incremental post-in-service depreciation expense and financing costs from their respective in-service dates until the WWTPs are included for recovery in base rates in this case), and these costs should be amortized over five years, for an annual amount to be included in rates of \$219,756.

Unlike the deferral accounting request related to the WWTP projects, the Public Staff opposed deferral accounting treatment of the costs associated with the two AMR meter installation projects. The Commission agrees with the Public Staff. The Commission finds that the Company provided insufficient evidence that the projects and their associated costs are unusual or extraordinary such as to warrant deferral accounting. While a mass replacement of meters in an entire subdivision is not an everyday occurrence for CWSNC, the Commission is not convinced that such an event is sufficiently unusual or extraordinary to justify special deferral accounting treatment. The need to replace meters on a planned schedule is an anticipated need of the business and the timing and manner of implementation of such replacement, at least as was the case in this proceeding, is entirely within the control of the Company. Further, the Company did not establish by clear and convincing evidence that the meter installation costs sought to be deferred support a finding that the projects or said costs are unusual or extraordinary. On cross-examination witness DeStefano confirmed that the Company had sought and received rate recovery in its Docket No. W-354, Sub 344 (Sub 344) rate case for AMR meter installation projects that occurred in 2015 in seven systems. The evidence presented confirmed that the Company's Sub 344 rate increase included the costs of 1,157 AMR meters, for a total cost of over \$1.2 million, and in the Company's Sub 356 rate case, CWSNC received rate recovery for AMR meter installation projects in three systems, including 2,440 meters, for a total cost of over \$1.8 million. Considering that since 2015 CWSNC has completed ten AMR meter projects, including 3,597 meters at a total capital cost of over \$3 million, the Commission determines that the two AMR meter installation projects for Fairfield Mountain and Connestee Falls in the amount of \$880,209 are not major non-routine, infrequent, non-regularly occurring investments of considerable complexity and significance for CWSNC. Rather, the Commission finds that the two AMR meter installation projects are routine and regularly occurring and are not unusual or extraordinary in nature.

Having determined that the Company failed to establish that its AMR meter installation project and the related costs were unusual or extraordinary such as to justify allowing exceptional deferral accounting treatment, the Commission does not reach the issue of whether the AMR costs sought to be deferred have a material adverse impact on the Company's financial condition or stability. The determination that this project and its related costs are not unusual or extraordinary is dispositive. Therefore, the Company's

petition to defer these costs is not just and reasonable and is denied. However, the Commission emphasizes that decisions such as this one are made on a case-by-case basis, and this decision should not be construed to suggest that costs relating to a meter project can never be allowed deferral accounting treatment. The Commission acknowledges that every request for deferral accounting is shaped by its own unique factual circumstances, and whether an event and its related costs are sufficiently unusual or extraordinary in nature to merit an exception to the general rule against deferral accounting treatment is a determination for the Commission that will be based on the specific facts of each such request. The Commission notes that the Company's request for deferral accounting treatment for costs related to the WWTPs and the two AMR installation projects is determined within the context of this general rate case where the Commission is setting just and reasonable rates on a going-forward basis. The Commission's decision either granting or denying deferral accounting treatment in the present case is made from the standpoint of fairness and equity to both consumers and the Company.

Although deferral accounting is to be employed sparingly, the Commission finds that CWSNC has another option available to use to recover costs associated with future AMR meter deployments. Recognizing the challenges confronting North Carolina's water and wastewater industries in needing to make high cost capital investments to install and replace aging infrastructure, the General Assembly has provided the Commission with a tool specific to water and sewer utilities to alleviate the effects of regulatory lag. Section 62-133.12 authorizes the Commission to approve a rate adjustment mechanism in a general rate case to allow a water or sewer utility to recover the incremental depreciation expense and capital costs associated with reasonable and prudently incurred investment in eligible system improvement projects through the collection from customers of a water or sewer system improvement charge (WSIC or SSIC). The Commission approved such a mechanism for CWSNC in Docket No. W-354, Sub 336 pursuant to an order issued on March 10, 2014. Eligible water system improvements to be recovered by use of WSIC include "distribution system mains, valves, utility service lines (including meter boxes and appurtenances), meters, and hydrants installed as in-kind replacements." N.C.G.S. § 62-133.12(c)(1).

Notwithstanding this tool created to help utilities better manage regulatory lag, both Public Staff witness Junis and CWSNC witness DeStefano testified that, other than deferral, there is currently no rate mechanism such as the WSIC or SSIC mechanism available to the Company to mitigate the regulatory lag and resultant adverse earnings impacts associated with the mass replacement of traditional meters with AMR meters because, according to them, the WSIC and SSIC statute only allows recovery for "in-kind" replacements. Tr. vol. 8, 61-62, 195-96. As is clear from the testimony and CWSNC's stated position in its proposed order, the Company has accepted the Public Staff's interpretation that replacing an analog meter with an AMR meter is not an "in-kind" replacement. Tr. vol. 8, 61-62. The Commission does not agree with this interpretation. Although this question has not previously been brought to the Commission for decision, the Commission holds that the exchange of one type of meter reading device for another type of meter reading device is an "in-kind" replacement as that term is used in

N.C.G.S. § 62-133.12(c)(1). The Public Staff appears to read the words “in kind” to mean “like kind and quality” or perhaps “like grade and quality” but this amounts to an impermissible rewriting of the statute. Such an interpretation would defeat the purpose of providing water and sewer utilities with the opportunity to seek recovery under an approved rate adjustment mechanism. Black’s Law Dictionary defines “in kind” as “of the same species or category” or “in the same kind, class or genus.” Black’s Law Dictionary (5<sup>th</sup> ed. 1979) Bouvier Law Dictionary defines “in kind” as “[p]roperty in its physical form, or property similar to property in issue. In kind refers to specific property, either the property itself in issue or similar property of the same form, quality, and value as the property in issue.” Bouvier Law Dictionary (Desk ed. 2020) The Commission concludes an “in-kind” replacement can be an identical replacement or one that is a reasonable alternative to serve the same purpose. If the General Assembly’s use of “in kind” limited replacement to the exact identical equipment, upgrade replacements could never be eligible improvements for WSIC or SSIC recovery. A utility seeking to replace a non-functioning obsolete item of equipment with the then-current industry standard equipment would be stymied, and the Commission is not able to conclude that such an outcome was intended by a statute that was meant to facilitate repair and replacement of basic items of utility plant and equipment. Accordingly, with regard to AMR meter installation projects planned for the future, CWSNC and the Public Staff should work together pursuant to Commission Rule R7-39 to mitigate regulatory lag using WSIC recovery. However, the Commission’s decision herein does not in any way relieve the Company of its burden to prove its investments are reasonable and prudently incurred as required by N.C.G.S. § 62-133.12 and Commission Rule R7-39(a). Moreover, in its Order Adopting Rules to Implement G.S. § 62-133.12, *Petition for Rulemaking to Implement G.S.62-133.12, North Carolina Session Law 2013-106(House Bill 710)*, No. W-100, Sub 54 (N.C.U.C. June 6, 2014), the Commission concluded that

any rate adjustments authorized under the WSIC and SSIC mechanisms outside of a general rate case will be allowed to become effective, but not unconditionally approved. In other words, the adjustments will be provisional, will not be deemed *prima facie* just and reasonable, and, thus, may be rescinded retroactively in the utility’s subsequent general rate case, at which time the adjustment may be further examined for a determination of its justness and reasonableness.

*Id.* at 5.

The Commission also notes the Company’s testimony and evidence regarding ongoing improvement projects and the need and plans for substantial capital investment in the near future. In consideration of this continuing and anticipated increase in capital spending to address aging infrastructure, the Commission recommends that CWSNC seek to make better use of the WSIC and SSIC mechanisms as a regulatory tool to mitigate the negative effects of regulatory lag for all statutorily allowed system improvement projects.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 42

### Depreciation and Amortization Expense

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Public Staff witnesses Feasel and Henry, and the testimony of Company witness DeStefano. The following table summarizes the differences between the Company's level of depreciation and amortization expenses from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Depreciation expense	\$6,399,241	\$181,470	\$6,580,711
Amortization exp. - CIAC	(1,485,664)	8,710	(1,476,955)
Amortization exp. - PAA	(85,341)	8,718	(76,623)
Amortization of ITC	<u>(579)</u>	<u>0</u>	<u>(579)</u>
Total	<u>\$4,827,656</u>	<u>\$198,898</u>	<u>\$5,026,554</u>

With respect to CWSNC's depreciation expense, in light of the agreements reached in the Stipulation and revisions recommended by the Public Staff in its testimony and reflected in Henry Revised Exhibit I and Feasel Revised Exhibits I and II, the Company does not dispute the adjustments recommended by the Public Staff to depreciation expense. As detailed elsewhere in this Order, the Commission finds that the adjustments recommended by the Public Staff to depreciation expense, which are not contested, are appropriate adjustments to be made to operating revenue deductions in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of depreciation and amortization expense for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Depreciation expense	\$6,580,711
Amortization expense – CIAC	(1,476,955)
Amortization expense – PAA	(76,623)
Amortization of ITC	<u>(579)</u>
Total	<u>\$5,026,554</u>

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 43

### Franchise, Property, Payroll and Other Taxes

The evidence supporting this finding of fact is found in the verified Application and the accompanying NCUC Form W-1, and in the testimony of Public Staff witness Henry and Company witness DeStefano. The following table summarizes the differences

between the Company's level of franchise, property, payroll, and other taxes from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Franchise and other taxes	(\$789)	\$135	(\$655)
Property taxes	268,734	0	268,734
Payroll taxes	<u>596,100</u>	<u>(68,672)</u>	<u>527,428</u>
Total	<u>\$864,045</u>	<u>\$(68,537)</u>	<u>\$795,507</u>

With the Stipulation and revisions made by the Public Staff in its Feasel Revised Exhibits I and II and Henry Revised Exhibit I, the Company does not dispute adjustments recommended by the Public Staff to franchise and other taxes and property taxes. Therefore, the Commission finds that the adjustments recommended by the Public Staff to franchise and other taxes and payroll taxes, which are not contested, are appropriate adjustments to be made to operating revenue deductions in this proceeding.

Based on the foregoing, the Commission concludes that the appropriate level of franchise, property, payroll, and other taxes for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Franchise and other taxes	(\$655)
Property tax	268,734
Payroll taxes	<u>527,428</u>
Total	<u>\$795,507</u>

**EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 44-47**

**Regulatory Fee and Income Taxes**

The evidence supporting these findings of fact is found in the testimony of Public Staff witnesses Boswell and Henry, and of Company witness DeStefano. The following table summarizes the differences between the Company's level of regulatory fee and income taxes from its Application and the amounts recommended by the Public Staff:

<u>Item</u>	<u>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
Regulatory fee	\$56,361	(\$12,202)	\$44,159
State income taxes	218,982	(143,508)	75,474
Federal income taxes	1,793,462	(1,175,329)	618,133
Deferred income taxes	<u>0</u>	<u>(69,128)</u>	<u>(69,128)</u>
Total	<u>\$2,068,805</u>	<u>\$(1,400,167)</u>	<u>\$668,638</u>

### ***Regulatory Fee***

The difference in the level of regulatory fee is due to the differing levels of revenues recommended by the Company and the Public Staff. Based on conclusions reached elsewhere in this Order regarding the levels of revenues, the Commission concludes that the appropriate level of regulatory fee for use in this proceeding is \$44,159.

### ***State Income Taxes***

The difference in the level of state income taxes is due to the differing levels of revenues and expenses recommended by the Company and the Public Staff. Based on the conclusions reached elsewhere in the Order regarding the levels of revenues and expenses, the Commission concludes that the appropriate level of state income taxes for use in this proceeding is \$75,474 based on the current state corporate income tax rate of 2.50%.

### ***Federal Income Taxes***

The difference in the level of federal income taxes is due to the differing levels of revenues and expenses recommended by the Company and the Public Staff. Based on the conclusions reached elsewhere in the Order regarding the levels of revenues and expenses, the Commission concludes that the appropriate level of federal income taxes for use in this proceeding is \$618,133 based on the current federal corporate income tax rate of 21.00%.

### ***Deferred Income Taxes***

With the Stipulation and revisions made by the Public Staff in its Feasel Revised Exhibits I and II, and Henry Revised Exhibit I, and in the testimony of witness Boswell and Boswell Exhibit 1, the Company agreed with the Public Staff adjustment to deferred income tax of \$69,128 to reflect the annual amortization of protected and unprotected federal EDIT.

Based on the foregoing, the Commission concludes that the appropriate level of regulatory fee and income taxes for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Regulatory fee	\$44,159
State income taxes	75,474
Federal income taxes	618,133
Deferred income taxes	<u>(69,128)</u>
Total	<u>\$668,638</u>

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 48-50**

### **The Federal Tax Cuts and Jobs Act**

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the testimony of Company witness DeStefano, the testimony of Public Staff witness Boswell, and the Stipulation and Settlement Exhibit 1.

In its Application and in the direct testimony of CWSNC witness DeStefano, the Company proposes to include adjustments to the reserve balances for both federal protected EDIT and federal unprotected EDIT based upon the Company's final 2017 federal income tax return filed in late 2018. For federal protected EDIT the Company recommends that the Commission conclude that it is appropriate for CWSNC to continue to return the federal protected EDIT balance maintaining the amortization period approved by the Commission in the Sub 360 Order. In addition, in witness DeStefano's testimony, the Company recommends reducing the term of the federal unprotected EDIT rider approved in the Sub 360 Order (originally 48 months with 35 months now remaining) to a two-year (or 24-month) term as of the effective date of the current proceeding.

Public Staff witness Boswell stated in her direct testimony that certain adjustments to book balances and reserves related to EDIT were recorded to CWSNC's books, adjustments that were not reflected in the Company's most recent rate case. She noted that these adjustments affect the balance of both federal protected EDIT and federal unprotected EDIT. Witness Boswell further stated that the adjustments to the federal protected EDIT and federal unprotected EDIT balances are primarily because: (1) the Company took advantage of a late IRS notice stating that regulated utilities were allowed 100% bonus depreciation for those assets placed in service during the period of September 28, 2017, to December 31, 2017, without a binding contract in place before September 28, 2017, and (2) the Company adjusted amounts utilized in the prior rate case to the actual amounts on its final tax return for 2017. Witness Boswell recommended one adjustment to correct mismatched calculations. She proposed calculating both federal protected EDIT and federal unprotected EDIT amortizations with the adjustments effective as of April 1, 2020. Finally, the Public Staff does not oppose the Company's request to refund the remaining federal unprotected EDIT balance over 24 months instead of the remaining 35 months as originally ordered in Sub 360.

Settlement Exhibit I filed with the Stipulation in the current proceeding reflects the correction to the calculation of federal unprotected EDIT proposed by Public Staff witness Boswell, the reduction of the rider period for the federal unprotected EDIT from 35 months to 24 months, and includes the rate base impact of the flow back of federal protected EDIT in accordance with the RSGM, as approved in Sub 360, in the revenue requirement. In addition, the revenue requirement depicted on Settlement Exhibit I also includes the flow back of state EDIT in accordance with previous Commission orders in Sub 356 and Sub 360. No other party presented evidence on these matters.



Based on the foregoing, the Commission concludes that it is reasonable and appropriate for purposes of this proceeding to accept the Stipulation between CWSNC and the Public Staff on the tax issues. Therefore, the Commission concludes that CWSNC should continue to flow back the federal protected EDIT in accordance with the RSGM as ordered in Sub 360, and the Company shall refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Sub 360. Further, CWSNC should continue to flow back the state EDIT (which was originally over a three-year period) in accordance with the Commission's Sub 356 Order as confirmed in the Commission's Sub 360 Order.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 51-59**

### **Capital Structure, Cost of Capital, and Overall Rate of Return**

The evidence supporting these findings of fact and conclusions is contained in the verified Application and the accompanying NCUC Form W-1, the testimony and exhibits of the public witnesses, the direct and rebuttal testimony and exhibits of Company witness D'Ascendis, and the direct and supplemental testimony and exhibits of Public Staff witness Hinton.

#### ***Rate of Return on Equity***

The Commission's consideration of the evidence and decision on this issue is set out below and is organized into three sections. The first is a summary of the record evidence on rate of return on common equity. The second is a summary of the law applicable to the Commission's decision on rate of return on common equity. The third is an application of the law to the evidence and a discussion and explanation of the Commission's ultimate decision on rate of return on common equity.

#### ***Summary of Record Evidence on Return on Equity***

In its Application, the Company requested approval for its rates to be set using a rate of return on common equity of 10.75%. This request was based upon and supported by the direct testimony of CWSNC witness D'Ascendis. In his rebuttal testimony, witness D'Ascendis reduced his recommended rate of return on common equity to 10.20% based upon his updated analyses. This rate of return on common equity compares to a 9.75% rate of return on common equity underlying CWSNC's current rates. Public Staff witness Hinton, in his direct testimony, recommended a rate of return on common equity for CWSNC of 9.00%. In his supplemental testimony, witness Hinton revised and increased his recommended return on common equity to 9.10%.

#### ***Direct and Rebuttal Testimony of Dylan W. D'Ascendis (CWSNC)***

Company witness D'Ascendis recommended in his direct testimony a rate of return on common equity of 10.75%. This 10.75% was based upon his indicated cost of common equity of 10.35%, plus a recommended size adjustment of 0.40%. In his rebuttal

testimony, witness D’Ascendis provided an updated analysis reflecting current investor expectations and reduced his recommended rate of return on common equity to 10.20%, including his recommended 0.40% size adjustment.

CWSNC witness D’Ascendis’ recommendation was based upon his Discounted Cash Flow (DCF) model, his Risk Premium Model (RPM), and his Capital Asset Pricing Model (CAPM), applied to market data of a proxy group of six water companies (Utility Proxy Group). He also applied the DCF, RPM, and CAPM to a proxy group of domestic, non-price regulated companies (Non-Price Regulated Proxy Group) which he described as comparable in total risk to his Utility Proxy Group.

The results derived from witness D’Ascendis’ analyses in his direct and rebuttal testimony are as follows:

Summary of D’Ascendis Pre-Filed Testimony on Common Equity Cost Rate		
	Direct Testimony	Rebuttal Testimony
Discounted Cash Flow Model	8.70%	8.81%
Risk Premium Model	10.62%	10.12%
Capital Asset Pricing Model	10.21%	9.35%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Proxy Group	<u>11.78%</u>	<u>11.29%</u>
Indicated Common Equity Cost Rate Before Adjustment	10.35%	9.80%
Size Adjustment	<u>0.40%</u>	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.75%</u>	<u>10.20%</u>

He concluded that a common equity cost rate of 9.80% for CWSNC is indicated before any Company-specific adjustments. He then adjusted this indicated rate upward by 0.40% to reflect CWSNC’s smaller relative size as compared with the members of his Utility Proxy Group, resulting in a size-adjusted indicated common equity cost rate of 10.20%.

