

SANFORD LAW OFFICE, PLLC

Jo Anne Sanford, Attorney at Law

January 10, 2020

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

Via Electronic Delivery

Re: Carolina Water Service, Inc. of North Carolina - Application for
Authority to Increase Rates for Water and Sewer Utility Service in
All Service Areas in North Carolina
Docket Nos. W-354, Subs 363, 364, and 365
Proposed Order and Affidavit of Matthew Schellinger

Dear Ms. Campbell:

Carolina Water Service, Inc. of North Carolina ("CWSNC" or "Company")
hereby submits for electronic filing in the above-referenced dockets the
Company's Proposed Order and the Affidavit of Matthew Schellinger concerning
rate case costs and miscellaneous regulatory costs. CWSWNC is authorized to
state that the Public Staff has reviewed and agrees with the verified statements
contained in the Schellinger Affidavit.

I certify herein that I have served all parties to the proceeding
electronically with a copy of the filing.

As always, thank you and your staff for your assistance; please feel free to
contact me if there are any questions or suggestions.

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

Attorney for Carolina Water Service, Inc.
of North Carolina

c: Parties of Record

P.O. Box 28085-8085, Raleigh, NC 27611-8085 sanford@sanfordlawoffice.com
Tel: 919.210.4900

OFFICIAL COPY

Jan 10 2020

CERTIFICATE OF SERVICE

I hereby certify that the foregoing documents consisting of **Carolina Water Service, Inc. of North Carolina's Proposed Order and the Affidavit of Matthew Schellinger** have been served on the parties of record to Docket Nos. W-354, Subs 363, 364 and 365, in accordance with North Carolina Utilities Commission Rule R1-39, either by: United States mail, first class postage pre-paid; by hand delivery; or by means of electronic delivery upon agreement of the receiving party.

This the 10th day of January 2020.

Electronically Submitted
/s/Jo Anne Sanford
State Bar No. 6831

SANFORD LAW OFFICE, PLLC
sanford@sanfordlawoffice.com
Tel: 919.210.4900

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

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

<p>DOCKET NO. W-354, SUB 363)</p> <p style="text-align: center;">In the Matter of)</p> <p>Application by Carolina Water Service, Inc. of North)</p> <p>Carolina, 4944 Parkway Plaza Boulevard, Suite 375,)</p> <p>Charlotte, North Carolina 28217, for an Accounting)</p> <p>Order to Defer Incremental Storm Damage)</p> <p>Expenses Incurred as a Result of Hurricane)</p> <p>Florence)</p>	
<p>DOCKET NO. W-354, SUB 364)</p> <p style="text-align: center;">In the Matter of)</p> <p>Application by Carolina Water Service, Inc. of North)</p> <p>Carolina, 4944 Parkway Plaza Boulevard, Suite)</p> <p>375, Charlotte, North Carolina, 28217, for Authority)</p> <p>to Adjust and Increase Rates for Water and Sewer)</p> <p>Utility Service in All of its Service Areas in North)</p> <p>Carolina.)</p>	<p>CWSNC'S PROPOSED)</p> <p>ORDER APPROVING)</p> <p>JOINT PARTIAL)</p> <p>SETTLEMENT)</p> <p>AGREEMENT AND)</p> <p>STIPULATION, GRANTING)</p> <p>PARTIAL RATE)</p> <p>INCREASE, AND)</p> <p>REQUIRING CUSTOMER)</p> <p>NOTICE)</p>
<p>DOCKET NO. W-354, SUB 365)</p> <p style="text-align: center;">In the Matter of)</p> <p>Application by Carolina Water Service, Inc. of North)</p> <p>Carolina, 4944 Parkway Plaza Boulevard, Suite 375,)</p> <p>Charlotte, North Carolina, 28217, for Accounting)</p> <p>Order to Defer Post-In-Service Depreciation and)</p> <p>Financing Costs Related to Major New Projects That)</p> <p>Are or Will Be In-Service Prior to the Date of An)</p> <p>Order in Petitioner's Pending Base Rate Case)</p>	

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

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

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

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

Wednesday, September 26, 2018, at 7:00 p.m., in the Buncombe County Courthouse, Courtroom 1A, 60 Court Plaza, Asheville, North Carolina

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

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

Monday, December 2, 2019, beginning at 2:00 p.m., and continuing through Tuesday, December 3, 2019, in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

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

APPEARANCES:

For Carolina Water Service, Inc. of North Carolina:

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

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

Mark R. Alson, Ice Miller LLP, One American Square, Suite 2900,
Indianapolis, Indiana 46282-0200

For Corolla Light Community Association, Inc.:

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

For the Using and Consuming Public:

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

BY THE COMMISSION: On January 17, 2019, 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 (“Hurricane Florence Petition”). The Hurricane Florence Petition was filed with the Commission (also sometimes referred to as “NCUC”) in Docket No. W-354, Sub 363.

On May 24, 2019, CWSNC filed the Company’s notice of intent, pursuant to Commission Rule R1-17(a), 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 W-354, Sub 364.

On June 28, 2019, CWSNC filed an Application (“Rate Case Application”) with the Commission seeking authority to increase its rates for providing water and sewer utility service in all of its service areas in North Carolina, including the service areas of Riverbend Estates and of Pace Utilities Group, Inc., which had been recently transferred to CWSNC pursuant to the Commission’s Orders

issued on May 16, 2019, in Docket No. W-354, Sub 358, and on July 29, 2019, in Docket No. W-354, Sub 361, respectively. The Company's Rate Case Application also requested continued authority to pass through any increases in purchased bulk water rates, subject to CWSNC providing sufficient proof of the increases, as well as any increased costs of wastewater treatment performed by third parties and billed to CWSNC. In addition, the Company included as part of its rate case filing certain information and data required by NCUC Form W-1.

As part of the Company's Rate Case Application, CWSNC filed direct testimony by the following witnesses: Catherine E. Heigel,¹ 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,² President and CEO of Corix Infrastructure, Inc. ("CII"); J. Bryce Mendenhall, Vice President of Operations for CWSNC; Anthony Gray, Senior Financial and Regulatory Analyst, CWSNC; and Dylan W. D'Ascendis, Director at ScottMadden, Inc.

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

CWSNC's present rates for water and sewer utility service have been in effect since February 21, 2019, pursuant to the Commission's *Order Approving*

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

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

Joint Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice in CWSNC's last general rate case in Docket No. W-354, Sub 360 (Sub 360 Order).

On July 15, 2019, the Commission issued its *Order Establishing General Rate Case and Suspending Rates*. By that Order, the Commission declared this matter to be a general rate case pursuant to G.S. 62-137, suspended the effect of the proposed new rates for up to 270 days pursuant to G.S. 62-134, and established the Test Year period for this case as the twelve-month period ending March 31, 2019.

On August 2, 2019, the Commission issued an *Order Scheduling Hearings and Requiring Customer Notice* ("Scheduling Order"). That Order scheduled public hearings for customers in Charlotte, Manteo, Boone, Asheville, Raleigh, and Jacksonville, North Carolina, and an expert witness evidentiary hearing in Raleigh. The Scheduling Order also required the Company to provide a specified notice to all affected customers.

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 Company sent the notices to customers as required by the Commission's August 2, 2019 Scheduling Order.

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.

Public hearings were held in this matter as follows and responses to concerns raised at the public hearings were filed by CWSNC on the dates indicated:

- Charlotte on September 5, 2019 (Company Response filed on September 25, 2019)
- Manteo on September 10, 2019 (Company Response combined with Charlotte)
- Boone on October 8, 2019 (Company Response filed on October 24, 2019 - combined with Asheville)
- Asheville, October 9, 2019 (Company Response filed on October 24, 2019)
- Raleigh, October 14, 2019 (Company Response filed on October 30, 2019)
- Jacksonville, October 22, 2019 (Company Response filed on November 8, 2019)

On October 4, 2019, CWSNC filed its rate case updates, schedules, and supporting data as required by Ordering Paragraph No. 6 of the Commission's August 2, 2019 Scheduling Order.

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 and represent CWSNC in these proceedings. On October 28, 2019, the Commission granted the motion.

The Public Staff³ filed its direct testimony on November 4, 2019, consisting of testimony and exhibits by the following 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, addressing service quality and including response to the Company's four filed responses to customer concerns raised at the six public hearings.

On Monday, November 18, 2019, CWSNC filed a Motion for Extension of Time to File Rebuttal, to allow the Company a reasonable opportunity to review the Public Staff's Revised Exhibits for accounting witnesses Feasel and Henry, which were anticipated to be filed by close of business on November 18, 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 the Company's proposed Consumption

³ The Public Staff's participation in this proceeding is recognized pursuant to G.S. 62-15(d) and Commission Rule R1-19.

Adjustment Mechanism and 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 W-354, Sub 365. On that same day, the Commission also entered an Order Granting Extension of Time whereby the NCUC extended the deadline for CWSNC to file rebuttal testimony to November 20, 2019.

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 requesting that CWSNC witness Shawn Elicegui (who adopted witness Barefoot's testimony), CWSNC witness Anthony Gray, CWSNC witness Donald Denton (who adopted witness Heigel's testimony) and Public Staff witness Michelle Boswell be excused from attending the hearing and that each witness' pre-filed testimony and exhibits be accepted into the record. Movants stated that all parties to this consolidated docket have agreed to waive cross-examination of the named witnesses, and have agreed to offer no objection to the introduction of the witnesses' testimony and exhibits into the record.

On November 25, 2019, the Commission entered an *Order Granting Motion to Excuse Witnesses* in these dockets whereby the Commission found good cause to excuse Shawn Elicegui, Anthony Gray, Donald Denton, and Michelle Boswell from attending the expert witness hearing on December 2, 2019, and to receive their testimony and exhibits into evidence at the hearing.

On November 26, 2019, Public Staff witness John R. Hinton filed Supplemental Testimony and Supplemental Hinton Exhibit 10, revising his recommended cost rate of common equity.

On November 27, 2019, CWSNC and the Public Staff filed a Joint Settlement Agreement and Stipulation (“Stipulation”) and Settlement Exhibit 1 in Docket Nos. W-354, Sub 363, W-354, Sub 364, and W-354, Sub 365.

On November 27, 2019, the Public Staff filed a Notice of Public Staff Witnesses Appearing as a Panel, stating that Staff witnesses Henry and Junis would be presented to testify in that manner with reference to the Sub 365 docket in particular. On this same date, the Public Staff also filed a Motion to Excuse Witnesses Darden, Casselberry, and Feasel.

On December 2, 2019, the Commission entered an *Order Granting Motion to Excuse Witnesses* whereby Public Staff witnesses Darden and Feasel were excused. However, witness Casselberry was not excused from attending the expert witness hearing as the Commission stated that it anticipated additional questions for her.

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

- Strongly opposes being singled out for higher rates than any other territory served by CWS, and requests that the Commission adopt a uniform rate schedule for all CWS wastewater treatment customs, and
- Respectfully, requests that the North Carolina Utilities Commission move Corolla Light and Monteray Shores area to the uniform rate schedule after thoroughly investigating and analyzing the basis of the CWS request, allowing only an increase that is clearly justified.

The evidentiary hearing was convened as scheduled at 2:00 p.m. on Monday, December 2, 2019, in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina. The hearing concluded the following day.

On December 9, 2019, the Public Staff filed the Late-Filed Exhibits 1 and 2 of Staff witness Gina Casselberry.

On December 11, 2019, the Public Staff filed the Late-Filed Exhibits 1 – 5 of Staff witness Windley Henry.

On December 13, 2019, CWSNC filed the Late-Filed Exhibits of Company witnesses Dylan D'Ascendis (Exhibits 1 – 4), Dante DeStefano (Exhibit 1), and Bryce Mendenhall (Exhibit 1).

On January 10, 2020, CWSNC 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 law and is authorized to do business in the State of North Carolina. CWSNC 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 Corix Regulated Utilities, Inc. (“CRU”).⁴

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

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

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

⁴ Corix Regulated Utilities, Inc. owns regulated utilities in 17 states, with primary service areas in Florida, North Carolina, South Carolina, Louisiana, and Nevada, which provide water and sewer utility service to approximately 190,000 customers.

of record, including that submitted by the Company, the Public Staff, and the public witnesses that testified at the hearings.

7. The Stipulation is a non-unanimous settlement of matters in controversy in this proceeding and was not joined by the CLCA, the only other party to these proceedings.

8. The Stipulation resolves all but two of the disputed issues between CWSNC and the Public Staff.

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

- (a) Return on equity; and
- (b) Deferred accounting treatment of Automatic Meter Reading (“AMR”) meter installation projects in the Fairfield Mountain and Connestee Falls systems.

The two 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 Quality of Service

13. As of March 31, 2019, CWSNC served approximately 34,256 water customers and 21,404 wastewater customers in North Carolina. CWSNC operates 93 water utility systems and 38 sewer utility systems in the state. The Company's service territory spans 38 counties in North Carolina from Corolla in Currituck County to Bear Paw in Cherokee County.

14. A total of 23 witnesses testified at the six public hearings held for the purpose of receiving customer testimony;⁵ the majority of those customer comments dealt with objections to the rate increase and did not involve complaints about quality of service. A few customers expressed quality of service concerns, including but not limited to: old equipment, delays in attention to meter repair, hardness of the water, digital meter boxes below the water table, boil water notices (including incidence and communication), sewer spills in the lake at Connetsee Falls, fluoride in the water, the ratio of base to fixed charges, response time to some inquiries, mineral content, the proposed "Consumption Adjustment Mechanism," and the requirement of paying sewer charges while a home was unoccupied due to hurricane damage. The Company either addressed by way of explanation or an action plan, or refuted, virtually all of the complaints in this case related to service.

15. CWSNC filed four comprehensive verified reports with the Commission which fully addressed the service-related concerns and other comments expressed by the witnesses who testified at the six public hearings.

⁵ There were no witnesses in Manteo, four in Charlotte, none in Boone, nine in Asheville, four in Raleigh, and six in Jacksonville.

These are captioned Reports on Customer Comments from Public Hearing(s) (“Reports”) and they fully describe each of the witnesses’ specific service-related concerns and comments, the Company’s response, and how each concern and comment was addressed. In many instances, the Company’s explanations addressed and resolved misunderstandings held by customers about various matters that are (or are not) in issue in this case. The Reports also described a number of capital investments made by CWSNC in various systems.

16. Several customers described the Company staff’s attitude and their responsiveness in very positive terms. This is consistently the case in public hearings concerning CWSNC.

17. As of November 15, 2019, the Public Staff had reviewed 316 position statements from CWSNC customers.⁶ Virtually all of the customers objected to the magnitude and frequency of the Company’s rate increases. Their primary concerns and questions addressed the rate of return requested, the increase in rates compared to inflation, the frequency of rate cases and increases, the impact of recent federal corporate income tax reductions, and the

⁶ Of the approximately 316 customer statements of position reviewed by the Public Staff, 161 came from customers at The Point subdivision, 48 were from customers at Connestee Falls, 33 were from customers at Fairfield Harbour and 11 were from customers at Carolina Trace. Thus, 253 of the 316 or 80% of the customer statements came from only four subdivisions or systems. Public Staff witness Casselberry testified that nearly all of the customers in The Point opposed CWSNC’s proposed Pilot Program.

ratio of base facility charge to volumetric charges. Nearly all of the customers in The Point opposed CWSNC's proposed Pilot Program.⁷

18. Three resolutions from customer groups were admitted into evidence. A resolution from the Bradfield Farms Homeowners Association, dated August 26, 2019, was submitted as Colyer Exhibit 1 at the Charlotte public hearing held on September 5, 2019. The resolution objected to the amount and frequency of the increase, to the proposed Storm Reserve Fund, to interim rates, to folding Bradfield Farms into other system rate structures, and to payment of any costs of purchased water. The Woodhaven Property Owners Association ("POA") submitted a resolution as Van Rens Exhibit 1, at the Asheville public hearing held on October 9, 2019. The POA commended CWSNC for its positive history of responding to customer needs and issues, and in resolving a "historic" easement dispute, preserving a green barrier, and putting Well #2 back on line. However, the Woodhaven POA protested the amount and frequency of rate increases and complained of the applicable laws and regulations. On December 2, 2019, intervenor Corolla Light Community Association, Inc. filed a Resolution supporting uniform rates for all wastewater customers, movement of the Corolla Light and Monteray Shores service area into CWSNC's uniform rates, and a limitation of any rate increase only to an amount "clearly justified."

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

19. The Company's proposed Consumption Adjustment Mechanism and the Pilot Program (the Pilot was designed to evaluate the impact of conservation rates) were withdrawn by CWSNC and are no longer at issue in this case.

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

21. The only Public Staff recommendation with regard to CWSNC's service was that the Company should provide an assessment of the costs of central water filter systems to deal with water hardness for Bradfield Farms and Fairfield Harbour for consideration by customers, within 60 days of the final order in this case.⁸ Hardness is not the subject of a regulatory standard, so this not a compliance-based recommendation. With this exception, Public Staff engineer and witness, Gina Casselberry, had no comments, corrections, or additions to the Company's four filed Reports on customer concerns.

22. The Public Hearing Reports---as supplemented by testimony at the evidentiary hearing---were entirely thorough, complete, and fully responsive to customer expressions of concern and complaint in this proceeding.

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

23. It is inappropriate to compare the rates of private Commission-regulated public utilities like CWSNC to the rates charged by municipalities or county systems, due to significant differences in cost attributes, service territories, regulatory oversight, methods of rate setting, and application of taxation responsibilities.

24. CWSNC has responded appropriately to the directions and concerns expressed by the Department of Environmental Quality (“DEQ”), the Division of Water Resources (“DWR”), and the Public Water Supply Section (“PWSS”) regarding service-related issues, and the issues identified have either been resolved or are in an orderly process of resolution.

25. With the exception of a few isolated service issues, which the Company has addressed or is in the process of resolving, the Public Staff’s description of the overall quality of service provided by CWSNC as “good” is supported by the record in this case.

26. The quality of the water provided to customers by CWSNC meets the standards set forth by the Safe Drinking Water Act and is satisfactory.

27. CWSNC’s overall quality of water and wastewater service meets or exceeds the statutory standard set in G.S. 62-131(b), which requires that a public utility shall furnish “adequate, efficient, and reasonable service.”

Rate Case Contested Issues

A. Capital Structure, Cost of Capital, and Overall Rate of Return **Capital Structure and Cost of Capital Issues**

28. The Joint Partial Settlement Agreement and Stipulation filed in this docket on November 27, 2019, by CWSNC and the Public Staff, regarding the

reasonableness of the stipulated capital structure and cost of long-term debt, adequately supports approval of a reasonable and appropriate capital structure consisting of 50.90% long-term debt and 49.10% common equity and a cost of long-term debt of 5.36% for the Company. The testimony of CWSNC witness D'Ascendis supports and justifies approval of a cost of common equity of 10.20%, including a 40-basis point size adjustment, for the Company in this proceeding. This capital structure and the approved costs for long-term debt and equity are just and reasonable and appropriate for use in setting rates in this proceeding. Accordingly, the just, reasonable, and appropriate components of the rate of return for CWSNC are as follows:

a. Long-Term Debt Ratio	50.90%
b. Common Equity Ratio	49.10%
c. Embedded Cost of Debt	5.36%
d. Return on Common Equity	10.20%
e. Overall Weighted Rate of Return	7.74%

29. The 10.20% return on equity approved for CWSNC in this proceeding is consistent with and justified by the general and industry-specific business risks faced by the Company in providing water and sewer utility service to customers in North Carolina. CWSNC faces the same general business risks faced by all public utilities, but water is the only utility service that is ingested. CWSNC's high degree of capital intensity and low depreciation rates, coupled with the need for substantial infrastructure capital spending, support the reasonableness of the 10.20% return on equity authorized in this case, so that the Company can successfully meet the challenges it faces and continue to provide quality water and sewer utility service to its customers in North Carolina.

30. The provision of continuous safe, adequate, and reliable water and wastewater utility service by CWSNC is essential to CWSNC's customers.

31. 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.

32. The 10.20% rate of return on equity and the 49.10% equity capital structure approved by the Commission in this case result in a cost of capital that is as low as reasonably possible. They appropriately balance CWSNC's need to obtain equity and debt financing with the need of the Company's customers to pay the lowest possible rates.

33. The authorized levels of the overall rate of return and rate of return on equity set forth above are supported by competent, material, and substantial record evidence; are consistent with the requirements of G.S. 62-133; are fair and reasonable to CWSNC's customers generally; and will not cause unnecessary hardship to the Company's customers in light of changing economic conditions or otherwise.

B. Deferred Accounting Treatment of AMR Meter Installation Projects in the Fairfield Mountain and Connetsee Falls Systems

34. On June 28, 2019, CWSNC filed a Petition for an Accounting Order to Defer Post-In-Service Depreciation and Financing Costs Relating to Major New Projects in Docket No. W-354, Sub 365. Significantly, this Petition was filed on the same day that the Company filed its Rate Case Application in Docket No.

W-354, Sub 364. The four major, new, and necessary projects for which CWSNC requested post-in-service deferred accounting treatment are the Connestee Falls wastewater treatment plant (“WWTP”) project in Buncombe County; the Nags Head WWTP project in Dare County; the Fairfield Mountain AMR meter installation project in Transylvania County; and the Connestee Falls AMR meter installation project, also in Buncombe County. These types of projects have not previously been deemed eligible for cost recovery pursuant to prior interpretation of the provisions of G.S. 62-133.12, the Water System Improvement Charge (“WSIC”) and Sewer System Improvement Charge (“SSIC”) mechanism statute. The Company’s only clear option for cost recovery for these projects is a general rate case.

35. Each of the four major capital projects covered by the Petition requesting deferred accounting treatment were completed and placed in service prior to the evidentiary hearings in these proceedings. The Public Staff supported approval of the two WWTP projects for deferred accounting treatment, but opposed such treatment for the two AMR meter installation projects.

36. Regulatory lag – the lag in time between when a utility, such as CWSNC, makes an investment in utility plant and when that investment is reflected in the utility’s rates – is an increasing concern for water and wastewater utilities. Regulatory lag affects a utility’s ability to earn its authorized return and, as a result, can impact a utility’s ability to finance needed investments on reasonable terms. Deferred accounting treatment is one way for the Commission to reasonably and appropriately address the negative effect of regulatory lag on a

utility such as CWSNC, particularly in instances, such as are present in this case, when there are no other rate mechanisms available to mitigate the corrosive impact of regulatory lag.

37. During the Test Year for this rate case (the 12-month period ended March 31, 2019), CWSNC earned a return on equity per books of just 1.63% on a consolidated basis. The Company's current rates were set in the Sub 360 rate case effective for service rendered on and after February 21, 2019, based upon an authorized return on equity ("ROE") of 9.75%. CWSNC invested approximately \$22 million of additional capital in its North Carolina water and sewer systems since the Sub 360 rate case, which served to depress its post-Test Year earned ROE.

