



**NORTH CAROLINA  
PUBLIC STAFF  
UTILITIES COMMISSION**

January 10, 2020

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

Re: Carolina Water Service, Inc. of North Carolina - Docket No. W-354, Sub 364 - Application for Rate Increase; Docket No. W-354, Sub 363 – Petition for Accounting Order To Defer Hurricane Florence Expenses, and Docket No. W-354, Sub 365 - Petition for Accounting Order To Defer Post-In-Service Depreciation and Financing Costs for Major New Projects

Dear Ms. Campbell:

Attached for filing in the above-referenced docket is the Public Staff's Proposed Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice.

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

Sincerely,

Electronically submitted  
s/ Gina C. Holt  
Staff Attorney  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)

Attachments

Executive Director  
(919) 733-2435

Communications  
(919) 733-5610

Economic Research  
(919) 733-2267

Legal  
(919) 733-6110

Transportation  
(919) 733-7766

Accounting  
(919) 733-4279

Consumer Services  
(919) 733-9277

Electric  
(919) 733-2267

Natural Gas  
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Water  
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Jan 10 2020

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, 4044 Parkway Plaza  
Boulevard, Suite 375, Charlotte, North  
Carolina 28217, for Authority to Adjust and  
Increase Rates for Water and Sewer Utility  
Service in All Service Areas in North Carolina

PUBLIC STAFF'S  
PROPOSED ORDER  
APPROVING JOINT  
PARTIAL SETTLEMENT  
AGREEMENT AND  
STIPULATION, 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 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 the Mecklenburg  
County Courthouse, Courtroom 5350, 832 East 4th Street,  
Charlotte, North Carolina

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

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

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

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

Monday, October 14, 2019, at 7:00 p.m., December 2, 2019, at 2:00 p.m., and Tuesday, December 3, 2019 at 9:30 a.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 Hughes

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

Jo Anne Sanford, Sanford Law Office, PLLC, P.O. Box 28085, Raleigh, North Carolina 27611

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

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, and John Little, 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, 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 (Petition).

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

On June 6, 2019, the Commission entered an Order consolidating Docket Nos. W-354, Sub 363 and Sub 364.

On June 28, 2019, CWSNC filed its verified application for general rate increase (Application) in Docket No. W-354, Sub 364, including testimony by the following witnesses: Catherine E. Heigel,<sup>1</sup> President of CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company; Dante M. DeStefano, Director of Financial Planning and Analysis for CWSNC; Gordon R. Barefoot,<sup>2</sup> President and CEO of Corix Infrastructure, Inc; J. Bryce Mendenhall, Vice President of Operations for CWSNC, Tennessee Water Service, Inc., and Blue Granite Water Company; Anthony Gray, Senior Financial and Regulatory Analyst,

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

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

CWSNC; and Dylan W. D'Ascendis, Director at ScottMadden, Inc. The Company also filed information and data required by NCUC Form W-1.

On June 28, 2019, CWSNC also filed a Petition for Deferred Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects.

On July 15, 2019, the Commission issued its Order Suspending Rates and Establishing a General Rate Case.

On August 2, 2019, the Commission issued an Order Scheduling Hearings and Requiring Customer Notice.

On August 2, 2019, CWSNC witness DeStefano filed Supplemental Testimony; and on August 23, 2019, CWSNC filed an Amended Exhibit to DeStefano's Supplemental Testimony.

On August 21, 2019, CWSNC filed a certificate of service demonstrating that the Applicant sent the notices to customers as required by the Commission's Order issued in this proceeding.

Public hearings were held as scheduled. The following public witnesses testified at the public hearings in this proceeding:

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 Joffee

CWSNC responded to public witness testimony by its filings on September 25, October 24, October 30, and November 8, 2019.

On August 22, 2019, Corolla Light Community Association, Inc. ("CLCA") filed a Motion to Intervene, and on September 5, 2019, the intervention was allowed by Order of the Commission.

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

On October 4, 2019, CWSNC filed its rate case updates, schedules, and supporting data.

On October 22, 2019, a Motion for Admission *Pro Hac Vice* was filed by Mark Alson, Ice Miller LLP of Indianapolis, Indiana, and Jo Anne Sanford, Sanford Law Office, PLLC requesting admission of Mr. Alson in order to participate in these proceedings. On October 28, 2019, the Commission granted the motion.

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 Gina Y. Casselberry on November 15, 2019.

The Public Staff filed Revised Exhibits of Lynn L. Feasel and Windley E. Henry on November 18, 2019.

On Monday, November 18, 2019, CWSNC withdrew its request for consideration and determination of a Consumption Adjustment Mechanism and of the Conservation Rate Pilot Program and Revenue Adjustment Mechanism proposed for The Point Subdivision.

On November 19, 2019, the Commission entered an order consolidating Docket Nos. W-354, Sub 364 and Sub 365.

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

On November 21, 2019, CWSNC and the Public Staff filed a joint motion to excuse Company witnesses Gray and Elicegui and Public Staff witness Boswell, which was granted by Commission order on November 25, 2019.

On November 26, 2019, Public Staff witness John Hinton filed Supplemental Testimony, revising his recommended cost rate of 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; notice that it intended to call witnesses Windley Henry and Charles Junis as a panel at the December 2, 2019, evidentiary hearing; and a motion to excuse witnesses Gina Casselberry, Lindsay Darden, and Lynn Feasel. By Order dated December 2, 2019, the Commission excused Public Staff witnesses Lindsay Darden and Lynn Feasel.

On December 2, 2019, CLCA filed a Resolution opposing CWSNC's rate increase Application and requesting that its rates be part of CWSNC's uniform rate division. Also on this date, the matter came on for hearing in Raleigh. All prefiled testimony and exhibits filed in these dockets were admitted without objection. All parties agreed to waive cross-examination on the prefiled direct testimony with respect to the settled issues.

During the hearing, the Commissioners requested additional information in the form of late-filed exhibits. On December 9, 2019, the Public Staff filed the late-filed exhibits of witness Gina Casselberry and on December 11, 2019, filed the late-filed exhibits of Windley Henry, pursuant to the Commission's request. On December 13, 2019, CWSNC witnesses, Dante DeStefano, Dylan D'Ascendis,



and Bryce Mendenhall filed late-filed exhibits pursuant to the Commission's request.

On January 6, 2020, the Public Staff filed a motion for extension of time for all parties to file proposed orders, which was granted by Commission Order on January 7, 2020.

On January 10, 2020, CWSNC, CLCA, and the Public Staff filed their respective Proposed Orders.

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/or sewer utility service to customers in 38 counties in North Carolina. CWSNC is a wholly-owned subsidiary of Utilities, Inc. (UI).<sup>5</sup>

2. CWSNC is properly before the Commission pursuant to Chapter 62 of the General Statutes of North Carolina for a determination of the justness and reasonableness of its proposed rates for its water and sewer operations.

3. The appropriate test period 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 evidentiary hearing

4. The 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, CWSNC and the Public Staff (Stipulating Parties) filed the Stipulation, resolving some of the issues between those two parties in this docket. Those issues that were not resolved by the Stipulation are referred to herein as the "Unsettled Issues."

6. The Stipulation is the product of the 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 that testified at the hearing.

7. The Stipulation is a settlement of matters in controversy in this proceeding as between the Stipulating Parties and was not joined by CLCA, the other party to the proceeding.

8. The Stipulation resolves only some of the disputed issues between CWSNC and the Public Staff

9. The Unsettled Issues, which were not resolved in the Stipulation, include the following:

- a. Return on Equity; and
- b. Deferred accounting treatment of AMR meter installation projects in the Fairfield Mountain and Connestee Falls systems.

The Unsettled Issues are resolved by the Commission and are addressed later in this Order.

### **Acceptance of Stipulation**

10. 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.

11. The provisions of the Stipulation are just and reasonable to all parties to this proceeding and serve the public interest

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

### **Customer Concerns and Service**

13. As of the 12-month period ended March 31, 2019, CWSNC served 30,724 water customers and 20,105 wastewater customers, including CLMS. There are also 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.

14. A total of 23 witnesses testified at the six public hearings held for the purpose of receiving customer testimony. In general, public testimony at those

hearings primarily dealt with objections to the rate increase and several isolated service issues.

15. As of November 15, 2019, the Public Staff had received approximately 316 written customer statements of position from CWSNC customers. The service areas represented 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). All of the customers objected to the magnitude of the increase. Their primary concern was that CWSNC was in for another rate increase when they just had an increase in March 2019, less than six months ago.

16. CWSNC filed five verified reports with the Commission addressing the service-related concerns and other comments expressed by the witnesses who testified at the hearings held for the purpose of receiving public witness testimony. Such reports described each of the witnesses' specific service-related concerns and comments, the Company's response, and how each concern and comment was addressed, if applicable.

17. 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 DEQ.

18. CWSNC should 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 associations' consideration, as recommended by the Public Staff.

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.

### 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:

### CWSNC COMBINED OPERATIONS

<u>Item</u>	Amount Per Public Staff
Plant in service	\$238,212,084
Accumulated depreciation	(57,897,943)
Net plant in service	180,314,142
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
	<hr/>
Original cost rate base	\$132,897,368
	<hr/> <hr/>

### 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 Expenses

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 proceeding in Docket No. W-354, Sub 360 (Sub 360 Proceeding).

25. It is appropriate to amortize the total rate case costs for the current and prior proceedings over five years plus miscellaneous regulatory matters per application costs of \$73,911, resulting in an annual level of rate case expense of \$307,755.

### **Ten-Year Annualized Storm Expenses**

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 storm costs.

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

### **Hurricane Florence Expense**

28. It is reasonable and appropriate for CWSNC to include in rates the cost incurred by the Company related to Hurricane Florence.

29. The Company and 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.

### **Deferral of WWTP Expense**

31. It is reasonable and appropriate for CWSNC to receive deferral accounting treatment for post-in-service depreciation expense and carrying costs

related to the Company's capital investments in wastewater treatment plants (WWTPs) placed in service at Nags Head and Connestee Falls during the pendency of this proceeding.

32. The Company should be authorized to defer and amortize \$1,098,778 of carrying costs in its capital investments in the Nags Head and Connestee Falls WWTPs, return on net plant, and depreciation expense. These costs should be amortized over a period of five years.

#### **Deferral of AMR Meter Expense**

33. The Company should be authorized to recover depreciation expense it incurred installing AMR meters in its Fairfield Mountain and Connestee Falls service areas.

34. The Company should not be authorized to defer and amortize depreciation expense and return on capital expenditures it has incurred for installing AMR meters in its Fairfield Mountain and Connestee Falls service areas.

#### **Depreciation and Amortization Expense**

35. 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**

36. 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**

37. The appropriate level of regulatory fee for use in this proceeding is \$44,159.

38. The appropriate level of state income taxes for use in this proceeding is \$75,474.

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

40. The appropriate level of federal income taxes for use in this proceeding is \$618,133.

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

41. It is reasonable and appropriate, for purposes of this proceeding, for the Company to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Docket No. W-354, Sub 360 (Sub 360 Order).

42. The Company's state EDIT recorded pursuant to the Commission's Order Addressing the Impacts of HB 998 on North Carolina Public Utilities issued May 13, 2014, in Docket No. M-100, Sub 138 (Sub 138 Order) should continue to be amortized in accordance with the Commission's February 21, 2019, Order

Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice and confirmed in Commission's Sub 360 Order.

43. 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.

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

44. 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 7.20%. This overall rate of return is derived from applying an embedded cost of debt of 5.36%, and a rate of return on equity of 9.1%, to a capital structure consisting of 50.90% long-term debt and 49.10% common equity.

45. A 9.1% rate of return on equity for CWSNC is just and reasonable in this general rate case.

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

47. A 5.36% cost of debt for CWSNC is reasonable for the purpose of this case.

48. The rate increase approved in this case, which includes the approved rate of return on equity and capital structure, will be difficult for some of CWSNC's customers to pay, in particular CWSNC's low-income customers.

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

50. The rate of return on 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.

### **Revenue Requirement**

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

<u>Item</u>	<u>Amount</u>
CWSNC Uniform Water	\$ 1,616,286
CWSNC Uniform Sewer	2,779,182
BF/FH/TC Water	88,827
BF/FH/TC Sewer	<u>122,161</u>
Total	<u>\$4,606,456</u>

52. These increases (decreases) will allow CWSNC the opportunity to earn a 7.2 percent overall rate of return, which the Commission has found to be reasonable upon consideration of the findings in this Order.

### **Rate Design**

53. It is appropriate for CWSNC's rate design for water utility service for its Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour residential

customers to be based on a 50/50 ratio of base charge to usage charges, and an 80/20 ratio of base charge to usage charges for CWSNC's Uniform Sewer residential customers, as agreed to by the Stipulating Parties.

54. 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, recommended by the Public Staff are just and reasonable and should be approved.

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

55. 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.

56. By law, the cumulative maximum charges that the Company can recover between rate cases cannot exceed five percent of the total service revenues approved by the Commission in this rate case.

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

57. It is reasonable and appropriate for the Company, in its next general rate case filing, to ensure that its 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.

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

59. 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**

The evidence supporting these findings of fact is found in the 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 – 12**

The evidence supporting these findings of fact is found in the Stipulation and in the testimony of both CWSNC and the Public Staff's witnesses.

On November 27, 2019, CWSNC and the Public Staff entered into and filed a Partial Settlement Agreement and Stipulation, which memorializes these parties' 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 evidentiary 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, 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 is binding as between CWSNC and the Public Staff, 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. However, Corolla Light HOA did not indicate its assent to the Stipulation. There are no other parties to this proceeding.

The key aspects of the Stipulation are as follows:

Tariff Rate Design – The Stipulating Parties agreed that rate design in this case should be based on a 50/50 ratio of fixed/volumetric revenues for the Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour residential customers and an 80/20 ratio of fixed/volumetric revenues for the Uniform Sewer residential customers.

Capital Structure – The Stipulating Parties agreed that the capital structure appropriate for use in this proceeding is a capital structure consisting of 49.1% common equity and 50.9% long-term debt at a cost of 5.36%.

Property Insurance Expense – The Stipulating Parties agreed to the Company's rebuttal position of \$279,912.

Treatment of Water Service Corporation ("WSC") Rent Expense - The Stipulating Parties agreed 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 – Agreement for a 20% water loss threshold for Whispering Pines, Zemoso Acres, Woodrun, High Vista, and Carolina Forest subdivisions.

PAA Amortization Expense Rates – The Company agreed to the Public Staff's PAA amortization rates per Revised Feasel Exhibit I, Schedule 3-15.