CWSNC witness D’Ascendis testified the six companies in his Utility Proxy Group were: American States Water Co.; American Water Works Co., Inc.; Artesian Resources, Inc.; California Water Service Group; Middlesex Water Co.; and York Water Co.

CWSNC witness D’Ascendis testified he used the single-stage constant growth DCF model. He testified his unadjusted dividend yields are based on the proxy companies’ dividends as of October 18, 2019, divided by the average of closing market

prices for the 60 trading days ending October 18, 2019.<sup>15</sup> He made an adjustment to the dividend yield because dividends are paid periodically, usually quarterly.

For CWSNC witness D'Ascendis' DCF growth rate he testified he only used analysts' five-year forecasts of earning per share (EPS) growth. He testified the mean result of his application of the single-stage DCF model is 8.73%, the median result is 8.88%, and the average of the two is 8.81% for his Utility Proxy Group as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 3. He testified in arriving at a conclusion for the DCF-indicated common equity cost rate for his Utility Proxy Group, he relied on an average of the mean and the median results of the DCF.

Witness D'Ascendis used two risk premium methods. He testified his first method is the Predictive Risk Premium Model (PRPM), while the second method is a Risk Premium Model Using an Adjusted Total Market Approach. He testified the PRPM estimates the risk/return relationship directly, as the predicted equity risk premium is generated by the prediction of volatility or risk. He testified the inputs to his PRPM are the historical returns on the common shares of each company in the Utility Proxy Group minus the historical monthly yield on long-term U.S. Treasury securities through April 2019. He testified he added the forecasted 30-year U.S. Treasury Bond yield, 2.64% to each company's PRPM-derived equity risk premium to arrive at an indicated cost of common equity. His rebuttal mean PRPM indicated common equity cost rate for the Utility Proxy Group is 11.30%, and the median is 10.38%. He relied on the average of the mean and median results of the Utility Proxy Group PRPM to calculate a cost of common equity rate of 10.84% as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 11, column (5).

CWSNC witness D'Ascendis testified his total market approach RPM adds a prospective public utility bond yield to an average of (1) an equity risk premium that is derived from a beta-adjusted total market equity risk premium, and (2) an equity risk premium based on the S&P Utilities Index. He calculated in his rebuttal testimony the adjusted prospective bond yield for the Utility Proxy Group to be 4.01% as shown on D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 12, line 5, and the average equity risk premium to be 5.38% resulting in risk premium derived common equity to be 9.39% for his RPM using his Total Market Approach.

For his CAPM, witness D'Ascendis testified he applied both the traditional CAPM and the empirical CAPM (ECAPM) to the companies in his Utility Proxy Group and averaged the results. He testified the model is applied by adding a risk-free rate of return to a market risk premium, which is adjusted proportionately to reflect the systematic risk of the individual security relative to the total market as measured by the beta coefficient. For his CAPM beta coefficient, he considered two methods of calculation: the average of the beta coefficients of the Utility Proxy Group companies reported by Bloomberg

<sup>15</sup> See Schedule DWD-1R, page 3, footnote 1.

Professional Services, and the average of the beta coefficients of the Utility Proxy Group companies as reported by Value Line Investment Survey (Value Line).

CWSNC witness D'Ascendis in his rebuttal testified the risk-free rate adopted for both applications of the CAPM at 2.64%. This risk-free rate of 2.64% is based on the average of the *Blue Chip* consensus forecast of the expected yields on 30-year U.S. Treasury bonds for the six quarters beginning with the fourth calendar quarter of 2019 and ending with the first quarter in 2021, and long-term projections for the years 2021 to 2025, and 2026 to 2030. D'Ascendis Rebuttal Exhibit 1, DWD-1R, page 22, column (5), and page 23, column (2).

Witness D'Ascendis testified on rebuttal that the mean result of his CAPM/ECAPM analyses is 9.39%, the median is 9.31%, and the average of the two is 9.35%. Witness D'Ascendis testified that, consistent with his reliance on the average of his mean and median DCF results, the indicated common equity costs rate using the CAPM/ECAPM is 9.35%.

Witness D'Ascendis also selected 11 domestic, non-price regulated companies for his Non-Price Regulated Proxy Group that he believes are comparable in total risk to his Utility Proxy Group. He calculated common equity cost rates using the DCF, RPM, and CAPM for the Non-Price Regulated Proxy Group. In his rebuttal testimony, witness D'Ascendis' DCF result was 11.63%, his RPM cost rate was 11.41%, and his CAPM/ECAPM cost rate was 10.44%. Witness D'Ascendis testified that the average of the mean and median of these models was 11.29%, which he used as the indicated common equity cost rate for the Non-Price Regulated Proxy Group.

Based on the results of the application of multiple cost of common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group, witness D'Ascendis testified that the reasonable, appropriate and indicated cost of equity for CWSNC before any adjustment for relative risk was 9.80%.

Witness D'Ascendis also made a 0.40% equity cost rate adjustment due to CWSNC's small size relative to the Utility Proxy Group. He testified that the Company has greater relative risk than the average company in the Utility Proxy Group because of its smaller size compared with the group, as measured by an estimated market capitalization of common equity for CWSNC (whose common stock is not publicly traded). This resulted in a size-adjusted cost of common equity for CWSNC of 10.20%.

Additionally, witness D'Ascendis stated that he had reviewed the Commission's Sub 360 Order regarding the issues of the use of the PRPM, the ECAPM, the use of a non-price regulated proxy group, and the applicability of a size adjusted cost of common equity for CWSNC. In response to these concerns, witness D'Ascendis provided testimony further supporting the inclusion of such factors in determining his recommended return on equity.

Specifically, in terms of the PRPM, he addressed the Commission's concerns about using a specific statistical package to calculate the PRPM results, which made the Commission skeptical that investors would place significant weight on the model. He explained that the general autoregressive conditional heteroskedasticity (GARCH) model used for the PRPM has been in the public domain since the 1980s and is available in several statistical packages which are not financially prohibitive for investors.

In response to the Commission's concerns regarding the ECAPM, which were that there was not enough evidence in the record as to why the ECAPM was superior to the CAPM, witness D'Ascendis provided substantially more information on the subject than what was presented in Sub 360.

In response to the Commission's concerns regarding the use of non-price regulated companies, which were that the non-price regulated companies were not of similar risk to the utility proxy group, witness D'Ascendis provided an additional measure of risk to show that, indeed, his non-price regulated proxy group was similar in total risk to the utility proxy group. The study showed that the non-price regulated proxy group's mean and median coefficient of variation (CoV), of net profit were within the range of CoVs of net profit set by the utility proxy group. The coefficient of variation is often used by investors and economists to determine volatility (i.e. risk) and the use of net profit directly ties to earnings and stock prices.

Finally, witness D'Ascendis responded to the Commission's concerns regarding the size adjustment which were whether the size studies presented in the record were applicable to utilities, and that the selection of a 40-basis point adjustment from an indicated 461 basis point risk premium was rather arbitrary. In order to provide more information to the Commission in this case, witness D'Ascendis conducted a study on whether the size effect is in fact applicable to utilities. His study included the universe of water, gas, and electric companies included in Value Line Standard Edition. From each of the utilities' Value Line Ratings & Reports, witness D'Ascendis calculated the 10-year CoV of net profit (a measure of risk) and current market capitalization (a measure of size) for each company. After ranking the companies by size (largest to smallest) and risk (least risky to most risky), he made a scatter plot of the data, as shown on Chart 1 in his direct testimony.

Witness D'Ascendis testified that, as shown in his Chart 1 of his direct testimony, as company size decreases (increasing size rank), the CoV increases, linking size and risk for utilities. The R-Squared value of 0.0962 means that approximately 10% of the change in risk rank is explained by the size rank. While a 0.0962 R-Squared value does not appear to have strong explanatory power, the average R-Squared value of the Utility Proxy Group's beta coefficient is 0.0794. The selection of a 40-basis point upward adjustment based on its difference in size given an indicated risk premium of approximately 400 basis points is consistent with the approximate 0.10 R-Squared value of the size study applicable to utilities. With this additional information, witness D'Ascendis stated that he hoped the Commission would revisit this concern in its Order in this case.

Witness D'Ascendis' rebuttal testimony criticized the testimony of witness Hinton's approach to estimating CWSNC's required return on equity for a number of perceived shortcomings, including Hinton's:

- (a) Inclusion of a gas proxy group to determine a rate of return on common equity for a water utility;
- (b) Misapplication of the discounted cash flow model;
- (c) Misapplication of the risk premium model;
- (d) Misapplication of the capital asset pricing model;
- (e) Misapplication of the Comparable Earnings Model;
- (f) Failure to account for size-specific risks; and
- (g) Opinion that the approval of the Company's requested consumption adjustment mechanism (CAM) in this proceeding requires a downward adjustment to the rate of return on common equity.

Tr. vol. 8, 267–68.

#### ***CWSNC Witness D'Ascendis Cross-Examination***

CWSNC witness D'Ascendis testified on cross-examination that in the Middlesex Water Company, New Jersey general rate case decided in July 2015, he recommended a specific rate of return on common equity of 10.40%, but that a rate of return on common equity of 9.75% was approved which was 65 basis points less than his recommendation. Witness D'Ascendis testified that in the Carolina Water Service, Inc. South Carolina 2015 general rate case where his recommended rate of return on common equity range was 10.00% to 10.50%, the approved rate of return on common equity was 9.34% which was 91 basis points below the midpoint of his recommended range.

CWSNC witness D'Ascendis further testified on cross-examination that in the Middlesex Water Company, New Jersey general rate case decided in March 2018, his recommended specific rate of return on common equity was 10.70%, and a 9.60% rate of return on common equity was approved whereby his recommended rate of return on common equity was 110 basis points above the approved rate of return on common equity. He testified that the 2018 South Carolina decision for Carolina Water Service, Inc. of South Carolina was the only one of the fifteen listed return on equity decisions, that a commission approved an allowed rate of return on common equity within his recommended range. He also testified that in the recent CWSNC general rate case, order dated February 21, 2019, his recommended rate of return on common equity range was 10.80% to 11.20%, with a midpoint of 11.00%, which was 125 basis points above the Commission approved rate of return on common equity of 9.75%.

Witness D'Ascendis testified on cross-examination that the authorized rates of return on equity for all 15 decisions averaged 127 basis points below his recommended rates of return on equity, and after removing a 2016 outlier case in Missouri where he was 360 basis points above the approved rate of return on common equity, the average difference between falls to 110 basis points. He further testified on cross-examination that

his rebuttal specific return on equity recommendation of 10.20% less the 110 basis points, would be the same number as Public Staff witness Hinton's recommended 9.10% rate of return on common equity.

Witness D'Ascendis also testified that Public Staff D'Ascendis Cross-Examination Exhibit 1, page 2 listed the RRA approved rates of return on equity for the last three years for his Utility Proxy Group companies with approved average rates of return on equity of 9.42%.

Witness D'Ascendis testified that as shown on Public Staff D'Ascendis Cross-Examination Exhibit 2, which was a RRA summary of commission approved rates of return on equity from January 2014 through June 30, 2019, the average approved return on equity was 9.50% for 30 return on equity decisions in the most recent three-year period July 1, 2016 through June 30, 2019.

With respect to his recommended 40 basis point size adjustment, witness D'Ascendis testified on cross-examination that he knew CWSNC served approximately 50,000 customers in North Carolina, was the second largest Commission regulated water and wastewater utility in North Carolina, and the two next largest companies serve approximately 7,000 customers each.

Witness D'Ascendis testified he was aware CWSNC did not have any industrial customers, and that more than 99.5% of its customers were residential plus some small stores and some schools. He testified that CWSNC was geographically diversified in North Carolina with systems along the North Carolina coast, the Piedmont and throughout the mountains.

Witness D'Ascendis further testified on cross-examination that CWSNC obtains all its debt through its parent, Utilities, Inc., and that CWSNC does not go into the debt market. He testified that Utilities Inc. is owned by Corix. Witness D'Ascendis read into the record sections of the pre-filed testimony of Corix CEO and President Gordan Barefoot, which stated Corix provides to CWSNC a full suite of support services, and Corix provides access to favorable terms for debt financing in capital markets. Both the Public Staff and CWSNC used the Utilities, Inc. capital structure and debt costs for CWSNC in this general rate case.

Witness D'Ascendis testified that based on Public Staff D'Ascendis Cross-Examination, Exhibit 4, that the Utilities, Inc. has common equity of \$280.2 million. When multiplied by the D'Ascendis Utility Proxy Group market to book ratio of 347.3%, the result is a market capitalization for Utilities, Inc. of \$973.3 million. Witness D'Ascendis testified that this market capitalization of three of the companies in the D'Ascendis Utility Proxy Group; those companies being Artesian Resources Corporation at \$316.0 million, York Water Company at \$440.0 million, and Middlesex Water Company at \$951.0 million.

CWSNC witness D'Ascendis on cross-examination further testified Public Staff D'Ascendis Cross-Examination Exhibit 5 was a comparison of the growth in dividends

and stock market prices of the D'Ascendis Proxy Group of companies from April 15, 2011 to November 29, 2019. During that period dividend and stock price movements were as follows:

Company	Dividend Growth	Share Price Appreciation
American States Water	126%	378%
American Water Works	127%	419%
Artesian Resource Group	32%	91%
California Water Service	27%	173%
Middlesex Water Company	29%	243%
York Water Co.	36%	163%
Six Company Average	59%	245%

Witness D'Ascendis testified that he agreed that stock market prices have increased materially since April 2011, and dividend amounts have lagged way behind. He further testified that dividend yields are one of the two major components of the DCF.

During cross-examination CWSNC witness D'Ascendis also testified as to the stock price increases subsequent to the California Public Utilities Commission Order dated March 22, 2018 which approved a 9.20% rate of return on common equity for California American Water Co., a wholly-owned subsidiary of American Water Works; a 9.20% rate of return on common equity for California Water Service Co.; an 8.90% rate of return on common equity for Golden State Water Co., a wholly-owned subsidiary of American States Water; and an 8.90% rate of return on common equity for San Jose Water Co. The stock market percentage increases for the period March 22, 2018 to November 29, 2019, were: American Water Works 51.0%, American States Water 56.6%, California Water Service 36.3% and San Jose Water 33.1%, as shown on Public Staff D'Ascendis Cross-Examination Exhibit 6.

Witness D'Ascendis also testified on cross-examination about the significant decrease in the yields of 30-year Treasury Bond and A-Rated Public Utility Bonds as shown on Public Staff D'Ascendis Cross-Examination Exhibit 7. During the one-year period September 2018 to September 2019, the yields on A Rated Public Utility Bonds decreased from 4.32% to 3.37%, a decrease of 95 basis points from the previous CWSNC general rate case expert witness hearing heard before the Commission on October 16, 2018. Witness D'Ascendis' risk free 30-year Treasury Bond projected yield in this current case, shown in rebuttal exhibits filed on November 20, 2019, Schedule DWD-1R, page 22 was 2.64% compared to the 3.74% in September 2018, as stated in his prior Sub 360 CWSNC case testimony in D'Ascendis Rebuttal Exhibit 1, Schedule DWD-1R, page 11, column 6, and page 22, footnote 2, resulting in a bond yield decrease between his two rebuttal testimonies of 110 basis points. He further testified that as of November 29, 2019, the actual 30-year Treasury Bond yield was 2.19% compared to the October 16, 2018 actual 30-year Treasury Bond yield of 3.32%, a decrease of 113 basis points.



With respect to the non-price regulated companies in witness D'Ascendis' testimony for which he performed DCF, Risk Premium and CAPM analyses, he testified on cross-examination that these companies had competition unlike CWSNC, which has franchises protecting it from competition by other investor owned water utilities. Witness D'Ascendis testified that each time he has presented the non-priced regulated company analyses, the Commission has rejected and given no weight to these analyses.

Witness D'Ascendis testified that the Commission in CWSNC's February 19, 2019, Sub 360 Order found credible, probative, and entitled to substantial weight to his DCF, Total Market Risk Premium, and Traditional CAPM. He testified that his rebuttal exhibits in this case for these same analyses stated DCF 8.81%, Total Market Risk Premium 9.39%, Traditional CAPM 8.90%, with the average of these three of his models being 9.03%, all as shown on Public Staff D'Ascendis Cross-Examination Exhibit 10.

In response to a request by Chair Mitchell, CWSNC witness D'Ascendis filed a Late Filed Exhibit on December 13, 2019, showing the effect on each of his models using witness Hinton's 2.53% interest rate as the current yield for 30-year Treasury Bonds rather than the projected yields in witness D'Ascendis' rebuttal exhibits. This D'Ascendis On-the-Record Data Request provided the following results:

	D'Ascendis Late-Filed Exhibit #1
Discounted Cash Flow Model	8.81%
Risk Premium Model	10.00%
Capital Asset Pricing Model	9.29%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Proxy Group	<u>11.16%</u>
Indicated Common Equity Cost Rate Before Adjustment	9.75%
Size Adjustment	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.15%</u>

***Public Staff Witness Hinton Testimony***

Public Staff Director of Economic Research John R. Hinton testified the Public Staff recommends an overall rate of return of 7.20%, based on a capital structure consisting of 50.90% long-term debt at a cost rate of 5.36% and 49.10% common equity at a cost rate of 9.10%. He testified his recommendations result in pre-tax interest coverage equaling 3.1 times and a funds flow to debt ratio of 25.0%, which should qualify for a single "A" bond rating.

Witness Hinton described the current financial market conditions, testifying that the cost of financing is much lower today than in the more inflationary period of the 1990s. More recently, the continued low rates of inflation and expectations of future low inflation rates have contributed to even lower long-term interest rates. He testified that according

to Moody's Bond Survey, yields on long-term "A" rated public utility bonds have fallen 88 basis points from 4.25% on February 21, 2019, the date of the order in Sub 360, as compared to 3.37% for September 2019. He testified that by the close of this proceeding, CWSNC will have received five rate increases over the last six years in Docket Nos. W-354, Sub 360, Sub 356, Sub 344, and Sub 336. He further testified relative to the filing of the cost of capital settlement in the CWSNC January 2014 rate case in Docket No. W-354, Sub 336, yields on Moody's A-rated utility bonds are 126 basis points lower than the average 4.63% yield observed during the CWSNC January 2014, as illustrated by Hinton Exhibit JRH-1.