38. As a general rule, when a request is made for cost deferral accounting treatment, the Commission evaluates the costs at issue to determine if they were reasonably and prudently incurred, unusual and/or extraordinary in nature, and of a magnitude that would result in a material impact on the Company's financial position (level of earnings). Such requests, by necessity, have been considered on a case-by-case basis; and have been approved only in those instances where there was a clear and convincing showing that the costs in question were of an unusual and/or extraordinary nature and that, absent deferral, would have a material impact on the utility's financial condition.

39. In this case, the four projects which are subject to the Company's deferral request are prudent and necessary and the costs for each of those projects were reasonable and prudently incurred. CWSNC and the Public Staff

are in agreement with respect to the cost deferral amounts and ROE impacts for the four projects: 434 basis points for the Uniform Sewer Rate Division for the two WWTP projects and 24 basis points for the Uniform Water Rate Division for the two AMR installation projects.⁹ The ROE impact for the two AMR projects is 13 basis points when considered on a consolidated company basis.

40. The Company's WWTP and AMR installation project costs are "unusual and/or extraordinary," consistent with how those terms have been construed by the Commission in previous deferred accounting orders and also as those terms are commonly understood. The costs for each of these four projects, considered both collectively and singularly, are unusual or extraordinary in the sense that they represent major capital investments into the Company's infrastructure; they are non-routine projects which are of considerable complexity and major significance; and they are necessary to the provision by CWSNC of reliable, compliant utility service in this state.

41. Even if the two AMR installation projects are viewed and evaluated in isolation from the two WWTP projects, the 24-basis point ROE impact from such projects on the Uniform Water Rate Division (or 13 basis points on a consolidated company basis) is material to the Company, particularly in light of the revenue increase supported by the Stipulation; and the negative ROE impact at this level is in line with previous deferred accounting authorizations granted by the Commission.

⁹ Calculated on a Rate Division basis, per Public Staff DeStefano Cross Examination Exhibit 2. For a Total Company calculation, see Public Staff witness Henry Late-Filed Exhibit 4.

42. Without the requested deferral treatment, CWSNC will not be afforded the statutorily-authorized opportunity to earn its authorized ROE, and its future access to needed capital on reasonable terms could be jeopardized. Conversely, the impact of the Commission's approving the deferral will have a favorable impact on CWSNC's earnings and financial standing in general and, as such, will enhance the Company's ability to access and obtain capital on more favorable terms, as it will help assure investor confidence in the Company's recovery of capital investments in a timely fashion. Such results will ultimately accrue to the benefit of the Company's North Carolina retail ratepayers as well as to its investors.

43. The deferred costs in question are appropriate for recovery as an integral part of the Company's request for a general rate increase in view of the fact that the four projects will be included for the first time in the Company's rate base in this rate case. These deferred costs were all incurred during the pendency of this case and, for that reason, they are reasonable and prudent costs which CWSNC should be allowed to recover. By filing the Sub 365 Deferred Accounting Petition in conjunction with the Sub 364 base rate proceeding in which the projects were included as pro-forma plant additions, the Company has also minimized the period for which deferral accounting is requested, and provided a definitive point to end the deferral period; i.e., the effective date of the current base rate proceeding. There is no harm to the Company's ratepayers as a result of this decision since customers will only be required to pay reasonable and prudent costs for needed projects which are

legitimately part of CWSNC's cost of service; by definition they are "used and useful" and providing service to customers. Nor is there any undue benefit conferred on CWSNC by this decision in view of the fact that the Company will only be allowed to defer and recover reasonable and prudently-incurred costs for projects found to be unusual and/or extraordinary in nature and which have a material impact on the Company's ROE and financial position.

Ratemaking and Revenue Requirement Issues

44. It is reasonable and appropriate to determine the revenue requirement for CWSNC using the rate base method as allowed by G.S. 62-133.

45. By its Rate Case Application, CWSNC requested a total annual revenue increase in its water and sewer rates of \$6,881,233, a 20.62% increase over the total revenue level generated by the rates currently in effect for the Company. For the CWSNC Uniform Water Rate Division ("Uniform Water"), the proposed tariffs are designed to produce additional gross revenues of \$2,674,305, a 15.35% increase over the total revenue level generated by the rates currently in effect for that Rate Division. For the CWSNC Uniform Sewer Rate Division ("Uniform Sewer"), the proposed tariffs are designed to produce additional gross revenues of \$3,808,085, a 30.42% increase over the total revenue level generated by the rates currently in effect for that Rate Division. For the Bradfield Farms/Fairfield Harbour/Treasure Cove Water Rate Division ("BF/FH/TC Water"), the proposed tariffs are designed to produce additional gross revenues of \$187,541, a 14.00% increase over the total revenue level generated by the rates currently in effect for that Rate Division. For the Bradfield

Farms/Fairfield Harbour/Treasure Cove Sewer Rate Division (“BF/FH/TC Sewer”), the proposed tariffs are designed to produce additional gross revenues of \$211,302, a 10.10% increase over the total revenue level generated by the rates currently in effect for that Rate Division.

46. CWSNC’s total original cost rate base used and useful in providing service to its customers is \$132,898,986 for combined operations, consisting of \$63,347,528 for Uniform Water; \$58,831,763 for Uniform Sewer; \$3,029,127 for BF/FH/TC Water; and \$7,690,568 for BF/FH/TC Sewer. CWSNC’s rate base for the Company’s combined operations is itemized as follows:

<u>Item</u>	<u>Amount</u>
Plant in service	\$238,212,084
Accumulated depreciation	<u>(57,897,943)</u>
Net plant in service	180,314,141
Cash working capital	2,406,419
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	(0)
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	<u>0</u>
Original cost rate base	<u>\$132,898,986</u>

47. The levels of operating revenues under present rates appropriate for use in this proceeding are \$17,546,334 for Uniform Water; \$12,987,918 for Uniform Sewer; \$1,339,014 for BF/FH/TC Water; and \$2,095,316 for BF/FH/TC

Sewer, for a total level of operating revenues for combined operations of \$33,968,582.

48. The overall levels of operating and maintenance expenses under present rates appropriate for use in this proceeding are \$10,966,939 for Uniform Water; \$8,274,909 for Uniform Sewer; \$996,729 for BF/FH/TC Water; and \$1,232,014 for BF/FH/TC Sewer, for a total level of operating and maintenance expenses under present rates for combined operations of \$21,470,591.

49. Accumulated depreciation consists of the following balances for water and sewer operations:

Uniform Water:	\$29,553,703
Uniform Sewer:	\$23,646,093
BF/FH/TC Water:	\$ 2,083,262
BF/FH/TC Sewer:	\$ 2,614,885

50. Contributions in aid of construction ("CIAC"), reduced by accumulated amortization of CIAC, consist of the following amounts for water and sewer operations:

Uniform Water:	\$17,662,813
Uniform Sewer:	\$17,559,280
BF/FH/TC Water:	\$ 1,055,139
BF/FH/TC Sewer:	\$ 3,993,443

51. It is reasonable and appropriate for CWSNC to recover total rate case expenses of \$1,169,222, consisting of \$519,416 related to the current proceeding and \$649,806 of unamortized rate case expense from prior proceedings, to be amortized and collected over a five-year period, for an annual level of rate case expense of \$233,844.

52. It is reasonable and appropriate to use the current statutory regulatory fee rate of 0.13% to calculate CWSNC's revenue requirement.

53. It is reasonable and appropriate to use the current state corporate income tax rate of 2.5% and the applicable federal corporate income tax rate of 21% to calculate CWSNC's revenue requirement.

54. It is reasonable and appropriate to include an annual amortized expense amount of \$48,924 in the cost of service in this case to be allocated among CWSNC's four Rate Divisions for maintenance and repair expense related to damage sustained from Hurricane Florence.

55. It is reasonable and appropriate to include the amount of \$34,567 in the cost of service in this case to be allocated among CWSNC's four Rate Divisions for normalized maintenance and repair expense related to storm damages.

56. The rates approved by the Commission will provide CWSNC with an increase in its annual level of authorized service revenues through rates and charges approved in this case by \$5,552,664, consisting of an increase for Uniform Water of \$2,074,162, an increase for Uniform Sewer of \$3,192,248, an increase for BF/FH/TC Water of \$110,096, and an increase for BF/FH/TC Sewer of \$176,158. After giving effect to these authorized increases in water and sewer revenues, the total annual operating revenues for the Company will be \$39,521,246, consisting of the following levels of just and reasonable operating revenues:

Uniform Water	\$19,620,496
Uniform Sewer	\$16,180,166

BF/FH/TC Water	\$ 1,449,110
BF/FH/TC Sewer	\$ 2,271,474

These increases will allow CWSNC the opportunity to earn a 7.74% overall rate of return, which the Commission has found to be just and reasonable in this case.

Rate Design

57. Regarding the Corolla Light/Monteray Shores ("CLMS") sewer service area, CWSNC has maintained CLMS system-specific rates for the last four general rate cases (Docket Nos. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates. In this proceeding, the Company proposed to consolidate the CLMS sewer service area rates with the Uniform Sewer Rate Division rates, as the total Uniform Sewer revenue requirement is currently sufficient to allow for such consolidation of rate structures. It is reasonable and appropriate to now consolidate the CLMS sewer service area rates with the Company's Uniform Sewer rates. This rate design is supported by both the Public Staff and the CLCA.

58. It is reasonable and appropriate for CWSNC's rate design in this case to be based on a 50/50 ratio of fixed/volumetric revenues for the Company's Uniform Water and BF/FH/TC Water residential customers, and an 80/20 ratio of fixed/volumetric revenues for the Company's Uniform Sewer residential customers, per the Stipulation.

59. The rates and charges included in Appendices A-1, A-2, B-1, and B-2 attached hereto are just and reasonable and should be approved.

Water and Sewer System Improvement Charge
Rate Adjustment Mechanisms

60. CWSNC's right to charge a WSIC and SSIC was initially granted by the Commission in Docket No. W-354, Sub 336 by Order issued March 10, 2014. The Company's Commission-authorized WSIC/SSIC mechanisms apply to all water and sewer customers served by CWSNC.

61. 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.

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

63. The Ongoing WSIC/SSIC Three-Year Plan filed by CWSNC in Docket No. W-354, Sub 360A on May 30, 2019, is reasonable and meets the requirements of Commission Rule R7-39(m) pertaining to WSIC and Rule R10-26(m) pertaining to SSIC.

Schedules of Rates

64. The Schedules of Rates (attached hereto as Appendices A-1 and A-2) for CWSNC water and sewer utility service and the Schedules of Connection Fees for CWSNC Uniform Water and Uniform Sewer (attached hereto as Appendices B-1 and B-2), are just and reasonable and are approved.

WHEREUPON, the Commission reaches the following

CONCLUSIONS

The evidence in support of the findings of fact and conclusions set forth in this Order is contained in the Application; the Joint Partial Settlement Agreement and Stipulation; the public witness testimony; the testimony and exhibits presented by CWSNC witnesses Denton, DeStefano, Mendenhall, Gray, Elicegui, and D'Ascendis, including the Company's late-filed exhibits; the testimony and exhibits of Public Staff witnesses Henry, Feasel, Casselberry, Junis, Darden, Boswell, and Hinton, including the Public Staff's late-filed exhibits; the Reports on Customer Comments from six public hearings filed by the Company; the Resolution filed by the CLCA on December 2, 2019; and the entire record in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 – 4
(General Matters)

The evidence supporting these findings of fact is found in the Rate Case 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
(Joint Partial Settlement Agreement and Stipulation)

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 jointly filed the 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 parties' agreements on the calculation of CWSNC's gross revenue for the Test Year ended March 31, 2019. Thus, the Stipulation is based on the same Test Year as CWSNC's Rate Case Application, adjusted for certain changes in rate base and expenses 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, the CLCA did not indicate assent to the Stipulation. There are no other parties to this proceeding.

The key provisions of the Stipulation, including issues that were initially unresolved between the Stipulating Parties and upon which CWSNC filed rebuttal testimony, but which were subsequently compromised and settled, are as follows:

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

- b. Property Insurance Expense – Agreement to the Company’s rebuttal position of \$279,912.
- c. Treatment of Water Service Corporation (“WSC”) Rent Expense for its Chicago, Illinois office lease – Agreement to the Public Staff’s Revised Feasel Exhibit I, Schedule 3-11.
- d. Water Loss adjustment for Purchased Water Expense – Agreement for a 20% water loss threshold for Whispering Pines, Zemosa Acres, Woodrun, High Vista, and Carolina Forest subdivisions.
- e. PAA Amortization Expense Rates – Agreement to the Public Staff’s PAA amortization rates per Revised Feasel Exhibit I, Schedule 3-15.
- f. Storm Reserve Fund and Storm Expense – Agreement that the Company rescinds request to implement its proposed Storm Reserve Fund, and to utilize the Public Staff’s position per Revised Feasel Exhibit I, Schedule 3-4.
- g. Application of Hurricane Florence Insurance Proceeds – Agreement to the Company’s rebuttal position removing overpayments to-date from the insurer.
- h. The capital structure appropriate for use in this proceeding is a capital structure consisting of 49.10% common equity and 50.90% long term debt at a cost of 5.36%.
- i. 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 46, for actual and estimated costs once supporting documentation is provided by the Company. The Stipulating Parties further agreed to amortize regulatory commission expense for a five-year period.

A stipulation entered into by less than all parties in a contested proceeding under Chapter 62 “should be accorded full consideration and weighted by the Commission with all other evidence presented by any of the parties in the proceeding.” State ex rel. Utilities Commission v. Carolina Utility Customers Association, Inc., 348 N.C. 452, 466, 500 S.E. 2d 690, 700 (1998). Further, “[t]he Commission may even adopt the recommendations or provisions of the non-

unanimous 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.” Id.

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 Public Staff witnesses Henry and Feasel which support the Stipulation, and notes that no party expressed opposition to the provisions of the Stipulation.

In addition, when the provisions of the Stipulation are compared to CWSNC's Application and the recommendations included in the testimony of the Public Staff's witnesses, the Stipulation results in a number of downward adjustments to the expenses sought to be recovered by CWSNC, and resolves issues 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 non-unanimous 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 deferred accounting treatment of AMR meter installation projects in the Fairfield Mountain and Conneestee Falls systems.

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 – 27
(Customer Concerns and Quality of Service)

The evidence supporting these findings of fact is found in the Rate Case Application filed on June 28, 2019, in the testimony and exhibits of the public witnesses appearing at the hearings, in the direct and supplemental testimony and exhibits of Public Staff witnesses Casselberry and Darden, the testimony

and exhibits of CWSNC witnesses Heigel,¹⁰ DeStefano and Mendenhall, in the Company's Notice of Withdrawal of the Consumption Adjustment Mechanism and Pilot Program, and in the four verified Reports filed by CWSNC in response to the concerns expressed by the customer witnesses who testified at the public hearings.

On June 28, 2019, CWSNC filed an Application for a general rate increase, which was verified by CWSNC's Director of Financial Planning and Analysis, Dante DeStefano. The Application stated that CWSNC serves approximately 34,256 water customers and 21,404 sewer customers in North Carolina. The Company operates approximately 93 water systems and 38 sewer systems in the state. Further, 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 public hearings throughout CWSNC's service territory for the purpose of receiving testimony from members of the public, and particularly from CWSNC's water and wastewater customers, as follows:

<u>Date</u>	<u>Location</u>	<u>Public Witnesses</u>
September 5, 2019	Charlotte, N.C.	William Colyer, Rachel Fields, William Michael Wade, and James Sylvester
September 10, 2019	Manteo, N.C.	No Witnesses
October 8, 2019	Boone, N.C.	No Witnesses

¹⁰ CWSNC witness Heigel's Direct testimony was adopted by the current State President, Donald H. Denton.

October 9, 2019	Asheville, N.C.	Chuck Van Rens, Jack Zinselmeier, Jeff Geisler, Phil Reitano, Jeannie Moore, Linda Huber, Brian McCarthy, Ron Shuping, and Steve Walker
October 14, 2019	Raleigh, N.C.	Alfred Rushatz, Vincent Roy, Mark Gibson, and David Smoak
October 22, 2019	Jacksonville, N.C.	Danny Conner, Ralph Tridico, James Kraft, John Gumbel, David Stevenson, and Irving Joffe

Charlotte Public Hearing

All four customer witnesses who testified in Charlotte reside in the Bradfield Farms community. Each witness expressed concern about the rate increase, many objected to the frequency of recent rate increases, some objected to the Storm Reserve Fund and the pass-through in rates for costs of purchased water, and others addressed water quality issues such as hardness and discoloration. The Bradfield Farms Homeowners' Association resolution posed these issues, as well as an objection to Bradfield Farms being combined in the same Rate Division as Fairfield Harbour and Treasure Cove. Some customers compared the rates for CWSNC unfavorably to the rates charged by other utility providers, in an effort to make meaningful comparisons between the two. A few customers complained of the difficulty of traveling some distance to attend the public hearings.

Asheville Public Hearing

Nine customers testified in Asheville, representing Connestee Falls, Fairfield Mountain, and Woodhaven. Two complaints addressed meter boxes,

one customer was concerned about fluoride levels, and others spoke about boil water notices and impact of prior spills on the lake.

Raleigh Public Hearing

Four customers appeared in Raleigh, speaking on behalf of their concerns as residents of Carolina Trace and Ashley Hills North. They variously objected to the magnitude of the rate increase---particularly the high base charge, contested the WSIC/SSIC, expressed a desire to disconnect from CWSNC and utilize their own septic, and complained of certain practices employed by the Company with respect to release of sensitive information and access directly to staff.

Jacksonville Public Hearing

Six customers testified in Jacksonville, representing Treasure Cove, Fairfield Harbour, Brandywine Bay and Carolina Pines. They opposed the amount and frequency of the rate increases, especially the base charge and the proposed surcharge for a Storm Reserve Fund. One customer protested the requirement of continuing to pay sewer charges when his house was disconnected for repairs due to damage inflicted by Hurricane Florence.

CWSNC's Responses to Customer Concerns Expressed at Public Hearings Generally

CWSNC filed four comprehensive, verified Reports with the Commission on the following dates:

September 25 th	Charlotte and Manteo
October 24 th	Boone and Asheville
October 30 th	Raleigh
November 8 th	Jacksonville

The Company explained that rate increase requests are driven by increases in expenditures to meet mandatory investment obligations, focusing on the capital-intensive nature of the regulated water and wastewater industry, and on the obligation to maintain safe and reliable service. Both CWSNC and the Public Staff noted that the Company's rate requests are audited and contested by the Public Staff and fully examined by the Commission, pursuant to the requirements of North Carolina General Statutes, Chapter 62 (specifically G.S. 62-133). CWSNC carefully explained that the frequency of rate case applications is driven by the need for (a) investment and (b) rates that support the opportunity to recover the rate of return authorized by the Commission.

In an Appendix A to each report, CWSNC provided "General Responses to Customer Issues," addressing the Proposed Rates, Rate Comparisons, Legal Compliance Regarding Notice, Investment in Replacing Aging Infrastructure, Water Quality, Secondary Water Quality (including iron and hardness), and The Company's On-Going Commitment to Water Quality.

With regard to the public witnesses' concerns regarding the magnitude of the Company's pending rate increase request, the record reflects that CWSNC has invested over \$20 million in North Carolina that is not reflected in the rates set in the February 2019 Order in Docket No. W-354, Sub 360.

Efforts to make meaningful comparisons between and among various providers are described by CWSNC as producing "apples to oranges" assessments, as the actual costs to serve customers vary by provider and system. The Public Staff also describes such comparisons as inappropriate, in

witness Casselberry's Supplemental testimony. Critical differences are found in the varying levels of economies of scale, depending on the relative density of the service territory. For one thing, sources of water and wastewater treatment differ, between dispersed wells and small sewer plants versus large surface impoundments and wastewater treatment facilities. The attributes of cost per customer differ in accordance with these and other characteristics of the systems. Finally, the regulatory models differ among the various providers: CWSNC is required to utilize "cost of service" ratemaking and its rates and services are subject to the strict oversight of the NCUC.

On November 18, 2019, the Company withdrew its request to implement a customer usage tracking rate adjustment mechanism for water and wastewater rates, as well as its request for a Pilot Program to test conservation rates.

The benefits of the federal corporate tax rate reduction were voluntarily flowed through by CWSNC to the benefit of customers in the Company's last rate case order in Docket No. W-354, Sub 360. The Company's current and proposed revenue requirement in this case reflects the actual federal corporate income tax rate of 21%. Therefore, CWSNC derives no benefit through its cost of service from the federal corporate tax rate reduction referenced by its customer at the Charlotte public hearing.

Witness Denton's testimony demonstrated that, to enhance customers' engagement with the Company, CWSNC has implemented multiple communication channels from Facebook, Twitter, and a newly-designed webpage. The Company has also utilized bill inserts, phone calls, and face-to-

face meetings to improve its outreach to customers. In addition, CWSNC launched a new customer portal application called MyUtilityConnect. Using this online tool, customers can (1) pay their bills on the go; (2) elect to receive service notifications through the application; and (3) monitor their water usage through the application. The Company has used social media outlets to inform customers and Homeowner Associations (“HOAs”) about this new tool and will be providing more information via bill inserts. In order to initially access the application, customers can visit the Company website or search for MyUtilityConnect in the Apple App Store or Google Play Store.

Another customer engagement tool includes the creation of WordPress sites to provide updates on projects, water saving tips, and frozen pipe prevention tips. Additionally, Company employees routinely attend meetings with the HOAs, addressing topics such as CWSNC planned capital projects, project schedules, conservation and sustainability ideas, and other issues of customer interest. HOA managers receive articles from CWSNC for inclusion in their newsletters; these articles include stories ranging from updates on projects and services to water conservation tips. CWSNC has also increased its efforts to improve customer engagement and awareness about service protocols and rates.

CWSNC continues to implement its flushing program and has explored the purchase of automatic flushing hydrants to install throughout some systems.

System Specific---Charlotte Public Hearing and Bradfield Farms

More specifically, the Company confirmed in its report on the Charlotte hearing that:

- There are no bulk water or sewer purchases required to serve customers at Bradfield Farms and, thus, there is no pass-through of such costs to the Bradfield customers.
- Issues concerning “hard water” do not implicate Department of Environmental Quality regulation and do not trigger required responses by CWSNC. Nonetheless, at Bradfield Farms, CWSNC has indicated a willingness to consider a costly water softening system if it receives the clear support of the Bradfield Farms community.¹¹ Traditionally, the Company leaves drinking water hardness solutions to the individual preferences of its customers, unless a clear and substantial demand for such a capital investment is made by a community. The Public Staff recommends that the Company provide an assessment of the project costs for supplying a central water softening mechanism for Bradfield Farms (and Fairfield Harbour), within 60 days of the date of the Order in this case, to assess the level of customer interest in supporting such an undertaking.
- Complaints about overbilling of a customer at Bradfield Farms were refuted by Company evidence presented in its report to the Commission.