Storm Reserve Fund and Storm Expense – The Company agreed 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 agreed to the Company's rebuttal position removing insurance overpayments to-date from the insurer.

Accumulated Deferred Income Taxes (ADIT) - The Company agreed to the Public Staff's proposed calculations of ADIT regarding unamortized rate case expense. The Stipulating Parties agreed to revise ADIT for any updates made to rate case expense deferrals.

Deferral Accounting for Capital Investments in Wastewater Treatment Plants - The Stipulating Parties agreed that deferral accounting treatment for post-in-service depreciation expense and carrying costs related to the Company's capital investments in wastewater treatment plants 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 agreed 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 agreed 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, herein.

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 [C]hapter 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. 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 the “give-and-take” of the 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 testimony and supporting exhibits of Public Staff witness 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 that were more important to CWSNC, and, likewise, issues that 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, and the public witnesses that 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) return on 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 the one hand, and its customers to receive safe, adequate, and reliable 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. 13 -20**

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, Mendenhall, and Clark, and in the verified reports filed by CWSNC in response to the concerns testified to by the public witnesses at hearings.

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 Joffee

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 hearing 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:

Public Staff witness Casselberry testified that her investigation included a review of customer complaints, contact with the North Carolina Department of Environmental Quality (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; and DWR identified three wastewater treatment plants: CLMS, Carolina Trace, and Asheley Hills. 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 DWR and PWSS 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 customer position statements from CWSNC customers received by the Public Staff as a result of this proceeding. Ms. Casselberry stated that the service areas represented 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 indicated that all customers objected to the magnitude of the rate increase. She testified that public witnesses' primary concern was that CWSNC was in for another rate increase when they just had an increase in March 2019, less than six months ago. Most of the customers in Conneestee 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 opposed CWSNC's proposed Pilot Program. Their primary objections were: (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 with regard to the 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 five reports filed by CWSNC in response to the customer concerns and complaints which were included in testimony at those six public hearings. Ms. Casselberry testified that there were a few isolated service issues which the Company 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 area, 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, 102-103*) 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, she had no additional comments or recommendations. *Tr. vol. 8, 111*. It was witness Casselberry's opinion that CWSNC's quality of service was good. *Tr. vol. 8, 111*. Ms. 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*

Based upon the foregoing, and after careful review of the testimony of the customers at the public hearings, the testimony of Company witness Clark, the Company Reports on Customer Comments, the Public Staff's engineering and service quality investigation, and the late-filed and exhibits filed by CWSNC and

the Public Staff, the Commission concludes that, consistent with the statutory requirements of N. C. Gen. Stat. § 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**

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

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:

<u>Item</u>	<u>Company Per Application</u>	<u>Differences</u>	<u>Amount Per Public Staff</u>
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	180,314,142
Cash working capital	2,467,676	(62,876)	2,404,800
Contributions in aid of construction	(40,916,105)	645,430	(40,270,675)
Advances in aid of construction	(32,940)	0	(32,940)
Accumulated 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 excess deferred taxes	(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
	<hr/>	<hr/>	<hr/>
Original cost rate base (Sum of L3 thru L16)	<u>\$130,871,300</u>	<u>\$2,026,068</u>	<u>\$132,897,368</u>

On the basis of the Stipulation and revisions made by the Public Staff in its Feasel Supplemental Exhibits I and II and Henry Revised Supplemental Exhibits I, the Company does not dispute adjustments recommended by the Public Staff to plant in service, accumulated depreciation, contributions in aid of construction, customer deposits, gain on sale and flow back taxes, plant acquisition adjustment, excess book value, average tax accruals, deferred charges, and pro forma plant. Therefore, the Commission finds that the adjustments recommended by the Public Staff to plant in service, accumulated depreciation, contributions in aid of construction, customer deposits, gain on sale and flow back taxes, plant acquisition adjustment, excess book value, average tax accruals, deferred



charges, and pro forma plant, which are not contested, are appropriate adjustments to be made to rate base in this proceeding.

Based on the testimony of Company witness DeStefano, CWSNC disagrees with the Public Staff's adjustments to return on equity and deferred accounting treatment for AMR meter installation in Nags Head and Connesstee Falls.

#### Summary Conclusion

Based on the foregoing, the Commission concludes that 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 (L1 + L2)	180,314,142
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
	<hr/>
Original cost rate base (Sum of L3 thru L16)	<u>\$132,897,368</u>

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

The evidence supporting these findings 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:

	Company present rates per application	Difference	Public Staff recommended rates
<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>

On the basis of 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:

Item	Amount
------	--------

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, which are not contested, are appropriate adjustments to be made to operating revenues under present rates in this proceeding.

#### Summary Conclusion

Based on the foregoing, the Commission concludes that the appropriate level of operating revenues recommended by Public Staff for combined operations for use in this proceeding is as follows:

Item	Amount
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 Expense

The evidence for these findings of fact is found in in the Application and the accompanying NCUC Form W-1, the testimony of Public Staff witness Feasel, Henry, and Darden; and Company witnesses DeStefano, and Mendenhall, and the Public Staff's Revised exhibits filed on November 15, 2019.

Historically, regulatory commission expense normally was comprised of printing and mailing, legal fees, capitalized salaries and wages, consulting and travel. On January 6, 2020, the Company submitted the actual cost incurred to date and the estimated expense to be incurred related to this rate case. Public Staff reviewed the invoices and other supporting documents provided along with the rate case expense spreadsheet 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 expense in the current proceeding are appropriate and reasonable to be included in this rate case.

The Public Staff and the Company were in agreement that the miscellaneous regulatory matters cost in the Company's books should also be included as a rate case expense to be recovered in this rate case, since this is also a reasonable cost incurred related to rate case expense.

Therefore, in light of the foregoing, the Commission finds that it is appropriate and reasonable to amortize the rate case expense in the current proceeding and the unamortized rate case expense from the prior rate cases over 5 years plus the miscellaneous regulatory matters per application in the test year as the annual rate case expense to be recovered.

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:

	Company Per Application	Difference	Amount Per Public Staff
<u>Maintenance Expenses:</u>			
Salaries and wages	\$5,143,430	(\$193,719)	\$4,949,710
Purchased power	2,110,722	(7,679)	2,103,043
Purchased 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>
<u>General Expenses:</u>			
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>

On the basis of the Stipulation and revisions made by the Public Staff in its supplemental testimony and Henry Revised Exhibit I, and Feasel Revised Exhibits I and II, the Company does not dispute adjustments recommended by the Public Staff to maintenance and general salaries and wages, purchased power, purchase water and sewer, maintenance and repair, maintenance testing, meter reading, chemicals, transportation, operating expenses charged to plant, outside services, office supplies and other office expenses, regulatory commission expense, pension and other benefits, rent, insurance, office utilities, and miscellaneous. For reasons detailed elsewhere in this Order, the Commission finds that the adjustments recommended by the Public Staff to maintenance and general salaries and wages, purchased power, purchase water and sewer, maintenance and repair, maintenance testing, meter reading, chemicals, transportation, operating expenses charged to plant, outside services,, office supplies and other office expenses, regulatory commission expense, pension and other benefits, rent, insurance, office utilities, and miscellaneous expense, which are not contested, are appropriate adjustments to be made to maintenance and general expenses in this proceeding.

#### Summary Conclusion

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:

	Amount
<b><u>Maintenance Expenses:</u></b>	
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
Operating expenses charged to plant	(665,133)
Outside services - other	1,191,299
Total maintenance expenses	<u>\$14,897,501</u>
<b><u>General Expenses:</u></b>	
Salaries and wages	\$2,004,409
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****Ten-Year Annualized Storm Expenses**

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

In W-10 Schedule 24, the Company used three years (2016 -2018) to calculate the average storm cost required to be recovered in this rate case. However, the Public Staff witness Henry stated that 10 years has historically been used to calculate the average storm cost, because 10 years would include years in which storm costs were high and low, resulting in a more reasonable average than what would result from using only the three most recent years. Additionally, witness Henry stated this has been the method approved by the Commission over a long period of time. In the Stipulation filed in this proceeding, the Company agreed to the Public Staff's use of a ten-year average of storm costs.

Therefore, in light of the foregoing, the Commission believes that it is appropriate and reasonable to continue its historical practice of using 10 years as the standard to calculate average annualized storm costs to be recovered in the Company's rates as an ongoing level of expense.

**EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 28 - 30****Deferral of Storm Expenses Related to Hurricane Florence**

The evidence supporting these conclusions is found in the record of the Company's *Request for Accounting Order for CWNSC* and in the testimony of



Company witness DeStefano and Public Staff witnesses Henry and Feasel and the Stipulation. Docket No. W-354, Sub 363, *Request for Accounting Order for CWSNC*, January 8, 2019, (Sub 363)

On January 17, 2019, in the Company's Sub 363 docket, CWSNC filed a Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss (Petition), which has been consolidated with the Sub 364 rate case proceeding. In its Petition, CWSNC requested 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 operating and maintenance (O&M) costs, lost revenues, and depreciation expense on its capital investments. According to the 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 that it has incurred, to date, storm-related incremental O&M expenses amounting to \$146,773, \$582,570 in capital investments, and estimated revenue loss of \$46,320. 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 costs and deferral accounting treatment for costs

related to Hurricane Florence; however, it opposed inclusion of carrying costs of lost revenues and depreciation expense. Additionally, the Public Staff recommended that the amortization period begin as of October 2018, the date of the storm, and not beginning with the effective date of the Company's next general rate case, which is the present rate case.

After considering prior cases and the tests applied by the Commission, the Public Staff determined "In this case, 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 equity. The Public Staff has concluded that this is an exceptional circumstance justifying some deferral of costs." Docket No. W-354, Sub 363, *Request for Accounting Order for CWSNC*, Public Staff Comment's, April 4, 2019, 5.

The Public Staff cited the Commission's Order in Duke Energy Progress' (DEP) last general rate case Order in Docket No. E-2, Sub 1142 (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.

Public Staff therefore recommended 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 revenue.

- 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.
- e. That any applicable insurance proceeds received by CWSNC will be used to offset the deferred O&M expenses.

Public Staff witness Henry, in his discussion regarding the Company's proposal to establish a storm reserve fund<sup>3</sup>, stated that the Public Staff recommended an annualized level of storm expenses, booked to maintenance and repair expense, and amortized the Hurricane Florence costs over a three-year period, which was the amortization period requested by the Company in the Sub 363 docket. *Tr. vol. 8, 125-126.*

As shown in her Settlement Exhibit I, witness Feasel calculated a total deferral amount of \$146,773 for the 2018 storm costs with an amortization period

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<sup>3</sup> The Company withdrew its request for a storm reserve fund pursuant to the Stipulation filed November 27, 2019.

of three years beginning in October 2018, using the procedure recommended by witness Henry. The Company agreed to the Public Staff's recommendation in the Stipulation filed in this proceeding.

#### Summary Conclusion

The Commission finds and concludes that it is just and reasonable for the Company to receive deferral accounting treatment for the \$146,773 in Hurricane Florence storm costs, amortized over three years and these costs should be approved.

### **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 31 - 32**

#### Deferral of WWTP Expenses

The evidence for these findings of fact is found in the record of Docket No. W-354, Sub 365 (Sub 365), the Initial Comments of the Public Staff (Comments), the Reply Comments of the Company (Reply Comments), the testimony of Company witnesses DeStefano and Mendenhall, and the testimony and exhibits of Public Staff witnesses Henry, Feasel, and Junis, and the Stipulation.

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

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 petition, CWSNC describes four major new projects for which the Company is requesting authority to defer, for inclusion in the Sub 364 Rate Case, the incremental post-in-service depreciation expense and financing costs; specifically:

- a) Connestee Falls wastewater treatment plant (WWTP) in Buncombe County.
- b) Nags Head WWTP in Dare County.
- c) Fairfield Mountain automated meter reading (AMR) meters to be installed in Transylvania County.
- d) Connestee Falls AMR meters to be installed in Buncombe County.

According to Public Staff witness Henry, all of the foregoing projects were completed and in service as verified by Public Staff witness Casselberry (as of the date of the hearing) and final invoices were reviewed by the Public Staff. *Tr. vol. 8, 172.* Company witness Mendenhall also confirmed the WWTPs were in service. *Tr. vol. 8, 62.*

In its 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 relied on the precedent established by the Commission as follows:

In its *Order Approving Deferral Accounting with Conditions*, issued on March 31, 2009, in Docket No. E-7, Sub 874, the Commission stated at page 24:

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

In its *Order Approving in Part and Denying in Part Request for Deferral Accounting*, issued on April 3, 2013, in Docket No. E-7, Sub 1029, the Commission stated at pages 12-13:

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.

Thus, the Commission's receptivity to deferral requests is not unlimited or without regard for traditional ratemaking principles. The Commission has required a clear

and convincing showing that the costs in question were of an unusual and/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 Commission has based its decision largely on the impact the costs would have on currently achieved earnings of the utility. As described by the Commission in *Duke Energy Carolinas, LLC*, 99 N.C.U.C 226-27, Docket No. E-7, Sub 874 (2009), 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.

The Public Staff's Comments stated it had evaluated the deferrals requested in CWSNC's petition against the criteria set forth above. Based on these criteria and other Commission precedent, the Public Staff did not oppose deferral accounting treatment for costs related to the WWTPs at Nags Head and Connestee Falls. The Public Staff based its decision on the fact that costs for the WWTPs were related to major construction projects that were not yet in service but expected to be completed and in operation prior to the date of the evidentiary hearing in CWSNC's pending general rate case, the deferral accounting request was made contemporaneously with the filing of the rate case application, and the

deferral period was not so long as to cause undue concern that the ratepayers who pay rates that include costs incurred to provide service during the deferral period may not be the same ratepayers who received the service. Docket No. W-354, Sub 363, Request for Accounting Order for CWSNC, Public Staff Comment's, April 4, 2019, 6-7. Additionally, the Public Staff stated, "the impact of the costs, if not deferred, on the Company's ROE 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. Docket No. W-354, Sub 363, *Request for Accounting Order for CWSNC*, Public Staff Comment's, April 4, 2019, 7. Thus, in the Public Staff's view, 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.

As evidenced by the Stipulation filed on November 27, 2019, the Company and the Public Staff are in agreement as to the Company's request to defer incremental post-in-service depreciation expense and financing costs of the WWTP's at Nags Head and Connestee Falls and have agreed to the amount of costs to be included in the rate case. In light of the Commission's acceptance of the Stipulation in its entirety, the Commission finds the Company's request for deferral of the WWTP costs to be just and reasonable and should be approved.