Witness Hinton testified that interest rates on various loans have fallen as the yields on treasury securities have declined since the Commission issued its order on February 21, 2019. The graph on page 15 of witness Hinton's direct testimony shows the lower yields that on average are over 100 basis points lower for all durations except for a minor increase in 90-day treasury bills. He testified that the average decrease in treasury bonds of 5-, 7-, 10-, 20-, and 30-year bonds is 111 basis points. He testified while Utilities, Inc., Corix, and its ultimate parent, the British Columbia Investment Management Corporation (BCIMC) generally cannot obtain capital at these interest rates, the falling yields are indicators of the declining cost of debt capital.

Public Staff witness Hinton testified that the current lower interest rates, especially for longer-term securities, and stable inflationary environment of today indicate that borrowers are paying less for the time value of money. He testified that this is significant since utility stocks and utility capital costs are highly interest rate-sensitive relative to most industries within the securities markets. He testified that given that investors often view purchases of the common stocks of utilities as substitutes for fixed income investments, the reductions in interest rates observed over the past ten years or more has paralleled the decreases in investor required rates of return on common equity.

Public Staff witness Hinton testified that he does not rely on interest rate forecasts. Rather, he believes that relying on current interest rates, especially in relation to yields on long-term bonds, is more appropriate for ratemaking in that it is reasonable to expect that as investors in the marketplace price bonds based upon expectations on demand and supply of capital, future interest rates, inflation rates, etc. He testified that while he has a healthy respect for forecasting, he is aware of the risk of relying on predictions of rising interest rates to determine utility rates. He presented a portion of the testimony of Aqua North Carolina, Inc. witness Pauline Ahern in the 2013 Aqua rate case, Docket No. W-218, Sub 363. In that case she identified several interest rate forecasts by Blue Chip Financial Forecasts of 30-year Treasury Bond yields that were predicted to rise to 4.3% in 2015, 4.70% in 2016, 5.20% in 2017, and 5.50% for 2020-2024. He presented the graph 30-Year US Treasury Bonds on page 18 of his direct testimony, which showed in 2015, the range was approximately 2.50% to 3.10%, in 2016 the range was approximately 2.50% to 3.10%, and in 2017 the range was approximately 2.25% to 3.10%. Witness Hinton testified that similar overestimated forecasts can be identified in witness D'Ascendis' Exhibit DWD-4 in the CWSNC's 2018 rate case where the Blue-Chip consensus forecast predicted the 30-year Treasury Bonds would rise to 3.80% by the

third quarter of 2019. According to the Federal Reserve, the highest observed yield on 30-year Treasury Bonds for the third quarter of 2019 is 2.65%, and the average for the quarter was 2.29%. He testified that these types of errors make these interest rate forecasts inappropriate for ratemaking.

Public Staff witness Hinton testified that he used the discounted cash flow (DCF) model and the Risk Premium model to determine the cost of equity for CWSNC. He testified that the DCF model is a method of evaluating the expected cash flows from an investment by giving appropriate consideration to the time value of money. Witness Hinton testified that the DCF model is based on the theory that the price of the investment will equal the discounted cash flows of returns. The return to an equity investor comes in the form of expected future dividends and price appreciation. He testified that as the new price will again be the sum of the discounted cash flows, price appreciation is ignored, and attention focused on the expected stream of dividends.

Witness Hinton testified that he applied the DCF method to a comparable group of seven water utilities followed by Value Line Investment Survey. He testified that the standard edition of Value Line covers eight water companies. He excluded Consolidated Water Co. due to its significant overseas operations. Witness Hinton included a group of nine natural gas local distribution companies (LDCs) in his DCF analysis stating these LDCs exhibit risk measures similar to his proxy group of water companies.

Public Staff witness Hinton calculated the dividend yield component of the DCF by using the Value Line estimate of dividends to be declared over the next 12 months divided by the price of the stock as reported in the Value Line Summary and Index sections for each week of the 13-week period July 26, 2019, through October 18, 2019. He testified that a 13-week averaging period tends to smooth out short-term variations in the stock prices. This process resulted in an average dividend yield of 1.7% for his proxy group of water utilities and 2.6% for the LDC group utilities.

To calculate the expected growth rate component of the DCF, Public Staff witness Hinton employed the growth rates of his proxy group in earnings per share (EPS), dividends per share (DPS), and book value per share (BPS) as reported in Value Line over the past ten and five years. He also employed the forecasts of the growth rates of his water and LDC proxy groups in EPS, DPS, and BPS as reported in Value Line. He testified that the historical and forecast growth rates are prepared by analysts of an independent advisory service that is widely available to investors and should also provide an estimate of investor expectations. He testified that he includes both historical known growth rates and forecast growth rates, because it is reasonable to expect that investors consider both sets of data in deriving their expectations.

Public Staff witness Hinton testified that he also incorporated the consensus of various analysts' forecasts of five-year EPS growth rate projections as reported in Yahoo Finance. He testified the dividend yields and growth rates for each of the companies and for the average for his comparable proxy groups are shown in Exhibit JRH-4.

Public Staff witness Hinton concluded that based upon his DCF analysis that a reasonable expected dividend yield is 1.7% with an expected growth rate of 6.0% to 7.0%. He testified that his DCF analysis produces a cost of common equity for his comparable proxy group of water utilities of 7.7% to 8.7%. Based upon the DCF analysis for the comparable group of LDCs, he determined that a reasonable expected dividend yield is 2.6%, with an expected growth rate of 5.7% to 6.7%, which yields a range of results of 8.3% to 9.3% for the cost of equity.

He testified that his ultimate DCF based cost of equity is based on the average estimates for the two groups of companies, which he summarized in his Hinton Exhibit 8 that quantifies an approximate range of DCF based cost of equity estimates of 8.48% to 8.80% for his DCF based cost of equity estimate of 8.64%.

Witness Hinton testified that the equity risk premium method can be defined as the difference between the expected return on a common stock and the expected return on a debt security. The differential between the two rates of return are indicative of the return investors require in order to compensate them for the additional risk involved with an investment in the company's common stock over an investment in the company's bonds that involves less risk.

Witness Hinton testified that his method relies on approved returns on common equity for water utility companies from various public utilities commissions that is published by the Regulatory Research Associates, Inc. (RRA), within SNL Global Market Intelligence. In order to estimate the relationship with a representative cost of debt capital, he regressed the average annual allowed equity returns with the average Moody's A-rated yields for Public Utility Bonds from 2006 through 2019. His regression analysis which incorporates years of historical data is combined with recent monthly yields to provide an estimate of the current cost of common equity.

Witness Hinton testified that the use of allowed returns as the basis for the expected equity return has two strengths over other approaches that involve various models that estimate the expected equity return on common stocks and subtracting a representative cost of debt. He testified that one strength of his approach is that authorized returns on equity are generally arrived at through lengthy investigations by various parties with opposing views on the rate of return required by investors. He testified that it is reasonable to conclude that the approved allowed returns are good estimates of the cost of equity.

Public Staff witness Hinton testified that the summary data of risk premiums shown on his Exhibit JRH-5, page 1 of 2, indicates that the average risk premium is 5.00%, with a maximum premium of 5.78%, and minimum premium of 3.73%, which when combined with the last six months of Moody's A-rated utility bond yields produces yields with an average cost of equity of 8.70%, a maximum cost of equity of 9.48%, and a minimum cost of equity of 7.44%. To better estimate the current cost of equity, he performed a statistical regression analysis as shown on Exhibit JRH 5, page 2 of 2 in order to quantify the relationship of allowed equity returns and bond costs. He testified that by applying the risk

premium to the current utility bond cost of 3.71%, resulted in a current estimate of the equity risk premium of equity of 9.57%.

Public Staff witness Hinton concluded that based on all of the results of his DCF model that indicate a cost of equity from 8.48% to 8.80% with a central point estimate of 8.64%, and the risk premium model that indicates a cost of equity of 9.57%, he determined that the investor required rate of return on common equity for CWSNC is between 9.11% which he rounded to 9.10% as shown on Hinton Exhibit 8.

Public Staff witness Hinton testified as to the reasonableness of his recommended return, that he considered the pre-tax interest coverage ratio produced by his cost estimates for the cost equity. He testified that based on his recommended capital structure, cost of debt, and equity return of 9.10%, the pre-tax interest coverage ratio is approximately 3.1 times. He testified that this tax interest coverage and a funds flow to debt ratio of 25.0%, as shown on Supplemental Hinton Exhibit 10, should allow CWSNC to qualify for a single "A" bond rating.

Witness Hinton also performed a comparable earnings analysis and a CAPM analysis solely as checks on the results of this DCF and Risk Premium Regression Analysis. He testified that his comparable earnings analysis for a group of eight water utilities and nine LDC companies produced a five-year average return on equity of 9.83%. He testified that a weakness is that actual earned rates of return can be impacted by factors outside the company's control, such as weather, inflation, and tax changes, including deferred income taxes. These unforeseen developments can cause a company's earned rate of return to exceed or fall short of its cost of capital during any certain period making this method somewhat less reliable than other cost of capital methods, and it suffers from circular reasoning. In addition, he testified that earned rates of return on equity may often include non-regulated income. He testified that his CAPM analysis utilizing his preferred geometric mean return produced return on equity estimates of 7.65% and 7.68% that are at the low end of CWSNC's cost of equity. As such, he testified his CAPM provides a limited check on his recommended cost of equity.

Witness Hinton in his direct testimony had a recommended a rate of return on common equity of 9.10% with a downward 10 basis point adjustment to reflect reduced risk due to the consumption adjustment mechanism CWSNC applied for in this proceeding. His resulting recommended allowed rate return on equity was thus 9.00%. After CWSNC withdrew its request for a consumption adjustment mechanism, witness Hinton filed supplemental testimony withdrawing this 10-basis point downward adjustment.

Witness Hinton testified that his recommended return on common equity takes into consideration the impact of the water and sewer system improvement charges (WSIC and SSIC) pursuant to N.C.G.S. § 62-113.12 on CWSNC's financial risk. He testified that the WSIC and SSIC mechanisms provide the ability for enhanced cost recovery of the eligible capital improvements which reduces regulatory lag through incremental and timely rate increases. He testified he believes this mechanism is seen by debt and equity

investors as supportive regulation that mitigates business and regulatory risk. Witness Hinton testified that he believes that this mechanism is noteworthy and is supportive of his 9.10% return on equity recommendation.

Witness Hinton testified that it is not appropriate to add a risk premium to the cost of equity due to the size of the company. He testified that CWSNC is owned by Corix Infrastructure, Inc. (Corix), which is owned by BCIMC. Corix has a significant influence over the balances of common equity and long-term debt of Utilities, Inc. and CWSNC. Corix determines the amounts of dividend payments to BCIMC and the frequency of those payments. He testified that from a regulatory policy perspective; ratepayers should not be required to pay higher rates because they are located in the franchise area of a utility of a size which is arbitrarily considered to be small. He further testified that if such adjustments were routinely allowed, an incentive would exist for large existing utilities to form subsidiaries when merging or even to split-up into subsidiaries as to obtain higher allowed returns. He further testified that CWSNC operates in a franchise environment that insulates the company from competition and it operates with procedures in place that allow for rate adjustments for eligible capital improvements, cost increases, and other unusual circumstances that impact its earnings. Witness Hinton testified that CWSNC operates in the water and sewer industry, where expensive bottled water provides the only alternative to utility service. It is factually correct that rating agencies and investors add a risk factor for small companies with relatively limited capital resources; however, the inherent protection from competition removes this risk that would otherwise be a concern to investors.

Witness Hinton noted that he also testified to these same size adjustment concerns in the last CWSNC rate case, Sub 360, where the Commission found that a size adjustment was not warranted. He testified that similar arguments were made in a 1997 CWS System, Inc., rate case, Docket No. W-778, Sub 31, by witness Hanley of AUS Consultants, who relied on similar cost of capital methods as witness D'Ascendis, as noted on pages 824-25 in its Eighty-Seventh Report of Orders and Decisions. In CWSNC's 1994 rate case, Docket No. W-354, Sub 128, the Commission was not persuaded to accept an adjustment for small size and its elevated risk, as noted on page 520 in its Eighty-Fourth Report on Orders and Decisions. Tr. vol. 7, 785–86. In a rate case brought by North Carolina Natural Gas, Inc., Docket No, G-21, Sub 293, the explicit consideration of the small size of a regulated utility was argued before this Commission. In its December 6, 1991 Order in that case, the Commission disagreed with the Company witness who testified that the Company's small size warranted the selection of other small sized companies in his proxy group. Witness Hinton testified that while there are published studies that address how the small size of a company relates to higher risks, he is aware of only one study by Dr. Annie Wong<sup>16</sup> that focuses on the size of regulated utilities and risk. He testified that Dr. Wong has tested the data for a size premium in utilities and concluded that "unlike industrial stocks, utility stocks do not exhibit a significant size premium. As explained, there are several reasons why such a size

<sup>16</sup> Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," Journal of the Midwest Finance Association, pp. 95-101, (1993).

premium would not be attributable to utilities because they are regulated closely by state and federal agencies and commissions, and hence, their financial performance is monitored on an ongoing basis by both the state and federal governments.” Tr. vol. 7, 187.

### ***Public Staff Witness Hinton Cross-Examination***

Witness Hinton testified on cross-examination that the electric and natural gas industries in North Carolina have a number of surcharge rate adjustment mechanisms available to them which serve to enhance revenue recovery and thereby stabilize earnings and that those mechanisms also employ deferral accounting as part of the true-up process. Witness Hinton also testified that all utilities are concerned with regulatory lag and that surcharge rate adjustment mechanisms reduce regulatory lag, . . . maybe significantly . . . .” Tr. vol. 7, 105, 93.

Witness Hinton also testified on cross-examination that during “the last couple years your [CWSNC’s] earned returns have been less than your allowed returns.” *Id.* at 104.

Witness Hinton further stated that he considered his initial proposal (which he withdrew when CWSNC withdrew its request to implement a CAM) to impose a 10-basis point downward adjustment with respect to his recommended rate of return on common equity in consideration of the Company’s initially-proposed CAM to be a “material” adjustment. *Id.* at 111.

Witness Hinton also testified on cross-examination that the 23-basis point reduction in CWSNC’s cost of long-term debt from 5.59% at the time the Company filed its Verified Rate Case Application to 5.36% at September 30, 2019, was “material.” *Id.* at 133.

### **Law Governing the Commission’s Decision on Return on Equity**

In the absence of a settlement agreed to by all parties the Commission must exercise its independent judgment and arrive at its own independent conclusion as to all matters at issue, including the rate of return on common equity. *See, e.g., CUCA I*, 348 N.C. at 466, 500 S.E.2d 707. In order to reach an appropriate independent conclusion regarding the rate of return on common equity the Commission should evaluate the admitted evidence, particularly that presented by conflicting expert witnesses. *State ex rel. Utils. Comm’n v. Cooper*, 366 N.C. 484, 739 S.E.2d 541, 546-47 (2013) (*Cooper I*). In this case the evidence relating to the Company’s cost of equity capital was presented by Company witness D’Ascendis and Public Staff witness Hinton. No rate of return on common equity expert evidence was presented by any other party.

The baseline for establishment of an appropriate rate of return on common equity is the constitutional constraints established by the decisions of the United States Supreme Court in *Bluefield Water Works & Improvement Co., v. Pub. Serv. Comm’n of W. Va.*, 262

U.S. 679 (1923) (*Bluefield*), and *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*) which, as the Commission has previously noted, establish that:

To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking. In assessing the impact of changing economic conditions on customers in setting an ROE, the Commission must still provide the public utility with the opportunity, by sound management, to (1) produce a fair profit for its shareholders, in view of current economic conditions, (2) maintain its facilities and service, and (3) compete in the marketplace for capital.

DEC Sub 1146 Order at 50; see also *State ex rel. Utils. Comm'n v. Gen. Tel. Co.*, 281 N.C. 318, 370, 189 S.E.2d 705, 738 (1972) (*General Telephone*). As the North Carolina Supreme Court held in *General Telephone*, these factors constitute “the test of a fair rate of return declared” in *Bluefield* and *Hope*. *Id.*

The rate of return on common equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital.

[T]he cost of capital to the utility is synonymous with the investor’s return, and the cost of capital is the earnings which must be generated by the investment of that capital in order to pay its price, that is, in order to meet the investor’s required rate of return.

Morin, Roger A., *Utilities’ Cost of Capital* 19-21 (Public Utilities Reports, Inc. 1984). “The term ‘cost of capital’ may [also] be defined as the annual percentage that a utility must receive to maintain its credit, to pay a return to the owners of the enterprise, and to ensure the attraction of capital in amounts adequate to meet future needs.” Phillips, Charles F., Jr., *The Regulation of Public Utilities* (Public Utilities Reports, Inc. 1993), at 388.

Long-standing decisions of the North Carolina Supreme Court have recognized that the Commission’s subjective judgment is a necessary part of determining the authorized rate of return on common equity. *Public Staff*, 323 NC at 490, 374 S.E.2d at 369. Likewise, the Commission has observed as much in exercising its duty to determine the rate of return on common equity, noting that such determination is not made by application of any one simple mathematical formula:

Throughout all of its decisions, the [United States] Supreme Court has formulated no specific rules for determining a fair rate of return, but it has enumerated a number of guidelines. The Court has made it clear that confiscation of property must be avoided, that no one rate can be considered fair at all times and that regulation does not guarantee a fair return. The Court also has consistently stated that a necessary prerequisite for profitable operations is efficient and economical



management. Beyond this is a list of several factors the commissions are supposed to consider in making their Decisions, but no weights have been assigned.

The relevant economic criteria enunciated by the Court are three: financial integrity, capital attraction and comparable earnings. Stated another way, the rate of return allowed a public utility should be high enough: (1) to maintain the financial integrity of the enterprise, (2) to enable the utility to attract the new capital it needs to serve the public, and (3) to provide a return on common equity that is commensurate with returns on investments in other enterprises of corresponding risk. These three economic criteria are interrelated and have been used widely for many years by regulatory commissions throughout the country in determining the rate of return allowed public utilities.

In reality, the concept of a fair rate of return represents a “zone of reasonableness.” As explained by the Pennsylvania commission:

There is a range of reasonableness within which earnings may properly fluctuate and still be deemed just and reasonable and not excessive or extortionate. It is bounded at one level by investor interest against confiscation and the need for averting any threat to the security for the capital embarked upon the enterprise. At the other level it is bounded by consumer interest against excessive and unreasonable charges for service.