¹¹ The Company previously presented a “Water Softening System” proposal and cost estimate relative to Fairfield Harbour’s concerns about water hardness at some point. It is the Company’s belief that this proposal was rejected by the customers in that community.

In response to another customer's complaint about billing, a check on a replaced meter at Bradfield Farms showed that it was functioning with an accuracy level of 99.5%. Finally, CWSNC resolved a third billing dispute with a billing reimbursement and with payment of the cost of a plumber.

System Specific—Asheville Hearing and Connetsee Falls, Woodhaven and Fairfield Mountain

- Complaints about outages and the method of communication of boil water notices in Connetsee Falls were addressed by explanation of the causes and methods of dealing with both, and with acknowledgment that the incidence of both were temporarily higher due to the significant amount of repair and upgrade work done on the system.
- Concerns about fluoride levels at Connetsee Falls were addressed by the results of CWSNC's test, which showed a concentration that was slightly higher than the standard at one of seven entry points (wells) on the system. The water of all seven wells is blended to diffuse the fluoride in the system and Public Staff witness Casselberry testified that the level of fluoride was within the maximum contaminant level ("MCL") allowed.
- One customer thanked the Company for the capital improvements made to the Connetsee Falls sewer system, and the Company described the three significant capital projects it had completed in 2019. The new wastewater treatment plant was placed in service on October 3, 2019, at a cost of \$7,630,175. The new plant benefits customers through better operation and by facilitating the prospective 'build-out' of the Connetsee Falls system. Additionally, CWSNC invested \$430,649 in 1,419 new AMR

water meters and completed a lift station project at a cost of \$1,179,461.

The latter project addressed maintenance issues that led to prior sanitary sewer overflows and it mitigated safety issues surrounding repairs.

- CWSNC submitted evidence of its investment in various systems, such as the \$449,560 investment in installation of 1,145 new water meters at the Fairfield Mountain/Apple Valley water system, replacing 15-year-old mechanical meters with new solid-state ultrasonic AMR meters.
- In response to two customer complaints made in Asheville on September 5, 2019, about submerged meter boxes at Fairfield Mountain, CWSNC reported on October 24, 2019, that it had modified the meter boxes on the customers' properties by raising them to eliminate ponding, flushing the lines, and installing automatic water flushing valves.
- As is generally the case, the Woodhaven Subdivision customers commended several Company employees by name for their prompt and successful resolution of various issues. The Company is regularly singled out for favorable comments regarding the quality of service provided and its efficient responsiveness to customer and community issues. Several of the customers, though vigorously opposed to the rate increase, stated on the record that they had no service complaints, and one customer stated that the Company employees "are some of the very nicest people".

System Specific---Raleigh Hearing and Carolina Trace

- Contrary to a customer's information, CWSNC did not place the controversial "boil water" signs at the entrance of Carolina Trace, as the

Company relies on other methods of communication of the notices when required.

- The Company explained the reasons for its policies requiring that certain business protocols be observed in the interest of security, good management, and efficiency. These include declining to make Geographic Information System (“GIS”) maps available to the Property Owners Association (“POA”), reliance on NC811 for line locates, and discouraging calls to employees to report outages (in favor of directing customers to the Call Center for more orderly and efficient responses).

System Specific---Jacksonville and Treasure Cove, Fairfield Harbour, Brandywine Bay and Carolina Pines

- In 2019, CWSNC performed all required monitoring for contaminants for the four utility systems represented by customers at the Jacksonville hearing. No notices of violation from the NC DEQ were received. The water is hard in Fairfield Harbour and Brandywine Bay; however as mentioned previously, the Company generally leaves drinking water hardness solutions to the individual preferences of its customers, unless a clear and substantial demand for such a capital investment is made by a community. Some customers object to funding the costs of water softening for other customers, and this calcium-related issue is not the subject of regulatory standards with which CWSNC must comply.
- The Company explained, in its Report from the Jacksonville hearing, that its facilities suffered extensive damage due to Hurricane Florence. The epic storm impacted most of the Company’s coastal systems, including

Fairfield Harbour, Carolina Pines, Hestron Park, Brandywine Bay, White Oak Estates, Regalwood, Belvedere Plantation, Olde Pointe, Mason's Landing, and Treasure Cove. Additionally, the Carolina Trace wastewater treatment plant was flooded. Fifty percent of the Company's affected systems lost continuous service during the hurricane. As a result, the Company incurred extraordinary, unplanned operating and capital costs, as well as lost revenues from customers who were forced to disconnect service due to damage to their homes. The Company has incurred incremental operation and maintenance expenses at Fairfield Harbour of \$46,852.07 and incremental capital investment costs of \$983,455.32.

- The Company has a permanent generator at Well #2 at Treasure Cove (where an outage occurred when a vehicle hit a power transformer). Although the Company cannot control the location decision of the electricity provider, CWSNC has taken steps to secure an alternative power source to its wells. Additionally, the Company dispatched staff to the site of the aforementioned Treasure Cove outage within two hours of notice, to restart the pump.
- Presiding Commissioner Brown-Bland specifically inquired about Fairfield Harbour customer Irving Joffee's complaint about having to pay for sewer service while he is out of his home, awaiting repairs from Hurricane Florence, and during a period in which his home was not connected to CWSNC's sewer system. Company witness Mendenhall testified at the December 2, 2019 evidentiary hearing that on November 8, 2019, he

authorized an account adjustment for Mr. Joffee to waive base sewer charges from April through October. Mr. Mendenhall also testified regarding the obligation for compliance with tariff requirements to collect for service, as well as the necessity for exceptional circumstances to be brought to the attention of management.

- In response to a question from Presiding Commissioner Brown-Bland, Mr. Mendenhall testified about the Company's plans to proactively treat the elevated levels of uranium in Sapphire Valley.

**Testimony by Public Staff Witnesses Casselberry and Darden
Regarding Service**

Public Staff witness Casselberry testified that her investigation included review of the customer complaints filed in this proceeding, contacts with the North Carolina Department of Environmental Quality ("DEQ"), including the Water Quality and Public Water Supply Sections ("PWSS") of the Division of Water Resources ("DWR"), review of CWSNC's records, and analysis of revenues at existing and proposed rates. Witness Casselberry testified that she had contacted representatives of all DEQ regional offices regarding the operation of the CWSNC water and sewer systems.

PWSS identified four water systems which required action by CWSNC and DWR identified three wastewater treatment plants. A Notice of Deficiency ("NOD") was issued to the Riverwood water system on November 2, 2016. In response, CWSNC purchased the required filters and they were placed into service in June 2018. They proved insufficient to remove minerals as required and a second NOD was issued April 4, 2019. Investigation by CWSNC and its

supplier determined that an inadequate amount of media was shipped and installed in the units. In mid-April, replacement media was installed and the two units were placed back in service. CWSNC will activate the third unit as soon as a replacement part is received.

Meadow Glen is a single well system and has been out of service due to a problem with the pump. As a temporary solution, CWSNC installed a small replacement pump; the Company has been unable to locate a new well site but acquired an additional easement to drill a replacement well on the same well site. The new well will require treatment for manganese, and review is ongoing to determine the best solution prior to securing DEQ approval.

The Wood Trace system has issues with iron and manganese that are being addressed with new filters; however, an engineering study is ongoing to design a system for DEQ approval that will allow pump-and-haul of the filter backwash to CWSNC's Ashley Hills wastewater treatment plant.

Finally, in July 2018, elevated levels of uranium were detected at Well No. 8 at Sapphire Valley (one of 10 wells at that system). As a result, the frequency for testing uranium at Well No. 8 has been changed from once every six years to quarterly. Subsequent testing results indicate fluctuating levels of uranium, which have been close to or just above the maximum contaminant level ("MCL") of 20.1 picocuries per liter ("pCi/L"). Compliance is based on a running annual average, which is currently below the MCL at 19.90 pCi/L. CWSNC has decided to proceed with treatment and estimates that the project should be completed by May 2020.

DWR reported that the wastewater treatment plant for Corolla Light is in poor condition, and plans are in place to take the unit off-line as flow is diverted to an upgraded Monteray Shores plant. The steel plant at Corolla Light is structurally deteriorating and there are also groundwater-related issues be addressed. The plans for upgrading the Monteray Shores plant should be submitted to DEQ for review, and the Corolla Light WWTP is slated for demolition within the next 12 - 18 months, once the flow is diverted.

The Carolina Trace wastewater treatment plant compliance issues--- principally for exceeding daily flows, fecal coliform, and failing to restrict access to the facility---occurred in late-2018 and 2019. Those violations in 2018 and 2019 were primarily a result of flooding and damage to the WWTP caused by Hurricane Florence, including major structural damage to one of the two treatment units, harm to the ultraviolet ("UV") disinfection system, and impairment to the perimeter fencing. In response to Hurricane Florence, CWSNC continued to disinfect the effluent flow with chlorine tablets while the UV system was being evaluated. The tablets were less reliable due to the erratic flow to the facility, but the UV system is now repaired and is fully operational. The security fence damaged due to floating debris during the flood has been repaired, and a preliminary report by an engineering firm has evaluated the damage and determined the best course of replacement, as well as mitigation to avoid future occurrences. CWSNC anticipates that design and permitting for the upgrades will begin in early-2020.

The WWTP system compliance issues at Ashley Hills were related to operations and maintenance of the wastewater treatment biochemical oxygen demand (“BOD”) and Fecal Coliform (“FC”). Renovation projects to address the air header and the failing UV disinfection system were completed in early-2019.

Witness Casselberry testified that the Public Staff is of the opinion that CWSNC has taken the necessary actions with respect to these seven matters, and is satisfied that the concerns reported by DWR and PWSS have been addressed or are in the process of being resolved.

Witness Darden testified that she conducted inspections of three significant, newly-completed projects, as follows:

- The development project associated with Well No. 7 at the Danby well water system in Mecklenburg County, which was completed at a cost of approximately \$89,200;
- The WWTP at the Village of Nags Head in Dare County, a project which included the conversion of an existing WWTP to a membrane bioreactor, at a cost of approximately \$6,500,000; and
- The new .36 million gallons per day (“MGD”) sequencing batch reactor, which replaced the existing Connestee Falls WWTP, in Transylvania County---a project that cost approximately \$7,100,000.

Witness Casselberry summarized the customer statements by testifying that all customers objected to the magnitude of the rate increase, and that they variously expressed concern with CWSNC's proposed rate of return, the magnitude of the rates compared to inflation, the rates compared to rates of local

municipalities, and the treatment of CWSNC's reduced federal corporate income tax rate.

Witness Casselberry also testified with regard to the service and water quality complaints registered by customers at each of the six public hearings, stating that she had read each of the reports CWSNC filed after the hearings and that there were a few isolated service issues, which the Company addressed or was in the process of resolving. She further testified that she had no additional comments or recommendations, with the exception of her recommendation about surveying customers in Bradfield Farms and Fairfield Harbour about their interest in funding water softening projects. Witness Casselberry concluded that CWSNC's quality of service, overall, was good, and that the quality of water meets the standards set forth by the Safe Drinking Water Act and is satisfactory.

Conclusions Regarding Service

(1) Based upon the foregoing and the entire record herein, the Commission finds that CWSNC's level of water and wastewater service continues to improve, both with respect to water and wastewater quality and customer communications.

(2) CWSNC reasonably and prudently maintains and operates its dispersed water and wastewater systems, balancing both costs and the requirements of safe, environmentally-compliant provision of service.

(3) In addition, after having carefully weighed the comments and concerns expressed by the public witnesses appearing at the public hearings and the verified Reports filed by the Company, the Commission determines that

CWSNC has adequately addressed these comments and concerns, or has appropriately committed to do so.

(4) The Commission finds and concludes that, overall, the quality of water and wastewater service provided by CWSNC to its North Carolina customers is “good”. In reaching this conclusion, the Commission gives substantial weight to the testimony of Public Staff witness Casselberry and Company witnesses Denton and Mendenhall.

(5) Thus, we conclude that, for purposes of decision in this rate case, CWSNC squarely meets the statutory standard of G.S. 62-131(b), which requires that a public utility “...shall furnish adequate, efficient, and reasonable service.”

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 28 – 33
(Capital Structure and Cost of Capital Issues)

The evidence supporting these findings of fact and conclusions is found in CWSNC’s Rate Case Application and the accompanying NCUC Form W-1, the testimony and exhibits of the public witnesses, the direct and rebuttal testimony and exhibits of Company witness D’Ascendis, the direct and supplemental testimony and exhibits of Public Staff witness Hinton, and the entire record in this proceeding.

Rate of Return on Common Equity

In its Rate Case Application and in the direct testimony of CWSNC witness D’Ascendis, the Company requested approval for its rates to be set using a rate of return on common equity of 10.75%. In his rebuttal testimony, witness D’Ascendis updated his recommended rate of return on common equity to 10.20%. In his supplemental testimony, Public Staff witness Hinton

recommended a return on equity of 9.10%. For the reasons set forth herein, the Commission finds that a rate of return on common equity of 10.20% is just and reasonable.

Rate of return on common 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, State ex rel. Utils. Comm'n v. Carolina Utils. Customers Ass'n, 348 N.C. 452, 466, 500 S.E.2d 693, 707 (1998). In order to reach an appropriate independent conclusion regarding the rate of return on equity, the Commission must evaluate the available evidence, particularly that presented by a conflicting expert witness. State ex rel. Utils. Comm'n v. Cooper, 366 N.C. 484, 491-93, 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 CWSNC witness D'Ascendis and Public Staff witness Hinton. No other rate of return on equity expert evidence was presented by any 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. at 494, 739 S.E.2d at 548. This was a factor announced by the Supreme Court in its Cooper I decision and not previously required by the Commission or any appellate courts as an element that must 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 Duke Energy Carolinas, LLC ("DEC") in Docket No. E-7, Sub 989. The Commission has had occasion to apply both prongs of Cooper I in subsequent orders, specifically the following:

- Order Granting General Rate Increase, Docket No. E-2, Sub 1023 (May 30, 2013) (2013 DEP Rate Order), which was affirmed by the North Carolina Supreme Court in State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 444, 761 S.E.2d 640 (2014) ("Cooper III");¹²
- Order on Remand, Docket No. E-7, Sub 989 (Oct. 23, 2013) (DEC Remand Order), which was affirmed by the North Carolina 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, Docket No. E-7, Sub 1026 (Sep. 24, 2013) (2013 DEC 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, Docket No. E-22, Sub 479 (July 23, 2015), which was not appealed to the Supreme Court;
- Order Approving Rate Increase and Cost Deferrals and Revising PJM Regulatory Conditions, Docket No. E-22, Sub 532 (Dec. 22, 2016);

¹² An intervening case, State ex rel. Utils. Comm'n v. Cooper, 367 N.C. 430, 758 S.E.2d 635 (2014) ("Cooper II"), arose from Dominion North Carolina Power's 2012 rate case 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, Docket No. E-2, Sub 1142 (Feb. 23, 2018); and
- Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Reduction, Docket No. E-7, Sub 1146 (June 22, 2018).

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 an overview in this Order of the general principles governing this subject.

A. Governing Principles in Setting the Rate of Return on Common 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 a return on equity, 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, p. 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 at 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), p. 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.

* * *

[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 pp. 19-21. 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 the ability of those customers to afford rate increases. For this reason, customer impact weighs heavily in the overall ratemaking 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-North 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, p. 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. Cooper I, 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, p. 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 N.C. 481, 490, 374 S.E.2d 361, 369 (1988). 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] is the one requiring the greatest degree of subjective judgment by the Commission. Setting [a 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 DEC 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

1. Evidence from Expert Witnesses on Cost of Equity Capital

In his direct testimony, Company witness D'Ascendis recommended a rate of return on equity of 10.75%. This recommendation was based upon his indicated cost of common equity of 10.35% plus a recommended size adjustment of 0.40%. In his rebuttal testimony, witness D'Ascendis provided an updated analysis, which reflected current investor expectations, and reduced his recommended rate of return on equity to 10.20%, including his recommended size adjustment of 0.40%. Public Staff witness Hinton, in his direct testimony, recommended a rate of return on common equity for CWSNC of 9.00%, with no adjustment for the Company's size. In his supplemental testimony, witness Hinton revised and increased his recommended return on common equity to 9.10%, with no size adjustment.

D'Ascendis Direct Testimony

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 publicly-traded water companies ("Utility Proxy Group"). He also applied the

DCF, RPM, and CAPM to a proxy group of domestic, non-price regulated companies ("Non-Price Regulated Proxy Group") which he described as comparable in total risk to his Utility Proxy Group.

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

**Summary of D'Ascendis' Common Equity Cost Rate Analyses
in Direct Testimony**

	<u>Utility Proxy Group</u>
Discounted Cash Flow Model	8.70%
Risk Premium Model	10.62%
Capital Asset Pricing Model	10.21%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Proxy Group	<u>11.78%</u>
Indicated Common Equity Cost Rate Before Adjustment	10.35%
Size Adjustment	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.75%</u>

Witness D'Ascendis concluded that a common equity cost rate of 10.35% for CWSNC is indicated before any Company-specific adjustments. He then adjusted that cost rate upward by 0.40% to reflect CWSNC's smaller relative size as compared with the members of his Utility Proxy Group, resulting in a size-adjusted indicated common equity cost rate of 10.75%.

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 April 30, 2019, divided by the average of closing

market prices for the 60 trading days ending April 30, 2019. He made an adjustment to the dividend yield because dividends are paid periodically, usually quarterly.

For witness D'Ascendis' DCF growth rate, he testified he used analysts' five-year forecasts of earnings per share ("EPS") growth. He testified that the mean result of his application of the single-stage DCF model is 8.68%, the median result is 8.71%, and the average of the two is 8.70% for his Utility Proxy Group. Witness D'Ascendis testified that, in arriving at his conclusion for the DCF-indicated common equity cost rate for the 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 that his first method is the Predictive Risk Premium Model ("PRPM"), while the second method is the RPM using a total market approach. He testified that the inputs to his PRPM are the historical returns on the common shares of each company in the Utility Proxy Group minus the historical monthly yield on long-term U.S. Treasury securities through April 2019. He testified that he added the forecasted 30-year U.S. Treasury Bond yield, 3.33% to each company's PRPM-derived equity risk premium to arrive at an indicated cost of common equity. Witness D'Ascendis used prospective bond yields in his analyses because both ratemaking and the cost of capital are prospective, and because of these facts, the use of projected data is essential. He testified that the mean PRPM indicated common equity cost rate for the Utility Proxy Group is 11.15%, the median is 11.25%, and the average of the two is 11.20%. Witness

D'Ascendis testified that, consistent with his reliance on the average of the median and mean results of the DCF, 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 11.20%.

Witness D'Ascendis testified that 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 his adjusted prospective bond yield for the Utility Proxy Group to be 4.74%, and the average equity risk premium to be 5.29% resulting in a risk premium derived common equity of 10.03% for his RPM using his total market approach.

To determine the results of his risk premium method, he testified that he averaged the PRPM result of 11.20% and the RPM results of 10.03% and the indicated cost of equity from his risk premium method was 10.62%.

For his CAPM, witness D'Ascendis testified that he applied both the traditional CAPM and the empirical CAPM ("ECAPM") to the companies in his Utility Proxy Group and averaged the results. 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 resulting in a mean beta of 0.67 and a median beta of 0.66.

Witness D'Ascendis testified that the risk-free rate adopted for both applications of the CAPM is 3.33%. This risk-free rate of 3.33% 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 ending with the third calendar quarter of 2020, and long-term projections for the years 2020 to 2024 and 2025 to 2029.

Witness D'Ascendis testified that the mean result of his CAPM/ECAPM analyses is 10.25%, the median is 10.17%, and the average of the two is 10.21%. Witness D'Ascendis testified that, consistent with his reliance on the average of his mean and median DCF results, the indicated common equity costs rate using the CAPM/ECAPM is 10.21%.

Witness D'Ascendis also selected 11 domestic, non-price regulated companies for his Non-Price Regulated Proxy Group that he believes are comparable in total risk to his Utility Proxy Group. He calculated common equity cost rates using the DCF, RPM, and CAPM for the Non-Price Regulated Proxy Group. His DCF result was 11.88%, his RPM cost rate was 12.00%, and his CAPM/ECAPM cost rate was 11.17%. Witness D'Ascendis testified that the average of the mean and median of these models was 11.78%, which he used as the indicated common equity cost rate for the Non-Price Regulated Proxy Group.

Based on the results of the application of multiple cost of common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group, witness D'Ascendis testified that the reasonable, appropriate and indicated cost of equity for CWSNC before any adjustment for relative risk was 10.35%.

Witness D'Ascendis also made a 0.40% equity cost rate adjustment due to CWSNC's small size relative to the Utility Proxy Group. He testified that the Company has greater relative risk than the average company in the Utility Proxy Group because of its smaller size compared with the group, as measured by an estimated market capitalization of common equity for CWSNC (whose common stock is not publicly-traded). This resulted in a size-adjusted cost of common equity for CWSNC of 10.75%.

Additionally, Witness D'Ascendis stated that he had reviewed the Commission's Sub 360 Order regarding the issues of the use of the PRPM, the ECAPM, the use of a non-price regulated proxy group, and the applicability of a size adjusted cost of common equity for CWSNC. Specifically, in terms of the PRPM, he addressed the Commission's concerns about using a specific statistical package to calculate the PRPM results, which made the Commission skeptical that investors would place significant weight on the model. He explained that the general autoregressive conditional heteroskedasticity ("GARCH") model used for the PRPM has been in the public domain since the 1980s and is available in several statistical packages which are not financially prohibitive for investors.

In response to the Commission's concerns regarding the ECAPM, which were that there was not enough evidence in the record to why the ECAPM was superior to the CAPM, witness D'Ascendis provided substantially more information on the subject than what was presented in Docket No. W-354, Sub 360.

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

Finally, witness D'Ascendis responded to the Commission's concerns regarding the size adjustment which were whether the size studies presented in the record were applicable to utilities, and that the selection of a 40-basis point adjustment from an indicated 461 basis point risk premium was rather arbitrary. In order to provide more information to the Commission in this case, witness D'Ascendis conducted a study on whether or not the size effect is in fact applicable to utilities. His study included the universe of water, gas, and electric companies included in Value Line Standard Edition ("Value Line"). From each of the utilities' Value Line Ratings & Reports, witness D'Ascendis calculated the 10-year CoV of net profit (a measure of risk) and current market capitalization (a measure of size) for each company. After ranking the companies by size (largest to smallest) and risk (least risky to most risky), he made a scatter plot of the data, as shown on Chart 1 in his direct testimony.