#### Summary Conclusion

As provided in Stipulation Exhibit 1 and the Revised Exhibits I and II of Public Staff witness Feasel, 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, and these costs should be amortized over three years, for an annual amount to be included in rates of \$219,756.

## **EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 33 - 34**

### **Deferral of AMR Meter Expenses**

The evidence for these findings of fact is found in the record of the Company's Sub 365 docket, and the Comments of the Public Staff, the Reply Comments of the Company, the testimony of Company witnesses DeStefano and Mendenhall, and in the testimony and exhibits of Public Staff witnesses Henry, Feasel, and Junis. Docket No. W-354, Sub 365, *Petition for Approval of Deferral Accounting*, June 18, 2019.

As stated in the above section, the Company, in its Sub 365 docket, requested deferral accounting treatment for the costs of installing AMR meters in its Fairfield Mountain and Connetsee Falls service areas. According to the Comments filed by the Public Staff in Sub 365, the Public Staff did not contest including in rate base in the Sub 364 rate case, the expense associated with installing the meters.

In regard to the installation costs of AMR meters, the Public Staff stated in its Comments that 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. Using the criteria established in the Commission Orders, which were cited above, the Public Staff

stated that CWSNC failed to make a clear, complete, and convincing showing that the AMR meter costs in question are of an unusual or extraordinary nature, and, absent deferral, will have a material impact on the Company's financial condition. It was the Public Staff's position 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. Docket No. W-354, Sub 365, *Petition for Approval of Deferral Accounting*, Public Staff Comment's, September 20, 2019, 7-8. Additionally, the Public Staff stated that CWSNC has water meters in service that range in age and condition, and it is not unusual for a water and sewer utility to undertake a meter replacement project that includes an entire subdivision or service area, because it promotes efficiency of time and cost when replacing a number of meters having similar ages due to being installed within a similar time period. Due to the nature of meter replacement being an expected and usual occurrence, the Public Staff stated the only difference in the Company's request is the increased cost of the new meter. 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 project of meter replacements. It was the Public Staff's opinion that the increased cost of AMR meters and the number of meters replaced

is the result of management decisions by CWSNC and a failure to implement a systematic and measured meter replacement program.

In its Reply Comments, the Company stated the Commission should authorize deferred accounting for its AMR meter projects for the following reasons: (1) major technological upgrades such as the Company's AMR meter projects are the type of projects for which deferred accounting is appropriate; (2) the financial impact to the Company of all of its projects for which deferred accounting has been proposed is significant and material, and it is appropriate to consider the totality of the adverse regulatory lag impacts; and (3) even if only the isolated financial impacts of the AMR meter projects are considered, those financial impacts support deferred accounting treatment, especially in light of the Company's current earned ROE. Docket No. W-354, Sub 365, *Petition for Approval of Deferral Accounting*, CWSNC Reply Comments, October 21, 2019, 9.

In response to the Public Staff's assertion on page five of its Comments that, ". . . the Company's decision to upgrade does not change the nature of the typical and expected project of meter replacements", CWSNC stated that replacing aged, manually-read, analog meters en masse with more modern remote-read meters is a significant - not typical-change in the operating processes and nature of service for both the Company and its affected customers. The Company further stated, "Unlike typical meter replacements, which are made when an individual meter fails, is damaged, or is found to be inaccurate, the Company has embarked on a mass replacement of its aging analog meters with digital AMR meters in two mountainous service areas of its service territory." Docket No. W-354, Sub 365,

*Petition for Approval of Deferral Accounting*, CWSNC Reply Comments, October 21, 2019, 5. The Company also stated that its AMR meter replacement projects were intended to improve service, efficiency, and safety, through the use of advanced technology, which are quite different from the typical, individual meter replacements. Docket No. W-354, Sub 365, *Petition for Approval of Deferral Accounting*, CWSNC Reply Comments, October 21, 2019, 5.

The Company argued that it agreed that deferred accounting would not be appropriate for the typical, individual analog meter replacements that take place regularly across a utility system, but its AMR projects differ markedly in scope, scale, purpose, and financial impact from such routine meter change-outs. Further, the Company took issue with the Public Staff's assertion in its Comments that traditional meter and AMR meter replacement projects have not been proposed for deferral accounting in the past. The Company also argued that if it is denied deferred accounting treatment, it will effectively penalize the Company through denial of timely cost recovery for investments in modernizing its water system operations, and the Company's earnings will be materially affected to its detriment. Moreover, CWSNC stated that other state regulatory commissions have authorized deferred accounting in connection with meter replacement projects.

The Company stated in its Reply Comments that "major technological upgrades such as the Company's AMR meter projects are the type of projects for which deferred accounting is appropriate." The Company also provided on page 6 of its Reply Comments that "[t]hese are among the first major implementations of

AMR meters in the Company's system, and much more meter replacement work must be done in the coming years."

During cross-examination, Company witness DeStefano was presented Public Staff DeStefano Cross Examination Exhibit 1, which contained Mr. DeStefano's responses to a Public Staff Data Request No. 81. Mr. DeStefano confirmed that the Company had sought and received rate recovery in its Sub 344 rate case for AMR 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 case recovery for AMR installation projects in three systems, including 2,440 meters, for a total cost of over \$1.8 million. *Tr. vol. 9, 158-159.* Mr. DeStefano also confirmed that the Company planned to complete eight similar projects over the next four years, including nearly 4,000 AMR replacements. Witness DeStefano further confirmed and summarized that the Company already completed 10 AMR meter projects, including 3,597 meters and a total capital cost of over \$3 million, prior to the two projects at a cost of less than \$900,000 in this rate case. *Tr. vol. 9, 159.* When questioned by the Public Staff in regard to the difference between the AMR meter installations in prior rate cases, for which the Company did not file for deferral accounting treatment, and the present case, Mr. DeStefano made a distinction based on the fact the Company considered the two AMR meter projects in Fairfield Mountain and Conestee Falls to be individually larger projects in scope and cost when compared to the multiple single AMR meter projects included in the Subs

344 and 356 rate cases. Mr. DeStefano also noted that although projects in prior dockets were completed around the same time, “the installation process was more spread out as far as the work actually being completed.” *Tr. vol. 9, 161.*

Witness DeStefano also confirmed on cross-examination that AMR technology has been utilized by water and sewer utilities for over 15 years, and electric and gas utilities have been utilizing AMR technology for close to 15 and 20 years, respectively. *Tr. vol.9, 162.*

During the Public Staff’s cross-examination of Mr. Mendenhall, the Public Staff directed his attention to Public Staff Cross-Examination Exhibit 1 and the Company’s response to the Public Staff’s data request, “Please provide the Company’s current Meter Replacement Plan or a detailed narrative description of the Company’s current Meter Replacement Program. In addition, please provide the previous version of such a plan or program that existed prior to the current version”. *T. vol. 9, pp. 155-156.* When questioned during cross-examination, neither witness DeStefano nor witness Mendenhall affirmatively stated that the Company had a formal meter replacement plan in place. Mr. Mendenhall merely stated that the Company has a person who reviews vacant and zero consumption accounts and issues Field Activities, and he considers that process “to be part of a meter replacement program as they are found by operational staff in the field.” *Tr. vol. 9, 155-156.*

Additionally, in response to the Public Staff’s Comments that traditional meter and AMR meter replacement projects have not been proposed for deferral accounting in the past, the Company’s Reply Comments cited cases from other

states; however, when cross-examined by the Chair Brown-Bland, Company witness DeStefano admitted that the Commission had not granted deferrals for AMR meter replacement projects. *Tr. vol. 9, 195-196.*

Based on the testimony of witness DeStefano and Mendenhall on cross-examination, it is clear to the Commission that the Fairfield Mountain and Connetsee Falls AMR meter projects are not “among the first major implementations of AMR meters in the Company’s system” or unusual or extraordinary as contended by the Company in its petition and Reply Comments. It is evident from the Company witnesses’ testimony that the meters for which the Company is seeking recovery are not the first to be installed by the company as, the Company began installing AMR meters in 2015. Moreover, AMR technology is not new. As also confirmed during cross-examination of Company witness DeStefano, AMR technology has been around for several years in the water and sewer utility industry as well as utilized by other regulated utilities in the state of North Carolina. The Company has installed AMR meters in other service areas since 2015 and received recovery of those costs and the Public Staff has included the costs in this rate case proceeding for recovery through rates.

The Company contended that the meter replacement project is different in scope, scale, purpose, and financial impact from such routine meter change-outs. The Commission agrees with the Public Staff’s contention that the increased cost of AMR meters and number of meters replaced (the “scale and scope of the project”) is the result of management decisions by CWSNC and a failure to implement a systematic and measured meter replacement program. A defined

meter replacement program would have afforded the Company the opportunity to replace their aging meters gradually over a period time . . . . After Company witnesses were asked in a Public Staff data request and at hearing, they provided no evidence and did not state affirmatively that they had a meter replacement plan. The Commission is not convinced that the process the Company currently employs whereby meter replacements are made when an employee notices an anomaly equates to a systematic, measured, and planned meter replacement program. Therefore, the Commission finds that the AMR meter expense was not an unusual or extraordinary expense under the criteria used in the Commission's prior orders.

The Company argued that the financial impact to the Company of all of its projects (two WWTP projects and two AMR projects) for which deferred accounting has been proposed is significant and material and it is appropriate to consider the totality of the adverse regulatory lag impacts. In support of its contention The Company argued in its Reply Comments that the most reasonable and fair course of action in this case would be to collectively consider and evaluate the materiality of the total cost of all four capital projects proposed for accounting cost deferral by the Company. The Company argued that all four projects are part of the Company's pending general rate case and all four of the projects, though beneficial to customers, combine to adversely impact the Company's financial condition due to regulatory lag. Additionally, the Company contended that the financial impacts to CWSNC from placing these four major new projects in service, without corresponding deferred accounting relief, would be material and adverse, and would degrade the Company's earnings.



The Public Staff, however, gave consideration to the issue of materiality by segregating the costs of the two WWTP projects from the costs of the two AMR meter projects and then evaluating them separately. During cross examination by the Company, Public Staff witness Henry testified that he used the rate case model approved by the Commission in the Company's last general rate case, Sub 360, to determine the financial impact of the deferral accounting treatment of the AMR meters. Mr. Henry testified that the rate of return that was granted in the Sub 360 rate case decreased from 9.75% to 9.51%, a 24 basis points decrease. The overall rate of return decreased from 7.75% 7.63%, a .12% or 12 basis points decrease. Mr. Henry stated that the decreases in the overall return on equity and the overall rate of return equates to only a \$16,596 decrease in the Company's net operating income, which is only 1.35% of the NOI that was approved in the last general rate case. In addition, Mr. Henry testified that if you gross up the decrease in net operating income, the revenue impact is only \$21,688, which is a .12% decrease in the total water revenues approved by the Commission in the last general rate case. Based on these financial calculations, Mr. Henry concluded that the AMR meters should not be given deferred accounting treatment. Tr. vol. 8, 180—181.

Company witness DeStefano stated in his rebuttal testimony that all four projects are part of the Company's pending general rate case and all four of the projects, though beneficial to customers, combine to adversely impact the Company's financial condition due to regulatory lag. Accordingly, all four projects should be evaluated collectively for deferred accounting treatment, rather than separately. If only the isolated financial impact of the AMR meter projects is

considered, that financial impact supports deferred accounting treatment, especially in light of the Company's current earned return on equity (ROE). The Company noted in its Reply Comments that the Public Staff calculated an approximately 22-basis point negative impact on its earned ROE, and that it was not earning a return anywhere close to its current authorized overall rate of return of 7.75%. Mr. DeStefano further testified that the Company's actual earned overall rate of return during the test year for this rate case was only 3.69%. *Tr. vol. 9, 130*

In support of its petition, CWSNC cited another deferred accounting case where this Commission granted deferred accounting treatment for plant additions that were projected to produce similar ROE reductions in the absence of deferred accounting treatment. See *In the Matter of Duke Energy Carolinas*, Docket No. E-7, Sub 999 (NCUC; June 20, 2012) (deferred accounting approved for Buck and Bridgewater generation additions, estimated to reduce ROE by 24 basis points and 5 basis points, respectively, in the absence of such approval). Based on this prior case and the Commission's determination of the materiality of the basis point impact on Duke Energy's ROE, the Company viewed its "minimum 20 basis point negative ROE impact as "unquestionably, material to the Company, even standing alone, and is even more so when combined with the negative earnings impact." Duke's Reply Comments, 9. The Company stated in conclusion, that under either analysis, deferred accounting treatment is appropriate and should be granted.

During cross-examination of the Public Staff panel witnesses, Henry and Junis, in discussing the Commission's Order in E-7, Sub 874 (Sub 874), where Duke Energy received deferral accounting treatment for two distinct projects. Mr.

Junis testified that in the Sub 874 case, to put the case in context, “the NC retail rate base impact of the Allen scrubbers, which was quantified as basis points, was \$48 million, and the 47 basis points for Catawba Nuclear Station, that was \$34 million on an NC retail basis, so those are huge investments. The Allen scrubbers was required by the Clean Smokestacks 1 Act, so that is a new or unusual or unexpected regulation that they had to comply with.” *Tr. vol. 8*, 209-210. Also during cross-examination, witness Junis distinguished the types of projects, for which deferral accounting treatment was granted in the E-7, Sub 999 (Sub 999) case, with the AMR projects. Witness Junis stated that in the Sub 999 case, Duke Energy requested referral accounting treatment for generating plant additions and that the comparable project in the water and wastewater industry would be either in new source water or treatment or wastewater treatment plants. *Tr. vol. 8*, 197-198.

On redirect, Public Staff witness Henry testified that as part of the Stipulation in this case, the Public Staff has agreed to include in rate base \$900,000 of cost for the AMR meters and \$14 million of cost for the WWTPs at Connetsee Falls and Nags Head. In comparison to the over \$1 million in carrying costs for the WWTPs, the carry costs for the AMR meters were \$64,736, as calculated by the Public Staff. Mr. Henry stated that amortization of the carrying costs over five years results in an annual expense of \$104,029 for the Connetsee Falls wastewater plant and \$115,727 for the Nags Head wastewater treatment plant (\$219,756 combined) in comparison to just \$12,947 of annual carrying costs for the AMR meters. Deferral treatment of the wastewater treatment plants results

in a decrease in the Company's approved return on equity of 434 basis points (4.34%) in comparison to a 24 basis point reduction (.24%) in the approved return on equity as a result of deferred accounting treatment for the AMR meters. Mr. Henry further testified that there would be a reduction of 221 basis points (2.21%) in the return on rate base approved in the Sub 360 rate case for the wastewater treatment plants while deferred accounting treatment of the AMR meters produced a decrease in the approved return on rate base of 12 basis points (.12%). Tr. vol. 8, 222-226.