As long as the allowed return falls within this zone, therefore, it is just and reasonable . . . . It is the task of the commissions to translate these generalizations into quantitative terms.

Charles F. Phillips, Jr., *The Regulation of Public Utilities*, 3d ed. 1993, pp. 381-82. (notes omitted)

Order Granting General Rate Increase, *Application of Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina*, No. E-2, Sub 1023, at 35-36 (N.C.U.C. May 30, 2013), *aff'd*, *State ex rel. Utils. Comm'n v. Cooper*, 367 N.C. 444, 761 S.E.2d 640 (2014) (2013 DEP Rate Case Order) (additions and omissions after the first quoted paragraph in original).

Moreover, in setting rates the Commission must not only adhere to the dictates of both the United States and North Carolina Constitutions, but, as has been held by the North Carolina Supreme Court, it must set rates as low as possible consistent with constitutional law. *State ex rel. Utils. Comm'n v. Pub. Staff-N. Carolina Utils. Comm'n*, 323 N.C. 481, 490, 374 S.E.2d 361, 370 (1988) (*Public Staff*). Further, the North Carolina General Assembly has provided that the Commission must also set rates employing a multi-element formula set forth in N.C.G.S. § 62-133. The formula requires consideration of elements beyond just the rate of return on equity element, and it inherently necessitates that the Commission make many subjective determinations, in addition to the subjectivity required to determine the rate of return on equity. The subjective decisions the Commission must make as to each of the elements of the formula can and often do have multiple and varied impacts on all of the other elements of the formula. In other words, the formula elements are intertwined and often interdependent in their impact to the setting of just and reasonable rates.

The fixing of a rate of return on the cost of property used and useful to the provision of service (as determined through the end of the historic 12-month test period prior to the proposed effective date of a requested change in rates, and adjusted for proven changes occurring up to the close of the evidentiary hearing) is but one of several interdependent elements of the statutory formula to be used in setting just and reasonable rates. See N.C.G.S. § 62-133. North Carolina General Statute § 62-133(b)(4) provides in pertinent part that the Commission shall:

Fix such rate of return on the cost of the property . . . as will enable the public utility by sound management [1] to produce a fair return for its shareholders, *considering changing economic conditions and other factors* . . . [2] to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and [3] to compete in the market for capital funds on terms that are reasonable and that are fair to its customers and to its existing investors. [Emphasis added.]

The North Carolina Supreme Court has interpreted the above-emphasized language as requiring the Commission to make findings regarding the impact of changing economic conditions on customers when determining the proper rate of return on common equity for a public utility. *Cooper I*, 366 N.C. at 495, 739 S.E.2d at 548. The Commission must exercise its subjective judgment so as to balance two competing rate of return on common equity-related factors—the economic conditions facing the Company's customers and the Company's need to attract equity financing on reasonable terms in order to continue providing safe and reliable service. 2013 DEP Rate Case Order at 35-36. The Commission's determination in setting rates pursuant to N.C.G.S. § 62-133, which includes the fixing of the rate of return on common equity, always takes into account affordability of public utility service to the using and consuming public. The impact of changing economic conditions on customers is embedded in the testimony of expert witnesses regarding their analyses of the rate of return on common equity using various economic models widely used and accepted in utility regulatory rate-setting proceedings. 2013 DEP Rate Case Order, at 38. Further,

[t]he Commission always places primary emphasis on consumers' ability to pay where economic conditions are difficult. By the same token, it places the same emphasis on consumers' ability to pay when economic conditions are favorable as when the unemployment rate is low. Always there are customers facing difficulty in paying utility bills. The Commission does not grant higher rates of return on equity when the general body of ratepayers is in a better position to pay than at other times . . . .

*Id.* at 37. Economic conditions existing during the modified test year, at the time of the public hearings, and at the date of the issuance of the Commission's order setting rates will affect not only the ability of the utility's customers to pay rates, but also the ability of the utility to earn the authorized rate of return during the period the new rates will be in effect. However, in setting the rate of return, just as the Commission is constrained to address the impact of difficult economic times on customers' ability to pay for service by establishing a lower rate of return on common equity in isolation from the many subjective determinations that must be made in a general rate case, it likewise is constrained to address the effect of regulatory lag<sup>17</sup> on the Company by establishing a higher rate of return on common equity in isolation. Instead, the Commission sets the rate of return considering both of these negative impacts taken together in its ultimate decision fixing a utility's rates.

Thus, in summary and in accordance with the applicable law, the Commission's duty under N.C.G.S. § 62-133 is to set rates as low as reasonably possible to the benefit of the customers without impairing the Company's ability to attract the capital needed to provide reliable electric service and recover its cost of providing service. The Commission is guided by this premise when it makes its determination of the appropriate rate of return on common equity.

It is against this backdrop of overarching principles that the Commission analyzes the evidence presented in this case.

<sup>17</sup> Regulatory lag exists where a utility's realized, earned return is less than its authorized return negatively affecting the shareholder's return on investment as other expenses and debts owed are paid ahead of investor return.

## Discussion and Application of Law to the Facts in this Case Regarding the Issue of Rate of Return on Common Equity

The Commission has carefully evaluated the testimony of CWSNC witness D’Ascendis and Public Staff witness Hinton. The results of each of the models or methods used by these two witnesses to derive the return on equity that each witness recommends is shown below:

<u>Utility Proxy Group</u>	<u>D’Ascendis Rebuttal Exhibits</u>	<u>D’Ascendis Late-Filed Exhibits</u>	<u>Hinton</u>
DCF	8.81%	8.81%	8.64%
Risk Premium	10.12%	10.00%	9.57%
PRPM	10.84%	10.73%	
Total Market RPM	9.39%	9.27%	
CAPM	9.35%	9.29%	7.65-8.96%*
Traditional CAPM	8.90%	8.84%	
ECAPM	9.80%	9.74%	
Comparable Earnings	————	————	9.83%*
<u>Non-Price Regulated Proxy Group</u>	11.29%	11.16%	————
DCF	11.63%	11.63%	
Risk Premium	11.41%	11.23%	
CAPM	10.44%	10.39%	
Indicated on Return on Equity Before Adjustment	9.80%	9.75%	9.10%
Size Adjustment	0.40%	0.40%	————
Recommended Return on Equity	10.20%	10.15%	9.10%
* Note: Provided solely as a check and not used in formulating this witness’s recommended allowed rate of return on common equity.			

The range of the rate of return on common equity recommendations from the two expert witnesses is 9.10% to 10.20%. Underlying the lower rate of return on common equity recommendation of 9.10%, is a rate of return on common equity range of 7.65% to 9.83%, according to witness Hinton’s testimony concerning his cost of common equity analyses. Similarly, underlying the higher rate of return on common equity recommendation of 10.20% is a range of 8.81% to 11.29%, according to witness D’Ascendis’ rebuttal testimony concerning his cost of common equity analyses. Such a wide range of estimates by expert witnesses is not atypical in proceedings before the Commission with respect to the return on the equity issue. Neither is the seemingly endless debate and habitual differences in judgment among expert witnesses on the virtues of one model or method versus another and how to best determine and measure

the required inputs of each model in representing the interests of the party on whose behalf they are testifying. Nonetheless, the Commission is uniquely situated, qualified, and required to use its impartial judgment to determine the return on equity based on the testimony and evidence in this proceeding in accordance with the legal guidelines discussed above.

In doing so the Commission finds that the DCF (8.81%), Risk Premium (10.00%) and CAPM (9.29%) model results provided by witness D'Ascendis, as updated to use current rates in D'Ascendis Late-Filed Exhibit No. 1, as well as the risk premium (9.57%) analysis of witness Hinton, are credible, probative, and are entitled to substantial weight as set forth below. The Commission further finds that the rate of return on common equity trends, particularly as embodied by data points in Public Staff D'Ascendis Cross-Examination Exhibits 1 and 2 to be credible, positive and corroborative evidence entitled to some weight.<sup>18</sup> Accordingly, the evidence presented concerning other authorized rates of return on equity, when put into proper context, lends substantial support and corroboration to a finding that a 9.50% rate of return on common equity is appropriate in this case.

Company witness D'Ascendis, noting that CWSNC is not publicly traded, first established a group of six relatively comparable risk water companies that are publicly traded (Utility Proxy Group). He testified that use of relatively comparable risk companies as proxies is consistent with principles of fair rate of return established in the Hope and Bluefield cases, which are recognized as the primary standards for the establishment of a fair return for a regulated public utility. He then applied the DCF, the CAPM, and the risk premium models to the market data of the Utility Proxy Group. Witness D'Ascendis' DCF model indicated a cost of equity of 8.81%, his CAPM model indicated a cost of equity of 9.29%, and his Risk Premium model indicated a cost of equity of 10.00%. The Commission finds and concludes that analyses using interest rate forecasts rely unnecessarily on projections. The Commission approves the use of current interest rates, rather than projected near-term or long-term interest rates. The Commission finds witness D'Ascendis' late-filed exhibit Risk Premium Model and his late-filed exhibit CAPM analysis using the current 30-year Treasury yields to be credible, probative and entitled to substantial weight.

Witness Hinton applied a risk premium analysis by performing a regression analysis using the allowed returns on common equity for water utilities from various public utility commissions, as reported in an RRA Water Advisory, with the average Moody's

<sup>18</sup> The Commission determines the appropriate rate of return on common equity based upon the evidence and particular circumstances of each case. However, the Commission believes that the rate of return on common equity trends and decisions by other regulatory authorities deserve some weight, as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that a rate of return on common equity significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while a rate of return on common equity significantly higher than other utilities of comparable risk would result in customers paying more than necessary. In this proceeding, witness Hinton's risk premium analysis, as well as Public Staff D'Ascendis Cross-Examination Exhibit No. 1, page 2 and No. 2 provide credible, positive and corroborative evidence.

A-rated bond yields for public utility bonds from 2006 through 2019. The results of the regression analysis were combined with recent monthly yields to provide the current cost of equity. According to witness Hinton, the use of allowed returns as the basis for the expected equity return has strengths over other risk premium approaches that estimate the expected return on equity and subtract a representative cost of debt. He testified that one strength of his approach is that authorized returns on equity are generally arrived at through lengthy investigations by various parties with opposing views on the rate of return required by investors. Thus, it is reasonable to conclude that the approved returns are good estimates for the cost of equity. Witness Hinton testified that applying the significant statistical relationship of the allowed equity returns and bond yields from the regression analysis and adding current utility bond cost of 3.71% resulted in a current estimate of the cost of equity of 9.57%.

The average of witness D'Ascendis' Utility Proxy Group late-filed exhibit DCF result of 8.81%, CAPM result of 9.29% and RPM result of 10.00% and witness Hinton's RPM of 9.57% is 9.42%. A return on common equity of 9.50% is thus supported by the average of the results of the four above-listed cost of equity models which the Commission finds are credible, probative, and entitled to consideration based on the record in this proceeding.

The Commission gives no weight to the DCF, CAPM and comparable earnings analyses of witness Hinton who presented his CAPM and comparable earnings methods only as a check on his DCF and Risk Premium Regression analyses. For reasons generally stated by witness D'Ascendis, the Commission concludes that witness Hinton's use of a proxy group of natural gas companies in his DCF and CAPM analyses is inappropriate for determining the appropriate return on equity in this case. The indicated returns on equity using the water proxy groups in witness Hinton's DCF (8.48%) and CAPM (7.65% to 8.96% with a midpoint of 8.31%) are outliers as they fall far below the other rate of return on common equity analyses in this proceeding.

Witness Hinton's comparable earnings analyses are not reliable as the earned rates of return on equity listed in Hinton Exhibit 6 contain non-regulated earnings and increased earnings resulting from deferred income taxes. Witness D'Ascendis on cross-examination testified that American States Water has significant operations in Army bases around the country and also has an electric utility. Although the California Utilities Commission on March 22, 2018, approved an 8.90% rate of return on common equity for Golden State Water Company which is a wholly-owned subsidiary of American States Water as shown on Public Staff D'Ascendis Cross-Examination Exhibit 6, American States Water achieved earned rates of return on equity of 11.40% in 2018 and 12.0% in 2019 as shown on Hinton Exhibit 6. In addition, although the most recent rate order for Middlesex Water Co. in New Jersey was issued on March 24, 2018, which approved a 9.60% rate of return on common equity as shown on Public Staff D'Ascendis Cross-Examination Exhibit 3, the Middlesex Water Co. earned rate of return on common equity for 2018 was 13.0% and 2019 earned rate of return on common equity was 12.0% as shown on Hinton Exhibit 6.

In addition to estimating the cost of equity for his Utility Proxy Group of publicly-traded water utilities, witness D'Ascendis attempted to estimate the cost of equity for another proxy group consisting of 10 domestic, non-price regulated companies. The rebuttal results of the DCF, RPM, and CAPM applied to the non-price regulated proxy group are 11.63%, 11.23%, and 10.39%, respectively. The Commission concludes that these results are unreasonably high. Each of these results is higher than witness D'Ascendis' estimates of the cost of equity for his own Utility Proxy Group and deserves no weight. The Commission further concludes that given the difference in these results, the risk of the two groups is not equal and the Utility Proxy Group is more reliable as a proxy for the investment risk of common equity in CWSNC.

After determining that the indicated cost of equity from the DCF, CAPM, and risk premium methods applied to both of his proxy groups equals in his rebuttal 9.80% rate of return on common equity, witness D'Ascendis then adjusted the indicated cost of equity upward by 0.40% to reflect CWSNC's smaller size compared to companies in his Utility Proxy Group. He testified that the size of the company is a significant element of business risk for which investors expect to be compensated through higher returns. Witness D'Ascendis calculated his size adjustment as described in his prefiled direct testimony and stated that even though a 3.94% upward size adjustment is indicated, he applies a 0.40% size premium to CWSNC's indicated common equity cost rate.

Witness Hinton testified that he does not believe it is appropriate to add a risk premium to the cost of equity of CWSNC due to size for several reasons. First, from a regulatory policy perspective, witness Hinton stated that ratepayers should not be required to pay higher rates because they are located in the franchise area of a utility that is arbitrarily considered to be small. Further, if such adjustments were routinely allowed, an incentive would exist for large utilities to form subsidiaries or split-up subsidiaries to obtain higher returns. In addition, he noted that CWSNC operates in a franchise environment that insulates the Company from the competition with procedures in place for rate adjustments for circumstances that impact its earnings. Finally, while witness Hinton stated that while there are studies that address how the small size of a company relates to higher returns, he is aware of only one study that focuses on the size of regulated utilities and risk and that study concluded that utility stocks do not exhibit a significant differential in risk due to size. In rebuttal, witness D'Ascendis maintained that a small size adjustment was necessary based on the results of studies he cited and discussed. He contended that the study concerning size premiums for utilities discussed by witness Hinton was flawed.

The uncontroverted evidence is that both CWSNC and the Public Staff used the Utilities, Inc. capital structure and debt cost in this proceeding. CWSNC obtains all its debt and equity from CWSNC's parent company Utilities, Inc. CWSNC does not participate in the debt markets. The Corix CEO, Gordon Barefoot, testified that Corix, the parent company of Utilities, Inc., provides access to favorable terms for debt financing in capital markets.

Based upon the foregoing and the entire record in this proceeding, the Commission concludes that a size adjustment of 0.40% is not warranted and should not be approved. The Commission determines there is insufficient evidence to authorize an adjustment to the approved rate of return on common equity in this case. The record simply does not indicate the extent to which CWSNC's size alone justifies the added risk premium. While a small water/wastewater utility might face greater risk than a publicly-traded peer group, because for example the service area was confined to a hurricane-prone coastal geographic area, evidence of such factual predicates is absent from the record. CWSNC has water and wastewater systems along the North Carolina coast, in the Piedmont, and in the mountains. The Commission notes that the witnesses also disagreed with respect to whether the studies discussed in the testimony concerning size and risk are reliable or even applicable to regulated utilities. The Commission concludes that the testimony regarding these studies is not convincing and does not support a size adjustment.

Having determined that the appropriate rate of return on common equity based upon the evidence in this proceeding is 9.50%, the Commission notes that there is considerable testimony concerning the authorized returns on equity for water utilities in other jurisdictions. While the Commission has relied upon the record in this proceeding and is certainly aware that returns in other jurisdictions can be influenced by many factors, such as different capital market conditions during different periods of time, settlements versus full litigation, the Commission concludes that the rate of return on common equity trends and decisions by other regulatory authorities deserve some weight as (1) they provide a check or additional perspective on the case-specific circumstances, and (2) the Company must compete with other regulated utilities in the capital markets, meaning that a rate of return significantly lower than that approved for other utilities of comparable risk would undermine the Company's ability to raise necessary capital, while a rate of return significantly higher than other utilities of comparable risk would result in customers paying more than necessary.

Public Staff D'Ascendis Cross-Examination Exhibit 2, which has RRA approved rate of return on common equity listings showing approved return on equity decisions for water utilities across the country from January 2014 through June 30, 2019, is helpful in illustrating that the average rate of return on common equity for water utilities was 9.59% in 2014, 9.79% in 2015, 9.71% in 2016, 9.31% in 2017, 9.45% in 2018, and in the only five reported cases for the first six months of 2019 the average is 9.60%. This authorized return data is generally supportive of the Commission approved return on equity of 9.50% based upon all the evidence in this proceeding.

These factors lead the Commission to conclude that a 9.50% rate of return on common equity is supported by the substantial weight of the evidence in this proceeding. However, to meet its obligation in accord with the holding in *Cooper I*, the Commission will next address the impact of changing economic conditions on customers.

In this case all parties had the opportunity to present the Commission with evidence concerning changing economic conditions as they affect customers. The testimony of witnesses D'Ascendis and Hinton, which the Commission finds entitled to



substantial weight, addresses changing economic conditions. As to the impact of changing economic conditions on CWSNC's customers, witness Hinton testified that he reviewed information on the economic conditions in the areas served by CWSNC, specifically, the 2016 and 2017 data on total personal income from the Bureau of Economic Analysis (BEA) and the 2019 Development Tier Designations published by the North Carolina Department of Commerce for the counties in which CWSNC's systems are located. The BEA data indicates that total personal income weighted by the number of water customers by county grew at a compound annual growth rate of approximately 3.1%.

Witness Hinton testified that the North Carolina Department of Commerce annually ranks the state's 100 counties based on economic well-being and assigns each a Tier designation. The most distressed counties are rated a "1" and the most prosperous counties are rated a "3". The rankings examine several economic measures such as, household income, poverty rates, unemployment rates, population growth, and per capita property tax base. For 2017, the average Tier ranking that has been weighted by the number of water customers by county is 2.5. He testified that both of these economic measures indicate that there has been improvement in the economic conditions for CWSNC's service area relative to the three previous CWSNC rate increases in Sub 360, Sub 356, and Sub 344 that were approved in 2019, 2017, and 2015, respectively.