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

Hinton Direct Testimony

In his direct testimony, Public Staff witness Hinton recommended a common equity cost rate for CWSNC of 9.00%. He testified that, according to Moody's Bond Survey, yields on long-term "A" rated public utility bonds have fallen 88 basis points from 4.25% at the time of the Commission's CWSNC Sub 360 Rate Case Order entered on February 21, 2019, to 3.37% for September 2019. Witness Hinton further stated that yields on Moody's "A" rated utility bonds are 126 basis points lower than the average 4.63% yield observed in January 2014, at the time of a cost of capital settlement in the Company's Sub 336 rate case. He testified that the falling yields are indicators of the declining cost of debt capital.

Witness Hinton stated that the current lower interest rates, especially for longer-term securities, and the stable inflationary environment of today indicate that borrowers are paying less for the time value of money. He testified that this is significant since utility stocks and utility capital costs are highly interest rate-sensitive relative to most industries within the securities markets. Furthermore, 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 10 or more years have generally followed the decreases in investor required rates of return on common equity.

Witness Hinton testified that he does not rely on interest rate forecasts to determine the cost of equity. Rather, he believes that relying on current interest rates, especially in relation to yields on long-term bonds, is more appropriate for ratemaking. It is reasonable to expect that as investors are pricing bonds in the marketplace, they are based on expectations on domestic and international demand and supply of capital, future interest rates, future inflation rates, etc. Witness Hinton testified that while he has a healthy respect for forecasting, he is aware of the risk of relying on predictions of rising interest rates to determine utility rates. He presented a case that can be observed in the testimony of Company witness Pauline M. Ahern in the 2013 Aqua rate case. In that case, witness Ahern¹³ identified several interest rate forecasts of 30-year Treasury Bond yields that were predicted to rise to 4.3% in 2015, 4.7% in 2016, and 5.2% in 2017, and 5.5% for 2020 – 2024. He presented a graph of 30-Year Treasury

¹³ Witness Ahern was not a witness in this proceeding.

Bond yields which he asserted illustrate that these forecasts significantly over-estimated actual interest rates for 30-year Treasury Bonds.

Witness Hinton testified that similar over-estimated forecasts can be identified in witness D'Ascendis' Exhibit DWD-4 in the Company's 2018 rate case where the Blue Chip Consensus Forecasts predicted the 30-year Treasury Bonds would rise to 3.8% by the third quarter of 2019. Witness Hinton stated that, 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. Witness Hinton stated that, in his opinion, these types of errors make these forecasts inappropriate for ratemaking. Thus, he tends to place more weight with current market determined interest rates.

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

Witness Hinton testified that he applied the DCF method to a risk-comparable investment that is comprised of a group of seven water utilities

and nine natural gas local distribution utility companies (“LDCs”) followed by Value Line Investment Survey. Witness Hinton stated that he included the group of LDCs because they exhibit risk measures similar to the group of water companies. The standard edition of Value Line covers eight water companies and ten LDCs. From there, witness Hinton excluded Consolidated Water Co. because of its significant overseas operations. He also excluded NiSource, Inc. from the comparable group of gas utilities because of cuts in their dividends paid to shareholders.

Witness Hinton testified that he reviewed standard risk measures that are widely available to and used by investors to determine the comparability of investing in water utilities and LDCs. Witness Hinton calculated the dividend yield component of the DCF by using the Value Line estimate of dividends to be declared over the next 12 months divided by the price of the stock as reported in the Value Line Summary and Index sections for each week of the 13-week period of July 26, 2019, through October 18, 2019. He testified that a 13-week averaging period tends to smooth out short-term variations in the stock prices. This process resulted in an average dividend yield of 1.7% for the comparable group of water utilities and 2.6% for the LDC group of utilities.

To calculate the expected growth rate component of the DCF, Public Staff witness Hinton employed the growth rates of the comparable groups in earnings per share (“EPS”), dividends per share (“DPS”), and book value per share (“BVPS”) as reported in Value Line over the past 10 and five years. He also employed the forecasts of the growth rates of his comparable groups in EPS,

DPS, and BVPS as reported in Value Line. He testified that the historical and forecast growth rates are prepared by analysts of an independent advisory service that is widely available to investors, and should also provide an estimate of investor expectations. He testified that he included 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.

Witness Hinton incorporated the consensus of various analysts' forecasts of five-year EPS growth rate projections as reported in Yahoo Finance. He testified that the dividend yields and growth rates for each of the companies and for the average for his comparable proxy group were shown in his Exhibit 4.

Witness Hinton concluded based upon his DCF analysis for the comparable group of water companies that a reasonable expected dividend yield is 1.7% with an expected growth rate of 6.0% to 7.0%. Thus, he testified that his DCF analysis produces a cost of common equity for his comparable proxy group of water utilities of 7.70% to 8.70%.

Based upon his DCF analysis for the comparable group of LDCs, witness Hinton concluded that a reasonable expected dividend yield is 2.6% with an expected growth rate of 5.70% to 6.70%, which produces a cost of common equity for his comparable proxy group of natural gas utilities of 8.30% to 9.30%.

Witness Hinton stated that his ultimate DCF based cost of equity in this proceeding was based on the average estimates for the two groups of companies that quantified an approximate range of DCF based cost of equity estimates of 8.48% to 8.80% for a DCF based cost of equity of 8.64%

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

Witness Hinton testified that his method relies on approved returns on common equity for water utility companies from various public utility commissions as 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. Witness Hinton's regression analysis, which incorporates years of historical data, is combined with recent monthly yields to provide an estimate of the current cost of common equity.

Witness Hinton testified that the use of allowed returns as the basis for the expected equity return has strengths over other approaches that involve models that subtract a cost rate of debt from the estimated equity return. He stated 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, he testified that it is reasonable to conclude that the approved allowed returns are good estimates of the cost of equity.

Witness Hinton testified that the summary data of risk premiums shown on his Exhibit 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 average of 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%. He performed a statistical regression analysis as shown on his Exhibit 5, page 2 of 2, in order to better estimate the current cost of equity. He testified that applying this relationship to the current utility bond cost of 3.71%, resulted in a current estimate of the cost of equity of 9.57%.

Witness Hinton also conducted an analysis using the comparable earnings method, which incorporates reviewing earned returns on common equity for his comparable group of water and natural gas utilities. This approach is based upon the Hope case that maintains that an investor should be able to earn a return comparable to the returns available on alternative investments with similar risks. Witness Hinton testified that he considered the results of this method only as a check on the results of his DCF analysis and Regression Method.

Witness Hinton applied the comparable earnings method by examining the five years of historical returns of his comparable group of LDCs as reported in Value Line, as shown in his Exhibit 6. Based on the earned rates of return, he concluded that the cost of equity using the comparable earnings analysis provides a reasonable check on his results using the DCF model and the Regression Analysis of Approved ROEs. He noted that some of the results for

the water and gas utility groups are reasonably within or close to the results identified in the Summary analysis shown in his Exhibit 8.

Witness Hinton also utilized the CAPM which is another version of the risk premium method. As with the comparable earnings method, he considered the results as a check on the results of his DCF and Regression Analysis methods. The CAPM incorporates the relationship between a security's investment risk and its market rate of return. Mr. Hinton testified that the annual data of large company stock returns from 1926 through 2018 generated a 10.0% return using the geometric average and 11.9% using the arithmetic return producing the following cost of equity results of 7.65%, 7.68%, 8.93%, and 8.96% as shown on his Exhibit 7. Witness Hinton concluded from his CAPM results that the cost of equity using the CAPM provides a reasonable check on his results using the DCF model and the Regression Analysis of Approved ROEs. However, he stated that the use of the geometric return, which measures the annualized rate of return compounded over time, is the more appropriate measure of investor expectations. This position is in step with the Security and Exchange Commission's requirements for publishing earned rates of return for mutual funds. However, he stated a belief that the 7.65% and 7.68% estimates are at the low end of CWSNC's cost of equity. As such, he asserted that these results provide a limited check on his recommended cost of equity.

Witness Hinton testified 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 estimate of 8.64% and his Risk Premium model that indicates a cost of equity of 9.57%, he

determined that the investor required rate of return for CWSNC is 9.11%, which he rounded to 9.10%.

Witness Hinton further testified that, in his opinion, the WSIC/SSIC rate adjustment mechanism provides the ability for enhanced cost recovery of the eligible capital improvements reducing regulatory lag through incremental and timely rate increases. He also asserted that the WSIC/SSIC Mechanism is seen by debt and equity investors as a supportive regulation that mitigates business and regulatory risk.

Witness Hinton further testified that he believed that the Commission should recognize the reduction in perceived business and investment risk resulting from the Company's proposed consumption adjustment mechanism or CAM, which he asserted provides enhanced protection from decreasing customer revenue and will stabilize earnings. Witness Hinton asserted a belief that some recognition of the reduction in business risk introduced through the CAM is reasonable and that he believed that a 10-basis point reduction in the cost rate for common equity was appropriate. Thus, assuming that a CAM is approved by the Commission, witness Hinton stated that his recommended cost of common equity for CWSNC would be reduced by 10 basis points to 9.00%.

Witness Hinton testified that, as to the reasonableness of his recommended return, he considered the pre-tax interest coverage ratio produced by his cost of capital recommendation. He testified that based on his recommended capital structure, cost of debt, and equity return of 9.00%, the pre-tax interest coverage ratio is approximately 3.1 times. He testified that this pre-

tax interest coverage and a funds flow to debt ratio of 17.8% should allow CWSNC to qualify for a single “A” bond rating.

Witness Hinton further testified that he had identified several areas of concern with the direct testimony filed by Company witness D’Ascendis, including concerns with forecast errors associated with the use of interest rate forecasts to determine the cost of equity; i.e., a tendency to over-estimate the future level of interest rates by a significant degree, which he maintained is inappropriate for ratemaking.

Regarding witness D’Ascendis’ testimony, witness Hinton also testified that it is not appropriate to add a 40-basis point risk premium adjustment to the cost of equity due to the size of the Company. He testified that from a regulatory policy perspective, ratepayers should not be required to pay higher rates because they are located in the franchise area of a utility of a size which is arbitrarily considered to be small. He further testified that if such adjustments were routinely allowed, an incentive would exist for large existing utilities to form subsidiaries when merging or even to split-up into subsidiaries to obtain higher allowed returns. He also testified that CWSNC operates in a franchise environment that insulates the Company from competition and it operates with procedures in place that allow for rate adjustments for eligible capital improvements, cost increases, and other unusual circumstances that impact its earnings.

Witness Hinton also testified that CWSNC operates in the water and sewer industry, where expensive bottled water provides the only alternative to

utility service. He stated that while it is factually correct that rating agencies and investors add a risk factor for small companies with relatively limited capital resources, the inherent protection from competition removes this risk that would otherwise be a concern to investors. Witness Hinton stated that he testified to these same concerns in the last CWSNC rate case, Docket No. W-354, Sub 360, where the Commission found that a size adjustment was not warranted.

Witness Hinton also stated that he had concerns with witness D'Ascendis' comparison of the ratemaking capital structure of Utilities, Inc. and that of his water utility proxy group and that he disagreed with adding basis points to the DCF-based cost of equity to account for market to book ratios significantly greater than 1.0.

D'Ascendis Rebuttal Testimony

Witness D'Ascendis testified that the purpose of his rebuttal testimony was two-fold. First, he updated his recommended weighted average cost of capital ("WACC"), including his recommended return on common equity. Second, he responded to the direct testimony of John R. Hinton, witness for the Public Staff concerning the investor-required ROE for CWSNC.

Witness D'Ascendis testified that his updated analysis, which reflected current investor expectations as of October 18, 2019, recommends that the Commission authorize the Company the opportunity to earn a WACC of 7.74%, based on a ratemaking capital structure as of September 30, 2019. The updated capital structure is based on the actual capital structure of CWSNC's parent, Utilities, Inc., at September 30, 2019. It consists of 50.90% long-term debt at an

embedded cost rate of 5.36% and 49.10% common equity at his updated ROE of 10.20%. Witness D'Ascendis stated that, in updating his analysis, he averaged the long-term predicted variance with the spot predicted variance in his predictive risk premium model ("PRPM"), while he selected the minimum value in his direct analysis. Witness D'Ascendis' updated recommended overall rate of return was summarized in his rebuttal testimony as follows:

Table 1: Summary of Overall Rate of Return

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	50.90%	5.36%	2.73%
Common Equity	<u>49.10%</u>	10.20%	<u>5.01%</u>
Total	100.00%		7.74%

In his rebuttal testimony, witness D'Ascendis also responded to Mr. Hinton's estimation of the Company's ROE and explained its shortcomings, including Hinton's:

- A. Inclusion of a gas proxy group to determine a ROE for a water utility;
- B. Misapplication of the discounted cash flow model;
- C. Misapplication of the risk premium model;
- D. Misapplication of the capital asset pricing model;
- E. Misapplication of the Comparable Earnings Model;
- F. Failure to account for size-specific risks; and
- G. Opinion that the approval of the Company's requested consumption adjustment mechanism ("CAM") in this proceeding requires a downward adjustment to the ROE.

Witness D'Ascendis also addressed Mr. Hinton's opinions regarding current capital markets. Mr. Hinton provided the Moody's A-rated public utility

bond yield as of January 10, 2014, when Docket No. W-354, Sub 336 was stipulated, which was 4.63%, and the current Moody's A-rated public utility bond as of September 2019, which is 3.37%. Mr. Hinton then presents a chart showing the current flattening yield curve as compared with the yield curves in January 2014, September 2015, August 2017, and February 2019, the approximate dates of CWSNC's last four rate cases. Because of decreasing interest rates and previous inaccuracies in forecasted interest rate levels, Mr. Hinton relies on current interest rates in his analyses.

Witness D'Ascendis testified that he agreed with Mr. Hinton that A-rated public utility bonds have declined about 126 basis points since Docket No. W-354, Sub 336. This reduction is reflected in the debt cost rates requested by the Company over that period of time. In Docket No. W-354, Sub 336, the Company's actual embedded debt cost was 6.60%. Currently, the Company's actual embedded debt cost rate is 5.36%, a decline of 124 basis points to the cost of debt, or 0.62% from the WACC, assuming a 50% debt / 50% equity capital structure, a substantial savings for the Company's customers over that period of time. However, witness D'Ascendis stated that he disagreed with Mr. Hinton regarding the stability of the current low levels of Treasury bonds.

According to witness D'Ascendis, there was a substantial decline in interest rates since his direct testimony, occurring over a relatively short period of time encompassing the month of August into early September of this year. Specifically, over the 30-trading days ended August 28, 2019, the 30-year Treasury bond yield declined 66 basis points, or 25.10%. This is noteworthy

because since 1977, there are only two other instances with a 30-trading day decline of 30-year Treasury bond yields of 66 basis points or more, and a percentage decline of 30-year Treasury bond yields greater than 24.0%. The first occurrence happened during December 2008 through January 2009 as a part of the Great Recession, with the second occurrence in early September 2011, which attended the European Sovereign Debt Crisis.

Witness D'Ascendis stated that that even though the overall trend is downward, interest rates after these two events have recovered shortly thereafter. Because of this, he asserted an expectation that the current 30-year Treasury bond yield will also recover (30-year Treasury bond yields are 2.43% as of November 8, 2019, up over 25% from the August 28, 2019 low of 1.94%).

Witness D'Ascendis further testified that using current measures, like interest rates, are inappropriate for cost of capital and ratemaking purposes because they are both prospective in nature. The cost of capital, including the cost rate of common equity, is expectational in that it reflects investors' expectations of future capital markets, including an expectation of interest rate levels, as well as future risks. Ratemaking is prospective in that the rates set in this proceeding will be in effect for a period in the future.

Witness D'Ascendis stated that even though Mr. Hinton relies, in part, on projected growth rates in his DCF analyses, he fails to apply that same logic to selecting an appropriate interest rate in his RPM analysis. Whether Mr. Hinton believes those forecasts will prove to be accurate is irrelevant to estimating the market-required cost of common equity. Published industry forecasts, such as

Blue Chip Financial Forecasts' ("*Blue Chip*") consensus interest rate projections, reflect industry expectations. Additionally, investors' expectations are not improper inputs to cost of common equity estimation models simply because prior projections were not proven correct in hindsight. As the Federal Energy Regulatory Commission ("FERC") noted in Opinion No. 531, "the cost of common equity to a regulated enterprise depends upon what the market expects, not upon what ultimately happens." Because our analyses are predicated on market expectations, the expected increase in bond yields is a measurable, observable, and relevant data point that should be reflected in Mr. Hinton's analysis. Therefore, Mr. Hinton should have used forecasted interest rates in his analysis.

In his rebuttal testimony, witness D'Ascendis stated that Mr. Hinton relied on only two models, the DCF and the RPM, in his ROE analysis, using both the CAPM and CEM only as checks on his recommended ROE. The use of multiple models adds reliability to the estimation of the common equity cost rate, and the prudence of using multiple cost of common equity models is supported in both the financial literature and regulatory precedent. In the academic literature which witness D'Ascendis discussed, he stated that three methods are consistently mentioned: the DCF, CAPM, and the RPM, all of which D'Ascendis used in his analyses. Witness D'Ascendis also cited clear language in NCUC Orders which indicates that the Commission considers multiple models in its determination of ROE. He further testified that it was also his interpretation of these Orders that the Commission correctly observes capital market conditions and their effect on the model results in determining a ROE for utility companies. This, in addition to

the academic literature cited in his rebuttal testimony, justifies the use of the DCF, CAPM, RPM, and CEM in this proceeding.

Witness D'Ascendis testified that he did not think it was proper for witness Hinton to use a gas proxy group to determine a ROE for a water utility. Water and wastewater utilities have specific risks not borne by gas companies. For example, water is the only utility service that is ingested. As such, water utilities have an ever-increasing responsibility to be stewards of the environment from which supplies are drawn in order to preserve and protect essential resources of the United States. This increased environmental stewardship is a direct result of compliance with the Safe Water Drinking Act and in response to the continuous monitoring of the water supply by the Environmental Protection Agency, state governments, and local governments for potential contaminants and their resultant regulations. Because of this, water utilities' risk profiles are distinct from gas utilities.

Consistent with his direct testimony, witness D'Ascendis stated that water utility companies have high capital intensity (how many dollars of plant generate one dollar in revenue) and low depreciation rates (a source of internal cash flow). As a capital-intensive industry, water utilities require significantly greater capital investment in infrastructure required to produce a dollar of revenue than natural gas utilities. For example, as shown on Chart 2 in his rebuttal testimony, witness D'Ascendis stated that it took \$4.65 of net utility plant on average to produce \$1.00 in operating revenues in 2018 for the water utility industry as a whole. In contrast, for the natural gas utility industry, on average it took just

\$2.01 to produce \$1.00 in operating revenues in 2018. As financing needs have increased and will continue to increase, the competition for capital from traditional sources has also increased and will continue to increase, making the need to maintain financial integrity and the ability to attract needed new capital increasingly important.

Witness D'Ascendis further testified that, coupled with its capital-intensive nature, the water utility industry also experiences lower relative depreciation rates compared with other types of utilities. Given that depreciation is one of the principal sources of internally-generated cash flows for all utilities, lower depreciation rates mean that water utilities cannot rely upon depreciation as a source of cash to the same extent that gas utilities do. Because water utility assets have longer lives and, hence, longer capital recovery periods than other types of utilities, water utilities face greater risk due to inflation. This results in a significantly higher replacement cost per dollar of net plant than for other types of utilities.

As shown on witness D'Ascendis' Chart 3, water utilities experienced an average depreciation rate of 2.66% for 2018. In contrast, in 2018, the natural gas utilities experienced average depreciation rates of 3.39%, respectively. Lower depreciation rates signify that the pressure on cash flows remains significantly greater for water utilities than for other types of utilities.

Based on his review of the data in Hinton Exhibit 3, witness D'Ascendis stated that it is clear that Mr. Hinton's water and gas proxy groups are not comparable, as none of the measures for the two proxy groups were within the

same ranking for either the Value Line or S&P measures. According to witness D'Ascendis, only three of the nine companies in witness Hinton's gas proxy group (Chesapeake Utilities, New Jersey Resources, and Southwest Gas Holdings) were deemed to be of comparable risk to Mr. Hinton's water proxy group using his own measures of risk. Witness D'Ascendis stated that he was not aware of any gas utility proceedings that Mr. Hinton was a party to where he used a water utility proxy group in addition to a gas proxy group for insight into the investor-required return

Witness D'Ascendis testified that in CWSNC's last rate case (Docket No. W-354, Sub 360), Mr. Hinton's position was that water companies were less risky than gas companies, stating: "Thus, the [water] industry is often considered less risky from an investor's perspective relative to [the] natural gas industry, which competes with electric service, propane, and other alternative fuel services."¹⁴ While witness D'Ascendis stated that he disagreed with Mr. Hinton to the extent one utility industry is riskier than the other, he did agree that the risks of each industry are different, which supported his position that ROEs for water utilities should be determined by using water proxy groups. Thus, witness D'Ascendis asserted that given that the water utility industry has unique operating risks compared to gas companies, the fact that neither Mr. Hinton's nor D'Ascendis' measures of total risk were able to create a gas proxy group comparable in total risk to Mr. Hinton's water proxy group, and Mr. Hinton's own statements in the

¹⁴ Docket No. W-354, Sub 360, Hinton Direct Testimony, at 35. (clarification added)

Company's last rate case, the Commission should give the results of Mr. Hinton's gas proxy group no weight in this proceeding.

Regarding Mr. Hinton's growth rate analysis in his application of the DCF model, witness D'Ascendis stated that witness Hinton stated on page 28 of his direct testimony that he employed earnings per share, dividends per share, and book value of equity per share growth rates as reported in Value Line, both five- and ten-year historical and forecasted, and the five-year projected EPS growth rate as reported by Yahoo Finance. Witness Hinton included both historical and forecasted growth rates, "because it is reasonable to expect that investors consider both sets of data in deriving their expectations".

Witness D'Ascendis stated that there is a significant body of empirical evidence supporting the superiority of analysts' EPS growth rates in a DCF analysis, indicating that analysts' forecasts of earnings remain the best predictor of growth to use in the DCF model. Such ample evidence of the proven reliability and superiority of analysts' forecasts of EPS should not be dismissed by Mr. Hinton.

Witness D'Ascendis stated that, as discussed in his direct testimony, over the long run, there can be no growth in DPS without growth in EPS. Security analysts' earnings expectations have a more significant, but not the only, influence on market prices than dividend expectations. Thus, the use of projected earnings growth rates in a DCF analysis provides a better match between investors' market price appreciation expectations and the growth rate component of the DCF, because they have a significant influence on market

prices and the appreciation or “growth” experienced by investors. This should be evident even to relatively unsophisticated investors just by listening to financial news reports on radio, TV, or by reading newspapers. Witness D’Ascendis then discussed certain relevant scholarly empirical evidence supporting the reliability and superiority of analysts’ EPS growth rates in a DCF analysis.