The dollar impact of deferral accounting treatment of the wastewater treatment plant as calculated by Mr. Henry, results in a \$270,703 reduction in net operating income approved in the Sub 360 rate case. When grossed up for taxes, the reduction in net operating income produces a decrease of \$353,775 in service revenues, which is 2.73% reduction in Uniform Sewer service revenues granted in the Sub 360 rate case. The dollar impact of deferral accounting treatment of the AMR meters as calculated by Mr. Henry, results in a \$16,596 reduction in net operating income approved in the Sub 360 rate case. When grossed up for taxes, the reduction in net operating income produces a decrease of \$21,688 in service revenues, which is .21% reduction in Uniform Water service revenues granted in the Sub 360 rate case. Tr. vol. 8, 222-226

On cross- examination by the Company, Mr. Junis defined regulatory lag as the time period that the regulator actually has to process a general rate case filed by the Company. So from the date the Company files for a general rate case to the date rates go into effect is regulatory lag, not the time period in between rate cases

as referenced by the Company. Regulatory lag, as stated by Mr. Junis, allows the Public Staff to do its investigation, and gives the Commission time to hear all sides of a general rate case. Mr. Junis testified that the Company's management decides when it files rate cases, so the time in between rate cases is not regulatory lag. Additionally, witness Junis noted, to put things in context that in looking at the test period in the rate case, the Company's rates went into effect in mid-February of 2019, so the test period only includes a month and a half of new rates. Thus, the Company's state of under-earning is more pronounced since it had not experienced the full effect of its rate increase approved in its Sub 360 rate case. *Tr. vol. 8, 209-210.*

When asked by the Company on cross-examination whether he could point to a case decided by the Commission where they said that if you submit separate deferral accounting requests for different types of equipment or facilities, that they have to be considered separately, Mr. Henry stated the Public Staff considered these separately, because CWSNC has four separate rate divisions, Uniform Water, Uniform Sewer and Bradfield Farms/Fairfield Harbour/Treasure Cove Water and Sewer operations. Each of these rate divisions has separate rate bases, revenues, expenses, and rates of return. *Tr. vol. 8, 217-218.* Mr. 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.

Mr. Henry also stated the reason why the impact of the AMR meters should be viewed on an individual rate division basis is because the costs of the AMR meters are not going to be recovered from Uniform Sewer customers nor from

customers in Bradfield Farms/Fairfield Harbour/Treasure Cove service areas. Conversely, the cost of the sewer treatment plants will not be recovered from Uniform Water customers nor customers in the Bradfield Farms/Fairfield Harbour/Treasure Cove service areas. *Tr. vol. 9, 11-12.* Witness Henry testified that there are four separate rate divisions, and the Public Staff looked at them on an individual basis as to how the proposed deferral accounting treatment would affect each rate division.

On cross-examination by the Public Staff, Mr. Destefano stated that the ultimate impact of this deferred accounting on a typical residential customer, assuming a five-year amortization period, would be a \$0.03 per month for water customers and \$0.53 per month for sewer customers. Mr. Destefano also stated that the impact on water customers' rates is based on approval of deferred accounting of the AMR meters, and the impact on sewer customer rates is based on the installation of the two wastewater treatment plants. *Tr. vol. 9, 152.* In determining the impact of the deferred accounting treatment of the four projects, Mr. Destefano acknowledged that the rate impacts of the costs of the AMR meter projects and the WWTPs will be isolated to Uniform water and Uniform sewer customers, respectively. Additionally, Mr. Destefano also agreed that the Company has four rate divisions with rate base, revenues, expenses, net operating income, rates of return and rates calculated separately for each rate division. In fact, if the Company determined that it was over-earning in one of the rate divisions, but under-earning in another rate division, it could file a rate case just as to the under-earning division, according to Mr. Destefano. *Tr. vol. 9, 152-153.*

The Commission takes judicial notice of its Orders in the Company's prior rate case proceedings in Docket Nos. W-354, Subs 344 and 356, and the Company's recovery in rates of the costs of AMR meters in its other service areas. The Commission also takes judicial notice of the decisions in its other deferral accounting cases cited by the Company and the Public Staff in their Comments, Reply Comments and testimony. The Commission make its decisions on whether to grant deferral accounting treatment on a case-by-case basis and finds the case herein distinguishable from the other cases. The deferrals approved in the E-7, Sub involved requests for deferral of costs in the same rate division, whereas, the costs for the WWTPs and the AMR meters are clearly not in the same rate divisions. The Commission, therefore, finds the Public Staff's rationale for looking at the costs separately to be logical and based on standard ratemaking principles and practice. In light of the schedules and exhibits presented by the Public Staff, the Commission also finds that the financial impact of the AMR meter project costs are not material standing alone, despite the ROE impact determined by the Public Staff, which is not in dispute. The Commission agrees with the conclusion of the Public Staff that when compared to the ROE impact and costs of the WWTPs, the costs of the AMR meters is not material.

The Commission also agrees with the Public Staff's position that the Company's management decides when it files rate cases, so the time in between rate cases is not regulatory lag. As the Public Staff noted, the Company's last rate case in its Sub 360 docket was approved by Commission Order on February 19, 2019, so the test period in the present rate case only includes a month and a half

of new rates. Thus, the Company's state of under-earning is more pronounced, because it had not experienced the full effect of its rate increase approved in its Sub 360 rate case, which, effectively, magnified the negative impact of the expense on the Company's ROE. It was the Company's management decision to file the present rate case when it did.

In light of the foregoing the Commission finds that the Company has not provided clear and convincing evidence that the costs incurred for its AMR projects are extraordinary and unusual or that, absent deferral, the Company's financial position will be materially harmed. Therefore the Commission concludes that CWSNC should not be authorized to defer and amortize depreciation expense and return on capital expenditures it has incurred for installing AMR meters in its Fairfield Mountain and Conneestee Falls service areas.

#### **EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 35**

The evidence supporting these findings of fact is found in the Application and the accompanying NCUC Form W-1 of CWSNC, 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>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
<u>Depreciation and Taxes</u>			
Depreciation expense	\$6,399,241	\$181,470	\$6,580,711
Amortization of CIAC	(1,485,664)	8,710	(1,476,955)
Amortization of 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.

#### Summary Conclusion

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

Item	Amount
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. 36

The evidence supporting these findings of fact is found in the Application and the accompanying NCUC Form W-1 of CWSNC, and in the testimony of Public Staff witness Henry and of 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>Company per Application</u>	<u>Difference</u>	<u>Amount per Public Staff</u>
<u>Depreciation and Taxes</u>			
Depreciation expense	\$6,399,241	\$181,470	\$6,580,711
Amortization of CIAC	(1,485,664)	8,710	(1,476,955)
Amortization of 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 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.

## Summary Conclusion

Based on the foregoing, the Commission concludes that the appropriate level of franchise, property, payroll, and property 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. 37 – 40

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 summarizes the differences between the Company's level of regulatory fee and income taxes under present rates from its Application and the amounts recommended by the Public Staff:

	<u>Company per 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>795,045</u>

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.

#### 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.

#### 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.

## EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 41 – 43

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

In its Application and in the direct testimony of Company Witness DeStefano, the Company proposed to include adjustments to the reserve EDIT balances for both protected and unprotected EDIT based upon final 2017 federal income tax return filed in late 2018. Additionally, in Company witness DeStefano's testimony, the Company requested to reduce the term of the unprotected EDIT rider approved in Docket W-354, Sub 360 to a two year term as of the effective date of the current proceeding. Finally, the Company requested to continue to return the protected EDIT balance maintaining the amortization period approved in Docket No. W-354, Sub 360.

Public Staff witness Boswell stated 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. These adjustments affected the balance of both federal protected and unprotected EDIT. Witness Boswell further stated that the adjustments to the federal protected and unprotected balances were due, 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, and 2) the Company adjusted amounts utilized in the prior rate case to the actual amounts on their final tax return for 2017. Witness Boswell recommended one adjustment to the calculation of unprotected EDIT so that both protected and unprotected EDIT amortizations with the adjustments effective as of April 1, 2020. The Public Staff did 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 reflected 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 included the rate base impact of the flowback of federal protected EDIT in accordance with the Reverse South Georgia Method (RSGM), as approved in Sub 360 in the revenue requirement. Finally, the revenue requirement depicted on Settlement Exhibit I also included the flowback of state EDIT in accordance with previous Commission Orders.

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, for the Company to refund its remaining federal unprotected EDIT balances over 24 months instead of the remaining 35 months as originally ordered by the Commission in Docket No. W-354, Sub 360. Further, the Commission concludes the federal protected EDIT should continue to be flowed back in accordance with the RSGM as ordered in Docket W-354, Sub 360.

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 44 - 50

The evidence supporting these findings of fact and conclusions is contained in the Application and Form W-1 of the Company, the testimony and exhibits of the public witnesses, the testimony and exhibits of Company witness D'Ascendis, Public Staff witness Hinton, and the entire record of this proceeding.

### Rate of Return on Equity

In its Application and in the direct testimony of CWSNC witness Dylan D'Ascendis ('D'Ascendis'), the Company requested approval for its rates to be set using a rate of return on equity of 10.75%. Mr. D'Ascendis in his rebuttal testimony based upon his updated analyses reduced his recommended rate of return on equity to 10.20%. For the reasons set forth herein, the Commission finds that a rate of return on equity of 9.1% is just and reasonable.

Rate of return on equity, also referred to as the cost of equity capital, is often one of the most contentious issues to be addressed in a rate case. 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 equity. See, e.g., CUCA I, 348 N.C. at 466, 500 S.E.2d at 707. In order to reach an appropriate independent conclusion regarding the rate of return on equity, the Commission should evaluate the available evidence, particularly that presented by conflicting expert witnesses. State ex rel. Utils. Comm'n v. Attorney Gen. Roy 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 D'Ascendis, and Public Staff witness Hinton (Hinton). No rate of return on equity expert evidence was presented by any other party.

In addition to its evaluation of the expert evidence, the Commission must also make findings of fact regarding the impact of changing economic conditions on customers when determining the proper rate of return on equity for a public utility. Cooper I, 366 N.C. 484, 739 S.E.2d at 548. This was a factor newly announced by the Supreme Court in its Cooper I Decision and not previously required by the Commission, the Court of Appeals, or the Supreme Court as an element to be considered in connection with the Commission's determination of an appropriate rate of return on equity. The Commission's discussion of the evidence with respect to the findings required by Cooper I is set out in detail in this Order.

Cooper I was the result of the Supreme Court's reversal and remand of the Commission's approval of the agreement regarding the rate of return on equity in a stipulation between the Public Staff and Aqua in Aqua's 2011 Rate Case. The Commission has had occasion to apply both prongs of Cooper I in subsequent orders, specifically the following:

- Order Granting General Rate Increase in the DEP's Rate Case, Docket No. E-2, Sub 1023 (May 30, 2013) (2013 DEP Rate Order), which was affirmed by the Supreme Court in



State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 444, 761 S.E.2d 640 (2014) (Cooper III)<sup>4</sup>;

- Order on Remand resulting from the Supreme Court's Cooper I Decision, in Docket No. E-7, Sub 989 (October 23, 2013) (Aqua Remand Order), which was affirmed by the Supreme Court in State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 644, 766 S.E.2d 827 (2014) (Cooper IV);
- Order Granting General Rate Increase in Aqua's 2013 Rate Case, Docket No. W-218, Sub 363 (September 24, 2013) (2013 Aqua Rate Order), which was affirmed by the Supreme Court in State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 741, 767 S.E.2d 305 (2015) (Cooper V);
- Order on Remand resulting from the Supreme Court's Cooper II Decision, in Docket No. E-22, Sub 479 (July 23, 2015) (DNCP Remand Order), which was not appealed to the Supreme Court;
- Order Approving Rate Increase and Cost Deferrals and Revising PJM Regulatory Conditions, in Docket No. E-22, Sub 532, dated December 22, 2016 (2016 DNCP Rate Order); and

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<sup>4</sup> An intervening Cooper case, State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 430, 758 S.E.2d 635 (2014) (Cooper II), arose from the 2012 Rate Case by Dominion North Carolina Power (DNCP) and resulted in a remand to the Commission, inasmuch as the Commission's Order in that case predated Cooper I.

- Order Accepting Stipulation, Deciding Contested Issues and Granting Partial Rate Increase, in Docket No. E-2, Sub 1142, dated February 23, 2018. (2018 DEP Rate Order).
- Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, in Docket No. E-7, Sub 1146, dated June 22, 2018. (2018 DEC Rate Order).
- Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice, in Docket No. W-218, Sub 497, dated December 18, 2018 (Aqua 2018 Rate Order).
- Order Approving Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase and Requiring Customer Notice, in Docket No. W-354, Sub 360, dated February 21, 2019 (CWSNC 2019 Rate Order).
- Order Approving Stipulation, Granting Partial Rate Increase, Line 434 Revenue Rider, EDIT Riders, Provisional Revenue Rider and Requiring Customer Notice, in Docket No. G-9, Sub 743, dated October 31, 2019 (Piedmont 2019 Rate Order).

In order to give full context to the Commission's Decision herein and to elucidate its view of the requirements of the General Statutes as they relate to rate of return on equity, as interpreted by the Supreme Court in Cooper I, the

Commission deems it important to provide in this Order an overview of the general principles governing this subject.

A. Governing Principles in Setting the Rate of Return on Equity

First, there are, as the Commission noted in the 2013 DEP Rate Order, constitutional constraints upon the Commission's rate of return on equity Decisions established by the United States Supreme Court Decisions in Bluefield Waterworks & 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):

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. State ex rel. Utilities Commission v. General Telephone Co. of the Southeast, 281 N.C. 318, 370, 189 S.E.2d 705, 757 (1972). As the Supreme Court held in that case, these factors constitute "the test of a fair rate of return" in Bluefield and Hope. Id.

2013 DEP Rate Order, at 29.

Second, the rate of return on equity is, in fact, a cost. The return that equity investors require represents the cost to the utility of equity capital. In his dissenting opinion in Missouri ex rel. Southwestern Bell Tel. Co. v. Missouri Pub. Serv. Comm'n, 262 U.S. 276 (1923), Justice Brandeis remarked upon the lack of any functional distinction between the rate of return on equity (which he referred to as

a “capital charge”) and other items ordinarily viewed as business costs, including operating expenses, depreciation, and taxes:

Each is a part of the current cost of supplying the service; and each should be met from current income. When the capital charges are for interest on the floating debt paid at the current rate, this is readily seen. But it is no less true of a legal obligation to pay interest on long-term bonds ... and it is also true of the economic obligation to pay dividends on stock, preferred or common.