Witness D'Ascendis testified concerning his review of economic conditions in North Carolina that he reviewed. He testified that he reviewed: unemployment rates from the United States, North Carolina, and the counties comprising CWSNC's service territory; the growth in Gross National Product (GDP) in both the United States and North Carolina; median household income in the United States and in North Carolina; and national income and consumption trends.

Witness D'Ascendis testified that the rate of unemployment has fallen substantially in North Carolina and the U.S. since late 2009 and early 2010, when the rates peaked at 10.00% and 12.00%, respectively. He testified that by April 2019, the unemployment rate had fallen to less than one-half of those peak levels: 3.30% nationally; and 3.60% in North Carolina.

Witness D'Ascendis testified that he was also able to review (seasonally unadjusted) unemployment rates in the counties served by CWSNC. At its peak, which occurred in late 2009 into early 2010, the unemployment rate in those counties reached an average 12.86% (58 basis points higher than the State-wide average); by April 2019, it had fallen to 3.68% (8 basis points higher than the state-wide average).

Witness D'Ascendis testified that for real Gross Domestic Product growth, there also has been a relatively strong correlation between North Carolina and the national economy (approximately 69%). Since the financial crisis, the national rate of growth at times (during portions of 2010 and 2012) outpaced North Carolina's rate of growth. He testified that since the second quarter of 2015; however, North Carolina has consistently exceeded the national growth rate.

As to median household income, witness D'Ascendis testified that the correlation between North Carolina and the U.S. is relatively strong (approximately 87% from 2005 through 2018). Since 2009, the years subsequent to the financial crisis, median household income in North Carolina has grown at a similar annual rate as the national median income (2.32% vs. 2.65%).

Witness D'Ascendis summarized stating in the Commission's order on Remand in Docket No. E-22, Sub 479, the Commission observed that economic conditions in North Carolina were highly correlated with national conditions, such that they were reflected in the analyses used to determine the cost of common equity. He testified that those relationships still hold: Economic conditions in North Carolina continue to improve from the recession following the 2008/2009 financial crisis, and they continue to be strongly correlated to conditions in the United States, generally. He testified that unemployment, at both the State and county level, continues to fall and remains highly correlated with national rates of unemployment; real Gross Domestic Product recently has grown faster in North Carolina than the national rate of growth, although the two remain fairly well correlated; and median household income also has grown faster in North Carolina than the rest of the Country, and remains strongly correlated with national levels.

The Commission's review also includes consideration of the evidence presented by 23 witnesses during the public witness hearings, almost all of whom presently are customers of CWSNC. The Commission held six evening hearings throughout CWSNC's North Carolina service territory to receive public testimony. The testimony presented at the hearings illustrates the difficult economic conditions facing many North Carolina citizens. The Commission accepts as credible, probative, and entitled to substantial weight the testimony of the public witnesses.

Based upon the general state of the economy and the continuing affordability of water and wastewater utility service, and after weighing and balancing factors affected by the changing economic conditions in making the subjective decisions required, the Commission concludes that an allowed rate of return on common equity of 9.50% will not cause undue hardship to customers even though some will struggle to pay the increased rates resulting from this decision. When the Commission's decisions are viewed as a whole, including the decision to establish the rate of return on common equity at 9.50%, the Commission's overall decision fixing rates in this general rate case results in lower rates to consumers in the existing economic environment.<sup>19</sup>

All of the scores of adjustments the Commission approves reduce the revenues to be recovered from ratepayers and the return to be paid to equity investors. Some

<sup>19</sup> The Commission notes consumers pay rates, a charge in dollars per 1,000 gallons for the water they consume and a monthly flat rate for residential wastewater customers. They do not pay a "rate of return on equity," though it is a component of the Company's cost of providing service which is built into the billed rates. Investors are compensated by earning a return on the capital they invest in the business. Per the Commission determination of the rate of return on common equity in this matter, investors will have the opportunity to be paid in dollars for the dollars they invested at the rate of 9.50%.

adjustments reduce the authorized rate of return on investment financed by equity investors. The noted adjustments are made solely to reduce rates and provide rate stability to consumers (and return to equity investors) to recognize the difficulty for consumers to pay in the current economic environment. While the equity investor's cost was calculated by resort to a rate of return on common equity of 9.50% instead of the 10.20% recommended by CWSNC witness D'Ascendis on rebuttal. This is only one approved adjustment that reduced ratepayer responsibility and equity investor reward. Many other adjustments reduced the dollars the investors actually have the opportunity to receive. Therefore, nearly all of these other adjustments reduce ratepayer responsibility and equity investor returns in compliance with the Commission's responsibility to establish rates as low as reasonably permissible without transgressing constitutional constraints, and thus, inure to the benefit of consumers' ability to pay their bills in this economic environment.

Despite the improving economic conditions and their effects on CWSNC's customers, the Commission recognizes the financial difficulty that an increase in CWSNC's rates may create for some of CWSNC's customers, especially low-income customers. As shown by the evidence, relatively small changes in the rate of return on common equity have a substantial impact on a utility's base rates. Therefore, the Commission has carefully considered changing economic conditions and their effects on CWSNC's customers in reaching its decision regarding CWSNC's approved rate of return on common equity.

The Commission recognizes that the Company is investing significant sums in system improvements to serve its customers, thus requiring the Company to maintain its creditworthiness in order to compete for large sums of capital on reasonable terms. The Commission must weigh the impact of changing economic conditions on CWSNC's customers against the benefits that those customers derive from the Company's ability to provide safe, adequate, and reliable water and wastewater service. Safe, adequate, and reliable water and wastewater service is essential to the well-being of CWSNC's customers.

The Commission finds and concludes that these investments by the Company provide significant benefits to CWSNC's customers. The Commission concludes that the return on equity approved by the Commission in this proceeding appropriately balances the benefits received by CWSNC's customers from CWSNC's provision of safe, adequate, and reliable water and wastewater service with the difficulties that some of CWSNC's customers will experience in paying CWSNC's increased rates.

The Commission notes further that its approval of a rate of return on common equity at the level of 9.50% or for that matter at any level, is not a guarantee to the Company that it will earn a rate of return on common equity at that level. Rather, as North Carolina law requires, setting the rate of return on common equity at this level merely affords CWSNC the opportunity to achieve such a return. The Commission finds and concludes, based upon all the evidence presented, that the rate of return on common equity provided for herein will indeed afford the Company the opportunity to earn a

reasonable and sufficient return for its shareholders while at the same time producing rates that are just and reasonable to its customers.

### ***Capital Structure***

CWSNC witness D'Ascendis' direct testimony recommended the use of the actual capital structure of Utilities, Inc. of 52.04% long-term debt and 47.96% common equity as of March 31, 2019.

In his testimony Public Staff witness Hinton recommended a 50.90% long-term debt and 49.10% common equity capital structure based upon updated information provided by CWSNC concerning the Utilities, Inc. actual capital structure at September 30, 2019. The Partial Stipulation also supports a 50.90% long-term debt and 49.10% common equity capital structure. No other party presented evidence as to a different capital structure.

Accordingly, the Commission finds that the recommended capital structure of 49.10% common equity and 50.90% long-term debt is just and reasonable to all parties in light of all the evidence presented.

### ***Cost of Debt***

In its Application CWSNC proposed a cost rate for long-term debt of 5.59%. In his testimony, witness Hinton recommended the cost of debt 5.36% as of September 30, 2019. In addition, the Stipulation includes a cost of debt rate of 5.36%. No other party offered any evidence supporting a debt cost rate below 5.36%.

Therefore, the Commission finds that the use of a debt cost rate of 5.36% is just and reasonable to all parties based upon the evidence presented in this proceeding.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 60**

### **Revenue Requirement**

The following schedules summarize the gross revenue and overall rate of return that the Company should have a reasonable opportunity to achieve based on the increases in revenues approved in this Order for each rate entity. These schedules, illustrating the Company's gross revenue requirements, incorporate the adjustments found appropriate by the Commission in this Order.

SCHEDULE I

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

Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
CWSNC Combined Operations

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues:			
Service revenues	\$33,852,232	\$4,969,441	\$38,821,673
Miscellaneous revenues	387,492	14,956	402,448
Uncollectibles	<u>(271,142)</u>	<u>(38,638)</u>	<u>(309,780)</u>
Total operating revenues	<u>33,968,582</u>	<u>4,945,759</u>	<u>38,914,341</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	4,949,710	0	4,949,710
Purchased power	2,103,043	0	2,103,043
Purchased water and sewer	2,219,243	0	2,219,243
Maintenance and repair	3,120,935	0	3,120,935
Maintenance testing	544,432	0	544,432
Meter reading	206,176	0	206,176
Chemicals	693,596	0	693,596
Transportation	534,200	0	534,200
Operating expense charged to plant	(665,133)	0	(665,133)
Outside services – other	1,191,299	0	1,191,299
Salaries and wages – General	2,004,409	0	2,004,409
Office supplies & other office exp.	568,864	0	568,864
Regulatory commission expense	307,754	0	307,754
Pension and other benefits	1,600,158	0	1,600,158
Rent	330,308	0	330,308
Insurance	782,562	0	782,562
Office utilities	747,670	0	747,670
Miscellaneous	218,417	0	218,417
Depreciation expense	6,580,711	0	6,580,711
Amortization of CIAC	(1,476,955)	0	(1,476,955)
Amortization of PAA	(76,623)	0	(76,623)
Amortization of ITC	(579)	0	(579)
Franchise and other taxes	(655)	0	(655)
Property taxes	268,734	0	268,734
Payroll taxes	527,428	0	527,428
Regulatory fee	44,159	6,429	50,588
Deferred income tax	(69,128)	0	(69,128)
State income tax	75,474	123,484	198,958
Federal income tax	618,133	1,011,327	1,629,460
Rounding	<u>0</u>	<u>1</u>	<u>1</u>
Total operating revenue deductions	<u>27,948,343</u>	<u>1,141,241</u>	<u>29,089,584</u>
Net operating income for a return	<u>\$6,020,239</u>	<u>\$3,804,518</u>	<u>\$9,824,757</u>

SCHEDULE II

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

Docket No. W-354, Sub 364  
Original Cost Rate Base  
For the Twelve Months Ended March 31, 2019  
CWSNC Combined Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$238,212,084
Accumulated depreciation	(57,897,943)
Net plant in service	<u>180,314,141</u>
Cash working capital	2,404,800
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	0
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$132,897,368</u></u>
Rates of return:	
Present	4.53%
Approved	7.39%

SCHEDULE III

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

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs  
 For the Twelve Months Ended March 31, 2019  
 CWSNC Combined Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
<b>PRESENT RATES</b>				
Long-Term Debt	50.90%	\$ 67,644,760	5.36%	\$3,625,759
Common Equity	<u>49.10%</u>	<u>65,252,608</u>	3.67%	<u>2,394,480</u>
Total	<u>100.00%</u>	<u>\$132,897,368</u>		<u>\$6,020,239</u>
<b>APPROVED RATES</b>				
Long-Term Debt	50.90%	\$ 67,644,760	5.36%	\$3,625,759
Common Equity	<u>49.10%</u>	<u>65,252,608</u>	9.50%	<u>6,198,998</u>
Total	<u>100.00%</u>	<u>\$132,897,368</u>		<u>\$9,824,757</u>

SCHEDULE I-A  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
CWSNC Water Operations

	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Approved Increase</u>
Operating Revenues:			
Service revenues	\$17,485,912	\$1,785,873	\$19,271,785
Miscellaneous revenues	189,818	5,357	195,175
Uncollectibles	<u>(129,396)</u>	<u>(13,215)</u>	<u>(142,611)</u>
Total operating revenues	<u>17,546,334</u>	<u>1,778,015</u>	<u>19,324,349</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	2,684,228	0	2,684,228
Purchased power	1,048,858	0	1,048,858
Purchased water and sewer	1,478,502	0	1,478,502
Maintenance and repair	909,143	0	909,143
Maintenance testing	202,228	0	202,228
Meter reading	175,422	0	175,422
Chemicals	311,580	0	311,580
Transportation	283,615	0	283,615
Operating expense charged to plant	(360,703)	0	(360,703)
Outside services – other	654,506	0	654,506
Salaries and wages – General	1,086,991	0	1,086,991
Office supplies & other office expense	308,786	0	308,786
Regulatory commission expense	169,355	0	169,355
Pension and other benefits	867,766	0	867,766
Rent	178,706	0	178,706
Insurance	423,389	0	423,389
Office utilities	411,346	0	411,346
Miscellaneous	120,273	0	120,273
Depreciation expense	3,198,990	0	3,198,990
Amortization of CIAC	(704,302)	0	(704,302)
Amortization of PAA	(115,669)	0	(115,669)
Amortization of ITC	(328)	0	(328)
Franchise and other taxes	(3,473)	0	(3,473)
Property taxes	154,066	0	154,066
Payroll taxes	286,024	0	286,024
Regulatory fee	22,810	2,312	25,122
Deferred income tax	(26,513)	0	(26,513)
State income tax	50,650	44,393	95,043
Federal income tax	414,823	363,575	778,398
Total operating revenue deductions	<u>14,231,071</u>	<u>410,280</u>	<u>14,641,351</u>
Net operating income for a return	<u>\$3,315,263</u>	<u>\$1,367,735</u>	<u>\$4,682,998</u>



SCHEDULE II-A  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Original Cost Rate Base  
For the Twelve Months Ended March 31, 2019  
CWSNC Water Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$114,766,817
Accumulated depreciation	<u>(29,553,703)</u>
Net plant in service	85,213,114
Cash working capital	1,184,436
Contributions in aid of construction	(17,662,813)
Advances in aid of construction	(23,760)
Accumulated deferred income taxes	(2,312,807)
Customer deposits	(175,942)
Inventory	167,608
Gain on sale and flow back taxes	(281,868)
Plant acquisition adjustment	(2,085,004)
Excess book value	0
Cost-free capital	(121,791)
Average tax accruals	(81,595)
Regulatory liability for excess deferred taxes	(2,084,991)
Deferred charges	1,611,323
Pro forma plant	<u>0</u>
Original cost rate base	<u>\$63,345,909</u>
Rates of return:	
Present	5.23%
Approved	7.39%

SCHEDULE III-A  
**Carolina Water Service, Inc. of North Carolina**  
 Docket No. W-354, Sub 364  
 Statement of Capitalization and Related Costs  
 For the Twelve Months Ended March 31, 2019  
 CWSNC Water Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
<b>PRESENT RATES</b>				
Long-term Debt	50.90%	\$32,243,068	5.36%	\$1,728,228
Common Equity	<u>49.10%</u>	<u>31,102,841</u>	5.10%	<u>1,587,035</u>
Total	<u>100.00%</u>	<u>\$ 63,345,909</u>		<u>\$3,315,263</u>
<b>APPROVED RATES</b>				
Long-term Debt	50.90%	\$ 32,243,068	5.36%	\$1,728,228
Common Equity	<u>49.10%</u>	<u>31,102,841</u>	9.50%	<u>2,954,770</u>
Total	<u>100.00%</u>	<u>\$ 63,345,909</u>		<u>\$4,682,998</u>

SCHEDULE I-B  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
CWSNC Sewer Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increased</u>
Operating Revenues:			
Service revenues	\$12,961,929	\$2,942,923	\$15,904,852
Miscellaneous revenues	124,500	8,829	133,329
Uncollectibles	<u>(98,511)</u>	<u>(22,366)</u>	<u>(120,877)</u>
Total operating revenues	<u>12,987,918</u>	<u>2,929,386</u>	<u>15,917,304</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	1,622,020	0	1,622,020
Purchased power	838,308	0	838,308
Purchased water and sewer	740,741	0	740,741
Maintenance and repair	1,940,932	0	1,940,932
Maintenance testing	308,671	0	308,671
Meter reading	0	0	0
Chemicals	318,617	0	318,617
Transportation	171,371	0	171,371
Operating expense charged to plant	(217,966)	0	(217,966)
Outside services – other	395,475	0	395,475
Salaries and wages – General	656,845	0	656,845
Office supplies & other office exp.	186,580	0	186,580
Regulatory commission expense	102,331	0	102,331
Pension and other benefits	524,372	0	524,372
Rent	107,979	0	107,979
Insurance	255,830	0	255,830
Office utilities	248,550	0	248,550
Miscellaneous	74,254	0	74,254
Depreciation expense	2,821,151	0	2,821,151
Amortization of CIAC	(570,054)	0	(570,054)
Amortization of PAA	(16,931)	0	(16,931)
Amortization of ITC	(251)	0	(251)
Franchise and other taxes	(2,595)	0	(2,595)
Property taxes	93,092	0	93,092
Payroll taxes	172,838	0	172,838
Regulatory fee	16,884	3,808	20,692
Deferred income tax	(33,406)	0	(33,406)
State income tax	14,845	73,140	87,985
Federal income tax	<u>121,581</u>	<u>599,012</u>	<u>720,593</u>
Total operating revenue deductions	<u>10,892,064</u>	<u>675,960</u>	<u>11,568,024</u>
Net operating income for a return	<u>\$2,095,854</u>	<u>\$2,253,426</u>	<u>\$4,349,280</u>

SCHEDULE II-B  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Original Cost Rate Base  
For the Twelve Months Ended March 31, 2019  
CWSNC Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$102,974,564
Accumulated depreciation	(23,646,093)
Net plant in service	<u>79,328,471</u>
Cash working capital	941,771
Contributions in aid of construction	(17,559,280)
Advances in aid of construction	(9,180)
Accumulated deferred income taxes	(2,884,203)
Customer deposits	(106,311)
Inventory	101,275
Gain on sale and flow back taxes	(135,943)
Plant acquisition adjustment	296,963
Excess book value	0
Cost-free capital	(139,708)
Average tax accruals	(49,923)
Regulatory liability for excess deferred taxes	(1,259,826)
Deferred charges	307,657
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$58,831,763</u></u>
Rates of return:	
Present	3.56%
Approved	7.39%

SCHEDULE III-B  
**Carolina Water Service, Inc. of North Carolina**  
 Docket No. W-354, Sub 364  
 Statement of Capitalization and Related Costs  
 For the Twelve Months Ended March 31, 2019  
 CWSNC Sewer Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
PRESENT RATES				
Long-term Debt	50.90%	\$ 29,945,367	5.36%	\$1,605,072
Common Equity	<u>49.10%</u>	<u>28,886,396</u>	1.70%	<u>490,782</u>
Total	<u>100.00%</u>	<u>\$ 58,831,763</u>		<u>\$2,095,854</u>
APPROVED RATES				
Long-term Debt	50.90%	\$ 29,945,367	5.36%	\$1,605,072
Common Equity	<u>49.10%</u>	<u>28,886,396</u>	9.50%	<u>2,744,208</u>
Total	<u>100.00%</u>	<u>\$ 58,831,763</u>		<u>\$4,349,280</u>