Therefore, witness D’Ascendis testified that, given the overwhelming academic and empirical support regarding the superiority of security analysts’ EPS growth rate forecasts, such EPS growth rate projections should have been relied on by Mr. Hinton in his DCF analysis. Witness D’Ascendis then opined that the DCF model is currently understating the investor-required return and stated his reasoning in support of that opinion. He then stated that he was not advocating a specific adjustment to the DCF results to correct for its mis-specification of the investor-required return as Mr. Hinton alleges. Rather, he stated that the purpose of this discussion was to demonstrate that, like all cost of common equity models, the DCF has its limitations. According to witness D’Ascendis, the use of multiple cost of common equity models, in conjunction with informed expert judgment, provides a clearer picture of the investor-required ROE.

Witness D’Ascendis then discussed witness Hinton’s RPM analysis, stating that Hinton’s RPM explores the relationship between average allowed equity returns for water utility companies published by Regulatory Research Associates, Inc. (“RRA”) and annual average Moody’s A-rated utility bond yields. Using data from the years 2006 through 2019, Mr. Hinton conducted a regression

analysis, which he then combined with recent monthly yields on Moody's A-rated public utility bonds to develop his risk premium estimate of 5.86% and a corresponding cost of equity of 9.57%.

Regarding witness Hinton's application of the RPM, witness D'Ascendis testified that, as discussed in his direct testimony, it is inappropriate to use current bond yields to determine an expected ROE. In addition, instead of using yearly average authorized returns and Moody's A-rated public utility bond yields, it is preferable to use the authorized returns and Moody's A-rated public utility bond yields on a case by case basis. One reason why one should use individual cases instead of an annual average is that some years have more rate case decisions than others, and years with less rate case decisions will garner unnecessary weight. Another reason to use individual cases over an annual average is that interest rates and market conditions change during the year (e.g. the beginning and end of 2008), if one uses annual average authorized returns and annual average interest rates, the fluctuation between the interest rates and equity risk premiums during the year are lost.

Witness D'Ascendis then addressed the corrected result of the RPM after reflecting a prospective Moody's A-rated public utility bond yield and using individual rate case data in place of annual rate case data as follows. As shown on page 1 of Schedule DWD-5R, the analysis is based on a regression of 185 rate cases for water utility companies from August 24, 2006 through July 1, 2019. It shows the implicit equity risk premium relative to the yields on Moody's A-rated public utility bonds immediately prior to the issuance of each regulatory decision.

Witness D'Ascendis stated that he determined the appropriate prospective Moody's A-rated public utility yield by relying on a consensus forecast of about 50 economists of the expected yield on Moody's Aaa-rated corporate bonds for the six calendar quarters ending with the first calendar quarter of 2021, and *Blue Chip's* long-term projections for 2021 to 2025, and 2026 to 2030. As described on page 12 of Schedule DWD-1R, the average expected yield on Moody's Aaa-rated corporate bonds is 3.60%. He then derived an expected yield on Moody's A2-rated public utility bonds, by making an upward adjustment of 0.35%, which represents a recent spread between Moody's Aaa-rated corporate bonds and Moody's A2-rated public utility bonds. Adding the recent 0.35% spread to the expected Moody's Aaa-rated corporate bond yield of 3.60% results in an expected Moody's A2-rated public utility bond yield of 3.95%.

Witness D'Ascendis testified that he then used the regression results to estimate the equity risk premium applicable to the projected yield on Moody's A2-rated public utility bonds of 3.95%. Given the expected Moody's A-rated utility bond yield of 3.95%, the indicated equity risk premium is 5.72%, which results in an indicated ROE of 9.67%, as shown on Schedule DWD-5R.

Witness D'Ascendis summarized Mr. Hinton's CAPM analysis as follows. Mr. Hinton used a six-month average 30-year Treasury yield ending September 2019 for his risk-free rate, and adds that yield to two Value Line beta adjusted market risk premiums ("MRP"), one using a long-term historical geometric average return on the market less the risk-free rate, and one using a long-term historical arithmetic average return on the market less the risk-free rate. His

indicated ROEs using the CAPM are 7.65% (geometric mean) and 8.96% (arithmetic mean). Mr. Hinton did not assign any weight to his CAPM analysis, only using it as a limited check on his DCF and RPM analyses.

Witness D'Ascendis expressed the following concerns regarding witness Hinton's CAPM analysis. He stated that Mr. Hinton's CAPM analysis is flawed in at least three respects. First, he has incorrectly relied on a current risk-free rate despite the fact that both ratemaking and cost of capital are prospective, as discussed previously.

Second, Mr. Hinton incorrectly calculated the MRP by relying on a geometric mean historical market equity risk premium as well as the historical total returns on U.S. Treasury securities.

Third, Mr. Hinton did not incorporate an empirical CAPM analysis, even though empirical evidence indicates that low-beta securities, such as utilities, earn returns higher than the CAPM predicts and high-beta securities earn less.

If corrected for the above errors, witness D'Ascendis testified that the results of Mr. Hinton's CAPM analysis would indicate a cost of common equity of 10.12% for Mr. Hinton's water proxy group.

Regarding Mr. Hinton's comparable earnings model analysis, witness D'Ascendis stated that Hinton examined five years of historical earned returns on equity for his water and gas proxy groups and averaged all the returns together to arrive at a 9.83% indicated equity return. Mr. Hinton did not rely on the results of this data for his recommended ROE, but only as a check on his DCF and RPM. Witness D'Ascendis noted that Mr. Hinton's indicated ROE using his CEM

is in excess of 70 basis points over his recommended ROEs of 9.10% and 9.00% (with the authorization of the Company's requested CAM) and the average of his water proxy group's earned return is 10.05%.

Witness D'Ascendis noted that Mr. Hinton used his water and gas proxy groups in his CEM analysis. Mr. D'Ascendis stated that any proxy group selected for a CEM analysis should be broad-based in order to obviate company-specific aberrations and should exclude utilities to avoid circularity. Since the achieved returns on book common equity of utilities is a function of the regulatory process itself, they are substantially influenced by regulatory return on common equity awards. Therefore, the achieved ROEs of utilities are not representative of the returns that could be earned in a truly competitive market. Hence, Mr. Hinton's use of his water and gas proxy utilities in his CEM analysis should be rejected and replaced with the results of market models applied to a group of non-price regulated companies similar in total risk to Mr. Hinton's water proxy group.

Witness D'Ascendis stated that he calculated common equity cost rates for the non-utility proxy group that is comparable in total risk to Mr. Hinton's water proxy group by applying the market models in a manner identical to his correction of Mr. Hinton's applications of the DCF and the CAPM for his water proxy group as shown on Schedules DWD-2R and DWD-6R, respectively.

Page 6 of Schedule DWD-8R contains the derivation of the DCF cost rates for each comparable group. The composite DCF-derived cost rates based on EPS growth forecasts are 10.97% and 9.25% for the two comparable groups

(average of 10.11%). Witness D'Ascendis stated that his recommended indicated result using the DCF would be 10.11%, which is the average of the two groups' DCF results.

Page 7 of Schedule DWD-8R contains witness D'Ascendis' correction of the CAPM applied to the non-utility proxy groups comparable in total risk to Mr. Hinton's water proxy group. The CAPM / ECAPM results indicate cost of common equity rates of 10.55% and 10.50% for the two non-price regulated proxy groups, respectively. Mr. D'Ascendis relied on the average of the two results, or 10.53%, as the indicated CAPM result for the non-price regulated proxy groups comparable in total risk to Mr. Hinton's water proxy group.

Witness D'Ascendis stated that his conclusion of the common equity cost rate based on the non-price regulated proxy groups is 10.32% as shown on page 5 of Schedule DWD-8R. The results of the DCF and CAPM applied to the non-price regulated proxy groups are 10.11% and 10.53%, respectively, which average to 10.32%.

According to witness D'Ascendis, his adjustments to Mr. Hinton's DCF and RPM result in ROEs of 9.43% and 9.67%, respectively. After the inclusion of the corrected CAPM (10.12%) and CEM (10.32%) results, Mr. Hinton's average result is 9.89%. However, witness D'Ascendis further stated that the average result of 9.89% still does not reflect the cost of common equity for CWSNC, as it has not been adjusted for the Company's greater risk relative to the proxy group based on its small size.

Regarding the fact that Mr. Hinton justified his recommended ROE by reviewing the interest coverage ratio and confirming that his ROE would allow the Company a single “A” rating, witness D’Ascendis stated that one measure of financial risk such as pre-tax interest coverage does not indicate a specific credit rating. While Mr. D’Ascendis testified that he did not take issue with Mr. Hinton’s inputs or calculations in determining CWSNC’s pre-tax interest coverage ratio, he noted that the ratios of pre-tax coverage needed to qualify for a single “A” rating range from 3.0 to 6.0. As can be seen in Schedule DWD-9R, ROE’s ranging from 9.00% (Mr. Hinton’s recommended ROE if the CAM is approved) to as high as 22.22%, all allow CWSNC to qualify for a single “A” rating based on its pre-tax coverage ratio. Clearly a significantly large range of results indicates that simply relying on a single measure, out of a multitude of measures reviewed by the bond/credit ratings agencies, to determine a company’s bond rating is misleading and without significance.

Witness D’Ascendis also testified that Mr. Hinton did not make a specific adjustment to reflect the smaller size of CWSNC relative to the proxy group and that relative company size is a significant element of business risk for which investors expect to be compensated through greater returns. Smaller companies are simply less able to cope with significant events which affect sales, revenues and earnings. For example, smaller companies face more exposure to business cycles and economic conditions, both nationally and locally. Additionally, the loss of revenues from a few large customers would have a far greater effect on a small company than on a larger company with a more diverse customer base.

Finally, smaller companies are generally less diverse in their operations and have less financial flexibility. Consistent with the financial principle of risk and return discussed in his direct testimony, witness D'Ascendis stated that such increased risk due to small size must be taken into account in the allowed rate of return on common equity.

Witness D'Ascendis referenced a study by Duff & Phelps' ("D&P") 2019 Valuation Handbook Guide to Cost of Capital – Market Results through 2018 ("D&P 2019") which presents a Size Study based on the relationship of various measures of size and return. Mr. D'Ascendis stated that he used I used the D&P Size Study to determine the approximate magnitude of the necessary risk premium due to the size of CWSNC relative to the water proxy group. Schedule DWD-10R shows the relative size of CWSNC compared with the water proxy group. Indicated size adjustments based on these relative measures range from 1.08% to 2.79%, averaging 1.78%. From these results, witness D'Ascendis stated that it is clear that CWSNC is riskier than the water proxy group due to its small size, and that his proposed size adjustment of 40 basis points for CWSNC is conservative.

Witness D'Ascendis also referenced the fact that on page 21 of his direct testimony, Mr. Hinton states that Utilities, Inc., CWSNC's parent company, "has a history of making private placements of debt at relatively higher interest rates relative to public offerings by other utilities, such as seen with Aqua North Carolina." According to witness D'Ascendis, the inability to offer public debt, and the resulting higher capital costs is directly attributable to Utilities, Inc.'s small

size. As the size risk of Utilities, Inc., and in turn, CWSNC is reflected in its debt cost rate, it must also be reflected in its equity cost rate.

Witness D'Ascendis noted that Mr. Hinton also discussed the Company's Water and Sewer System Improvement Charge mechanisms and the Company's requested CAM that he claims impact risk for CWSNC. Mr. D'Ascendis asserted that this claim by Mr. Hinton is not valid. He stated that the cost of capital is a comparative exercise, so if the mechanism is common throughout the companies that one bases their analyses on, the comparative risk is zero because any impact of the perceived reduced risk of the mechanism(s) by investors would be reflected in the market data of the proxy group. To that point, as shown on Schedule DWD-12R, every single one of the proxy companies has a Distribution Service Improvement Charge and five of seven of his water proxy group companies have a CAM-type mechanism in at least one of their jurisdictions. After discussing certain studies that have addressed the relationship between decoupling mechanisms, generally, and ROE, witness D'Ascendis testified that there has been no study that links the approval of a decoupling mechanism to a lower investor-required ROE.

Hinton Supplemental Testimony

In his supplemental testimony, Public Staff witness Hinton revised his recommended cost rate for common equity from 9.00% upward to 9.10% based upon the Company's withdrawal of its request to implement the proposed CAM. Witness Hinton stated that the full impact of the CAM should be addressed in CWSNC's next rate case. He testified that the use of his 9.10% recommended

cost of common equity with his recommended cost of long-term debt and capital structure ratios increased his recommended overall cost of capital by five basis points to 7.20%, as shown in his Supplemental Exhibit 10.

Hinton Testimony in Response to Cross-Examination

Witness Hinton conceded on cross-examination that the electric and natural gas industries in North Carolina have a number of surcharge rate adjustment mechanisms available to them which serve to enhance revenue recovery and thereby stabilize earnings and that those mechanisms also employ deferral accounting as part of the true-up process. Witness Hinton also admitted that all utilities are concerned with regulatory lag (Tr. Vol. 7, page 105, lines 13 - 14) and that surcharge rate adjustment mechanisms reduce regulatory lag "...maybe significantly..." (Tr. Vol. 7, page 93, lines 2 - 3)

Witness Hinton also conceded on cross-examination that during "...the last couple years your [CWSNC's] earned returns have been less than your allowed returns." (Tr. Vol. 7, page 104, lines 16 – 17)

Witness Hinton further stated that he considered his initial proposal (which he withdrew when CWSNC withdrew its request to implement a CAM) to impose a 10-basis point downward adjustment with respect to his recommended ROE in consideration of the Company's initially-proposed CAM to be a "material" adjustment. (Tr. Vol. 7, page 111, lines 12 - 16)

Witness Hinton also testified on cross-examination that the 23-basis point reduction in CWSNC's cost of long-term debt from 5.59% at the time the

Company filed its Rate Case Application to 5.36% at September 30, 2019, was “material.” (Tr. Vol. 7, page 133, lines 9 -16)

2. 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.

CWSNC witness D’Ascendis testified on direct regarding economic conditions in North Carolina and stated that, in light of the 2013 Cooper I decision, he reviewed the following specific measures of economic

conditions: (i) unemployment rates from the United States, North Carolina, and the counties comprising CWSNC's service territory; (ii) the growth in Gross National Product ("GDP") in both the United States and North Carolina; (iii) median household income in the United States and in North Carolina; and (iv) national income and consumption trends.

Turning first to the rate of unemployment, witness D'Ascendis testified that it 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. Although the unemployment rate in North Carolina rather exceeded the national rate during and after the 2008/2009 financial crisis, by late 2013, the two were largely consistent. By April 2019, the unemployment rate had fallen to less than one-half of the 2008/2009 peak levels: 3.30% nationally; and 3.60% in North Carolina.

Witness D'Ascendis testified that since the conclusion of the Company's last rate filing in February 2019, the unemployment rate in North Carolina has decreased from 4.20% to 3.60%. That 0.60% decrease is slightly lower than the U.S. unemployment rate which has decreased 0.80% over that same period. Still, over the entire period of 2005 through 2018, the correlation between North Carolina's unemployment rate and the national rate was approximately 99%.

Witness D'Ascendis also stated that he was also able to review unemployment rates (seasonally unadjusted) 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% (86 basis points higher than the statewide average); by April 2019 it had fallen to 3.68% (only 8 basis points

higher than the state-wide average). Since the conclusion of the Company's last rate filing in February 2019, the counties' unemployment has also fallen, from 4.49% to 3.68%. From 2005 through 2018, the correlation in unemployment rates between the counties served by CWSNC, and the U.S. and North Carolina, were also approximately 99%. In summary, although it remains slightly higher than national and state-wide averages, county-level unemployment has fallen considerably since its peak in early 2010.

Looking to real GDP growth, witness D'Ascendis stated that 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. Since the second quarter of 2015, however, growth in the state's real GDP has consistently exceeded the national growth rate.

With regard to median household income, witness D'Ascendis testified that the correlation between North Carolina and the U.S. is relatively strong (approximately 87% from 2005 through 2018). Since 2009 (the years subsequent to the financial crisis), median household income in North Carolina has grown at a similar annual rate as the national median income (2.32% vs. 2.65%). To put household income in perspective, the Missouri Economic Research and Information Center reports that in 2018, North Carolina had the 19th lowest cost of living index among the 50 states and the District of Columbia.

CWSNC witness D'Ascendis summarized his analyses and conclusions by stating that in its 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. 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. In particular, 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. In sum, the correlations between state-wide measures of economic conditions noted by the Commission in Docket No. E-22, Sub 479 remain in place and, as such, they continue to be reflected in the models and data used to estimate the cost of common equity.

As to the impact of changing economic conditions on CWSNC's customers, Public Staff witness Hinton testified that he is aware of no clear numerical basis for quantifying the impact of changing economic conditions on customers in determining an appropriate return on equity in setting rates for a public utility. Rather, he stated that the impact of changing economic conditions nationwide is inherent in the methods and data used in his study to determine the cost of equity for utilities that are comparable to CWSNC. He reviewed certain 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%.

Witness Hinton testified that the North Carolina Department of Commerce annually ranks the state’s 100 counties based on economic well-being and assigns each a Tier designation. The most distressed counties are rated a “1,” and the most prosperous counties are rated a “3.” The rankings examine several economic measures such as household income, poverty rates, unemployment rates, population growth, and per capita property tax base. For 2017, the average Tier ranking that has been weighted by the number of water customers county is 2.5. Both of these economic measures indicate that there have been improvements in the economic conditions for CWSNC’s service area relative to the three previous rate increases in Docket Nos. W-354, Subs 360, 356, and 344 that were approved in 2018, 2017, and 2015, respectively.

Witness Hinton testified that it is the Commission’s duty to set rates as low as reasonably possible consistent within constitutional constraints. This duty exists regardless of the customers’ ability to pay. Moreover, the rate of return on common equity is only one component of the rate established by the Commission. G.S. 62-133 sets out an intricate formula for the Commission to follow in determining a utility’s overall revenue requirement. It is the combination

of rate base, expenses, cost rates for debt and equity capital, and capital structure that determines how much customers pay for utility service and how much investors receive in return for their investment. The Commission must exercise its best judgment in balancing the interests of both groups. Witness Hinton testified that his analysis indicated that his recommended rate of return on equity will allow the Company to properly maintain its facilities, provide adequate service to its customers, attract capital on terms that are fair and reasonable to its customers and investors, and will result in rates that are just and reasonable.

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. The 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 G.S. 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 of the North Carolina General Statutes in general, and G.S. 62-133 in particular, set forth the formula that the Commission must employ in establishing rates. The rate of return on cost of property element of the formula in G.S. 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 G.S. 62-133(b)(3). The Commission must approve depreciation rates pursuant to G.S. 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 G.S. 62-133, rates in North Carolina are set based on a modified historic Test Year. A component of cost of service as important as

return on investment is Test Year revenues. 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 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, G.S. 62-133.12 and Commission Rules

R7-39 and R10-26, have mitigated the potential for regulatory lag for CWSNC. In addition, the Commission's decision in this case to authorize deferred accounting treatment for CWSNC's four capital projects (two WWTPs and two AMR meter projects) also mitigates the negative effects of regulatory lag on the Company.

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 is approving a 10.20% 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 10.20% in this case, 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 for the metered wastewater that is treated (or a monthly flat

rate for certain residential wastewater customers). Investors are compensated by earning a return on the capital they invest in the water and sewer systems. 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 adjustments reduce rates and provide rate stability to consumers (and return to equity investors) consistent with the current economic environment. While the equity investor's cost was calculated by approval of a rate of return on equity of 10.20% as proposed by the Company, 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 the Commission's determination of rate of return on equity.

The rate base, expenses, and revenue adjustments 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 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 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 the Company's provision of safe, adequate, and reliable water and wastewater service with the difficulties that the rate increase may impose on some customers.

The Commission in every case seeks to comply with the North Carolina Supreme Court mandate that the Commission should establish rates as low as possible within constitutional limits. The adjustments the Commission approves in this case comply with that mandate. Nearly all of them reduced the requested return on equity and benefit consumers' ability to pay their bills in this economic environment.

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 recommended return on equity that each witness recommends are shown below:

Summary of D'Ascendis' Common Equity Cost Rate Analyses in Rebuttal Testimony

	<u>Utility Proxy Group</u>
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 Proxy Group	<u>11.29%</u>
Indicated Common Equity Cost Rate Before Adjustment	9.80%
Size Adjustment	<u>0.40%</u>
Recommended Common Equity Cost Rate After Adjustment	<u>10.20%</u>

**Summary of Hinton's Common Equity Cost Rate Analyses
in Direct/Supplemental Testimony**

	<u>Utility Proxy Group</u>
Discounted Cash Flow Model	8.64%
Risk Premium Model	9.57%
Comparable Earnings	9.83%
Capital Asset Pricing Model	<u>7.65% - 8.93%</u>
Indicated Common Equity Cost Rate Before Adjustment	9.10%
Size Adjustment	-----
Recommended Common Equity Cost Rate After Adjustment	<u>9.10%</u>

The range of the ROE recommendations from the two expert witnesses is 9.10% to 10.20%. Underlying the lower ROE recommendation of 9.10%, is a ROE range of 7.65% to 9.83%, according to witness Hinton's testimony concerning his cost of common equity analyses. Similarly, underlying the higher ROE recommendation of 10.20% is a range of 8.81% to 11.29%, according to witness D'Ascendis' rebuttal testimony concerning his cost of common equity analyses. Such a wide range of estimates by expert witnesses is not atypical in proceedings before the Commission with respect to the return on 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 Company witness D'Ascendis regarding his recommended cost of common equity of 10.20% and the risk premium (9.57%) and comparable earnings (9.83%) analysis testimony of Public Staff witness Hinton are credible, probative, and are entitled to substantial weight as set forth below. The inputs to Company witness D'Ascendis' common equity models exclusively use projected measures of growth and interest rates. The Commission agrees with Company witness D'Ascendis that ratemaking and the cost of capital are prospective, and that the use of projected measures in cost of common equity models is appropriate.

Company witness D'Ascendis, noting that CWSNC is not publicly-traded, first established a group of six relatively comparable risk water companies that are publicly-traded ("Utility Proxy Group"). He testified that use of relatively comparable risk companies as proxies is consistent with principles of fair rate of return established in the Hope and Bluefield cases, which are recognized as the primary standards for the establishment of a fair return for a regulated public utility. He then applied the DCF, the CAPM, and risk premium models to the

market data of the Utility Proxy Group and a proxy group of non-price regulated companies. Witness D'Ascendis' DCF model indicated a cost of equity of 8.81%, his CAPM results, which include the empirical CAPM indicated a cost of equity of 9.35%, and his RPM results, which include the PRPM indicated a cost of equity of 10.12%. The cost of common equity models applied to the non-price regulated proxy group indicated a cost of equity of 11.29%.