Id. at 306 (Brandeis, J. dissenting) (emphasis added). Similarly, the United States Supreme Court observed in Hope, “From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business . . . [which] include service on the debt and dividends on the stock.” Hope, 320 U.S. 591, 603.

Leading academic commentators also define rate of return on equity as the cost of equity capital. Professor Charles Phillips, for example, states that “the term ‘cost of capital’ may 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. Professor Roger Morin approaches the matter from the economist’s viewpoint:

While utilities enjoy varying degrees of monopoly in the sale of public utility services, they must compete with everyone else in the free open market for the input factors of production, whether it be labor, materials, machines, or capital. The prices of these inputs are set in the competitive marketplace by supply and demand, and it is these input prices which are incorporated in the cost of service computation. This is just as

true for capital as for any other factor of production. Since utilities must go to the open capital market and sell their securities in competition with every other issuer, there is obviously a market price to pay for the capital they require, for example, the interest on capital debt, or the expected return on equity.

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[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 (Public Utilities Reports, Inc. 1984), at 19-21 (emphasis added). Professor Morin adds: "The important point is that the prices of debt capital and equity capital are set by supply and demand, and both are influenced by the relationship between the risk and return expected for those securities and the risks expected from the overall menu of available securities." Id. at 20 (emphasis added).

Changing economic circumstances as they impact CWSNC's customers may affect those customers' ability to afford rate increases. For this reason, customer impact weighs heavily in the overall rate setting process, including, as set out in detail elsewhere in this Order, the Commission's own decision of an appropriate authorized rate of return on equity. In addition, in the event of a settlement, customer impact no doubt influences the process by which the parties to a rate case decide to settle contested matters and the level of rates achieved by any such settlement.

However, a customer's ability to afford a rate increase has absolutely no impact upon the supply of or the demand for capital. The economic forces at work in the competitive capital market determine the cost of capital – and, therefore, the utility's required rate of return on equity. The cost of capital does not go down because some customers may find it more difficult to pay for an increase in water and wastewater prices as a result of prevailing adverse economic conditions, any more than the cost of capital goes up because some customers may be prospering in better times.

Third, the Commission is and must always be mindful of the North Carolina Supreme Court's command that the Commission's task is to set rates as low as possible consistent with the dictates of the United States and North Carolina Constitutions. 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). Further, and echoing the discussion above concerning the fact that rate of return on equity represents the cost of equity capital, the Commission must execute the Supreme Court's command "irrespective of economic conditions in which ratepayers find themselves." (2013 DEP Rate Order, at 37.) The Commission noted in that order:

The 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, which would seem to be a logical but misguided corollary to the position the Attorney General advocates on this issue.

Id. Indeed, in Cooper I the Supreme Court emphasized “changing economic conditions” and their impact upon customers. 366 N.C. 484, 739 S.E.2d at 548.

Fourth, while there is no specific and discrete numerical basis for quantifying the impact of economic conditions on customers, the impact on customers of changing economic conditions is embedded in the rate of return on equity expert witnesses’ analyses. The Commission noted this in the 2013 DEP Rate Order: “This impact is essentially inherent in the ranges presented by the return on equity expert witnesses, whose testimony plainly recognized economic conditions – through the use of econometric models – as a factor to be considered in setting rates of return.” 2013 DEP Rate Order, at 38.

Fifth, under long-standing Decisions of the North Carolina Supreme Court, the Commission’s subjective judgment is a necessary part of determining the authorized rate of return on equity. State ex rel. Utils. Comm’n v. Pub. Staff, 323 NC 481, 490, 374 S.E.2d 361, 369. As the Commission also noted in the 2013 DEP Rate Order:

Indeed, of all the components of a utility’s cost of service that must be determined in the ratemaking process, the appropriate [rate of return on equity] the one requiring the greatest degree of subjective judgment by the Commission. Setting an ROE [rate of return on equity] for regulatory purposes is not simply a mathematical exercise, despite the quantitative models used by the expert witnesses. As explained in one prominent treatise,

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)

2013 DEP Rate Order, pp. 35-36.

Thus, the Commission must exercise its subjective judgment so as to balance two competing rate of return on equity-related factors – the economic



conditions facing the Company's customers and the Company's need to attract equity financing in order to continue providing safe and reliable service.

The Supreme Court in Cooper V affirmed the 2013 Aqua Rate Order, in which this framework was fully articulated. But to the framework we can add additional factors based upon the Supreme Court's Decisions in Cooper III, Cooper IV, and Cooper V. Specifically, the Supreme Court held that nothing in Cooper I requires the Commission to "quantify" the influence of changing economic conditions upon customers (see, e.g., Cooper V, 367 N.C. at 745-46; Cooper IV, 367 N.C. at 650; Cooper III, 367 N.C. at 450), and, indeed, the Supreme Court reiterated that setting the rate of return on equity is a function of the Commission's subjective judgment: "Given th[e] subjectivity ordinarily inherent in the determination of a proper rate of return on common equity, there are inevitably pertinent factors which are properly taken into account but which cannot be quantified with the kind of specificity here demanded by [the appellant]." Cooper III, 367 N.C. at 450, quoting State ex rel. Utils. Comm'n v. Pub. Staff-North Carolina Utils. Comm'n, 323 NC 481, 490 (1988).

Finally, the Supreme Court discussed with approval the Commission's reference to and reliance upon expert witness testimony that used econometric models that the Commission had noted "inherently" contained the effects of changing economic circumstances upon customers, and also discussed with approval the Commission's reference to and reliance upon expert witness testimony correlating the North Carolina economy with the national economy. See, e.g., Cooper V, 367 N.C. at 747; Cooper III, 367 N.C. at 451.

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

## B. Application of the Governing Principles to the Rate of Return Decision

### Evidence of the Expert Witnesses

#### 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.

Public Staff witness Hinton described the current financial market conditions testifying 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 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 CWSNC recent Order in Docket No. W-354, Sub 360, as compared to 3.37% for September 2019. He testified 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.

Mr. Hinton testified interest rates on various loans have fallen as the yields on treasury securities have fallen 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 the average decrease in treasury bonds of 5-, 7-, 10-, 20-, and 30-years 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 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 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 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 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 are pricing bonds in the marketplace, they are based upon expectations on demand and supply of capital, future interest rates, inflation rates, etc. He testified while he has a healthy respect for forecasting, he is aware of the risk of relying on predictions of rising interest rate cases. 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, 4.7% in 2016, 5.2% in 2017, and 5.5% 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 2.5% to 3.1%, 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 similar over-estimated 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 3.8% 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%, a forecast error between 115 to 151 basis points. He testified these types of errors make these interest rate forecasts inappropriate for ratemaking.

Public Staff witness Hinton testified he used the discounted cash flow (DCF) model and the Risk Premium model to determine the cost of equity for CWSNC.

He testified the discounted cash flow model is a method of evaluating the expected cash flows from an investment by giving appropriate consideration to the time value of money. The DCF model is based on the theory that the price of the investment will equal the discounted cash flows of return. The return to an equity investor comes in the form of expected future dividends and price appreciation. He testified 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.

Public Staff witness Hinton testified he applied the DCF method to a comparable group of seven water utilities followed by Value Line Investment Survey (Value Line). He testified 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 LDC companies in his DCF analysis stating these LDC companies exhibit risk measures similar to his proxy group of water companies.

Public Staff witness Hinton testified he 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 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 testified he employed the growth rates of his proxy group in earnings per share (EPS), dividend 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 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 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 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 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 his DCF analysis produces a cost of common equity for his comparable proxy group of water utilities of 7.7% to 8.7%. He testified 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 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 estimate DCF based cost of equity of 8.64%.

Public Staff witness Hinton testified 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.

Public Staff witness Hinton testified 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.

Public Staff witness Hinton testified 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 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 it is reasonable to conclude that the approved allowed returns are good estimates of the cost of equity.

Public Staff witness Hinton testified 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 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 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 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 this tax interest coverage and a funds flow to debt ratio of 25%, as shown on Supplemental Hinton Exhibit 10, should allow CWSNC to qualify for a single “A” bond rating.

Witness Hinton also performed a comparable earning analysis and a CAPM analysis solely as checks on the results of this DCF and Risk Premium Regression Analysis. He testified his comparable earning analysis for a group of eight water utilities and nine LDC companies produced a five-year average ROE of 9.83%. He testified 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 earned rates of return on equity may often include non-regulated income. He testified his CAPM analysis produced ROE 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.

Mr. Hinton in his direct testimony had a recommended ROE of 9.1% and a 10 basis point downward ROE adjustment resulting in a recommended 9.0% ROE for reduced risk due to the CWSNC applied for consumption adjustment mechanism. After CWSNC withdrew its request for a consumption adjustment

mechanism, witness Hinton filed supplemental testimony withdrawing the 10 basis point downward adjustment.

Public Staff witness Hinton testified 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. Gen. Stat. §62-113.12 on CWSNC's financial risk. He testified the WSIC and SSIC has the ability for enhanced cost recovery of the eligible capital improvements which reduces regulatory lag through incremental and timely recovery. 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 he believes that this mechanism is noteworthy and is supportive of his 9.1% return on equity recommendation.

Public Staff witness Hinton testified it is not appropriate to add a risk premium to the cost of equity due to the size of the company. He testified 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 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 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 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. Mr. Hinton testified 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 testified that he also testified to these same size adjustment concerns in the last CWSNC rate case, Docket No. W-354, Sub 360, where the Commission found that a size adjustment was not warranted. He testified similar arguments have been made in a 1997 CWS System, Inc., rate case, Docket No. W-778, Sub 31, where witness Hanley of AUS Consultants, who relied on similar cost of capital methods as witness D'Ascendis, as noted on pages 824-825 in its Eighty-Seventh Report of Orders and Decisions. In a 1994 CWSNC rate case where in both cases the Commission was not persuaded to accept an adjustment for small size and its elevated risk, as noted in on page 520 in its Eighty-Fourth Report on Orders and Decisions. The explicit consideration of the small size of a regulated utility has been argued before this Commission in a rate case involving North Carolina Natural Gas, Inc. (NCNG), Docket No. G-21, Sub 293. In an Order dated December 6, 1991, 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. Mr. Hinton testified 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>5</sup> that focuses on the size of regulated utilities and risk. He testified 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 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.”

#### CWSNC Witness D’Ascendis Testimony

Company witness D’Ascendis recommended in his direct testimony a rate of return on 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 .40%. In his rebuttal testimony, Mr. D’Ascendis reduced his recommended rate of return on equity to 10.20%, which includes his recommended .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,

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<sup>5</sup> Annie Wong, “Utility Stocks and the Size Effect: An Empirical Analysis,” Journal of the Midwest Finance Association, pp. 95-101, (1993).

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 the his Utility Proxy Group.

The results derived from Mr. D'Ascendis' analyses in his rebuttal testimony are as follows:

Table 2: Summary of Rebuttal Common Equity Cost Rate

Discounted Cash Flow Model	8.81%
Risk Premium Model	10.12%
Capital Asset Pricing Model	9.35%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies	<u>11.29%</u>
Indicated Common Equity Cost Rate Before Adjustments	9.80%
Size Adjustment	0.40%
Recommended of Common Equity Cost Rate After Adjustment	<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 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>6</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.

CWSNC 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

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<sup>6</sup> See Schedule DWD-1R, page 3, footnote 1.

U.S. Treasury securities through April 2019. He testified he added the forecasted 30-year U.S. Treasury Bond yield, 3.69% 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, CWSNC witness D'Ascendis testified he applied both the traditional CAPM and the 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 Professional Services, and the average of the Beta coefficients of the Utility Proxy Group companies as reported by Value Line.

CWSNC witness D'Ascendis in his rebuttal presented 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).

#### 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 ROE of 10.40%, but an ROE of 9.75% was approved which was 65 basis points less than his recommendation. Mr. D'Ascendis testified that in the Carolina Water Service, Inc. South Carolina 2015 general rate case where his recommended ROE range was 10.00% to 10.50%, the approved ROE 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 ROE was 10.70%, and a 9.60% ROE was approved whereby his recommended ROE was 110 basis points above the



approved ROE. He testified that the 2018 South Carolina decision for Carolina Water Service, Inc. of South Carolina was the only one of the fifteen listed ROE decisions, that a commission approved an ROE within his recommended range. He also testified that in the recent CWSNC general rate case with order dated February 21, 2019, his recommended ROE range was 10.80% to 11.20%, with midpoint of 11.00%, was 125 basis points above the Commission approved ROE of 9.75%.

Witness D'Ascendis testified on cross examination that the authorized ROEs below his recommended ROEs for all 15 decisions averaged 127 basis points, and after removing a 2016 outlier case in Missouri where he was 360 basis points above the approved ROE, his average drops to 110 basis points above the approved ROEs. He further testified on cross examination that his rebuttal specific ROE recommendation of 10.20% less the 110 basis points, would be the same number as Public Staff witness Hinton's recommended 9.10% ROE.

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

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

With respect to CWSNC witness D'Ascendis' recommended 40 basis point size adjustment, he 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 only serve approximately 7,000 customers each.

He testified he was aware CWSNC did not have any industrial customers, and that more than 99% 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.

Mr. 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 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.

Mr. D'Ascendis testified based on Public Staff D'Ascendis Cross Examination, Exhibit 4, which provided the Utilities, Inc. common equity of \$280.2 million when multiplied by the D'Ascendis Utility Proxy Group market to book ratio of 347.3, results in a market capitalization for Utilities, Inc. of \$973.3 million, which is greater than the market capitalization of three of the companies in the

D'Ascendis Utility Proxy Group, 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 for American States Water the actual dividend amount increased 126% while the stock price increased 378%; for American Water Works the actual dividend amount increased 127% while the stock price increased 419%; for Artesian Resource Group the actual dividend amount increased 32% while the stock price increased 91%; for California Water Service the actual dividend amount increased 27% while the stock price increased 173%; for Middlesex Water Company the actual dividend amount increased by 29% while the stock price increased 243%; for York Water Co. the actual dividend amount increased 36% while the stock price increased 163%; and the six company average had the actual dividend amount increasing 59% while the average stock price increased by 245%. Mr. D'Ascendis testified that he agreed that stock market prices have increased materially since April 2011, the 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% ROE for California American

Water Co., a wholly owned subsidiary of American Water Works; a 9.20% ROE for California Water Service Co, a 8.9% ROE for Golden State Water Co., a wholly owned subsidiary of American States Water; and a 8.90% ROE 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.