SCHEDULE I-C  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
BF/FH/TC Water Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increase</u>
Operating Revenues:			
Service revenues	\$1,304,521	\$97,488	\$1,402,009
Miscellaneous revenues	51,060	312	51,372
Uncollectibles	<u>(16,567)</u>	<u>(1,239)</u>	<u>(17,806)</u>
Total operating revenues	<u>1,339,014</u>	<u>96,561</u>	<u>1,435,575</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	308,862	0	308,862
Purchased power	69,724	0	69,724
Purchased water and sewer	0	0	0
Maintenance and repair	63,151	0	63,151
Maintenance testing	8,314	0	8,314
Meter reading	30,753	0	30,753
Chemicals	44,189	0	44,189
Transportation	38,746	0	38,746
Operating expense charged to plant	(41,503)	0	(41,503)
Outside services – other	69,135	0	69,135
Salaries and wages – General	125,075	0	125,075
Office supplies & other office exp.	35,984	0	35,984
Regulatory commission expense	17,639	0	17,639
Pension and other benefits	99,850	0	99,850
Rent	21,337	0	21,337
Insurance	50,550	0	50,550
Office utilities	43,252	0	43,252
Miscellaneous	11,671	0	11,671
Depreciation expense	169,164	0	169,164
Amortization of CIAC	(56,417)	0	(56,417)
Amortization of PAA	13,303	0	13,303
Amortization of ITC	0	0	0
Franchise and other taxes	2,583	0	2,583
Property taxes	10,553	0	10,553
Payroll taxes	32,912	0	32,912
Regulatory fee	1,741	125	1,866
Deferred income tax	(923)	0	(923)
State income tax	2,145	2,411	4,556
Federal income tax	<u>17,569</u>	<u>19,745</u>	<u>37,314</u>
Total operating revenue deductions	<u>1,189,358</u>	<u>22,281</u>	<u>1,211,639</u>
Net operating income for a return	<u>\$149,656</u>	<u>\$74,280</u>	<u>\$223,936</u>

SCHEDULE II-C  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Original Cost Rate Base  
For the Twelve Months Ended March 31, 2019  
BF/FH/TC Water Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$6,285,688
Accumulated depreciation	(2,083,262)
Net plant in service	4,202,426
Cash working capital	124,591
Contributions in aid of construction	(1,055,139)
Advances in aid of construction	0
Accumulated deferred income taxes	(84,226)
Customer deposits	(16,236)
Inventory	1,503
Gain on sale and flow back taxes	0
Plant acquisition adjustment	13,196
Excess book value	0
Cost-free capital	0
Average tax accruals	(5,624)
Regulatory liability for excess deferred taxes	(291,777)
Deferred charges	140,413
Pro forma plant	0
Original cost rate base	<u><u>\$3,029,127</u></u>
Rates of return:	
Present	4.94%
Approved	7.39%

SCHEDULE III-C  
**Carolina Water Service, Inc. of North Carolina**  
 Docket No. W-354, Sub 364  
 Statement of Capitalization and Related Costs  
 For the Twelve Months Ended March 31, 2019  
 BF/FH/TC Water Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
<b>PRESENT RATES</b>				
Long-term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	<u>49.10%</u>	<u>1,487,301</u>	4.51%	<u>67,014</u>
Total	<u>100.00%</u>	<u>\$ 3,029,127</u>		<u>\$149,656</u>
<b>APPROVED RATES</b>				
Long-term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	<u>49.10%</u>	<u>1,487,301</u>	9.50%	<u>141,294</u>
Total	<u>100.00%</u>	<u>\$ 3,029,127</u>		<u>\$223,936</u>



SCHEDULE I-D  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
BF/FH Sewer Operations

	Present <u>Rates</u>	Increase <u>Approved</u>	After Approved <u>Increase</u>
Operating Revenues:			
Service revenues	\$2,099,870	\$143,157	\$2,243,027
Miscellaneous revenues	22,114	458	22,572
Uncollectibles	<u>(26,668)</u>	<u>(1,818)</u>	<u>(28,486)</u>
Total operating revenues	<u>2,095,316</u>	<u>141,797</u>	<u>2,237,113</u>
Operating Revenue Deductions:			
Salaries and wages – Maintenance	334,600	0	334,600
Purchased power	146,154	0	146,154
Purchased water and sewer	0	0	0
Maintenance and repair	207,709	0	207,709
Maintenance testing	25,219	0	25,219
Meter reading	0	0	0
Chemicals	19,210	0	19,210
Transportation	40,468	0	40,468
Operating expense charged to plant	(44,961)	0	(44,961)
Outside services – other	72,182	0	72,182
Salaries and wages – General	135,498	0	135,498
Office supplies & other office expense	37,514	0	37,514
Regulatory commission expense	18,429	0	18,429
Pension and other benefits	108,171	0	108,171
Rent	22,286	0	22,286
Insurance	52,793	0	52,793
Office utilities	44,523	0	44,523
Miscellaneous	12,219	0	12,219
Depreciation expense	391,406	0	391,406
Amortization of CIAC	(146,182)	0	(146,182)
Amortization of PAA	42,674	0	42,674
Amortization of ITC	0	0	0
Franchise and other taxes	2,830	0	2,830
Property taxes	11,022	0	11,022
Payroll taxes	35,654	0	35,654
Regulatory fee	2,724	184	2,908
Deferred income tax	(8,286)	0	(8,286)
State income tax	7,834	3,540	11,374
Federal income tax	<u>64,160</u>	<u>28,995</u>	<u>93,155</u>
Total operating revenue deductions	<u>1,635,850</u>	<u>32,719</u>	<u>1,668,569</u>
Net operating income for a return	<u>\$459,466</u>	<u>\$109,078</u>	<u>\$568,544</u>

SCHEDULE II-D  
**Carolina Water Service, Inc. of North Carolina**  
Docket No. W-354, Sub 364  
Original Cost Rate Base  
For the Twelve Months Ended March 31, 2019  
BF/FH Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$14,185,016
Accumulated depreciation	(2,614,885)
Net plant in service	<u>11,570,131</u>
Cash working capital	154,002
Contributions in aid of construction	(3,993,443)
Advances in aid of construction	0
Accumulated deferred income taxes	(714,208)
Customer deposits	(16,958)
Inventory	1,570
Gain on sale and flow back taxes	0
Plant acquisition adjustment	936,967
Excess book value	0
Cost-free capital	0
Average tax accruals	(6,056)
Regulatory liability for excess deferred taxes	(304,750)
Deferred charges	63,314
Pro forma plant	<u>0</u>
Original cost rate base	<u><u>\$7,690,568</u></u>
Rates of return:	
Present	5.97%
Approved	7.39%

SCHEDULE III-D  
**Carolina Water Service, Inc. of North Carolina**  
 Docket No. W-354, Sub 364  
 Statement of Capitalization and Related Costs  
 For the Twelve Months Ended March 31, 2019  
 BF/FH Sewer Operations

	<u>Ratio</u>	<u>Original Cost Rate Base</u>	<u>Embedded Cost</u>	<u>Net Operating Income</u>
<b>PRESENT RATES</b>				
Long-term Debt	50.90%	\$ 3,914,499	5.36%	\$209,817
Common Equity	<u>49.10%</u>	<u>3,776,069</u>	6.61%	<u>249,649</u>
Total	<u>100.00%</u>	<u>\$ 7,690,568</u>		<u>\$ 459,466</u>
<b>APPROVED RATES</b>				
Long-term Debt	50.90%	\$ 3,914,499	5.36%	\$ 209,817
Common Equity	<u>49.10%</u>	<u>3,776,069</u>	9.50%	<u>358,727</u>
Total	<u>100.00%</u>	<u>\$ 7,690,568</u>		<u>\$ 568,544</u>

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 61–63

### Rate Design

The evidence supporting these findings of fact is found in the verified Application and the accompanying NCUC Form W-1, the Stipulation, and the testimony and exhibits of Public Staff witnesses Junis and Casselberry and CWSNC witness DeStefano.

The water rates proposed by CWSNC in its Application were based on a fixed-to-variable ratio of 52% fixed for the base facility charge and 48% variable for the usage charge. Sewer rates were based on a fixed-to-variable ratio of 80% fixed for the base facility charge and 20% variable for the usage charge.

As part of its Application and as a matter of rate design in this case CWSNC proposes to include in its Uniform Sewer Rate Division, customers in the CLMS service area. CWSNC has maintained the CLMS system rates steady for the last four general rate cases (Docket No. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates.

Public Staff witness Junis testified that the Public Staff recommended a service revenue ratio of 45/55 (base facilities charge to usage charge) for Uniform Water and BF/FH/TC Water residential customers, which he stated was consistent with the Public Staff's previous recommendations in CWSNC rate cases and similar to the stated target of 40/60 in the most recent Aqua North Carolina, Inc. (Aqua) rate case, Docket No. W-218, Sub 497. Moreover, he stated the rate design ratio of 45/55 was incorporated in Public Staff witness Casselberry's testimony and exhibits detailing the billing analysis and proposed rates. Tr. vol. 8, 107, 155.

Public Staff witness Junis recommended a 65/35 ratio for Uniform Sewer residential customers, an incremental approach to the target of 45/55, which was also incorporated in witness Casselberry's billing analysis and proposed rates. Tr. vol. 8, 159. Further, the Public Staff recommended that CLMS should be fully incorporated into the Uniform Sewer Rate Division as requested by the Company and that the Public Staff's recommended rates for the Uniform Sewer Rate Division should apply to CLMS customers.

On December 2, 2019, the CLCA filed a Resolution with the Commission whereby it stated that the Association

- strongly opposes being singled out for higher rates than any other territory served by CWSNC, and requests that the Commission adopt a uniform rate schedule for all CWSNC wastewater treatment customers; and
- requests that the Commission move Corolla Light and Monteray Shores area to the uniform rate schedule after thoroughly investigating and

analyzing the basis of the CWSNC request, allowing only an increase that is clearly justified.

During the expert witness hearing in response to a question from the Commission, CLCA indicated that it has no objection to the Stipulation. Tr. vol. 9, 200–01.

In the Stipulation, the Stipulating Parties agreed to a rate design for water utility service for its Uniform Water and BF/FH/TC Water residential customers to be based on a 50/50 ratio of base charge to usage charge, and to use an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers.<sup>20</sup>

Based upon the foregoing and the entire record herein, the Commission finds that it is appropriate to utilize a 50/50 ratio of base charge to usage charge in this proceeding for CWSNC's Uniform Water and BF/FH/TC Water residential customers and an 80/20 ratio of base charge to usage charge for CWSNC's Uniform Sewer residential customers as agreed to by the Company and the Public Staff, embodied in the Stipulation, and not opposed by any party. Further, the Commission concludes that it is reasonable and appropriate to consolidate the CLMS sewer service rates with the Company's Uniform Sewer Division rates as requested by CWSNC and supported by both the Public Staff and the CLCA. The Commission concludes that such rate design is fair and reasonable to both CWSNC and its customers. Therefore, taking into account the foregoing findings and conclusions, the Commission concludes that the rates and charges included in Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are just and reasonable and should be approved.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 64-65**

### **Water and Sewer System Improvement Charges**

The evidence supporting these findings of fact is found in the generic rulemaking proceeding, Docket No. W-100, Sub 54, wherein the Commission issued orders establishing procedures for implementing and applying the WSIC and SSIC mechanism; in CWSNC's 2013 rate case, Docket No. W-354, Sub 336, wherein the Commission initially approved the Company's WSIC and SSIC mechanism; and in the Commission's prior orders approving WSIC and SSIC mechanisms for CWSNC and the other Corix companies that have been merged into CWSNC.

The Commission's previously-approved WSIC and SSIC rate adjustment mechanism continues in effect, although as required by Commission Rules R7-39(k) and R10-26(k), it has been reset to zero in this rate case. The WSIC and SSIC mechanism is designed to recover between rate case proceedings the costs associated with investment in certain completed, eligible projects for water and sewer system or water quality improvements pursuant to N.C.G.S. § 62-133.12. The WSIC and SSIC surcharge is

<sup>20</sup> BF/FH Sewer Rate Division has a monthly flat rate for residential customers.

subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC and SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this rate case proceeding.

Based on the service revenues set forth and approved in this Order, the maximum WSIC and SSIC charges as of the effective date of this Order are:

<u>Item</u>	<u>Service Revenues</u>	<u>Cap %</u>	<u>WSIC &amp; SSIC Cap</u>
CWSNC Uniform Water Operations	\$19,271,785	X 5% =	\$963,589
CWSNC Uniform Sewer Operations	\$15,904,852	X 5% =	\$795,243
BF/FH/TC Water Operations	\$1,402,009	X 5% =	\$70,100
BF/FH Sewer Operations	\$2,243,027	X 5% =	\$112,151

**EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 66-68**

**Recommendations of the Public Staff**

The evidence for these findings of fact is found in the Company’s NCUC Form W-1, the testimony of Public Staff witness Casselberry, and the testimony of Company witness DeStefano.

In her prefiled testimony, witness Casselberry stated,

The Public Staff recommends that in the next general rate case, W-1, Item 26, be reconciled with the Company’s bill data to ensure that the filing does not include double bills, that the Company accounts for multi-unit customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills are not included in the W-1, Item 26 filing.

Tr. vol. 8, 91. The Company does not oppose this recommendation of the Public Staff.

In response to the Commission’s question during the expert witness hearing regarding whether the Company will be able to provide the information requested by the Public Staff, witness DeStefano responded that, “[t]he Company expects to be able to provide the information requested.” Tr. vol. 9, 197.

In its Application the Company requested to increase its reconnection fee from \$27.00 to \$42.00. Witness Casselberry stated in her testimony that the Public Staff did not oppose increasing the reconnection fee from \$27.00 to \$42.00.

In its Application the Company also proposed to increase the water connection charge from \$500 to \$1,080 and the sewer connection charge from \$2,000 to \$2,635 for Winston Pointe Subdivision, Phase IA. Witness Casselberry stated in her testimony that

the Public Staff recommended a connection charge of \$1,080 for water and \$1,400 for sewer in Winston Pointe Subdivision, Phase IA, as the connection charge should reflect Johnston County's – where the Company purchases bulk water and sewer treatment for Winston Pointe Subdivision – current bulk capacity fee for water and sewer. Witness Casselberry stated that CWSNC indicated that it agreed with the Public Staff's recommendation. Tr. vol. 8, 94.

In light of the foregoing the Commission concludes that it is reasonable and appropriate for the Company to provide accurate bill data and ensure that accurate data is filed in its NCUC Form W-1, Item 26 in its next rate case filing. The Commission further concludes that the reconnection fee should be increased from \$27.00 to \$42.00, and that a connection charge of \$1,080 for water and \$1,400 for sewer in Winston Pointe Subdivision, Phase 1A, is reasonable and appropriate.

IT IS, THEREFORE, ORDERED as follows:

1. That the affidavit of CWSNC's Financial Planning and Analysis Manager, Matthew Schellinger, filed on January 10, 2020, and the Public Staff's Revised Settlement Exhibits I and II filed on January 13, 2020, in these dockets are hereby entered into evidence;
2. That all late-filed exhibits filed by CWSNC and the Public Staff in these dockets are hereby admitted into evidence. That the Resolution of Corolla Light Community Association, Inc., filed on December 2, 2019 is also admitted into evidence;
3. That the Partial Joint Settlement Agreement and Stipulation is incorporated herein by reference and is hereby approved in its entirety;
4. That the Partial Joint Settlement Agreement and Stipulation and the parts of this Order pertaining to the contents of that agreement shall not be cited or treated as precedent in future proceedings;
5. That CWSNC's request to defer incremental O&M costs related to Hurricane Florence storm impacts is approved as set forth in the Stipulation and stated herein, and that CWSNC's request to defer depreciation expense on its capital investments and lost revenues related to Hurricane Florence storm impacts is hereby denied;
6. That CWSNC's Petition to defer post-in-service costs associated with the two WWTPs is approved; provided, however, that the Company shall be, and hereby is, required to cease deferring said costs concurrent with the date the Company is authorized to begin reflecting the costs associated with the WWTPs in rates;
7. That CWSNC's Petition to defer post-in-service costs associated with the two AMR installation projects is denied;

8. That the Schedules of Rates, attached hereto as Appendices A-1 and A-2, and the Schedules of Connection Fees for Uniform Water and Uniform Sewer, attached hereto as Appendices B-1 and B-2, are hereby approved and deemed to be filed with the Commission pursuant to N.C.G.S. § 62-138, and are hereby authorized to become effective for service rendered on and after the issuance date of this Order;<sup>21</sup>

9. That the Notices to Customers, attached hereto as Appendices C-1 and C-2 shall be mailed with sufficient postage or hand delivered to all affected customers in each relevant service area, respectively, in conjunction with the next regularly scheduled billing process;

10. That CWSNC shall file the attached Certificate of Service, properly signed and notarized, not later than ten days after the Notices to Customers are mailed or hand delivered to customers;

11. That CWSNC's federal protected EDIT should continue to be flowed back in accordance with the RSGM pursuant to the Commission's Sub 360 Order;

12. That it is reasonable and appropriate for purposes of this proceeding for CWSNC to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Sub 360;

13. That CWSNC's state EDIT recorded pursuant to the Commission's Sub 138 Order should continue to be amortized in accordance with the Commission's Sub 356 Order and as confirmed by the Commission in its Sub 360 Order;

14. That CWSNC shall receive estimates for the cost of a filtration system in Bradfield Farms Subdivision within 60 days of the date of this Order and shall share those estimates with the Bradfield Farms Homeowners Association;

15. That with respect to AMR meter installation projects planned for the future, CWSNC shall work with the Public Staff pursuant to N.C.G.S. § 62-133.12 and Commission Rule R7-39 to mitigate regulatory lag using WSIC recovery. The burden to prove CWSNC's investments recovered under the WSIC mechanism are reasonable and prudently incurred as required by N.C.G.S. § 62-133.12 and Commission Rule R7-39 shall remain with CWSNC;

16. That in the Company's next general rate case filing CWSNC shall ensure that its NCUC Form W-1, Item 26 is reconciled with the Company's bill data to ensure that the filing does not include double bills, that the Company accounts for multi-unit

<sup>21</sup> CWSNC's tariffs will be revised to reflect the change in taxability of CIAC based on the process outlined in Ordering Paragraph 4 of the Commission's February 11, 2020 Order, in Docket Nos. W-100, Sub 57 and W-100, Sub 62.



customers, and that other bills produced, such as final bills, late notices, re-bills, or other miscellaneous bills are not included in the NCUC Form W-1, Item 26 filing; and

17. That the Chief Clerk shall establish Docket No. W-354, Sub 364A as the single docket to be used for all future WSIC and SSIC filings, orders, and reporting requirements and shall close Docket No. W-354, Sub 360A.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive style with a large initial 'K'.