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 2018. 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 bond cost of 3.71% resulted in a current estimate of the cost of equity of 9.57%.

Witness Hinton also applied a comparable earnings analysis, which reviewed the earned returns on common equity for his water and gas proxy groups for the years 2015-2019. The average earned return for all of Mr. Hinton's proxy companies over that period was 9.83%, for his water proxy group, the average earned return over that period was 10.05%.

Witness D'Ascendis' indicated return on equity of 9.80%, before adjustment for size, is within Mr. Hinton's range of results as set by his risk premium and comparable earnings analyses. The Commission is also persuaded that a size adjustment is indeed warranted given the additional testimony provided by witness D'Ascendis, and concession that both the coefficient of variation is a measure of volatility and net profit is an acceptable proxy for risk. The Commission-approved return on equity of 10.20% is thus supported by the results of the above-listed cost of equity models and adjustments which the Commission finds are 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 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 RPM result produced a rate of return estimate of 9.39%. Averaging his PRPM result of 10.84% and his total market approach RPM, he determined that the cost of equity is 10.12% using his risk premium methods.

The Commission gives substantial weight to witness D'Ascendis' PRPM result of 10.84%. In view of witness D'Ascendis' testimony in the record in this case, the Commission's concern in the last proceeding that investor expectations were not influenced by a method analyzing economic time series with time-varying volatility using the statistical software employed by witness D'Ascendis is satisfied.

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 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 cost of equity estimate of 9.80%.

The Commission gives substantial weight to witness D'Ascendis' ECAPM result of 9.80%. The Commission concludes that, in this instance, witness D'Ascendis' testimony does demonstrate how the ECAPM approach is superior to the CAPM approach and is widely accepted by the academic and investment communities.

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 ten 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 ten unregulated companies, he applied the DCF, RPM, and CAPM in the identical manner used for his Utility Proxy Group, with certain limited expectations. The 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 higher than that of the utility proxy group, but are still entitled to substantial weight. Given witness D'Ascendis' additional testimony on the record, and his additional study which shows comparable risk between the two groups, the Commission further concludes that the risk of the two groups are similar and, therefore, the results of both groups should be used as proxies 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 9.80%, 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 direct testimony and stated that even though a 3.94% upward size adjustment was indicated, he applied 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 which 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 competition with procedures in place for rate adjustments for circumstances that impact its earnings. Finally, 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 and contended that the study concerning size premiums for utilities discussed by witness Hinton was flawed.

Based upon the foregoing and the entire record in this proceeding, the Commission concludes that a size adjustment of 0.40% is warranted. The Commission determines there is sufficient, credible evidence to authorize an adjustment to the approved rate of return on equity in this case based on witness D'Ascendis' additional testimony and analyses and witness Hinton's inability to rebut the studies presented by witness D'Ascendis. Witness D'Ascendis' independent size study applicable to utility companies is informative and implicitly accepted by witness Hinton in his testimony. The Commission concludes that the testimony regarding these studies is convincing and does support a size adjustment. In addition, witness D'Ascendis' recommended size adjustment of 0.40% of an indicated 3.94% size adjustment is consistent with the approximate 10% R-squared of his utility-specific size study.

In making the determination that CWSNC should be authorized a return on equity of 10.20%, the Commission has given careful consideration to the general and specific business risks facing the water and sewer utility industry, including companies like CWSNC, in North Carolina. First, as correctly recited by witness D'Ascendis in his direct and rebuttal testimony, CWSNC faces the

same general business risks faced by all public utilities. In addition, Company witness D'Ascendis correctly noted that water and sewer utilities like CWSNC face specific business risks such as those related to environmental responsibilities as a direct result of compliance with the Safe Water Drinking Act and response to continuous monitoring by the Environmental Protection Agency and state and local governments of the water supply for potential contaminants and sewage treatment, including their resultant regulations. This, plus aging infrastructure, necessitates additional capital investment in the treatment of water and sewage, resulting in increasing capital expenditures for utility infrastructure repair and replacement. Thus, the high capital intensity of the water and sewer industry constitutes a major risk factor for utilities like CWSNC.

Witness D'Ascendis also testified that water and sewer utilities like CWSNC also experience lower relative depreciation rates compared with other types of utilities.¹⁵ Depreciation rates are one of the principal sources of internal cash flows for all utilities (through a utility's depreciation expense), and are vital for a company to fund ongoing replacements and repairs of water and wastewater systems. Water and wastewater utility assets have long lives and, therefore, have long capital recovery periods. As such, the Commission agrees that utilities like CWSNC face greater risk due to inflation, which results in a higher replacement cost per dollar of net plant.

¹⁵ Witness D'Ascendis testified on rebuttal that water utilities experienced an average depreciation rate of 2.66% for 2018. In contrast, in 2018, the natural gas utilities experienced average depreciation rates of 3.39%, respectively. Lower depreciation rates signify that the pressure on cash flows remains significantly greater for water utilities than for other types of utilities.

Substantial capital expenditures will require significant financing. The three sources of financing typically used are debt, equity (common and preferred), and cash flow. All three types of financing are intricately linked to the reasonable opportunity to earn a sufficient rate of return as well as the ability to achieve that return. Consistent with Hope and Bluefield, the authorized return must be sufficient to maintain credit quality as well as enable the attraction of necessary new capital, be it debt or equity capital. If unable to raise debt or equity capital, utilities like CWSNC would have to turn to either retained earnings or free cash flow, both of which are directly linked to earning a sufficient rate of return. The level of free cash flow represents a utility's ability to meet the needs of its debt and equity holders. If either retained earnings or free cash flow is inadequate, it will be nearly impossible for a utility like CWSNC to attract the needed capital for new infrastructure investment necessary to ensure quality service to its customers.

CWSNC's high degree of capital intensity¹⁶ and low depreciation rates, coupled with the need for substantial infrastructure capital spending, support the reasonableness of the 10.20% ROE authorized in this case, so that the Company

¹⁶ Witness D'Ascendis testified on rebuttal that water utility companies have high capital intensity (how many dollars of plant generate one dollar in revenue) and low depreciation rates (a source of internal cash flow). He stated that, as a capital-intensive industry, water utilities require significantly greater capital investment in infrastructure required to produce a dollar of revenue than natural gas utilities. For example, as shown on D'Ascendis' Chart 2, witness D'Ascendis noted that it took \$4.65 of net utility plant on average to produce \$1.00 in operating revenues in 2018 for the water utility industry as a whole. In contrast, for the natural gas utility industry, on average it took just \$2.01 to produce \$1.00 in operating revenues in 2018. Witness D'Ascendis further stated that as financing needs have increased and will continue to increase, the competition for capital from traditional sources has also increased and will continue to increase, making the need to maintain financial integrity and the ability to attract needed new capital increasingly important.

can successfully meet the challenges it faces and continue to provide quality water and sewer utility service to its customers in North Carolina.

The Commission further concludes that, for the reasons generally stated by CWSNC witness D'Ascendis, Public Staff witness Hinton's use of a natural gas proxy group to determine an appropriate ROE for a water and sewer utility such as CWSNC is inappropriate and should be given no consideration in this proceeding.

First, water and sewer utilities have specific risks not borne by gas companies.

Second, water and sewer utilities require significantly greater capital investment in infrastructure required to produce a dollar of revenue than do natural gas utilities.

Third, coupled with its capital-intensive nature, the water utility industry also experiences lower relative depreciation rates compared with other types of utilities, including natural gas utilities. Lower depreciation rates mean that water and sewer utilities cannot rely upon depreciation as a source of cash to the same extent that natural gas utilities do and that the pressure on cash flows remains significantly greater for water utilities than for other types of utilities. Because water and sewer utility assets have longer lives and, hence, longer capital recovery periods than other types of utilities, water and sewer utilities like CWSNC face greater risk due to inflation. This results in a significantly higher replacement cost per dollar of net plant than for other types of utilities.

Fourth, based on a review of Hinton Exhibit 3, it is clear that Mr. Hinton's water and gas proxy groups are not comparable, as none of the measures for the two proxy groups were within the same ranking for either the Value Line or S&P measures.

Fifth, it does not appear that the Public Staff has utilized both water and natural gas proxy groups to determine the appropriate ROEs in prior natural gas rate cases in North Carolina. The contention by the Public Staff in this case that water and natural gas utilities are similar in risk should apply to natural gas rate cases as well as water rate cases; not just water rate cases.

Thus, the Commission concludes that Public Staff witness Hinton's use of a natural gas proxy group to determine an appropriate ROE for CWSNC should be given no consideration in this proceeding.

Having determined that the appropriate rate of return on equity based upon the evidence in this proceeding is 10.20%, the Commission further 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, the RRA Water Advisory publication 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 rates of return on equity for water utilities is 9.59% in 2014, 9.79% in 2015, 9.71% in 2016, 9.31% in 2017, 9.45 in 2018, and in the only six cases reported on for the first six months of 2019, the average is 9.60% with a range of 9.20% to 9.75%. This authorized return data is generally supportive of the both the indicated cost of equity before adjustment of 9.80% and the Commission approved return on equity of 10.20% based upon the evidence in this proceeding. To the extent it is not, the record evidence justifies any such difference.

The Commission notes further that its approval of a rate of return on equity at the level of 10.20% 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

In his direct testimony, CWSNC witness D'Ascendis recommended the use of a capital structure for CWSNC consisting of 52.04% long-term debt (at an embedded debt cost rate of 5.59%) and 47.96% common equity.

In his direct testimony, Public Staff witness Hinton recommended use of a capital structure consisting 50.90% long-term debt (at an updated cost of debt of 5.36%) and 49.10% common equity based upon updated information provided by CWSNC concerning the capital structure at September 30, 2019.

In his rebuttal testimony, CWSNC witness D'Ascendis accepted witness Hinton's use of a capital structure consisting 50.90% long-term debt (at an updated cost of debt of 5.36%) and 49.10% common equity based upon updated information provided by CWSNC concerning the capital structure at September 30, 2019.

The Stipulation also supports a capital structure consisting of 50.90% long-term debt and 49.10% common equity. No other party presented evidence as to a different capital structure.

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

Cost of Long-Term Debt

In its Application and the direct testimony of CWSNC witness D'Ascendis, the Company proposed a cost rate for long-term debt of 5.59%. In his direct testimony, Public Staff witness Hinton recommended use of an updated cost of debt of 5.36% for CWSNC at September 30, 2019. In his rebuttal testimony, CWSNC witness D'Ascendis accepted witness Hinton's use of the updated cost of long-term debt of 5.36% for the Company. In addition, the Stipulation includes a cost of debt rate of 5.36%. No intervenor 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 all the evidence presented in this proceeding. The Commission further noted that in Docket No. W-354, Sub 336, the Company's actual embedded cost of long-term debt was 6.60%. Currently, the Company's actual embedded debt cost rate is 5.36%, a decline of 124 basis points to the cost of debt. This significant decline in the Company's cost of long-term debt has resulted in a substantial savings for the Company's customers over that period of time.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 34 - 43 **(Deferred Accounting Treatment of AMR Meter Installation Projects in the** **Fairfield Mountain and Connetsee Falls Systems)**

Summary of the Evidence

As mentioned at the outset of this Order, concurrently with the filing of its Rate Case Application, CWSNC filed a Petition for an accounting order authorizing deferral of post-in-service depreciation and financing costs related to four major projects that were in progress and would be placed in service during

the pendency of this rate case. CWSNC witness DeStefano's testimony explained that the treatment of these projects has a material impact on the Company's ability to earn its authorized return from its last rate case. The Company has requested deferral of net depreciation and financing costs on these four projects from their respective in-service dates until the projects are included for recovery in base rates in this case. The four projects are: Conneestee Falls WWTP, Nags Head WWTP, Fairfield Mountain AMR meter installations, and Conneestee Falls AMR meter installations.

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

The Nags Head WWTP project consisted of the installation of a new membrane treatment facility to allow for effluent disposal below required nitrate levels in groundwater monitoring wells. The purpose of this project was to modify

the existing Aeromod 0.400 million gallon per day (“mgd”) plant with membrane filtration to provide reuse-quality effluent to meet groundwater nitrate and Total Dissolved Solids (“TDS”) compliance testing limits. In 2018, the Division of Water Quality, North Carolina Department of Environmental Quality, issued a Notice of Violation requiring the plant to comply with current groundwater testing limits of 500 mg/L for TDS and 5 mg/L for Nitrates. The previous plant met the wastewater treatment plant effluent limits but was unable to meet the imposed groundwater limits for the monitoring wells. Had the new facility not been constructed, the risk of imposition of severe penalties and/or a consent decree was high. The cost of the project was \$6,876,116, and it was placed in-service on May 31, 2019.

In 2019, CWSNC continued to expand its AMR meter footprint in its mountain systems. Approximately 2500 AMR meters were installed in the Connetsee Falls and Fairfield Mountain Subdivisions. Witness Mendenhall testified that benefits of AMR technology to customers and the Company include: (1) customer satisfaction with data and billing accuracy; (2) improved customer service; (3) reduction in re-read/re-billing; (4) employee safety, especially during hazardous weather events; (5) replacement of inaccurate meters which can improve non-revenue water percentages; and (6) customer interaction with respect to personal consumption habits and trends. He noted that while AMR technology would be beneficial to CWSNC customers across the state, the mountain area systems in particular benefit due to the extreme weather events and related safety hazards that are common in this region. The Connetsee Falls

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

At the time of the filing of this rate case and CWSNC's deferred accounting Petition, Company witness DeStefano estimated that implementing these four projects would create a material drag on the consolidated Company's earned return on equity or ROE of 193 basis points. Mr. DeStefano also testified that the Company included in its rate case filing both a calculation of the deferral balances and proposed amortizations of the deferrals, as well as a pro forma adjustment in its rate case filing relating to O&M savings that will result from the implementation of the AMR projects¹⁷. Public Staff witness Darden confirmed in her testimony that the Company included a pro forma adjustment removing the meter reading expense for the Fairfield Mountain and Connestee Falls water systems, due to the fact that the installation of AMR meters in those areas do not require an operator to read each meter individually.

Public Staff witness Henry testified that the Public Staff did not oppose deferred accounting treatment for costs related to the wastewater treatment plants at Nags Head and Connestee Falls. However, he stated that the Public Staff recommended that the Commission deny deferred accounting treatment for the AMR meters installed in Fairfield Mountain and Connestee Falls. Witness Henry opined that CWSNC failed to make a clear, complete, and convincing showing that the costs of the AMR meters are of an unusual or extraordinary nature and, absent deferral, will have a material impact on the Company's

¹⁷ See W-1 Report, Item #10, Schedules 26 and 34, filed June 28, 2019.

financial condition. In his direct testimony, Mr. Henry referred the Commission to the initial comments filed by the Public Staff in the deferred accounting case (W-354, Sub 365) on September 20, 2019.

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

Witness Henry agreed that \$22 million in additional investment since the Company's last rate case is a significant amount of investment of capital for a company the size of CWSNC, and those investments result in regulatory lag. He also updated his estimate of earnings erosion that would occur if CWSNC's request for AMR cost deferral is denied, based upon the Company's updated project costs. Witness Henry testified that the Company's earnings would be negatively impacted by 24 basis points if the Commission denied deferred accounting treatment for the AMR projects. He noted that the combined ROE impact of all four projects is 458 basis points: 434 basis points for the WWTP projects and 24 basis points for the AMR meter installation projects (both values

reflecting the impact at a Rate Division level – Uniform Sewer and Uniform Water, respectively).

Witness Henry agreed that, in addition to the basis point impact on ROE, the Commission has pointed to the actual earned return on equity of the utility requesting deferral accounting as a significant consideration for authorizing the request. Further, he agreed that the Commission considers deferral requests on a case-by-case basis. Despite this, however, Mr. Henry maintained that the Company's deferred accounting request for its AMR meter installation projects did not meet two prongs of the Commission's test for deferred accounting – the costs must be unusual and/or extraordinary, and the costs must have a significant impact on the utility's ROE. He did agree that the third prong of the Commission's test was met – that the request be made in conjunction with a rate case (or at least not for an indefinite period of time).

On cross-examination, Public Staff witness Junis expanded upon Mr. Henry's conclusion that the Company's AMR installation projects did not meet the Commission criteria for deferred accounting. He opined that the projects were not unusual or extraordinary because they were the result of a business choice by the Company to install AMR technology. He stated that the Company could have installed traditional meters rather than AMR meters. And he testified that meter replacement should be a part of normal business. Further, he stated that AMR meters are not providing service to customers or improving service to customers and thus they are not integral to providing service. He distinguished AMR meters from new electricity generation investments or

wastewater treatment plant investments, stating that the latter are integral to providing quality service.

Public Staff witness Junis noted that Duke Energy's Allen scrubbers, as requested by Duke Energy Carolinas in a separate deferred accounting proceeding, were huge investments, and they were required by the Clean Smokestacks Act -- a new or unusual or unexpected regulation with which they had to comply. He further noted that Duke Energy's acquisition of the Catawba Nuclear Station was a huge capital cost in comparison, and one that drastically reduced fuel costs to the benefit of customers. He offered that if the projects are more material, then perhaps they can be less unusual; but if it is more unusual, perhaps the materiality can be a bit less.

In this case, witness Junis opined that the materiality is low and, also, it is low on the scale of unusual because it should be standard operating practice to replace meters on an incremental, regular basis. He opined that the 29-basis point impact (in the case of the Duke Energy Buck and Bridgewater generating projects) is significantly different than the 24-basis point impact here, depending on the cost of the project. Witness Junis noted that in the Duke Energy case, multi-million-dollar projects were at issue, whereas here the AMR meter projects are less than \$1 million. He also dismissed CWSNC's claim that the Company is under-earning, stating that the under-earnings took place under previous rates, before the impact of the last rate order. And he stated that the utility decides when it files rate cases; it is their management and their decision how much regulatory lag to take on between rate cases.

On cross-examination, witness Junis did acknowledge that neither the wastewater treatment plant replacement projects nor the AMR meter installation projects are eligible for cost recovery in WSIC or SSIC proceedings, the latter being because the WSIC and SSIC statute calls for “in-kind” replacements. And he acknowledged that both deferred accounting and the WSIC/SSIC statute minimize regulatory lag for cost-recovery purposes. He agreed that the fact the AMR installation projects do not qualify for WSIC/SSIC treatment is worth considering in the context of a deferred accounting request, but, in his opinion, it should not be a major factor.

Witness DeStefano presented rebuttal testimony concerning the appropriateness of deferred accounting treatment for the Company's AMR installation projects. He explained why the Company believes the AMR installation project costs should be eligible for deferred accounting treatment. First, he testified that major technological upgrades such as the Company's AMR meter projects are the type of projects for which deferred accounting is appropriate. He noted that the Company's AMR program involves the mass replacement and technological upgrade of meters in certain targeted geographical areas, as opposed to the typical individual meter replacements that occur due to aging or damaged individual meters. He emphasized that this AMR program differs dramatically from individual meter replacements in scope, scale, purpose, and financial impact.

Second, Mr. DeStefano testified that the financial impact to the Company of all four 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. All four projects are part of the Company's pending general rate case and all four projects, while beneficial to customers, combine to adversely impact the Company's financial condition due to regulatory lag. Accordingly, he opined, all four projects should be evaluated collectively for deferred accounting treatment. However, Mr. DeStefano testified that, even if only the isolated financial impact of the AMR meter projects is considered, the financial impact supports deferred accounting treatment, especially in light of the Company's currently earned ROE.

Without deferred accounting treatment for the AMR meter projects, he noted that the Company will experience approximately a 22-basis point negative impact on its earned ROE, net of cost savings from implementing the projects. At the same time, the Company is not earning a return anywhere close to its currently authorized overall rate of return of 7.75%. In fact, witness DeStefano pointed out the consolidated Company's actual earned overall rate of return during the Test Year for this rate case was only 3.69%.

Witness DeStefano also referenced CWSNC's reply comments filed in the deferred accounting docket, which made the following points. First, the Fairfield Mountain AMR meter project involved the installation of approximately 1,110 new automated meter reading meters at a cost of \$449,560. The Connestee Falls AMR meter project involved the installation of approximately 1,419 new automated meter reading meters at a cost of \$430,649. Together, these two AMR projects resulted in a total investment by the Company of nearly \$900,000

in used and useful utility plant to serve customers. These meter projects benefit customers by minimizing estimated reads, rereads, high/low reads, and water loss. These meter projects also provide safety and operational efficiency benefits to the Company and its employees.

Second, Company witness DeStefano asserted that replacing aged, manually read, analog meters *en masse* with more modern, remote-read meters, which require RF devices, touchpads, and new software support to be properly utilized, is a significant and atypical change in the operating processes and nature of service for both the Company and its affected customers. 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. These AMR meter replacement projects have been undertaken to improve service, efficiency, and safety, through the use of advanced technology. These technology investments are quite different from typical individual meter replacements. The Fairfield Mountain and Connestee Falls AMR projects differ markedly in scope, scale, purpose, and financial impact from such routine meter change outs.

Third, the Public Staff's proposed rejection of deferred accounting here, as well as the inability of the Company to recover the costs of depreciation and a return on the full investment of AMR meters in a WSIC filing, has the effect of significantly penalizing the Company through denial of timely cost recovery for investments in modernizing its water system operations. If the Company's cost

recovery for AMR meters is limited solely to a final decision in a general rate case, with no interim deferred accounting, the Company's earnings will be materially affected to its detriment.

Fourth, other state regulatory commissions have authorized deferred accounting in connection with meter replacement projects.

Fifth, this Commission has considered the collective financial impact of various different types of projects when determining whether to grant deferred accounting authorization. For example, in a 2009 Duke Energy Carolinas case, the Commission authorized the utility to use deferred accounting for both environmental compliance costs and the purchase of a portion of the Catawba Nuclear Station, finding that "if the requested deferral is not allowed, it would appear to be very likely that the Company's 2008 ROE, of 9.79%, would be further eroded in 2009, due to the fact that the ROE impact of the costs for which deferral is requested is estimated to be 114 basis points (67 basis points for the Allen scrubbers and 47 basis points for the Catawba Nuclear Station acquisition)." See *In the Matter of Petition of Duke Energy Carolinas*, Docket No. E-7, Sub 874 (NCUC; March 31, 2009).