Mr. D'Ascendis also testified on cross examination of 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 evidentiary hearing heard before the Commission on October 16, 2018. Mr. D'Ascendis' risk free 30 year Treasury Bond projected yield in this current case 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 being 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 3.22%, a decrease of 113 basis points.

With respect to the non-price regulated companies in Mr. 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. He testified that his non-price regulated proxy company AutoZone has competition from Carquest, Advanced Auto Parts, NAPA, O'Reilly Auto Parts, and Pep Boys. He testified Cheesecake Factory and Cracker Barrel have a lot of competition. He also testified that his proxy company Baskin-Robbins has competitors Ben & Jerrys, EDY's, Haagen-Das, and NC State Howling Cow Ice Cream. Mr. 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.

Mr. 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 Charlotte Mitchell, CWSNC witness D'Ascendis filed a Late Filed Exhibit on December 13, 2019, showing the effect on each of his models using Mr. Hinton's 2.53% as the current yield for 30 year Treasury Bonds rather than the projected yields in Mr. D'Ascendis' rebuttal

exhibits. This D'Ascendis On-the-Record Data Request provided the following results: DCF 8.81% ROE (no change as interest rates are not a DCF component), Risk Premium Total Market 9.27% ROE, Traditional CAPM 8.90% ROE, with 8.99% being the average of three.

#### Evidence of Impact of Changing Economic Conditions on Customers

As noted above, utility rates must be set within the constitutional constraints made clear by the United States Supreme Court in Bluefield and Hope. 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 a return on equity, the Commission must nonetheless 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. State ex rel. Utils. Comm'n v. General Telephone Co. of the Southeast, 281 N.C. 318, 370, 189 S.E.2d 705 (1972). As the Supreme Court held in that case, these factors constitute "the test of a fair rate of return" in Bluefield and Hope. Id.

#### a. Discussion and Conclusions Regarding Evidence Introduced During the Evidentiary Hearing

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, Public Staff witness Hinton testified 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 (CAGR) of approximately 3.1%.

Public Staff witness Hinton testified 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 both these economic measures indicate that there have been improvement in the economic conditions for CWSNC's service area relative to the three previous CWSNC rate increases in Docket Nos. W-354, Subs 360, 356, and 344 that were approved in 2018, 2017, and 2015, respectively.

CWSNC witness D'Ascendis testified on economic conditions in North Carolina that he reviewed. He testified 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.

He 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 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.

He testified 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).

CWSNC witness D’Ascendis testified 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. He testified since the second quarter of 2015, however, North Carolina has consistently exceeded the national growth rate.

CWSNC witness D’Ascendis testified as to median household income, the correlation between North Carolina and the U.S. is relatively strong (approximately



87% from 2005 through 2018). Since 2009 (that is, 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%).

CWSNC 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 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 U.S., generally. He testified 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.

b. Evidence Introduced During Public Hearings and Further Conclusions

The Commission's review also includes consideration of the evidence presented during the public hearings by public witnesses, almost all of whom presently are customers of CWSNC. The hearings provided 23 witnesses the opportunity to be heard regarding their respective positions on CWSNC's application to increase rates. 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.

c. Commission's Decision Setting Rate of Return and Approving Rate Increase Takes Into Account and Ameliorates the Impact of Current Economic Conditions on Customers

As noted above, the Commission's duty under N.C. Gen. Stat. § 62-133 is to set rates as low as reasonably possible without impairing the Company's ability to raise the capital needed to provide reliable water and wastewater service and recover its cost of providing service. The Commission is especially mindful of this duty in light of the evidence in this case concerning the impact of current economic conditions on customers.

Chapter 62 in general, and N.C. Gen. Stat. § 62-133 in particular, set forth an elaborate formula the Commission must employ in establishing rates. The rate of return on cost of property element of the formula in N.C. Gen. Stat. § 62-133(b)(4) is a significant, but not independent one. Each element of the formula must be analyzed to determine the utility's cost of service and revenue requirement. The Commission must make many subjective Decisions with respect to each element in the formula in establishing the rates it approves in a general rate case. The Commission must approve accounting and pro forma adjustments to comply with N.C. Gen. Stat. § 62-133(b)(3). The Commission must approve depreciation rates pursuant to N.C. Gen. Stat. § 62-133(b)(1). The Decisions the

Commission makes in each of these subjective areas have multiple and varied impacts on the Decisions it makes elsewhere in establishing rates, such as its Decision on rate of return on equity.

Economic conditions existing during the test year, at the time of the public hearings, and at the date of this Commission Order affect not only the ability of CWSNC's consumers to pay water and wastewater utility rates, but also the ability of CWSNC to earn the authorized rate of return during the period rates will be in effect. Pursuant to N.C. Gen. Stat. § 62-133, rates in North Carolina are set based on a modified historic test period.<sup>7</sup> A component of cost of service as important as return on investment is test year revenues.<sup>8</sup> The higher the level of test year revenues the lower the need for a rate increase, all else remaining equal. Historically, and in this case, test year revenues are established through resort to regression analysis, using historic rates of revenue growth or decline to determine end of test year revenues.

When costs and expenses grow at a faster pace than revenues during the period when rates will be in effect, the utility will experience a decline in its realized rate of return on investment to a level below its authorized rate of return. Differences exist between the authorized return and the earned, or realized, return. Components of the cost of service must be paid from the rates the utility charges before the equity investors are paid their return on equity. Operating and

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<sup>7</sup> N.C. Gen. Stat. § 62-133(c).

<sup>8</sup> N.C. Gen. Stat. § 62-133(b)(3).

administrative expenses must be paid, depreciation must be funded, taxes must be paid, and the utility must pay interest on the debt it incurs. To the extent revenues are insufficient to cover the entire cost of service, the shortfall reduces the return to the equity investor, last in line to be paid. When this occurs, the utility's realized, or earned, return is less than the authorized return.

This phenomenon, caused by incurrence of higher costs prior to the implementation of new rates to recover those higher costs, is commonly referred to as regulatory lag. Just as the Commission confronts constitutional and statutory restrictions in making discrete decrements to rate of return on equity to mitigate the impact of rates on consumers, it also confronts statutory constraints on its ability to adjust test year revenues to mitigate for regulatory lag. However, the WSIC and SSIC legislation N. C. Gen. Stat. § 62-133.12 and Commission Rules R7-39 and R10-26, have substantially mitigated the regulatory lag for CWSNC. The Commission, in its expert experience and judgment and based on evidence in the record, is aware of the effects of regulatory lag in the existing economic environment. However, just as the Commission is constrained to address difficult economic times on customers' ability to pay for service by establishing a lower rate of return on equity in isolation from the many subjective determinations that must be made in a general rate case, it likewise does not address the effect of regulatory lag on the Company by establishing a higher rate of return on equity. Instead, in setting the rate of return, the Commission considers both of these negative impacts in its ultimate decision fixing CWSNC's rates. The Commission keeps all factors affected by current economic conditions in mind in the many subjective decisions

it makes in establishing rates. In doing so in the case at hand, the Commission approved the 9.1% rate of return on equity in the context of weighing and balancing numerous factors and making many subjective decisions. When these decisions are viewed as a whole, including the decision to establish the rate of return on equity at 9.1%, the Commission's overall decision fixing rates in this general rate case results in lower rates to consumers in the existing economic environment.

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. Investors are compensated by earning a return on the capital they invest in the business. Consumers do not pay a rate of return on equity.

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 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 equity of 9.1% instead of the 10.2% 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.

For example, to the extent the Commission makes downward adjustments to rate base, or disallows test year expenses, or increases test year revenues, or reduces the equity capital structure component, the Commission reduces the rates consumers pay during the future period when rates will be in effect. Because the utility's investors' compensation for the provision of service to consumers takes the form of return on investment, downward adjustments to rate base or disallowances of test year expenses or increases to test year revenues, or reduction in the equity capital structure component, reduce investors' return on investment irrespective of its determination of rate of return on equity.

The rate base, expenses, and revenue examples listed above are instances where the Commission makes decisions in each general rate case, including the present case, that influence the Commission's determination on rate of return on equity and cost of service and the revenue requirement. The Commission always endeavors to comply with the North Carolina Supreme Court's requirements that it "fix rates as low as may be reasonably consistent" with U.S. Constitutional requirements irrespective of economic conditions in which ratepayers find themselves. While compliance with these requirements may have been implicit and, the Commission reasonably assumed, self-evident as shown above, the Commission makes them explicit in this case to comply with the Supreme Court requirements of Cooper I.

Based on the changing economic conditions and their effects on CWSNC's customers, the Commission recognizes the financial difficulty that the increase in CWSNC's rates will 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 equity have a substantial impact on a utility's base rates. Therefore, the Commission has carefully considered the changing economic conditions and their effects on CWSNC's customers in reaching its decision regarding CWSNC's approved rate of return on equity. The Commission also 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.

## Discussion of Rate of Return Evidence and Conclusions

The Commission determines the appropriate rate of return on equity based upon the evidence and particular circumstances of each case. However, the Commission believes that the rate of return on 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 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 equity significantly higher than other utilities of comparable risk would result in customers paying more than necessary. In this connection, the Public Staff D'Ascendis Cross Examination Exhibit No. 1, page 2 and No. 2 provide credible, positive and corroborative evidence.

## Summary and Conclusions on the Rate of Return on Equity

The Commission has carefully evaluated the return on equity testimony of CWSNC witness D'Ascendis and Public Staff witness Hinton. The Commission finds that the DCF analyses and risk premium testimony of Public Staff witness Hinton, and the DCF, the Risk Premium Using an Adjusted Total Market Approach using current interest rates, and the traditional CAPM using current interest rates of CWSNC witness D'Ascendis' testimony are credible, probative, and are entitled to substantial weight.



## RRA Reported Approved ROEs

Public Staff D'Ascendis Cross Examination Exhibit 2 included the RRA listing of Commission Approved Equity Ratios and ROEs and contains ROE decisions by the different state utilities commissions from the January 2014 through June 30, 2019. In 2017, there were five decisions with approved ROEs averaging 9.31%. In 2018, there were seventeen decisions averaging 9.45% ROE; and in 2019 through June 30, there are five decisions averaging 9.60% ROE.

There were no approved ROEs at or above 10.0% in 2014; only one ROEs at or above 10.0% in 2015 being 10.10% in Hawaii; only one at or above 10.0% in 2016 being 10.10% in Hawaii; and none at or above 10.0% in 2017; only two of the above 10.0% in 2018; and none at or above 10.0% in 2019, through June 30, 2019. The average of the 30 ROE decisions in the three-year period July 1, 2016 through June 30, 2019, is 9.50%.

Accordingly, the evidence presented concerning other authorized rates of return on equity, when put into proper context, including the recent material decrease in interest rates lends substantial support and corroboration to the Commission approved 9.1% rate of return on equity.

### Summary and Conclusions on the Rate of Return on Equity

The Commission has carefully evaluated the return on equity 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 are shown below:

	D'Ascendis Rebuttal Exhibits	D'Ascendis Late-Filed Exhibits	Hinton
<u>Utility Proxy Group</u>			
DCF	8.81%	8.81%	8.64%
Risk Premium	10.12%	10.10%	9.57%
PRPM	10.84%	10.73%	
Total Market RPM	9.39%	9.27%	
CAPM	9.35%	9.29%	—
Traditional CAPM	8.90%	8.84%	
ECAPM	9.80%	9.80%	
<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%	10.38%	
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%

The range of these results is 8.64% to 11.63%. Underlying the low result of 8.64%, is a range of 8.48% to 8.80%, according to witness Hinton's testimony concerning his application of the DCF. Similarly, underlying the high result of 11.29% is a range of 10.44% (CAPM) to 11.63% (DCF), according to witness D'Ascendis' testimony for the cost of equity models applied to his Non-Price Regulated Proxy Group. 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 interest of their intervening party. 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 so doing, the Commission finds that the testimony of CWSNC witness D'Ascendis regarding the DCF (8.81%), traditional CAPM in his late-filed exhibit (8.84%), and his late-filed exhibit total market RPM (9.27%) analyses of his Utility Proxy Group, and the DCF (8.64%) and risk premium (9.57%) analyses of Public Staff witness Hinton are credible, probative, and are entitled to substantial weight as set forth below. The average of these three D'Ascendis analyses is 8.97% ROE and the average of the two Hinton analyses is 9.10%. The average of all five analyses is 9.03%

As the Commission has stated in recent decisions, the DEP 2018 Rate Order, the 2018 DEC Rate Order, and the Piedmont 2019 Rate Order that (1) the DCF dividend growth component based solely on analysts earnings per share growth projections, without consideration of historical results, is upwardly biased and unreliable; and (2) CAPM analyses using near term projected 30-year Treasury interest rates are upwardly biased. 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 using and Adjusted Total Market Approach and his late-filed exhibit Traditional CAPM analysis using the current 30-year Treasury yields to be credible, probative and entitled to substantial weight. Although the Commission, as stated in previous Commission general rate case orders, does not approve of witness D'Ascendis' sole use of analysts' predicted earnings per share to determine the DCF growth

rate, the Commission finds witness D'Ascendis' constant growth DCF analyses mean and median rate of return on equity results credible, probative, and entitled to substantial weight.

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 his Utility Proxy Group. He testified that the use of relatively comparable risk companies as proxies is consistent with principles of a 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' rebuttal DCF model indicated a cost of equity of 8.81%, his rebuttal traditional CAPM model indicated a cost of equity of 8.90%, and his rebuttal total market RPM model indicated a cost of equity of 9.39%.

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 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%.

Witness Hinton applied the DCF model to a proxy risk group of publicly-traded water utilities. To determine the expected growth rate component in his application of the DCF, witness Hinton testified that he employed both historical and forecasted growth rates of earnings per share (EPS), book value per share (BVPS), and dividends per share (DPS). He concluded that an expected growth rate of 6.0% to 7.0% should be combined with a dividend yield of 1.7% which produced his cost of equity estimate of 7.70% to 8.70% for his comparable risk water group based on his DCF analysis, with a specific cost of equity estimate of 8.48%.

Witness Hinton also performed a DCF analysis for a group of nine regulated LDC companies that he described as having similar risks and are comparable to regulated water utilities. He testified based upon his DCF analysis of the comparable group of LDCs, he determined a reasonably expected dividend yield of 2.6%, with an expected growth rate of 5.7% to 6.7%, which yields a range of results of 8.3% to 9.30 ROE. Mr. Hinton averaged the water DCF of 8.48% ROE and the LDC DCF of 8.80% ROE, for his recommended DCF of 8.64% ROE.