Kimberley A. Campbell, Chief Clerk

SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

ALL OF ITS SERVICE AREAS IN NORTH CAROLINA

(excluding Fairfield Harbour Service Area, Treasure Cove, Register Place Estates, North Hills, Glen Arbor/North Bend, Bradfield Farms, Silverton, Woodland Farms, and Larkhaven Subdivisions, and Hawthorne at the Green Apartments

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)

< 1" meter	\$ 28.92
1" meter	\$ 72.30
1 1/2" meter	\$ 144.60
2" meter	\$ 231.36
3" meter	\$ 433.80
4" meter	\$ 723.00
6" meter	\$1,446.00

Usage Charge:

A. Treated Water/1,000 gallons	\$ 8.27
B. Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	\$ 4.23

C. Purchased Water for Resale, per 1,000 gallons:

<u>Service Area</u>	<u>Bulk Provider</u>		
Carolina Forest	Montgomery County	\$	3.19
High Vista Estates	City of Hendersonville	\$	3.40
Riverbend	Town of Franklin	\$	7.50
Riverpointe	Charlotte Water	\$	6.48
Whispering Pines	Town of Southern Pines	\$	3.28
White Oak Plantation/ Lee Forest	Johnston County	\$	2.65
Winston Plantation	Johnston County	\$	2.65
Winston Point	Johnston County	\$	2.65
Woodrun	Montgomery County	\$	3.19
Yorktown	City of Winston Salem	\$	5.79
Zemosa Acres	City of Concord	\$	5.41
Carolina Trace	City of Sanford	\$	2.21

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

When because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit or other structure separately, the following will apply:

Sugar Mountain Service Area:

Where service to multiple units or other structures is provided through a single meter, the average usage for each unit or structure served by that meter will be calculated. Each unit or structure will be billed based upon that average usage plus the base monthly charge for a <1" meter.

Mount Mitchell Service Area:

Service will be billed based upon the Commission-approved monthly flat rate.

Monthly Flat Rate Service: (Billed in Arrears) \$ 58.54

Availability Rate: (Semiannual)

Applicable only to property owners in Carolina Forest  
and Woodrun Subdivisions in Montgomery County \$ 27.15

Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge  
Subdivision \$ 13.60

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire  
 Valley Service Area \$ 10.05

Availability Rate: (Monthly rate, billed quarterly))

Applicable only to property owners in Connestee Falls \$ 5.30

Meter Testing Fee: <sup>1/</sup> \$ 20.00

New Water Customer Charge: \$ 27.00

Reconnection Charge: <sup>2/</sup>

If water service is cut off by utility for good cause \$ 42.00  
 If water service is discontinued at customer's request \$ 42.00

Reconnection Charge: <sup>3/</sup>(Flat-rate water customers)

If water service is cut off by utility for good cause Actual Cost

Management Fee: (in the following subdivisions only)

(Per connection)

Wolf Laurel \$150.00

Covington Cross Subdivision (Phases 1 & 2) \$100.00

Oversizing Fee: (in the following subdivision only)

(One-time charge per single-family equivalent)

Winghurst \$400.00

Meter Fee:

For <1" meters \$ 50.00  
 For meters 1" or larger Actual Cost

Irrigation Meter Installation: Actual Cost

## SEWER RATES AND CHARGES

### Monthly Metered Sewer Service:

#### A. Base Facility Charge:

Residential (zero usage)	\$ 58.91
Commercial (based on meter size with zero usage)	
< 1" meter	\$ 58.91
1" meter	\$ 147.28
1 1/2" meter	\$ 294.55
2" meter	\$ 471.28
3" meter	\$ 883.65
4" meter	\$1,472.75
6" meter	\$2,945.50

B. Usage charge, per 1,000 gallons \$ 4.59

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

### Monthly Metered Purchased Sewer Service:

Collection Charge (Residential and Commercial) \$ 41.24

Usage charge, per 1,000 gallons  
 (based on purchased water consumption)

<u>Service Area</u>	<u>Bulk Provider</u>	
White Oak Plantation/ Lee Forest/Winston Pt.	Johnston County	\$ 5.57
Kings Grant	Two Rivers Utilities	\$ 3.98
College Park	Town of Dallas	\$ 7.33

Monthly Flat Rate Service: \$ 73.73

Multi-residential customers who are served by a master meter shall be charged the flat rate per unit. \$ 73.73

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge	\$ 7.29
Monthly Collection Charge (Residential and Commercial)	\$ 41.24
Usage Charge, per 1,000 gallons (based on metered water from the water supplier)	\$ 6.32

Regalwood and White Oak Estates Subdivision Service Area:

Monthly Flat Rate Sewer Service	
Residential Service	\$ 73.73
White Oak High School	\$2,187.33
Child Castle Daycare	\$ 280.41
Pantry	\$ 153.76

Fairfield Mountain/Apple Valley (a.k.a. Rumbling Bald) Service Area, and Highland Shores Subdivision:

Monthly Sewer Rates:

Residential	
Collection charge/dwelling unit	\$ 41.24
Treatment charge/dwelling unit	\$ 69.50
Total monthly flat rate/dwelling unit	<u>\$ 110.74</u>

Commercial and Other:

Minimum monthly collection and treatment charge \$ 110.74

Monthly collection and treatment charge for customers who do not take water service \$ 110.74

Treatment charge per dwelling unit

Small (less than 2,500 gallons per month)	\$ 78.50
Medium (2,500 to 10,000 gallons per month)	\$ 139.50
Large (over 10,000 gallons per month)	\$ 219.50

Collection Charge (per 1,000 gallons) \$ 13.93

The Ridges at Mountain Harbour:

Monthly Sewer Rates:

Collection charge (Residential and Commercial)	\$ 41.24
Treatment charge (Residential and Commercial)	
< 1" meter	\$ 18.42
2" meter	\$ 147.36

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.20
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.75
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New Sewer Customer Charge: <sup>4/</sup> \$ 27.00

Reconnection Charge: <sup>5/</sup>

If sewer service is cut off by utility for good cause: Actual Cost

MISCELLANEOUS UTILITY MATTERS

Charge for processing NSF Checks: \$ 25.00

Bills Due: On billing date

Bills Past Due: 21 days after billing date

Billing Frequency: Bills shall be rendered monthly in all service areas, except for Mt. Carmel, which will be billed bimonthly.

Availability rates will be billed quarterly in advance for Connestee Falls, semiannually in advance for Carolina Forest, Woodrun, and Fairfield Sapphire Valley, and monthly for Linville Ridge.

Finance Charge for Late Payment:

1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

<sup>1/</sup> If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

<sup>2/</sup> Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

<sup>3/</sup> The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice.

<sup>4/</sup> This charge shall be waived if customer is also a water customer within the same service area.

<sup>5/</sup> The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

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Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, on this the 31st day of March, 2020.



SCHEDULE OF RATES

for

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

for providing water and sewer utility service

in

TREASURE COVE, REGISTER PLACE ESTATES, NORTH HILLS, GLEN  
ARBOR/NORTH BEND SUBDIVISIONS, FAIRFIELD HARBOUR SERVICE AREA,  
BRADFIELD FARMS SUBDIVISION, LARKHAVEN SUBDIVISION, SILVERTON, AND  
WOODLAND FARMS SUBDIVISIONS, AND HAWTHORNE AT THE GREEN  
APARTMENTS

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)

< 1" meter	\$ 17.30
1" meter	\$ 43.25
1 1/2" meter	\$ 86.50
2" meter	\$138.40

Usage Charge, per 1,000 gallons \$ 4.20

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield  
Harbour Service Area \$ 3.55

Connection Charge:

Treasure Cove Subdivision	\$ 0.00
North Hills Subdivision	\$ 100.00
Glen Arbor/North Bend Subdivision	\$ 0.00
Register Place Estates	\$ 500.00

Fairfield Harbor: <sup>1/</sup>

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 335.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$ 650.00
Connection charge per tap	\$ 320.00

Bradfield Farms:

Connection charge per tap	None
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<u>Meter Testing Fee:</u> <sup>2/</sup>	\$ 20.00
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<u>New Water Customer Charge:</u>	\$ 27.00
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Reconnection Charge: <sup>3/</sup>

If water service is cut off by utility for good cause	\$ 42.00
If water service is discontinued at customer's request	\$ 42.00

<u>New Meter Charge:</u>	Actual Cost
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<u>Irrigation Meter Installation:</u>	Actual Cost
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SEWER RATES AND CHARGES

Monthly Sewer Service:

Residential:

Flat Rate, per dwelling unit	\$ 53.91
Bulk Flat Rate, per REU	\$ 53.91

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.91
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Monthly Metered Rates  
 (based on meter size with zero usage)

<1" meter	\$ 44.62
1" meter	\$ 111.55
1 1/2" meter	\$ 223.10
2" meter	\$ 356.96

Usage Charge, per 1,000 gallons	\$ 2.25
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Bulk Sewer Service for Hawthorne at the Green Apartments: <sup>4/</sup>

Bulk Flat Rate, per REU	\$ 53.91
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(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.85
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Connection Charge

Fairfield Harbour: <sup>1/</sup>

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 735.00
Connection charge per tap	\$ 140.00

Harbor Pointe Subdivision and any area where mains have been installed after July 24, 1989

Recoupment of capital fee per tap	\$ 2,215.00
Connection charge per tap	\$ 310.00

Bradfield Farms:

Connection charge per tap	None
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<u>New Sewer Customer Charge:</u> <sup>5/</sup>	\$ 27.00
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Reconnection Charge: <sup>6/</sup>

If sewer service is cut off by utility for good cause:	Actual Cost
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## MISCELLANEOUS UTILITY MATTERS

<u>Charge for processing NSF Checks:</u>	\$ 25.00
<u>Bills Due:</u>	On billing date
<u>Bills Past Due:</u>	21 days after billing date
<u>Billing Frequency:</u>	Bills shall be monthly for service in arrears. Availability billings semiannually in advance.
<u>Finance Charge for Late Payment:</u>	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

### Notes:

<sup>1/</sup> The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

<sup>2/</sup> If a customer requests a test of a water meter more frequently than once in a 24-month period, the Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter testing charge will be waived. If the meter is found to register accurately or below prescribed accuracy limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

<sup>3/</sup> Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

<sup>4/</sup> Each Apartment building will be considered 92.42% occupied on an ongoing basis for billing purposes as soon as the certificate of occupancy is issued for that apartment building.

<sup>5/</sup> This charge shall be waived if customer is also a water customer within the same service area.

<sup>6/</sup> The utility shall itemize the estimated cost of disconnecting and reconnecting service and shall furnish this estimate to customer with cut-off notice. This charge will be waived if customer also receives water service from Carolina Water Service within the same service area. Customers who request to be reconnected within nine months of disconnection at the same address shall be charged the base facility charge for the service period they were disconnected.

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Issued in Accordance with Authority Granted by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, on this the 31st day of March, 2020.

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

SCHEDULE OF CONNECTION FEES

FOR WATER UTILITY SERVICE UNDER UNIFORM RATES

Uniform Connection Fees: <sup>1/</sup>

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE (Single-Family Equivalent)	\$ 100.00
Plant Modification Fee (PMF), per SFE	\$ 400.00

The systems where connection fees other than the uniform fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows. These fees are per SFE:

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Abington	\$ 0.00	\$ 0.00
Abington, Phase 14	\$ 0.00	\$ 0.00
Amherst	\$ 250.00	\$ 0.00
Bent Creek	\$ 0.00	\$ 0.00
Blue Mountain at Wolf Laurel	\$ 925.00	\$ 0.00
Buffalo Creek, Phase I, II, III, IV	\$ 825.00	\$ 0.00
Carolina Forest	\$ 0.00	\$ 0.00
Chapel Hills	\$ 150.00	\$ 400.00
Eagle Crossing	\$ 0.00	\$ 0.00
Elk River Development	\$1,000.00	\$ 0.00
Forest Brook/Old Lamp Place	\$ 0.00	\$ 0.00
Harbour	\$ 75.00	\$ 0.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 300.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Lemmond Acres	\$ 0.00	\$ 0.00
Linville Ridge	\$ 400.00	\$ 0.00
Monterrey (Monterrey LLC)	\$ 0.00	\$ 0.00
Quail Ridge	\$ 750.00	\$ 0.00
Queens Harbour/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Riverwood, Phase 6E (Johnston County)	\$ 825.00	\$ 0.00
Saddlewood/Oak Hollow (Summey Bldrs.)	\$ 0.00	\$ 0.00

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Sherwood Forest	\$ 950.00	\$ 0.00
Ski Country	\$ 100.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Wildlife Bay	\$ 870.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00
Winston Plantation	\$1,100.00	\$ 0.00
Winston Pointe, Phase 1A	\$1,080.00	\$ 0.00
Wolf Laurel	\$ 925.00	\$ 0.00
Woodrun	\$ 0.00	\$ 0.00
Woodside Falls	\$ 500.00	\$ 0.00

Other Connection Fees:

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

Amber Acres, Amber Acres North, Amber Ridge, Ashley Hills North, Bishop Pointe, Carriage Manor, Country Crossing, Covington Cross, Heather Glen, Hidden Hollow, Jordan Woods, Lindsey Point, Neuse Woods, Oakes Plantation, Randsdell Forest, Rutledge Landing, Sandy Trails, Stewart's Ridge, Tuckahoe, Wilder's Village and Forest Hill Subdivisions

Connection Charge:

- A. 5/8" meter \$ 500.00
- B. All other meter sizes Actual cost of meter and installation

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>
Lindsey Point Subdivision	\$ 0.00
Amber Acres North, Sections II & IV	\$ 570.00
Fairfield Mountain/Apple Valley (a.k.a Rumbing Bald) Service Area	\$ 500.00
Highland Shores Subdivision	\$ 500.00
Laurel Mountain Estates	\$ 0.00
Carolina Trace	\$ 605.00
Connestee Falls	\$ 600.00

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

All Areas Except Holly Forest XI, Holly Forest XIV, Holly Forest XV, Whisper Lake I, Whisper Lake II, Whisper Lake III, Deer Run, Lonesome Valley Phases I and II, and Chattooga Ridge

Recoupment of Capital Fee (RCF) <sup>2/</sup>	\$ 0.00
Connection charge	\$ 400.00

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows.

<u>Subdivision</u>	<u>CC</u>	<u>RCF</u>
Holly Forest XI	\$ 400.00	\$2,400.00
Holly Forest XIV	\$ 400.00	\$ 250.00
Holly Forest XV	\$ 400.00	\$ 500.00
Whispering Lake Phase I	\$ 400.00	\$1,250.00
Whispering Lake Phases II and III	\$ 400.00	\$2,450.00
Deer Run	\$ 400.00	\$1,900.00
Lonesome Valley Phases I and II	\$ 0.00	\$ 0.00
Chattooga Ridge	\$ 0.00	\$ 0.00

<sup>1/</sup> These fees are only applicable one time, when the unit is initially connected to the system.

<sup>2/</sup> The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.



CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

SCHEDULE OF CONNECTION FEES FOR

SEWER UTILITY SERVICE UNDER UNIFORM RATES

Uniform Connection Fees: <sup>1/</sup>

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE (Single-Family Equivalent)	\$ 100.00
Plant Modification Fee (PMF), per SFE	\$1,000.00

The systems where connection fees other than the uniform fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows. These fees are per SFE:

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Abington	\$ 0.00	\$ 0.00
Abington, Phase 14	\$ 0.00	\$ 0.00
Amber Acres North (Phases II & IV)	\$ 815.00	\$ 0.00
Ashley Hills	\$ 0.00	\$ 0.00
Amherst	\$ 500.00	\$ 0.00
Bent Creek	\$ 0.00	\$ 0.00
Brandywine Bay	\$ 100.00	\$1,456.00
Camp Morehead by the Sea	\$ 100.00	\$1,456.00
Elk River Development	\$1,200.00	\$ 0.00
Hammock Place	\$ 100.00	\$1,456.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 30.00	\$ 0.00
Independent/Hemby Acres/Beacon Hills (Griffin Bldrs.)	\$ 0.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Kynwood	\$ 0.00	\$ 0.00
Mt. Carmel/Section 5A	\$ 500.00	\$ 0.00
Queens Harbor/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Steeplechase (Spartabrook)	\$ 0.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00

Willowbrook (Phase 3)	\$ 0.00	\$ 0.00
Winston pointe (Phase 1A)	\$1,400.00	\$ 0.00
Woodside Falls	\$ 0.00	\$ 0.00

Other Connection Fees:

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows.

Subdivision

Carolina Pines

Residential	\$1,350.00 per unit (including single-family homes, condominiums, apartments, and mobile homes)
Hotels	\$750.00 per unit
Nonresidential	\$3.57 per gallon of daily design of discharge or \$900.00 per unit, whichever is greater

Subdivision

CC

Fairfield Mountain/Apply Valley (a.k.a. Rumbling Bald) Service Area	\$ 550.00
Highland Shores	\$ 550.00
Carolina Trace	\$ 533.00
Connestee Falls	\$ 400.00

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

All Areas Except Holly Forest XIV, Holly Forest XV, Deer Run, and Lonesome Valley Phases I and II

Recoupment of Capital Fee (RCF) <sup>2/</sup>	\$ 0.00
Connection charge	\$ 550.00

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>	<u>RCF</u>
Holly Forest XIV	\$ 550.00	\$1,650.00
Holly Forest XV	\$ 550.00	\$ 475.00
Deer Run	\$ 550.00	\$1,650.00
Lonesome Valley Phases I and II	\$ 0.00	\$ 0.00

<sup>1/</sup> These fees are only applicable one time, when the unit is initially connected to the system.