Sixth, the collective materiality of the total cost for all four capital projects proposed for accounting cost deferral should be evaluated. All four projects are part of the Company's pending rate case and all four projects, while beneficial to customers, combine to adversely impact the Company's financial condition due to regulatory lag. All four projects will result in improved service and benefits to customers as well as operational and efficiency improvements during the

pendency of this rate case and well in advance of the effective date of this rate Order. The Company calculated that the post-in-service depreciation expense and financing costs that will be incurred with respect to these four projects, between their respective in-service dates and the estimated date of the rate Order, are approximately \$167,679 and \$507,894, respectively, on a net basis. These calculations are based on the utility plant and service additions net of any retirements. Without approval of this deferred accounting request in full, the Company's earnings during 2019 and 2020 will be adversely impacted by approximately \$675,573. At the same time, the ultimate impact of this deferred accounting on a typical residential customer, assuming a five-year amortization period, would be \$0.03 per month for water customers and \$0.53 per month for sewer customers.

The financial impacts to the Company from placing these four major new projects in service, without deferred accounting relief, would be material and adverse and would degrade the Company's earnings. Approval of the deferral request in total will benefit the Company and its customers by helping to assure access to capital on reasonable terms. Finally, even if the Commission ultimately determines to conduct separate evaluations for purposes of materiality, deferred accounting treatment is appropriate for the AMR meter projects based on the projects' impact on the Company's ROE – particularly given the Company's current material under-earning position. Given the Company's size and current under-earnings status, a 20-basis point AMR meter impact is unquestionably

material to the Company. Accordingly, whether viewed separately or collectively, deferred accounting treatment is appropriate and should be granted.

On cross-examination, witness DeStefano explained why CWSNC requested deferred accounting in this filing for meter projects, while it did not make such a request for previous meter projects. He explained that the AMR projects being made currently are part of a much larger overall capital investment by the Company. He noted that the overall capital investments made by the Company in those prior years were about half of what the Company is investing this year – more in the \$10 million per year range, versus \$20 million per year now. As a result, according to Mr. DeStefano, the deferred accounting request is due in part to the additional regulatory lag being experienced by the Company, beyond just the nature of AMR projects. Additionally, he testified that the two AMR systems currently being installed are larger than every system previously installed. He explained that grouping these two systems in this one year and trying to gain the efficiencies of doing those this year increases the financial implications to the Company and the significance of the projects to the Company.

Company witness Mendenhall added that the 2,500 AMR meters at issue represent about 40% of the total AMR meters installed and about 8% of CWSNC's total meters in service in the State. He further noted that the AMR installation projects involve a significant change in metering protocol, in that the AMR projects allow for Company personnel to drive by and capture the read without getting into the meter box and getting out of the vehicle. He stated that one of the reasons for proceeding down this path in these mountainous regions

with this AMR technology is because of the ability to read meters without having to send people out in the cold and the snow.

Mr. DeStefano added that the Company's overall capital budget has not been as significant as it is now or is expected to be going forward. He testified that the Company is experiencing a lot of its systems nearing the end of their useful lives, presenting a "perfect storm" of aging of multiple parts of the Company's water and wastewater systems, leading to increased capital investment needs. Going forward, CWSNC expects its capital investment needs to be roughly in the ballpark of what the Company spent this year -- about \$22 million. Going forward, he stated, the Company still has a lot of lift stations that need to be upgraded and rehabilitated, the meter replacements are still going on, and there are a lot of sewer plants that are nearing the end of their lives. According to witness DeStefano, this increased capital investment in between rate filings can affect regulatory lag and earned returns and, as a result, the Company is looking for ways to try to mitigate those issues.

In response to Mr. Junis' testimony concerning the relative differences in the size of capital investments in Duke Energy deferred accounting cases versus this case, witness DeStefano clarified that it is the ROE impact, not the size of the investment, that the Commission has considered in assessing financial impact in previous cases. He noted the importance and relevance of ROE impact, as opposed to other dollar figures, as far as scope and scale when making comparisons to large energy companies such as Duke Energy Carolinas. He explained that ROE does the right job of leveling the playing field and

removing the noise about differences in rate base and investments – of size and scope and scale – from the picture and just focusing on what the Company is actually dealing with in terms of ROE impact. He added that ROE represents that level playing field because every company has an authorized ROE, and they are all roughly in the same area. He explained that the size of a utility's rate base or the size of a utility's capital investment relative to that rate base is going to differ significantly, so using a percent base number such as ROE has the effect of normalizing all of that noise from the size differences. He added that the Commission has been consistent in previous orders in focusing on financial impact using ROE numbers.

Mr. DeStefano confirmed that CWSNC's consolidated actual earned ROE during the Test Year was 1.63%. With regard to Public Staff witness Junis' testimony that the low rate of return CWSNC earned during the Test Year is the result of much of the Test Year being under previous rates, Mr. DeStefano agreed that there is a little bit of an imbalance; the Test Year ended in March 2019, and the rates were effective February 21, 2019, so the vast majority of the period was before the 2019 rate case became effective. However, witness DeStefano emphasized that the rate increase in the last rate case was about \$1.1 million, which certainly would not make up the difference from an actual return on equity of 1.63%, to 9.75%, the authorized return. Further, he emphasized that CWSNC subsequently invested \$22 million since the cutoff period of the last rate case. He concluded that even were one to make

normalization adjustments for current rates, etc., CWSNC would still fall well short of its authorized 9.75% ROE.

With regard to savings to customers in this rate case from the AMR installation projects, Mr. DeStefano confirmed that, in this rate case, CWSNC removed, as a pro forma adjustment, the contract meter reading cost for the two AMR systems, which combined was about \$21,000 annually. CWSNC's customers will benefit from the commercial operation of the AMR meters and, consequently, it is reasonable to require customers to bear the reasonable and prudently incurred net costs associated with providing those benefits.

Witness DeStefano testified that deferred accounting is a regulatory tool that allows a utility to achieve more timely and complete recovery of its costs of service. He explained that CWSNC is looking at all of these regulatory tools -- especially with the increased capital investment and need for capital investments in the last two years and going forward -- to mitigate the effects of regulatory lag, in order for the Company to have the best opportunity to achieve its authorized return. And, he added, mitigating regulatory lag will hopefully extend the period between rate cases.

COMMISSION DISCUSSION AND ANALYSIS

Regulatory lag – the lag in time between when a utility, such as CWSNC, makes an investment in utility plant and when that investment is reflected in the utility's rates – is an increasing concern for water and wastewater utilities. Regulatory lag affects a utility's ability to earn its authorized return and, as a result, can impact a utility's ability to finance needed investments on reasonable

terms. Deferred accounting treatment is one way to address a utility's regulatory lag, particularly when there are no other rate mechanisms available to mitigate regulatory lag.

In its Deferred Accounting Petition, CWSNC has requested that the Commission enter an accounting order allowing the Company to defer certain post-in-service costs that are being or will be incurred in connection with two wastewater treatment plant projects and two AMR meter installation projects. The related costs for which the Company seeks deferral include net depreciation expense and cost of capital (financing costs). According to the evidence of record, the annual amounts of such costs with respect to the wastewater treatment plants and the AMR installation projects are approximately \$1,163,514. The Company stated that the loss in revenues is material and would, absent deferral, equate to a significant point reduction in the Company's ROE. Evidence submitted by the Public Staff confirmed that such projects would collectively equate to a 458-basis point reduction in the Company's ROE and would individually equate to a 434-basis point ROE reduction for the wastewater treatment plants and a 24-basis point ROE reduction for the AMR installation projects for the respective Rate Divisions. No party has suggested that either the wastewater treatment plant projects or the AMR installation projects are imprudent in any way.

Based on the foregoing, it would appear that the Company and the Public Staff are in agreement that the projects which are subject to the deferral request are prudent and necessary, and are also in agreement with respect to

the cost deferral amounts and ROE impacts. These ROE impacts total 458 basis points collectively, as noted by Staff witness Henry; 434 basis points for the wastewater treatment plant projects and 24 basis points for the AMR installation projects for the respective Rate Divisions.

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

The 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. 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.

“[A]s a general rule, when a request is made for cost deferral accounting treatment, the Commission evaluates the costs at issue to determine if they were reasonably and prudently incurred, unusual or extraordinary in nature, and of a magnitude that would result in a material impact on the Company's financial position (level of earnings). . . .”¹⁸ Accordingly, the Commission has, over the years, on occasion, approved requests proposing the use of deferral accounting. Such requests, by necessity, have been considered on a case-by-case basis; and have been approved only in those instances where there was a clear and convincing showing that the costs in question were of an unusual and/or extraordinary nature and that, absent deferral, would have a material impact on the utility's financial condition.

¹⁸ *Order Denying Request to Implement Rate Rider and Scheduling Hearing to Consider Request for Creation of Regulatory Asset Account*, NCUC Docket No. E-7, Sub 849 (June 2, 2008).

CWSNC contends that the present costs are of an unusual or extraordinary nature; that, absent deferral, they would have a materially detrimental impact on the Company's current earnings and potentially its future ability to raise additional investment capital on reasonable terms; and that, consequently, approval of the Company's deferral request is warranted. CWSNC further contends that deferral is warranted given the Company's current and future expected level of capital investments, the resulting regulatory lag, and the lack of any other rate mechanisms – such as the WSIC and SSIC mechanisms – available to address regulatory lag for these types of projects.

The Public Staff recommends that the Commission approve the deferral of costs related to the wastewater treatment plants and deny the deferral of costs related to the AMR installation projects. The Public Staff opposes the deferral of costs related to the AMR installation projects because, in its opinion, such costs are not sufficiently unusual or extraordinary and such costs are not sufficiently material. The Public Staff agrees, however, that other rate mechanisms such as WSIC and SSIC are not available for these investments.

As indicated by the Company, in assessing the appropriateness of cost-deferral requests, the Commission has historically based its decision, in large measure, on the impact that the costs would have on the level of earnings currently being achieved by the Company. The impact on earnings, typically, has been measured and assessed in terms of ROE, considered in conjunction with the actual ROE realized by the Company, and the Company's currently authorized ROE. We agree with CWSNC that our focus on the ROE impact

levels the playing field between large and small utilities, and renders unnecessary unfair comparisons based on the size of the investments made by differing size utilities. Another factor considered by the Commission includes the Company's need for new investment capital. Additionally, whether the Company has requested, or is contemplating requesting, a general rate increase and the timing, or the proposed timing, of the filing of such a request is also pertinent. The Commission is of the opinion that the foregoing test and criteria continue to be appropriate and that, as such, should be utilized for purposes of this proceeding.

At the outset, given that the Company filed its deferred accounting request in conjunction with its rate case, there is no issue of single-issue ratemaking or concern that the deferred accounting treatment will remain in place indefinitely. Rather, any deferred accounting authorized herein will cease with the effective date of this Order, with recovery of deferred costs extending over the proposed (and unopposed) amortization period of five years. Indeed, if the request for deferral accounting is granted, the ultimate rate impact of deferral on customers will be mitigated, as the Company has proposed recovering the deferred costs over a reasonable multi-year period.

Contrary to the Public Staff's arguments, the evidence demonstrates that both the wastewater treatment plant projects and the Company's AMR installation projects are unusual or extraordinary, as we have used those terms in previous deferred accounting orders and as those terms are commonly

understood. Lexico.com¹⁹ defines “unusual” as “not habitually or commonly occurring or done”; and it defines “extraordinary” as “very unusual or remarkable” -- from Latin *extraordinarius*, “outside the normal course of events”. As we stated in a previous deferred accounting case,²⁰ “[t]he costs in question are unusual or extraordinary in the sense that they are associated with the incorporation of the costs of two electric generating facilities -- representing major investments -- into the Company's rate structure; which is not a simple, regularly occurring, inconsequential event, but rather, is a major non-routine matter of considerable complexity and major significance.” Here, the evidence demonstrates that neither the wastewater treatment plant projects nor the AMR installation projects are an everyday occurrence. The evidence indicates that the AMR projects are part of a Company strategy to upgrade its mountainous service territory, through a mass meter replacement program, to a new and improved technology. This strategic initiative is readily distinguishable from the day-to-day replacement of damaged or failed meters. This mass technological upgrade – part of presumably the first mass replacement of metering technology in the Company’s history – is not a “simple, regularly occurring, inconsequential” event. Nor is it habitually or commonly done. Rather, it is quite clearly outside the normal course of events for the Company.

¹⁹ Lexico.com is a collaboration between Dictionary.com and Oxford University Press (OUP) to help users worldwide with everyday language challenges. Lexico is powered by Oxford's free English and Spanish dictionaries and features multi-language dictionary, thesaurus, and translation content.

²⁰ *In the Matter of the Petition of Duke Energy Carolinas*, Docket No. E-7, SUB 999, 2012 N.C. PUC LEXIS 945* (NCUC; June 20, 2012).

Contrary to Public Staff's position, the Commission does not believe it is relevant that the installation of this particular technology is a "business choice" by the Company. Such a requirement is not reflected in our previous orders, nor do we believe it should be. The critical factors are and should be: is the investment reasonable and made to serve customers, is the investment unusual or extraordinary, and does it materially impact the utility's earned ROE? Moreover, we note that even a new generating unit is to some extent a matter of business choice – the utility has other options for serving customers, such as purchasing power, constructing a different type of generating unit, or increasing energy efficiency options.

The Public Staff also proffers the argument that, unlike previous cases, the AMR installation projects here are not "integral" to service to customers. This, too, is unpersuasive. It ignores the reality of the ubiquity of meters in the utility industry, and of their integral role in providing high quality utility service. As evidence of such, we note our previous order directing CWSNC to install meters in certain remote areas where meters had not previously been used.²¹

²¹ On March 10, 2014, the Commission entered an Order Granting Partial Rate Increase, Approving Rate Adjustment Mechanism, and Requiring Customer Notice ("2014 Rate Case Order") in Docket No. W-354, Sub 336. In pertinent part, decretal paragraph number 7 of the 2014 Rate Case Order required CWSNC to install certain water meters as follows:

That CWSNC shall install all meters and fully meter the unmetered systems in Powder Horn, Misty Mountain, Crystal Mountain, Watauga Vista, High Meadows, Ski Country (a part of Sugar Mountain), and Mt. Mitchell, before the evidentiary hearing in its next general rate case proceeding. CWSNC shall immediately switch customers to metered rates as soon as each system is fully metered.

On October 1, 2015, CWSNC notified the Commission that all of the required water meters had been installed.

We therefore reject the Public Staff's contention that AMR meters are not the type of investment for which deferred accounting treatment should be granted. Our decision in this respect is supported by other state commissions that have granted deferral accounting treatment for the wholesale replacement and upgrade of meters to either AMR or AMI meters,²² as well as our previous

²² See, for example, *In re Verified Petition of Southern Indiana Gas & Electric Co.*, Cause No. 44910 (IURC; 09/20/2017), 2017 Ind. PUC LEXIS 230*:

In this case, the utility had initially requested approval of its AMI project investments in connection with a statutory transmission and distribution infrastructure rider mechanism. After various parties contended that AMI investments were not eligible for timely rate recovery through such T&D infrastructure rider mechanism, the utility reached a settlement with some (but not all) parties. Among other things, this settlement called for the utility to be authorized to defer 100% of the depreciation associated with the AMI project, capped at an investment of \$39 million, for recovery in the utility's next retail base rate proceeding, to be amortized over a 10-year period. Additionally, the settling parties agreed to allow the utility to defer debt-related post in-service carrying costs associated with the AMI project (capped at \$12 million), for recovery in the utility's next retail base rate proceeding, to be amortized over a 10-year period. The settling parties agreed that the utility could retain all savings resulting from the AMI program until the time of its next base electric rate proceeding.

In its Order, the Indiana Commission found the settlement agreement provisions relating to the deferral of AMI depreciation and carrying costs to be reasonable. The Commission concluded that the evidence supported the deferral of limited amounts of depreciation and carrying costs as set forth in the settlement agreement. The Commission further noted that the inclusion of AMI and rate base will be subject to a normal prudence review in the utility's next rate case.

See also, *In the Matter of Northwest Natural Gas*, Order No. 10-076; UM 1413(1) (Ore. PUC; 03/02/2010), 2010 Ore. PUC LEXIS 72*:

In this case, the Oregon Commission approved the utility's request for reauthorization to defer revenue requirements related to its AMR project costs. Note that this Order reauthorized an initial approval of the deferral of costs related to AMR installation that occurred a year prior, and which Commission Staff supported. Ratemaking treatment for the AMR costs was reserved for a separate amortization proceeding.

And see also, *In the Matter of the Application of Avista Corporation*, Case No. AVU-E-04-1, AVU-G-04-1; Order No. 29602 (Idaho PUC; 10/08/2004), 2004 Ida. PUC LEXIS 200*:

In this case, the utility apprised the Commission of its proposal to install AMR devices on all Idaho electric and natural gas meters over a 4-year period. The utility requested that the estimated \$16 million AMR project cost be treated as

order granting deferral treatment for the unrecovered net book value of traditional meters, where the utility was implementing a mass replacement and technological upgrade of its meters.²³

With regard to the materiality of the Company's deferred accounting request, we do not find persuasive the Public Staff's position that the AMR installation projects should be viewed in isolation from the wastewater treatment plant projects or the total level of capital investment being made by the Company. Such an isolated view ignores the reality of the needed investments being made by the Company and the regulatory lag resulting from such investments. Such an isolated view also ignores the current low ROE being earned by the Company. In a 2012 deferred accounting order, the Commission recognized that it was appropriate to analyze the materiality of the adverse earnings impact that would occur in the absence of deferral accounting in the aggregate.²⁴ Viewing the financial impacts in the aggregate indicates that CWSNC's ROE would be eroded by 458 basis points without deferral accounting

construction-work-in-progress until the entire project was completed. The Staff supported the utility's proposal to install AMR facilities without specific time of use pricing facilities. The Staff noted that the utility would benefit from AMR before completion of the entire 4-year installation, but the Staff wanted to promote implementation and was not opposed to the requested deferral accounting treatment. In this Order, the Commission supported the utility's plans to install AMR and authorized the Company's requested deferral accounting treatment for its related investment.

²³ See *In the Matter of Duke Energy Progress*, Docket Nos. E-2, Sub 1131, E-2, Sub 1142, E-2, Sub 1103; E-2, Sub 1153, 2018 N.C. PUC LEXIS 105 * (NCUC; Feb. 23, 2018) where the Commission found and concluded that "DEP should be allowed to establish a regulatory asset account and defer to that account the cost of existing AMR meters replaced by AMI meters."

²⁴ *In the Matter of the Petition of Duke Energy Carolinas*, Docket No. E-7, SUB 999, 2012 N.C. PUC LEXIS 945* (NCUC; June 20, 2012) ("The costs in question are material, particularly in the aggregate, and, absent deferral, would have a materially adverse impact on Duke's earnings for fiscal year 2012.")

treatment, according to Staff witness Henry. This is a material impact on a utility's return on equity, and particularly so for CWSNC with its already low actual Test Year ROE of 1.63%.

However, even if we view the AMR installation projects in isolation, it is clear that the 24-basis point Uniform Water ROE impact (which equates to a 13-basis point consolidated company impact) from such projects is material to the Company. This is particularly so in light of the Company's significant capital investment since the Sub 360 case and resulting depressed earnings, which far outpace the rate increase which became effective toward the end of the Test Year. The materiality of this ROE impact is also in line with previous deferred accounting authorizations granted by the Commission. For example, in a 2012 deferred accounting case, we granted Duke Energy Carolinas deferred accounting treatment for its Buck and Bridgewater generating stations, which would suffer ROE erosion in the amounts of 24 basis points and 5 basis points, respectively, without the requested deferred accounting treatment.²⁵ The AMR installation projects here are projected to result in a 24-basis point Uniform Water ROE erosion in the absence of deferral treatment – equal to the Buck impact and much greater than the Bridgewater impact. We also take note of the fact that, although Public Staff witnesses Henry and Junis contend that the ROE impact of the AMR installation projects is not sufficiently material, on cross-examination, Public Staff witness Hinton confirmed that a 10-basis point downward adjustment

²⁵ *Id.*

to authorized ROE would be material, as would a 23-basis point reduction in debt rate.

Particularly noteworthy in this case is the already low return on equity actually being earned by CWSNC due to its large capital investments and the resulting regulatory lag. The evidence demonstrates that CWSNC actually realized a 1.63% ROE for the Test Year in this case – the 12-month period ending March 31, 2019.²⁶ That return is 812 basis points less than the Company's authorized return of 9.75%, established by the Commission's Order issued on February 21, 2019, in Docket No. W-354, Sub 360. Given this substantial differential between the Company's authorized and earned returns, it is extremely unlikely that the Company will exceed its authorized return during 2019 or 2020, even if the requested deferral were to be allowed in its entirety. However, if the requested deferral is not allowed, it would appear to be very likely that the Company's already low ROE would be further eroded, due to the fact that the ROE impact of the costs for which deferral is requested is estimated to be 458 basis points (434 basis points for the wastewater treatment projects and 24 basis points for the AMR installation projects for the respective Rate Divisions). Additionally, the \$1,163,514 of undisputed carrying costs for the deferrals does not reflect an annualized impact and, therefore, the impact to the Company's earnings for these projects alone would outpace the Sub 360

²⁶ Public Staff witness Junis attempted to cast doubt on this 1.63% actual test year ROE, pointing out that for a large portion of the Test Year, CWSNC was operating on previous rates. However, as CWSNC witness DeStefano explained, even factoring in the \$1.1 million rate increase granted in the last rate case, given the \$22 million in capital investment not yet reflected in rates, CWSNC would still be significantly underearning the Company's authorized ROE.

approved base rate revenue increase of \$1,424,088, notwithstanding additional capital investments made by the Company since the Sub 360 case.

The Commission considers these impacts, both on a stand-alone basis and in total, to be materially significant, particularly in consideration of the Company's current level of earnings and the potential impact of the present costs on the Company's future level of earnings, absent approval of the deferral request. If the proposed deferral were to be denied, CWSNC would not appear to have a reasonable opportunity to earn its currently-authorized ROE of 9.75%, annually, based upon rates approved in the Sub 360 rate case, as the Commission concluded that the Company should have a reasonable opportunity to do, by Order issued on February 21, 2019.

Also noteworthy is the fact that there is currently no other rate mechanism — such as the WSIC or SSIC mechanism — available to the Company to mitigate the regulatory lag and resultant adverse earnings impacts. As both Public Staff witness Junis and Company witness DeStefano testified, the WSIC and SSIC mechanisms are not currently applicable to the mass replacement of traditional meters with AMR meters.

Of additional concern, given the Company's depressed level of current earnings and its expected near-term significant financing needs, is the ability of the Company to finance needed new infrastructure investments in its aging water and wastewater systems on reasonable terms. We conclude and find that, without the requested deferral treatment, the Company will have no reasonable opportunity to earn its authorized ROE, and its future access to needed capital

on reasonable terms could be jeopardized. Conversely, the impact of the Commission's allowing the deferral will have a favorable impact on CWSNC's earnings and financial standing in general and, as such, will enhance the Company's ability to access and obtain capital on more favorable terms, as it will help assure investor confidence in the Company. Importantly, such results will ultimately accrue to the benefit of the Company's North Carolina retail ratepayers as well as to its investors.