The average of witness D'Ascendis' Utility Proxy Group rebuttal DCF result of 8.81%, late-filed exhibit traditional CAPM result of 8.84% and late-filed exhibit total market RPM result of 9.27%, witness Hinton's DCF result of 8.64%, and RPM of 9.57% is 9.03%. The Commission approved return on equity of 9.10% is thus supported by the average of the results of the five above-listed cost of equity models which the Commission finds are credible, probative, and entitled to substantial weight based on the record in this proceeding.

Witness D'Ascendis used two risk premium methods to estimate the cost of equity to CWSNC. He testified that his first method is the PRPM and the second method is an RPM using a total market approach. In his PRPM, he employed the EvIEWS© statistical software applied to the historical returns on the common shares of each company in his Utility Proxy Group minus the historical monthly yields on long-term U.S. Treasury securities through September 2019 to arrive at a predicted annual equity risk premium. He then added the forecasted 30-year U.S. Treasury yield to each company's PRPM derived equity risk premium. Using this approach, he calculated a rebuttal cost of equity estimate of 10.84%. In his total market approach RPM, he added 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. His total market RPM rebuttal result produced a rate of return estimate of 9.27%. Averaging his rebuttal PRPM result of 10.84% and his rebuttal total market approach RPM of 9.39%, he determined that the cost of equity is 10.12% using his risk premium methods.

The Commission gives no weight to the CAPM and comparable earnings analyses of witness Hinton who presented each only as a check on his DCF and Risk Premium Regression analyses. The CAPM is an outlier as Mr. Hinton's geometric return CAPM analyses returns of 7.65% and 7.68%, are far below the other ROE analyses in this proceeding.

The Hinton comparable earnings analyses are not reliable as the earned ROEs listed in Hinton Exhibit 6 contains 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 a 8.90% ROE 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 an earned ROEs 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% ROE as shown on Public Staff D'Ascendis Cross Examination Exhibit 3, the Middlesex Water Co. earned ROE for 2018 was 13.0% and 2019 earned ROE was 12.0% as shown on Hinton Exhibit 6.

The Commission gives no weight to witness D'Ascendis' PRPM rebuttal result of 10.84%. This result is considerably lower than his original PRPM result of 11.20%, highlighting the sensitivity of this model to changes in the way it is applied. Further, the Commission is skeptical that investor expectations are influenced by

a method analyzing economic time series with time-varying volatility using the statistical software employed by witness D'Ascendis.

Witness D'Ascendis also used two CAPM methods to estimate the cost of equity to CWSNC. He testified that his first method is the traditional CAPM, and the second method is the empirical CAPM approach. The traditional CAPM method adds a risk-free rate to the product of a company-specific beta and a market risk premium for each company in the Utility Proxy Group. This approach yields a rebuttal cost of equity estimate of 8.90%. Witness D'Ascendis' empirical CAPM approach, which assumes a Security Market Line that is less steep than that described by the CAPM formula, produced a rebuttal cost of equity estimate of 9.80%.

The Commission gives little weight to witness D'Ascendis' ECAPM rebuttal result of 9.80% ROE and the D'Ascendis late-filed exhibit ECAPM result of 9.74%. The Commission concludes that, in this instance, witness D'Ascendis' testimony fails to demonstrate how the ECAPM approach is superior to the CAPM approach which is widely accepted by the investment community.

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. In order to select a proxy group of domestic, non-price regulated companies similar in risk to the Utility Proxy Group, he testified that he relied on the beta coefficients and related statistics derived from Value Line regression analyses of weekly market prices over the last five years. After selecting the 10



unregulated companies, he applied the DCF, RPM, and CAPM in the identical manner used for his Utility Proxy Group, with certain limited expectations. The rebuttal results of the DCF, RPM, and CAPM applied to the non-price regulated proxy group are 11.63%, 11.41%, and 10.44%, 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, particularly with respect to the DCF. 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% ROE, 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 size premium. 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 equity in this case. The record simply does not indicate the extent to which CWSNC's size alone justifies the added risk. 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, the Piedmont, and 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. In addition, while witness D'Ascendis calculates and testifies that a 3.94% upward size adjustment is indicated, he applies a size premium of 0.40% to CWSNC's indicated cost of equity. The Commission thus concludes that the 0.40% adjustment is not supported by his testimony and is rather arbitrary.

Having determined that the appropriate rate of return on equity-based upon the evidence in this proceeding is 9.10%, 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 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 ROE 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 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 9.10% based upon all the evidence in this proceeding.

The North Carolina Supreme Court ruled in *State ex rel. Utilities Commission v. Public Staff*, 331 N.C. 214, 224-225, 415 S.E.2d 354. 360-361 (1999), that the Commissions' consideration of gradualism in ROE fluctuations is an improper consideration in determining the rate of return. The Supreme Court ruled that gradualism has nothing to do with the company's existing cost of equity.

The uncontroverted evidence in this proceeding is that the risk-free rate for 30-year Treasury Bonds has decreased substantially, a total of 113 basis points, from 3.32% at the October 16, 2018, evidentiary hearing in CWSNC's Sub 360

general rate case, to 2.19% on November 29, 2019, as shown on Public Staff D'Ascendis Cross-Examination Exhibit 7. The uncontroverted evidence presented on page 14 of witness Hinton's testimony was that the yields on Moody's long term A-Rated public utility bonds had fallen 88 basis points from the 4.25% at the time of the February 21, 2019, CWSNC Order in Docket No. W-354, Sub 360, compared to 3.37% for September 2019. This sharp 113 basis point decrease in the 30-Year Treasury Bond Rate and sharp 88 basis point decrease in the long term Moody's A-Rated utility bond rates result in significant decreases in the ROE analyses as interest rates are material components of both the CAPM and RPM analyses leading to material reductions in the various Commission approved ROEs from the averages in 2018 and the first six months of 2019. The record evidence justifies 9.10% ROE, being a 65 point reduction from the Commission approved 9.75% ROE for CWSNC in Order dated February 19, 2019. This is also demonstrated by the reduction in Mr. D'Ascendis' recommended ROE prior to size adjustment ROE from 10.35% in his direct testimony filed on June 28, 2019, to 9.8% before size adjustment in his rebuttal testimony filed on November 20, 2019, a reduction of 55 basis points which supports the reduction from the CWSNC prior approved 9.75% ROE to the approved 9.10% ROE in this proceeding.

The Commission notes further that its approval of a rate of return on equity at the level of 9.10% or for that matter at any level, is not a guarantee to the Company that it will earn a rate of return on equity at that level. Rather, as North Carolina law requires, setting the rate of return on equity at this level merely affords CWSNC the opportunity to achieve such a return. The Commission finds, based

upon all the evidence presented, that the rate of return on 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 50.93% 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. 51 – 52**

### **Revenue Requirement**

The following schedules summarize the gross revenue and rate of return that the Company should have a reasonable opportunity to achieve based on the increases and decreases 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(a)  
**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 364  
Net Operating Income for a Return  
For the Twelve Months Ended March 31, 2019  
CWSNC Water Operations

Operating Revenues:

Service revenues	\$17,485,912	\$1,623,429	\$19,109,341
Miscellaneous revenues	189,818	4,870	194,688
Uncollectibles	<u>(129,396)</u>	<u>(12,013)</u>	<u>(141,409)</u>
Total operating revenues	<u>17,546,334</u>	<u>1,616,286</u>	<u>19,162,620</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	2,101	24,911
Deferred income tax	(26,513)	0	(26,513)
State income tax	50,650	40,355	91,005
Federal income tax	<u>414,823</u>	<u>330,504</u>	<u>745,327</u>
Total operating revenue deductions	<u>14,231,071</u>	<u>372,960</u>	<u>14,604,031</u>
Net operating income for a return	<u>\$3,315,263</u>	<u>\$1,243,326</u>	<u>\$4,558,589</u>

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

Plant in service	\$114,766,817
Accumulated depreciation	(29,553,703)
Net plant in service	<hr/> 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	<hr/> 0
 Original cost rate base	 <hr/> <hr/> \$63,345,909
 Rates of return:	
Present	5.23%
Approved	7.2%

SCHEDULE III(a)  
**Carolina Water Service, Inc. of NC**  
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>
PRESENT RATES				
Long Term Debt	50.90%	\$ 32,243,068	5.36%	\$1,728,228
Common Equity	49.10%	<u>31,102,841</u>	5.10%	<u>1,587,035</u>
Total		<u>\$ 63,345,909</u>		<u>\$3,315,263</u>
APPROVED RATES				
Long Term Debt	50.90%	\$ 32,243,068	5.36%	\$1,728,228
Common Equity	49.10%	<u>31,102,841</u>	9.10%	<u>2,830,359</u>
Total		<u>\$ 63,345,909</u>		<u>\$4,558,587</u>

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

Operating Revenues:

Service revenues	\$12,961,929	\$2,792,025	\$15,753,954
Miscellaneous revenues	124,500	8,376	132,876
Uncollectibles	<u>(98,511)</u>	<u>(21,219)</u>	<u>(119,730)</u>
Total operating revenues	<u>12,987,918</u>	<u>2,779,182</u>	<u>15,767,100</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 expense	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	3,613	20,497
Deferred income tax	(33,406)	0	(33,406)
State income tax	14,845	69,389	84,234
Federal income tax	<u>121,581</u>	<u>568,298</u>	<u>689,879</u>
Total operating revenue deductions	<u>10,892,064</u>	<u>641,300</u>	<u>11,533,364</u>
Net operating income for a return	<u>\$2,095,854</u>	<u>\$2,137,882</u>	<u>\$4,233,736</u>

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

Plant in service	\$ 102,974,564
Accumulated depreciation	(23,646,093)
Net plant in service	<hr/> 79,328,471
 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	<hr/> 0
 Original cost rate base	 <hr/> <hr/> \$58,831,763
 Rates of return:	
Present	3.56%
Approved	7.20%

SCHEDULE III(b)  
**Carolina Water Service, Inc. of NC**  
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	49.10%	<u>28,886,396</u>	1.70%	<u>490,782</u>
Total		<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	49.10%	<u>28,886,396</u>	9.10%	<u>2,628,662</u>
Total		<u>\$ 58,831,763</u>		<u>\$4,233,734</u>

SCHEDULE I(c)  
**Carolina Water Service, Inc. of NC**  
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

Operating Revenues:

Service revenues	\$1,304,521	\$89,679	\$1,394,200
Miscellaneous revenues	51,060	287	51,347
Uncollectibles	<u>(16,567)</u>	<u>(1,139)</u>	<u>(17,706)</u>
Total operating revenues	<u>1,339,014</u>	<u>88,827</u>	<u>1,427,841</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 expense	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	115	1,856
Deferred income tax	(923)	0	(923)
State income tax	2,145	2,218	4,363
Federal income tax	<u>17,569</u>	<u>18,163</u>	<u>35,732</u>
Total operating revenue deductions	<u>1,189,358</u>	<u>20,496</u>	<u>1,209,854</u>
Net operating income for a return	<u>\$149,656</u>	<u>\$68,331</u>	<u>\$217,987</u>

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

Plant in service	\$6,285,688
Accumulated depreciation	(2,083,262)
	<hr/>
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
	<hr/>
Original cost rate base	<u><u>\$3,029,127</u></u>
 Rates of return:	
Present	4.94%
Approved	7.20%

SCHEDULE III(c)  
**Carolina Water Service, Inc. of NC**  
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>
PRESENT RATES				
Long Term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	49.10%	<u>1,487,301</u>	4.51%	<u>67,014</u>
Total		<u>\$ 3,029,127</u>		<u>\$149,656</u>
APPROVED RATES				
Long Term Debt	50.90%	\$ 1,541,826	5.36%	\$82,642
Common Equity	49.10%	<u>1,487,301</u>	9.10%	<u>135,344</u>
Total		<u>\$ 3,029,127</u>		<u>\$217,986</u>

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

Operating Revenues:

Service revenues	\$2,099,870	\$123,334	\$2,223,204
Miscellaneous revenues	22,114	394	22,508
Uncollectibles	<u>(26,668)</u>	<u>(1,567)</u>	<u>(28,235)</u>
Total operating revenues	<u>2,095,316</u>	<u>122,161</u>	<u>2,217,477</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	159	2,883
Deferred income tax	(8,286)	0	(8,286)
State income tax	7,834	3,050	10,884
Federal income tax	<u>64,160</u>	<u>24,980</u>	<u>89,140</u>
Total operating revenue deductions	<u>1,635,850</u>	<u>28,189</u>	<u>1,664,039</u>
Net operating income for a return	<u>\$459,466</u>	<u>\$93,972</u>	<u>\$553,438</u>

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

Plant in service	\$14,185,016
Accumulated depreciation	(2,614,885)
Net plant in service (L1 + L2)	<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 (Sum of L3 thru L17)	<u><u>\$7,690,568</u></u>
Rates of return:	
Present	5.98%
Approved	7.20%

SCHEDULE III(d)  
**Carolina Water Service, Inc. of NC**  
Docket No. W-354, Sub 364  
Statement of Capitalization and Related Costs  
For the Twelve Months Ended March 31, 2019  
BF/FH/TC 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%	\$ 3,914,499	5.36%	\$209,817
Common Equity	49.10%	<u>3,776,069</u>	6.61%	<u>249,649</u>
Total		<u>\$ 7,690,568</u>		<u>\$ 459,466</u>
APPROVED RATES				
Long Term Debt	50.90%	\$ 3,914,499	5.36%	\$ 209,817
Common Equity	49.10%	<u>3,776,069</u>	9.10%	<u>343,622</u>
Total		<u>\$ 7,690,568</u>		<u>\$ 553,439</u>

## EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 53 - 54

### Rate Design

The evidence supporting these findings of fact is found in the Application and the accompanying NCUC Form W-1, and in 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 a 48% variable for the usage charge, and 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. Further, as part of its Application and as a matter of rate design in this case, CWSNC proposed to include in its Uniform Sewer Rate Division, customers in the CLMS service area. Public Staff witness Junis testified that the Public Staff recommended a service revenue ratio of 45:55 (base facilities charge:usage charges) for Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour 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 rate case. 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.*

Pursuant to the Stipulation of the Company and the Public Staff, which was not opposed by any party, the Stipulating Parties agreed to a rate design for water utility service for its Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour (TC/BF/FH) residential customers to be based on a 50/50 ratio of base charge to usage charges, and an 80/20 ratio of base charge to usage charges for CWSNC's Uniform Sewer residential customers.