<sup>2/</sup> The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-354, SUB 364

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application by Carolina Water Service,	)	
Inc. of North Carolina, 4944 Parkway	)	
Plaza Boulevard, Suite 375, Charlotte,	)	
North Carolina 28217, for Authority to	)	NOTICE TO CUSTOMERS
Adjust and Increase Rates for Water	)	
and Sewer Utility Service in All of its	)	
Service Areas in North Carolina	)	

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing Carolina Water Service, Inc. of North Carolina (CWSNC) to increase rates for water and sewer utility service in all of its service areas in North Carolina. The new approved rates are as follows:

**WATER RATES AND CHARGES**

(Excluding Fairfield Harbour Service Area and Treasure Cove, Register Place Estates, North Hills, Glen Arbor/North Bend, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments

Uniform Water Customers:

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)		
< 1" meter	\$	28.92
1" meter	\$	72.30
1 1/2" meter	\$	144.60
2" meter	\$	231.36
3" meter	\$	433.80
4" meter	\$	723.00
6" meter	\$	1,446.00

Usage Charge:

A. Treated Water/1,000 gallons	\$	8.27
B. Untreated Water/1,000 gallons (Brandywine Bay Irrigation Water)	\$	4.23

C. Purchased Water for Resale, per 1,000 gallons:

<u>Service Area</u>	<u>Bulk Provider</u>		
Carolina Forest	Montgomery County	\$	3.19
High Vista Estates	City of Hendersonville	\$	3.40
Riverbend	Town of Franklin	\$	7.50
Riverpointe	Charlotte Water	\$	6.48
Whispering Pines	Town of Southern Pines	\$	3.28
White Oak Plantation/ Lee Forest	Johnston County	\$	2.65
Winston Plantation	Johnston County	\$	2.65
Winston Point	Johnston County	\$	2.65
Woodrun	Montgomery County	\$	3.19
Yorktown	City of Winston Salem	\$	5.79
Zemosa Acres	City of Concord	\$	5.41
Carolina Trace	City of Sanford	\$	2.21

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

When because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit or other structure separately, the following will apply:

Sugar Mountain Service Area:

Where service to multiple units or other structures is provided through a single meter, the average usage for each unit or structure served by that meter will be calculated. Each unit or structure will be billed based upon that average usage plus the base monthly charge for a <1" meter.

Mount Mitchell Service Area:

Service will be billed based upon the Commission-approved monthly flat rate.

Monthly Flat Rate Service: (Billed in Arrears) \$ 58.54

Availability Rate: (Semiannual)

Applicable only to property owners in Carolina Forest  
and Woodrun Subdivisions in Montgomery County \$ 27.15

Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge  
Subdivision \$ 13.60

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area \$ 10.05

Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls \$ 5.30

SEWER RATES AND CHARGES

(Excluding Fairfield Harbour Service Area, Treasure Cove, Register Place Estates, North Hills and Glen Arbor/North Bend Subdivisions, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments)

Uniform Sewer Customers:

Monthly Metered Sewer Service:

Base Facility Charge:

Residential (zero usage) \$ 58.91

Commercial (based on meter size with zero usage)

< 1" meter	\$ 58.91
1" meter	\$ 147.28
1 1/2" meter	\$ 294.55
2" meter	\$ 471.28
3" meter	\$ 883.65
4" meter	\$1,472.75
6" meter	\$2,945.50

Usage charge, per 1,000 gallons \$ 4.59

Commercial customers, including condominiums or other property owner associations who bill their members directly, shall have a separate account set up for each meter and each meter shall be billed separately based on the size of the meter and usage associated with the meter.

Monthly Metered Purchased Sewer Service:

Collection Charge (residential and commercial) \$ 41.24

Usage charge, per 1,000 gallons based on purchased water consumption

<u>Service Area</u>	<u>Bulk Provider</u>		
White Oak Plantation/ Lee Forest/Winston Pt.	Johnston County	\$	5.57
Kings Grant	Two Rivers Utilities	\$	3.98
College Park	Town of Dallas	\$	7.33

Monthly Flat Rate Service: \$ 73.73

Multi-residential customers who are served by a master meter shall be charged the flat rate per unit. \$ 73.73

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge \$ 7.29

Monthly Collection Charge  
(Residential and commercial) \$ 41.24

Usage Charge/1,000 gallons based on purchased water \$ 6.32

Regalwood and White Oak Estates Subdivision Service Area:

Monthly Flat Rate Sewer Service  
 Residential Service \$ 73.73  
 White Oak High School \$2,187.33  
 Child Castle Daycare \$ 280.41  
 Pantry \$ 153.76

Fairfield Mountain/Apple Valley (a.k.a. Rumbling Bald) Service Area, Highland Shores Subdivisions and Laurel Mountain Estates

Monthly Sewer Rates:

Residential:  
 Collection charge/dwelling unit \$ 41.24  
 Treatment charge/dwelling unit \$ 69.50  
 Total monthly flat rate/dwelling unit \$ 110.74

Commercial and Other:

Minimum monthly collection and treatment charge \$ 110.74

Monthly collection and treatment charge for customers  
 Who do not take water service (per single family unit) \$ 110.74

Treatment charge per dwelling unit

Small (less than 2,500 gallons per month)	\$ 78.50
Medium (2,500 to 10,000 gallons per month)	\$ 139.50
Large (over 10,000 gallons per month)	\$ 219.50

Collection Charge (per 1,000 gallons)	\$ 13.93
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The Ridges at Mountain Harbour:

Monthly Sewer Rates:

Collection charge (Residential and Commercial)	\$ 41.24
Treatment Charge (Residential and Commercial)	
< 1 inch meter	\$ 18.42
2 inch meter	\$ 147.36

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.20
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.75
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RATE ADJUSTMENT MECHANISM:

The Commission-authorized water and sewer system improvement charge (WSIC/SSIC) rate adjustment mechanism continues in effect and will now be applicable to all customers in CWSNC's North Carolina service areas. It has been reset at zero in the Docket No. W-354, Sub 364 rate case, but CWSNC may, under the Rules and Regulations of the Commission, next apply for a rate surcharge on July 31, 2020 to become effective October 1, 2020. The WSIC/SSIC mechanism is designed to recover, between rate case proceedings, the costs associated with investment in certain completed, eligible projects for system or water quality improvement. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this general rate case proceeding. Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order and can be accessed from the Commission's website at [www.ncuc.net](http://www.ncuc.net), under Docket Information, using the Docket Search feature for docket number "W-354 Sub 360A" and "W-354, Sub 364A" .



CREDIT/REFUNDS DUE TO REDUCTION IN FEDERAL CORPORATE INCOME TAX RATE:

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (The Tax Act), which among other things, reduced the federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017.

With respect to excess deferred income taxes (EDIT) resulting from the reduction in the federal corporate income tax rate, the Commission is requiring that: (1) CWSNC shall continue to flow back the federal protected EDIT to customers in accordance with the Reverse South Georgia Method as ordered by the Commission in CWSNC's last rate case (Docket No. W-354, Sub 360), and (2) CWSNC shall refund the remaining federal unprotected EDIT to customers through a levelized rider over a period of 24 months as requested by CWSNC instead of the remaining 35-month period as originally ordered by the Commission in Docket No. W-354, Sub 360.

CWSNC will provide the applicable dollar amount concerning the federal EDIT rider (refund) shown as a separate line item on individual customers' monthly bills, along with explanatory information.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Handwritten signature of Kimberley A. Campbell in black ink.

Kimberley A. Campbell, Chief Clerk

**STATE OF NORTH CAROLINA  
 UTILITIES COMMISSION  
 RALEIGH**

DOCKET NO. W-354, SUB 364

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Carolina Water Service, Inc. ) of North Carolina, 4944 Parkway Plaza ) Boulevard, Suite 375, Charlotte, North ) Carolina 28217, for Authority to Adjust and ) Increase Rates for Water and Sewer Utility ) Service in All of its Service Areas in North ) Carolina )	) NOTICE TO CUSTOMERS ) IN TREASURE COVE, REGISTER ) PLACE ESTATES, NORTH HILLS, ) AND GLEN ARBOR/NORTH BEND ) SUBDIVISIONS, FAIRFIELD ) HARBOUR SERVICE AREA, ) BRADFIELD FARMS, LARKHAVEN, ) SILVERTON, AND WOODLAND ) FARMS SUBDIVISIONS, AND ) HAWTHORNE AT THE GREEN ) APARTMENTS
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NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing Carolina Water Service, Inc. of North Carolina to charge the following new rates for water and sewer utility service in Treasure Cove, Register Place Estates, North Hills, and Glen Arbor/North Bend Subdivisions, Fairfield Harbour Service Area, Bradfield Farms, Larkhaven, Silverton, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments:

**WATER RATES AND CHARGES**

Monthly Metered Water Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)	
< 1" meter	\$ 17.30
1" meter	\$ 43.25
1 1/2" meter	\$ 86.50
2" meter	\$ 138.40
Usage Charge, per 1,000 gallons	\$ 4.20

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 3.55
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## SEWER RATES AND CHARGES

### Monthly Sewer Service:

#### Residential:

Flat Rate, per dwelling unit	\$ 53.91
Bulk Flat Rate, per REU	\$ 53.91

#### Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.91
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Monthly Metered Rates  
(based on meter size with zero usage)

<1" meter	\$ 44.62
1" meter	\$111.55
1 1/2" meter	\$223.10
2" meter	\$356.96

Usage Charge, per 1,000 gallons	\$ 2.25
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### Bulk Sewer Service for Hawthorne at the Green Apartments:

Bulk Flat Rate, per REU	\$ 53.91
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(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

### Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.85
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### RATE ADJUSTMENT MECHANISM:

The Commission-authorized water and sewer system improvement charge (WSIC/SSIC) rate adjustment mechanism continues in effect and will now be applicable to all customers in CWSNC's North Carolina service areas. It has been reset at zero in the Docket No. W-354, Sub 364 rate case, but CWSNC may, under the Rules and Regulations of the Commission, next apply for a rate surcharge on July 31, 2020, to become effective October 1, 2020. The WSIC/SSIC mechanism is designed to recover, between rate case

proceedings, the costs associated with investment in certain completed, eligible projects for system or water quality improvement. The WSIC/SSIC mechanism is subject to Commission approval and to audit and refund provisions. Any cumulative system improvement charge recovered pursuant to the WSIC/SSIC mechanism may not exceed 5% of the total annual service revenues approved by the Commission in this general rate case proceeding. Additional information regarding the WSIC/SSIC mechanism is contained in the Commission's Order and can be accessed from the Commission's website at [www.ncuc.net](http://www.ncuc.net), under Docket Information, using the Docket Search feature for docket number "W-354 Sub 360A" and "W-354 Sub 364A".

CREDIT/REFUNDS DUE TO REDUCTION IN FEDERAL CORPORATE INCOME TAX RATE:

On December 22, 2017, President Donald J. Trump signed into law the Tax Cuts and Jobs Act (The Tax Act), which among other things, reduced the federal corporate income tax rate from 35% to 21%, effective for taxable years beginning after December 31, 2017.

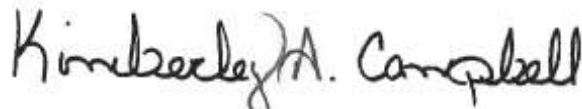
With respect to excess deferred income taxes (EDIT) resulting from the reduction in the federal corporate income tax rate, the Commission is requiring that: (1) CWSNC shall continue to flow back the federal protected EDIT to customers in accordance with the Reverse South Georgia Method as ordered by the Commission in CWSNC's last rate case (Docket No. W-354, Sub 360), and (2) CWSNC shall refund the remaining federal unprotected EDIT to customers through a levelized rider over a period of 24 months as requested by CWSNC instead of the remaining 35-month period as originally ordered by the Commission in Docket No. W-354, Sub 360.

CWSNC will provide the applicable dollar amount concerning the federal EDIT rider (refund) shown as a separate line item on individual customers' monthly bills, along with explanatory information.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2020.

NORTH CAROLINA UTILITIES COMMISSION



Kimberley A. Campbell, Chief Clerk

CERTIFICATE OF SERVICE

I, \_\_\_\_\_, mailed with sufficient postage or hand delivered to all affected customers the attached Notices to Customers issued by the North Carolina Utilities Commission in Docket No. W-354, Subs 363, 364, and 365, and the Notices were mailed or hand delivered by the date specified in the Order.

This the \_\_\_\_ day of \_\_\_\_\_, 2020.

By: \_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of Utility Company

The above named Applicant, \_\_\_\_\_, personally appeared before me this day and, being first duly sworn, says that the required Notices to Customers were mailed or hand delivered to all affected customers, as required by the Commission Order dated \_\_\_\_\_ in Docket No. W-354, Subs 363, 364, and 365.

Witness my hand and notarial seal, this the \_\_\_ day of \_\_\_\_\_, 2020.

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Printed or Typed Name

(SEAL) My Commission Expires: \_\_\_\_\_  
Date

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 7:**

Provide a list of the current officers of WSC and the how they are selected for their positions.

**Response:**

<u>WSC Officers:</u>	
Jim Devine	President
Catherine Heigel	Vice President
Shawn Elicegui	Vice President
Allen Wilt	Secretary
Kevin Labor	Assistant Secretary
Jim Andrejko	Treasurer

Officers of the operating company are selected by resolutions or written consents of the directors of each such company. All officers of Water Service Corporation were selected based on their role within the Corix Infrastructure Inc. organization.

<u>WSCK Officers</u>	
Seth Whitney	President
Stephen Vaughn	Vice President
Matt Hoffmeister	Secretary
Kevin Labor	Assistant Secretary
Jim Andrejko	Treasurer

All officers of Water Service Corporation of Kentucky were selected based on their role within the Corix Infrastructure Inc. organization. WSCK is currently working on changing Stephen Vaughn to Colby Wilson as Vice President.

**Witness:**

Seth Whitney

Case No. 2022-00147  
 Water Service Corporation of Kentucky  
 Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 8:**

Provide a list of positions that have become vacant since the application in this case was filed, and the forecasted and actual salary, forecasted and actual 401K and forecasted and actual payroll tax for each position.

**Response:** GIS Analyst and a Field Tech 1 positions became vacant post-submittal and have been since filled. Here are the forecasted and actual salaries, payroll taxes, and 401k for these positions.

2023 Forecasted Period				2023 Actual Salary and 401k participation		
Job Title	Salary (base pay, OT, Holiday)	Annual Payroll Taxes	401k company match	Salary (base pay, OT, Holiday)	Annual Payroll Taxes	401k company match
GIS Analyst	71,717	5,694	5,020	80,340	6,353	4,820
Field Tech I	42,580	3,415	2,981	44,456	3,558	1,334
2023 Allocated Forecasted Period				2023 Allocated Actual Salary and 401k participation		
Job Title	Salary (base pay, OT, Holiday)	Annual Payroll Taxes	401k company match	Salary (base pay, OT, Holiday)	Annual Payroll Taxes	401k company match
GIS Analyst	9,792	777	685	10,969	867	658
Field Tech I	42,580	3,415	2,981	44,456	3,558	1,334

**Witness:**

James Kilbane

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 9:**

Provide the accounting entries for bad debt expenses that were written off in the past 36 months.

**Response:**

Please see Excel file PSC PHDR 9 Write off JE.

**Witness:**

James Kilbane



Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 10:**

Provide WSC or Water Service Kentucky's written policy that states how bad debt is booked and written off.

**Response:**

The policy is attached to WSCK's response to AG DR 2-51 – Allowance for Doubtful Accounts Policy.

**Witness:**

James Kilbane

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 11:**

State whether Water Service Kentucky, WSC, or Corix sells Water Service Kentucky's accounts receivable. If so, state to whom the accounts receivable are sold.

**Response:**

No. Water Service Kentucky, WSC, and Corix do not sell WSCK's accounts receivables

**Witness:**

James Kilbane

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 12:**

Provide the names of other operating subsidiaries of Corix or WSC that are currently using the Neptune AMI system.

**Response:**

AMI systems have been deployed in Corix systems throughout Texas and Georgia. Neptune AMI is being used in the Lake Wylie system in South Carolina and Mountain Air system in North Carolina. In addition to these Corix subsidiaries, the Neptune bid response provided in response to Staff DR 2-19 identified five other municipalities that have installed a Neptune AMI system. *See* pages 40-44 of Response to Staff DR 2-19(e) - Bid Response #1.

**Witness:**

Seth Whitney

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 13:**

Refer to the hearing testimony of Seth Whitney, generally. Provide documentary evidence of any increased revenues due to improved meter accuracy by other operating subsidiaries of Corix or WSC currently using the Neptune AMI system.

**Response:**

For the systems referenced in PSC PHDR 12 above, there has not been an analysis of impacts to revenues directly related to installation of Neptune AMI meters.

**Witness:**

Seth Whitney

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 14:**

Refer to the hearing testimony of Mr. Whitney, generally. Provide the names of each operating subsidiary of Corix or WSC that are currently in the process of switching to the Neptune AMI system.

**Response:**

Corix systems that are in the process of deploying AMI are Sunshine Water Services, Prairie Path Water and Community Utilities of Indiana.

**Witness:**

Seth Whitney

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 15:**

Refer to the hearing testimony of Mr. Whitney, generally. Provide the names of any other operating subsidiary of Corix or WSC that were required to perform a benefit-cost analysis relating to the AMI system and provide copies of the benefit-cost analysis including the assumptions used in preparing the analysis.

**Response:**

Corix has not been required to perform a benefit-cost analysis in any other operating subsidiary of Corix or WSC.

**Witness:**

Seth Whitney

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 16:**

Refer to the hearing testimony of Mr. Whitney, generally. Provide documentation that Water Service Kentucky's current meters are registering a flow rate slower than the accuracy requirements in 807 KAR 5:066, Section 15.

**Response:** The current meters in WSCK's system do not register at a flow rate slower than the accuracy requirements in that regulation. WSCK removes and replaces meters registering a slower rate than the accuracy requirements.

**Witness:** Colby Wilson

Case No. 2022-00147  
Water Service Corporation of Kentucky  
Responses to Commission Staff's Post-Hearing Request for Information

**PSC POST-HEARING DR 17:**

Refer to the hearing testimony of Mr. Whitney, generally. Provide copies of any documents that supports Mr. Whitney's statement that Corix evaluated the least cost options for meter replacement for Water Service Kentucky.

**Response:** Please see the document provided in response to Staff DR 2-19, which includes detailed bids submitted by three meter vendors and the cost-benefit analysis prepared by Vaughn & Melton. The response to AG DR 1-52 includes a Propagation Study prepared by Neptune, which evaluated the feasibility of an AMI system. In addition to these documents, discussions between the local State Manager and Regional Vice President regarding the reasonableness of AMI deployment in Kentucky occurred while preparing WSCK's capital plan. WSCK management relied on their experience in the industry, along with the bid submittal, in determining whether to request a CPCN for AMI deployment.

**Witness:**

Seth Whitney