Based upon the foregoing and the entire record herein, the Commission finds that it is appropriate for rate design to utilize a 50/50 ratio of base charge to usage charges in this proceeding for CWSNC's Uniform Water and TC/BF/FH customers and an 80/20 ratio of base charge to usage charges for CWSNC's Uniform Sewer residential customers as agreed to by the Company and the Public Staff as embodied in the Stipulation and not opposed by any party. 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. 55 - 56**

The evidence supporting these findings of fact is found in the Commission's prior Orders approving rulemaking in Docket No. W-100, Sub 54 establishing the procedures for implementing and applying the WSIC and SSIC approved in CWSNC's rate case in Docket No. W-354, Sub 336 and in the Commission's prior Orders approving WSIC and SSIC mechanisms for CWSNC and the other Utilities, Inc. companies that have been merged into CWSNC.

The Commission's previously approved WSIC/SSIC improvement charge rate adjustment mechanism continues in effect, although it has been reset to zero in this rate case. The WSIC/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/SSIC surcharge 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 rate case proceeding.

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

Item	Service Revenues	Cap %	WSIC & SSIC Cap
CWSNC Uniform Water Operations	\$19,109,341	X 5% =	\$955,467
CWSNC Uniform Sewer Operations	\$15,753,954	X 5% =	\$787,698
BF/FH/TC Water Operations	\$1,394,200	X 5% =	\$69,710
BF/FH Sewer Operations	\$2,223,204	X 5% =	\$111,160

### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 57-59

#### Public Staff Recommendations

The evidence for this finding of fact is found in the Company's W-1 filing, 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 did not oppose this recommendation of the Public Staff.

In response to the question of Chair Brown-Bland regarding whether the Company will be able to provide the information provided by the Public Staff, Mr. DeStefano responded that "The 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.

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. Ms. 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 W-1 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 reconnection charge of \$1,080 for water and \$1,400 for sewer in Winston Point Subdivision, Phase 1A, is reasonable and appropriate

IT IS, THEREFORE, ORDERED as follows:

1. That the Partial Joint Settlement Agreement and Stipulation is incorporated by reference herein and is hereby approved in its entirety;
2. That the Partial Joint Settlement Agreement and Stipulation, filed on November 27, 2019, and the parts of this Order pertaining to the contents of that agreement shall not be cited or treated as precedent in future proceedings;
3. 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;

4. 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;

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

6. That it is reasonable and appropriate, for purposes of this proceeding, for the Company to CWSNC shall refund its remaining to ratepayers the over collection of federal unprotected EDIT balances over 24 months instead of income taxes related to the remaining 35 months as originally ordered by the Commission in Docket No. W-354, Sub 360;

7. That the federal protected EDIT should continue to be flowed back in accordance with the RSGM as ordered in Docket W-354, Sub 360;

8. That CWSNC shall receive estimates of cost for filtration system in Bradfield Farms Subdivision within 60 days of the date of this Order and share with the Bradfield Farms homeowners association; and

9. That in the Company's next general rate case filing, CWSNC shall ensure that its 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 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.

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_\_ day of \_\_\_\_\_, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Kimberly 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 and Glen Arbor/North Bend Subdivisions, Bradfield Farms, Silverton and Woodland Farms Subdivisions, Larkhaven, Beaver Farms and Hawthorne at the Green Apartments

**WATER RATES AND CHARGES**

**Monthly Metered Service (Residential and Commercial):**

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

< 1" meter	\$ 28.71
1" meter	\$ 71.78
1 1/2" meter	\$ 143.55
2" meter	\$ 229.68
3" meter	\$ 430.65
4" meter	\$ 717.75
6" meter	\$1,435.50

**Usage Charge:**

Treated Water/1,000 gallons \$ 8.18

Untreated Water/1,000 gallons  
(Brandywine Bay Irrigation Water) \$ 4.23

Purchased Water for Resale/1,000 gallons:

<u>Service Area</u>	<u>Bulk Provider</u>	
Carolina Forest	Montgomery County	\$ 3.19

**APPENDIX A-1**  
**PAGE 2 OF 7**

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**

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

**Monthly Flat Rate Service:** (Billed in Arrears) \$ 58.01

**Availability Rate:** (Semi-Annual)

Applicable only to property owners in Carolina Forest  
and Woodrun Subdivisions in Montgomery County \$ 26.90



Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge Subdivision	\$ 13.50
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Availability Rate: (Monthly rate, billed semi-annual)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 9.95
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Availability Rate: (Monthly rate, billed quarterly))

Applicable only to property owners in Connestee Falls	\$ 5.25
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<u>Meter Testing Fee:</u> <sup>1/</sup>	\$ 20.00
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<u>New Water Customer Charge:</u>	\$ 27.00
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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 use	Actual Cost
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Management Fee: (in the following subdivisions only)

Wolf Laurel	\$150.00
Covington Cross Subdivision (Phases 1 & 2)	\$100.00

Oversizing Fee: (in the following subdivision only)

Winghurst	\$400.00
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Meter Fee:

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

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

### Monthly Metered Service:

#### Base Facility Charge:

Residential (zero usage)	\$ 58.46
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#### Commercial (based on meter size with zero usage)

< 1" meter	\$ 58.46
1" meter	\$ 146.15
1 1/2" meter	\$ 292.30
2" meter	\$ 467.68
3" meter	\$ 876.90
4" meter	\$1,461.50
6" meter	\$2,923.00

Usage charge per 1,000 gallons	\$ 4.50
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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)	\$ 40.92
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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

<u>Monthly Flat Rate Service:</u>	\$ 72.99
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Multi-residential customers who are served by a master meter shall be charged the flat rate per unit.	\$ 72.99
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Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge	\$ 7.29
Monthly Collection Charge (Residential and Commercial)	\$ 40.92
Usage Charge/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	\$ 72.99
White Oak High School	\$2,170.62
Child Castle Daycare	\$ 278.27
Pantry	\$ 152.58

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	\$ 40.92
Treatment charge/dwelling unit	\$ 69.50
Total monthly flat rate/dwelling unit	\$ 110.42

Commercial and Other:

Minimum monthly collection and treatment charge	\$ 110.42
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Monthly collection and treatment charge for customers Who do not take water service	\$ 110.42
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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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**APPENDIX A-1  
PAGE 6 OF 7**

The Ridges at Mountain Harbour:

Monthly Sewer Rates:

Collection charge (Residential and Commercial)	\$ 40.92
Treatment charge (Residential and Commercial)	
< 1" meter	\$ 18.42
2" meter	\$ 147.36

Availability Rate: (Monthly rate, billed semi-annually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.10
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.70
---	---------

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, semi-annually 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.

**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, BEAVER FARMS  
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	\$ 17.24
1" meter	\$ 43.10
1 1/2" meter	\$ 86.20
2" meter	\$137.92

Usage Charge per 1,000 gallons	\$ 4.17
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**Availability Rate:** (Monthly rate, billed semi-annually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 3.50
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**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	\$ 140.00

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

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

Bradfield Farms:

Connection charge	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	\$ 53.44
Bulk Flat rate, per REU	\$ 53.44

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.44
--	----------

Monthly Metered Rates  
(based on meter size with zero usage)

<1" meter	\$ 44.23
1" meter	\$ 110.58
1 1/2" meter	\$ 221.15
2" meter	\$ 353.84

Usage Charge, per 1,000 gallons	\$ 2.23
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Bulk Sewer Service for Hawthorne at the Green Apartments: <sup>4/</sup>

Bulk Flat Rate, per REU	\$ 53.44
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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 semi-annually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.80
--	---------

Connection Charge

Fairfield Harbour: <sup>1/</sup>

All Areas Except Harbor Pointe II Subdivision

Recoupment of capital fees per tap	\$ 735.00
Connection charge	\$ 140.00

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

Recoupment of capital fee	\$ 2,215.00
Connection charge	\$ 310.00

Bradfield Farms:

Connection charge	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

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 monthly for service in arrears. Availability billings semi-annually in advance.

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> 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 six percent 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.

**APPENDIX A-2  
PAGE 5 OF 5**

<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.

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
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

**APPENDIX B-1**  
**PAGE 2 OF 3**

Sherwood Forest	\$ 950.00	\$ 0.00
Ski Country	\$ 100.00	\$ 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**

5/8" meter	\$ 500.00
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

**APPENDIX B-1**  
**PAGE 3 OF 3**

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 six percent 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
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
White Oak Plantation	\$ 0.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00

**APPENDIX B-2**  
**PAGE 2 OF 3**

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

**APPENDIX B-2  
PAGE 3 OF 3**

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 six percent 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 Adjust and Increase Rates for )  
 Water and Sewer Utility Service in All of its )  
 Service Areas in North Carolina )

**NOTICE TO CUSTOMERS**

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, Treasure Cove, Register Place Estates, North Hills and Glen Arbor/North Bend Subdivisions, Bradfield Farms, Larkhaven Subdivision, Silverton and Woodland Farms Subdivisions, Beaver Farms and Hawthorne at the Green Apartments)

**Uniform Water Customers:****Monthly Metered Service (Residential and Commercial):**

Base Facility Charge (based on meter size with zero usage)		
< 1" meter	\$	28.71
1" meter	\$	71.78
1 1/2" meter	\$	143.55
2" meter	\$	229.68
3" meter	\$	430.65
4" meter	\$	717.75
6" meter	\$	1,435.50

APPENDIX C-1  
PAGE 2 OF 6

Usage Charge:

Treated Water/1,000 gallons \$ 8.18

Untreated Water/1,000 gallons  
(Brandywine Bay Irrigation Water) \$ 4.23

Purchased Water for Resale/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

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

Monthly Flat Rate Service: (Billed in Arrears) \$ 58.01

Availability Rate: (Semi-Annual)

Applicable only to property owners in Carolina Forest and Woodrun Subdivisions in Montgomery County	\$ 26.90
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Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge Subdivision	\$ 13.50
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Availability Rate: (Monthly rate, billed semi-annually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 9.95
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.25
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### 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 Subdivision, Silverton and Woodland Farms Subdivisions, Beaver  
Farms and Hawthorne at the Green Apartments)

**Uniform Sewer Customers:**

**Monthly Metered Service:**

Base Facility Charge:

Residential (zero usage)	\$ 58.46
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Commercial (based on meter size with zero usage)

< 1" meter	\$ 58.46
1" meter	\$ 146.15
1 1/2" meter	\$ 292.30
2" meter	\$ 467.68
3" meter	\$ 876.90
4" meter	\$1,461.50
6" meter	\$2,923.00

Usage charge per 1,000 gallons \$ 4.50

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) \$ 40.92

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: \$ 72.99

Multi-residential customers who are served by a master meter shall be charged the flat rate per unit. \$ 72.99

Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge \$ 7.29

Monthly Collection Charge  
(Residential and commercial) \$ 40.92

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	\$ 72.99
White Oak High School	\$2,170.62
Child Castle Daycare	\$ 278.27
Pantry	\$ 152.58

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	\$ 40.92
Treatment charge/dwelling unit	\$ 69.50
Total monthly flat rate/dwelling unit	\$ 110.42

Commercial and Other:

Minimum monthly collection and treatment charge	\$ 110.42
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Monthly collection and treatment charge for customers Who do not take water service (per single family unit)	\$ 110.42
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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)	\$ 40.92
--	----------

Treatment Charge (Residential and Commercial)	
< 1 inch meter	\$ 18.42
2 inch meter	\$ 147.36

Availability Rate: (Monthly rate, billed semi-annually)

Applicable only to property owners in Fairfield Sapphire Valley Service Area	\$ 10.10
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Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls	\$ 5.70
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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 F, to become effective . 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 364".

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_\_\_\_ day of \_\_\_\_\_, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Kimberly 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, Except Corolla Light and Monteray Shores Service Area and Elk River Development

) **NOTICE TO CUSTOMERS**  
) **IN TREASURE COVE,**  
) **REGISTER PLACE ESATES,**  
) **NORTH HILLS, AND GLEN**  
) **ARBOR/NORTH BEND**  
) **SUBDIVISIONS, FAIRFIELD**  
) **HARBOUR SERVICE AREA,**  
) **BRADFIELD FARMS**  
) **SUBDIVISION, LARKHAVEN**  
) **SUBDIVISION, SILVERTON**  
) **AND WOODLAND FARMS**  
) **SUBDIVISIONS, BEAVER**  
) **FARMS, AND HAWTHORNE**  
) **AT THE GREEN**  
) **APARTMENTS**

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 Subdivision, Larkhaven Subdivision, Silverton and Woodland Farms Subdivisions, Beaver Farms, and Hawthorne at the Green Apartments:

**WATER RATES AND CHARGES**

Monthly Metered Service (Residential and Commercial):

Base Facility Charge (based on meter size with zero usage)		
< 1" meter	\$	17.24
1" meter	\$	43.10

APPENDIX C-2  
PAGE 2 OF 3

1 1/2" meter	\$ 86.20
2" meter	\$ 137.92

Usage Charge per 1,000 gallons	\$ 4.17
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Availability Rate: (Monthly rate, billed semi-annually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 3.50
--	---------

**SEWER RATES AND CHARGES**Monthly Sewer Service:Residential:

Flat Rate, per dwelling unit	\$ 53.44
Bulk Flat rate, per REU	\$ 53.44

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 53.44
--	----------

Monthly Metered Rates  
(based on meter size with zero usage)

<1" meter	\$ 44.23
1" meter	\$110.58
1 1/2" meter	\$221.15
2" meter	\$353.84

Usage Charge, per 1,000 gallons	\$ 2.23
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Bulk Sewer Service for Hawthorne at the Green Apartments:

Bulk Flat Rate, per REU	\$ 53.44
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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 semi-annually)

Applicable only to property owners in Fairfield  
Harbour Service Area

\$ 2.80

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 \_\_\_\_\_, to become effective \_\_\_\_\_. 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 364".

ISSUED BY ORDER OF THE COMMISSION.

This the \_\_\_\_\_ day of \_\_\_\_\_, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Kimberly A. Campbell, Chief Clerk

**CERTIFICATE OF SERVICE**

I, \_\_\_\_\_, mailed with sufficient postage or hand delivered to all affected customers the attached Notice to Customers issued by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, and the Notice was 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 Notice to Customers was mailed or hand delivered to all affected customers, as required by the Commission Order dated \_\_\_\_\_ in Docket No. W-354, Sub 364.

Witness my hand and notarial seal, this the \_\_\_\_ day of \_\_\_\_\_, 2020.

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Address

(SEAL) My Commission Expires: \_\_\_\_\_  
Date