We also find relevant, albeit not determinative, the evidence in this case that the AMR installation projects will produce savings (and other benefits) for customers, and the Company made a pro forma adjustment in this case to reflect those savings – specifically, a reduction to O&M expense of \$21,000. This is similar to our recognition in previous cases that new generating units, for which deferred accounting treatment was authorized, produce fuel savings for customers.

Accordingly, in consideration of (1) the major investments represented by both the wastewater treatment plants and the AMR installation projects; (2) the Company's current level of actual earnings; (3) the Company's currently authorized ROE; (4) the impact that the costs in question can reasonably be expected to have on CWSNC's earnings, if deferral is not allowed; (5) the fact that this request for deferred accounting treatment has been made in conjunction with a rate case; (6) the fact that there are no other mechanisms currently available to mitigate the regulatory lag and adverse earnings impacts; and (7) the record as a whole; the Commission concludes that CWSNC's request for deferral

of costs associated with both the wastewater treatment projects and the AMR installation projects is warranted and should be approved, whether considered collectively or individually.

In reaching the foregoing conclusions, the Commission has been mindful of the positions taken and the arguments offered by the Public Staff in opposition to CWSNC's Petition. The Commission has not, however, found those arguments persuasive.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 44 – 55
(Ratemaking and Revenue Requirement Issues)

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

On the basis of the Stipulation and the decisions rendered herein by the Commission on the two contested ratemaking issues which were litigated by CWSNC and the Public Staff, the Commission concludes that Findings of Fact Nos. 44 - 55 related to ratemaking and revenue requirement issues are fully supported by the record in this case.

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	<u>(57,897,943)</u>
Net plant in service	180,314,141
Cash working capital	2,406,419

Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	(0)
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	0
Original cost rate base	<u>\$132,898,986</u>

The Commission further concludes that the appropriate level of operating revenues under present rates for combined operations for use in this proceeding is as follows:

<u>Item</u>	<u>Amount</u>
Service revenues	\$39,431,560
Miscellaneous revenues	404,288
Uncollectible accounts	<u>(314,602)</u>
Total operating revenues	<u>\$39,521,246</u>

The Commission concludes that the appropriate levels of maintenance and general expenses for combined operations for use in this proceeding are as follows:

<u>Item</u>	<u>Amount</u>
<u>Maintenance Expenses:</u>	
Salaries and wages	\$4,949,710
Purchased power	2,103,043
Purchased water and sewer	2,219,243
Maintenance and repair	3,133,882
Maintenance testing	544,432
Meter reading	206,176
Chemicals	693,596
Transportation	534,200
Oper. expenses charged to plant	(665,133)
Outside services – other	<u>1,191,299</u>
Total	<u>\$14,910,448</u>

<u>Item</u>	<u>Amount</u>
<u>General Expenses:</u>	
Salaries and wages	\$2,004,409
Off. supplies & other office exp.	568,864
Regulatory commission expense ²⁷	307,754
Pension and other benefits	1,600,158
Rent	330,308
Insurance	782,562
Office utilities	747,670
Miscellaneous	218,417
Total	<u>\$6,560,142</u>

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

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

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>

The Commission concludes that the appropriate level of regulatory fee for use in this proceeding is \$51,378.

The Commission concludes that the appropriate level of state income taxes for use in this proceeding is \$213,786.

²⁷ By the Stipulation and Affidavit filed by CWSNC, the Stipulating Parties have agreed to total rate case costs of \$519,416 for this current proceeding and \$649,806 of unamortized rate case costs from the Sub 360 Proceeding. Amortization of the total rate case costs for the current and prior proceedings over five years results in an annual expense amount of \$233,844.

The Commission concludes that the appropriate level of federal income taxes for use in this proceeding is \$1,681,773, inclusive of amortization of protected Excess Deferred Income Taxes.

Deferral of Hurricane Florence Storm Damage Expenses

On January 17, 2019, CWSNC filed a *Petition for an Accounting Order to Defer Unplanned Incremental Hurricane Florence Storm Damage Expenses, Capital Investments, and Revenue Loss* (“Hurricane Florence Petition”) in Docket No. W-354, Sub 363. CWSNC, in its Hurricane Florence Petition, requested the Commission to issue an accounting order for regulatory and financial accounting purposes authorizing the Company to establish a regulatory asset and defer until the Company’s next general rate case certain costs incurred in connection with damage to the Company’s water and wastewater systems resulting from Hurricane Florence. More specifically, for Hurricane Florence-related storm costs incurred, CWSNC requested approval to defer the O&M expenses, lost revenues, and depreciation expense on the Company’s capital investments.

On January 29, 2019, the Commission entered an *Order Requesting Comments* in Docket No. W-254, Sub 363; setting dates for the parties to file initial and reply comments.

The Public Staff, in Initial Comments filed in the Sub 363 docket on April 4, 2019, recommended that the Commission approve deferral of Hurricane Florence storm O&M expenses, but no deferral of CWSNC’s depreciation expense or lost revenue; that CWSNC be required to amortize the costs deferred over a three-year period beginning in October 2018; 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; that approval of this accounting procedure is without prejudice to the right of any party to take issue with the amount of or the ratemaking treatment accorded these costs in any future regulatory proceeding; and that any applicable insurance proceeds received by CWSNC will be used to offset the deferred O&M expenses.

On May 6, 2019, CWSNC filed Reply Comments in the Sub 363 docket whereby the Company set forth its reasons in opposition to the Public Staff's Initial Comments and reaffirmed the Company's entire request for deferred accounting treatment of Hurricane Florence costs, including O&M expenses, depreciation expense, and lost revenues.

On June 6, 2019, the Commission entered an *Order Consolidating Dockets*, whereby Docket Nos. W-354, Subs 363 and 364 were consolidated to address the issues in dispute concerning CWSNC's request to defer Hurricane Florence-related impacts, including O&M expenses, depreciation expense resulting from capital investments incurred in connection with the damage to the Company's water and wastewater systems, and lost revenues in CWSNC's general rate case, expected to be filed by June 24, 2019.

Issues related to CWSNC's Hurricane Florence Petition were settled between the Company and the Public Staff as part of the Sub 364 Rate Case Stipulation filed with the Commission on November 27, 2019. As requested by the Commission during the evidentiary hearing on December 2, 2019, the Public

Staff was asked to file the types and amounts of Hurricane Florence-related impacts included in the Stipulation exhibits (i.e., O&M expenses, recovery of depreciation and carrying costs, and lost revenues).

On December 11, 2019, the Public Staff filed Henry Late-Filed Exhibit 1, which reflects the following information agreed to by the Company and the Public Staff as part of the Stipulation:

1. On a total-company basis, CWSNC incurred Florence-related O&M expenses (net of received insurance proceeds) totaling \$146,772.58. Under the Stipulation, that amount will be allocated among the Company's water and sewer Rate Divisions and will be amortized to the cost of service in this rate case over three years as a maintenance and repair expense, beginning with the effective date of the Rate Case Order this proceeding. The total annual amortized expense amount to be allocated among the four Rate Divisions is \$48,924.19. The unamortized balance for this maintenance and repair expense will not be included in CWSNC's rate base and will not accrue a return.
2. The Hurricane Florence deferral agreed to by CWSNC and the Public Staff does not include recovery for any Florence-related depreciation expense or lost revenues incurred by the Company.

The Commission concludes that the stipulated annual amortized expense amount of \$48,924.19 to be allocated among CWSNC's four Rate Divisions for maintenance and repair expense related to Hurricane Florence storm damage is reasonable and appropriate for ratemaking purposes in this case.

Storm Reserve Fund and Normalized Storm Damage Expense

Part II.f. of the Stipulation filed by CWSNC and the Public Staff on November 27, 2019, provides that CWSNC and the Public Staff agreed that the Company would rescind its request to implement its proposed Storm Reserve Fund and would, instead, utilize the Public Staff's position per Revised Feasel Exhibit I, Schedule 3-4. Specifically, Public Staff witness Feasel testified that she adjusted the number of years used to calculate average storm damage cost based on a ten-year average, rather than the three-year average storm damage expense proposed by CWSNC.

As requested by the Commission during the evidentiary hearing on December 2, 2019, the Public Staff was asked to file the calculation of the amount of normalized storm costs agreed to by CWSNC and the Public Staff in this proceeding. On December 11, 2019, the Public Staff filed Henry Late-Filed Exhibit 5, which reflects the following information agreed to by the Company and the Public Staff as part of the Stipulation:

1. On a total-company basis, the amount of \$34,566.60 will be allocated among the Company's water and sewer rate divisions as a normalized level of maintenance and repair expense for storm damage. This normalized amount represents the average of the Company's actual storm damage expenses for the ten-year period ending with calendar year 2018, excluding the impacts of Hurricane Florence, contemplated elsewhere in the Stipulation.

2. CWSNC's proposal to use a three-year average of actual storm damage expenses for the period ending with calendar year 2018, would have produced a normalized total-company storm damage expense level of \$47,592.70.

The Commission concludes that the stipulated amount of \$34,566.60 to be allocated among CWSNC's four Rate Divisions for normalized maintenance and repair expense related to storm damage expenses is reasonable and appropriate for ratemaking purposes in this case.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 56

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 in revenues approved in this Order for each rate entity. These schedules, illustrating the Company's gross revenue requirements, incorporate the adjustments found appropriate by the Commission in this Order.

SCHEDULE I

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Net Operating Income for a Return

For the Twelve Months Ended March 31, 2019

Combined Operations

	Present Rates	Increase Approved	After Approved Increase
<u>Operating Revenues:</u>			
Service revenues	\$33,852,232	\$5,579,328	\$39,431,560
Miscellaneous revenues	387,492	16,796	404,288
Uncollectible accounts	(271,142)	(43,460)	(314,602)
Total operating revenues	33,968,582	5,552,664	39,521,246
<u>Maintenance Expenses:</u>			
Salaries and wages	4,949,710	0	4,949,710

	Present Rates	Increase Approved	After Approved Increase
Purchased power	2,103,043	0	2,103,043
Purchased water	2,219,243	0	2,219,243
Maintenance and repair	3,133,882	0	3,133,882
Maintenance testing	544,432	0	544,432
Meter reading	206,176	0	206,176
Chemicals	693,596	0	693,596
Transportation	534,200	0	534,200
Operating expenses charged to plant	(665,133)	0	(665,133)
Outside services - other	1,191,299	0	1,191,299
Total maintenance expenses	14,910,448	0	14,910,448

General Expenses:

Salaries and wages	2,004,409	0	2,004,409
Office supplies and other office expense	568,864	0	568,864
Regulatory commission expense	307,754	0	307,754
Pension and other benefits	1,600,158	0	1,600,158
Rent	330,308	0	330,308
Insurance	782,562	0	782,562
Office utilities	747,670	0	747,670
Miscellaneous	218,417	0	218,417
Total general expenses	6,560,142	0	6,560,142

Depreciation and Taxes:

Depreciation expense	6,580,711	0	6,580,711
Amortization of CIAC	(1,476,955)	0	(1,476,955)
Amortization of PAA	(76,623)	0	(76,623)
Amortization of ITC	(579)	0	(579)
Franchise and other taxes	(655)	0	(655)
Property taxes	268,734	0	268,734
Payroll taxes	527,428	0	527,428
Regulatory fee	44,159	7,219	51,378
Deferred Income Tax	(69,128)	0	(69,128)
State income tax	75,149	138,637	213,786
Federal income tax	615,472	1,135,429	1,750,901
Total depreciation and taxes	6,487,714	1,281,285	7,768,999

Total operating revenue deductions	27,958,304	1,281,285	29,239,589
Net operating income for a return	\$6,010,278	\$4,271,379	\$10,281,657

SCHEDULE II

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Original Cost Rate Base

For the Twelve Months Ended March 31, 2019

Combined Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$ 238,212,084
Accumulated depreciation	(57,897,943)
Net plant in service	180,314,141
Cash working capital	2,406,419
Contributions in aid of construction	(40,270,675)
Advances in aid of construction	(32,940)
Accumulated deferred income taxes	(5,995,444)
Customer deposits	(315,447)
Inventory	271,956
Gain on sale and flow back taxes	(417,811)
Plant acquisition adjustment	(837,878)
Excess book value	0
Cost-free capital	(261,499)
Average tax accruals	(143,198)
Regulatory liability for excess deferred taxes	(3,941,344)
Deferred charges	2,122,707
Pro forma plant	0
Original cost rate base	<u><u>\$132,898,986</u></u>

SCHEDULE III

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs

For the Twelve Months Ended March 31, 2019

Combined Operations

<u>Item</u>	Capitalization Ratio	Original Cost Rate Base	Embedded Cost Cost	Overall Cost Rate	Net Operating Income
	(a)	(b)	(c)	(d)	(e)
<u>Present Rates:</u>					
Debt	50.90%	\$67,645,584	5.36%	2.73%	\$3,625,803
Equity	49.10%	65,253,402	3.65%	1.79%	2,384,475
Total	100.00%	\$132,898,986		4.52%	\$6,010,278
<u>Approved Rates:</u>					
Debt	50.90%	\$67,645,584	5.36%	2.73%	\$3,625,803
Equity	49.10%	65,253,402	10.20%	5.01%	6,655,847
Total	100.00%	\$132,898,986		7.74%	\$10,281,650

SCHEDULE I-A

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Net Operating Income for a Return

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Water Operations

	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Approved Increase</u>
<u>Operating Revenues:</u>			
Service revenues	\$17,485,912	\$2,083,328	\$19,569,240
Miscellaneous revenues	189,818	6,250	196,068
Uncollectible accounts	(129,396)	(15,416)	(144,812)
Total operating revenues	17,546,334	2,074,162	19,620,496
<u>Maintenance Expenses:</u>			
Salaries and wages	2,684,228	0	2,684,228
Purchased power	1,048,858	0	1,048,858
Purchased water	1,478,502	0	1,478,502
Maintenance and repair	922,090	0	922,090
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 expenses charged to plant	(360,703)	0	(360,703)
Outside services - other	654,506	0	654,506
Total maintenance expenses	7,400,327	0	7,400,327
<u>General Expenses:</u>			
Salaries and wages	1,086,991	0	1,086,991
Office supplies and 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
Total general expenses	3,566,612	0	3,566,612
<u>Depreciation and Taxes:</u>			
Depreciation expense	3,198,990	0	3,198,990

	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Approved Increase</u>
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	2,697	25,507
Deferred Income Tax	(26,513)	0	(26,513)
State income tax	50,325	51,787	102,112
Federal income tax	412,162	424,133	836,295
Total depreciation and taxes	<u>3,274,093</u>	<u>478,617</u>	<u>3,752,710</u>
 Total operating revenue deductions	 <u>14,241,032</u>	 <u>478,617</u>	 <u>14,719,649</u>
 Net operating income for a return	 <u><u>\$3,305,302</u></u>	 <u><u>\$1,595,545</u></u>	 <u><u>\$4,900,847</u></u>

SCHEDULE II-A

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Original Cost Rate Base

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Water Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$ 114,766,817
Accumulated depreciation	(29,553,703)
Net plant in service	85,213,114
Cash working capital	1,186,055
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	0
Original cost rate base	<u><u>\$63,347,528</u></u>

SCHEDULE III-A

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Water Operations

<u>Item</u>	Capitalization Ratio (a)	Original Cost Rate Base (b)	Embedded Cost (c)	Overall Cost Rate (d)	Net Operating Income (e)
<u>Present Rates:</u>					
Debt	50.90%	\$32,243,892	5.36%	2.73%	\$1,728,273
Equity	49.10%	31,103,636	5.07%	2.49%	1,577,029
Total	100.00%	\$63,347,528		5.22%	\$3,305,302
<u>Approved Rates</u>					
Debt	50.90%	\$32,243,892	5.36%	2.73%	\$1,728,273
Equity	49.10%	31,103,636	10.20%	5.01%	3,172,571
Total	100.00%	\$63,347,528		7.74%	\$4,900,844

SCHEDULE I-B

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Net Operating Income for a Return

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Sewer Operations

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
<u>Operating Revenues:</u>			
Service revenues	\$12,961,929	\$3,207,000	\$16,168,929
Miscellaneous revenues	124,500	9,621	134,121
Uncollectible accounts	(98,511)	(24,373)	(122,884)
Total operating revenues	12,987,918	3,192,248	16,180,166
<u>Maintenance Expenses:</u>			
Salaries and wages	1,622,020	0	1,622,020
Purchased power	838,308	0	838,308
Purchased 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 expenses charged to plant	(217,966)	0	(217,966)
Outside services – other	395,475	0	395,475
Total maintenance expenses	6,118,168	0	6,118,168
<u>General Expenses:</u>			
Salaries and wages	656,845	0	656,845
Office supplies and 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
Total general expenses	2,156,740	0	2,156,740
<u>Depreciation and Taxes:</u>			
Depreciation expense	2,821,151	0	2,821,151

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
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	4,150	21,034
Deferred Income Tax	(33,406)	0	(33,406)
State income tax	14,845	79,703	94,548
Federal income tax	121,581	652,763	774,344
Total depreciation and taxes	2,617,155	736,616	3,353,771
 Total operating revenue deductions	 10,892,064	 736,616	 11,628,680
 Net operating income for a return	 \$2,095,854	 \$2,455,632	 \$4,551,486

SCHEDULE II-B

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Original Cost Rate Base

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$ 102,974,564
Accumulated depreciation	(23,646,093)
Net plant in service	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	0
Original cost rate base	<u>\$58,831,763</u>

SCHEDULE III-B

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs

For the Twelve Months Ended March 31, 2019

CWSNC Uniform Sewer Operations

<u>Item</u>	Capitalization Ratio (a)	Original Cost Rate Base (b)	Embedded Cost (c)	Overall Cost Rate (d)	Net Operating Income (e)
<u>Present Rates:</u>					
Debt	50.90%	\$29,945,367	5.36%	2.73%	\$1,605,072
Equity	49.10%	28,886,396	1.70%	0.83%	490,782
Total	100.00%	\$58,831,763		3.56%	\$2,095,854
<u>Approved Rates:</u>					
Debt	50.90%	\$29,945,367	5.36%	2.73%	\$1,605,072
Equity	49.10%	28,886,396	10.20%	5.01%	2,946,412
Total	100.00%	\$58,831,763		7.74%	\$4,551,484

SCHEDULE I-C

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Net Operating Income for a Return

For the Twelve Months Ended March 31, 2019

BF/FH/TC Water Operations

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
<u>Operating Revenues:</u>			
Service revenues	\$1,304,521	\$111,152	\$1,415,673
Miscellaneous revenues	51,060	356	51,416
Uncollectible accounts	(16,567)	(1,412)	(17,979)
Total operating revenues	1,339,014	110,096	1,449,110
<u>Maintenance Expenses:</u>			
Salaries and wages	308,862	0	308,862
Purchased power	69,724	0	69,724
Purchased water	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 expenses charged to plant	(41,503)	0	(41,503)
Outside services – other	69,135	0	69,135
Total maintenance expenses	591,372	0	591,372
<u>General Expenses:</u>			
Salaries and wages	125,075	0	125,075
Office supplies and 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
Total general expenses	405,357	0	405,357
<u>Depreciation and Taxes:</u>			
Depreciation expense	169,164	0	169,164

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
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	143	1,884
Deferred Income Tax	(923)	0	(923)
State income tax	2,145	2,749	4,894
Federal income tax	17,569	22,512	40,081
Total depreciation and taxes	192,629	25,404	218,033
 Total operating revenue deductions	 1,189,358	 25,404	 1,214,762
 Net operating income for a return	 \$149,656	 \$84,692	 \$234,348

SCHEDULE II-C

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Original Cost Rate Base

For the Twelve Months Ended March 31, 2019

BF/FH/TC Water Operations

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

SCHEDULE III-C

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs

For the Twelve Months Ended March 31, 2019

BF/FH/TC Water Operations

<u>Item</u>	Capitalization Ratio	Original Cost Rate Base	Embedded Cost Cost	Overall Cost Rate	Net Operating Income
	(a)	(b)	(c)	(d)	(e)
<u>Present Rates:</u>					
Debt	50.90%	\$1,541,826	5.36%	2.73%	\$82,642
Equity	49.10%	1,487,301	4.51%	2.21%	67,014
Total	100.00%	\$3,029,127		4.94%	\$149,656
<u>Approved Rates:</u>					
Debt	50.90%	\$1,541,826	5.36%	2.73%	\$82,642
Equity	49.10%	1,487,301	10.20%	5.01%	151,705
Total	100.00%	\$3,029,127		7.74%	\$234,347

SCHEDULE I-D

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Net Operating Income for a Return

For the Twelve Months Ended March 31, 2019

BF/FH/TC Sewer Operations

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
<u>Operating Revenues:</u>			
Service revenues	\$2,099,870	\$177,848	\$2,277,718
Miscellaneous revenues	22,114	569	22,683
Uncollectible accounts	(26,668)	(2,259)	(28,927)
Total operating revenues	2,095,316	176,158	2,271,474
<u>Maintenance Expenses:</u>			
Salaries and wages	334,600	0	334,600
Purchased power	146,154	0	146,154
Purchased 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 expenses charged to plant	(44,961)	0	(44,961)
Outside services – other	72,182	0	72,182
Total maintenance expenses	800,581	0	800,581
<u>General Expenses:</u>			
Salaries and wages	135,498	0	135,498
Office supplies and 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
Total general expenses	431,433	0	431,433
<u>Depreciation and Taxes:</u>			
Depreciation expense	391,406	0	391,406

<u>Item</u>	<u>Present Rates</u>	<u>Increase Approved</u>	<u>After Proposed Increase</u>
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	229	2,953
Deferred Income Tax	(8,286)	0	(8,286)
State income tax	7,834	4,398	12,232
Federal income tax	64,160	36,021	100,181
Total depreciation and taxes	403,837	40,648	444,485
 Total operating revenue deductions	 1,635,850	 40,648	 1,676,498
 Net operating income for a return	 \$459,466	 \$135,510	 \$594,976

SCHEDULE II-D

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Original Cost Rate Base

For the Twelve Months Ended March 31, 2019

BF/FH/TC Sewer Operations

<u>Item</u>	<u>Amount</u>
Plant in service	\$14,185,016
Accumulated depreciation	(2,614,885)
Net plant in service	11,570,131
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	0
Original cost rate base	<u>\$7,690,568</u>

SCHEDULE III-D

Carolina Water Service, Inc. of North Carolina

Docket No. W-354, Sub 364

Statement of Capitalization and Related Costs

For the Twelve Months Ended March 31, 2019

BF/FH/TC Sewer Operations

<u>Item</u>	Capitalization Ratio	Original Cost Rate Base	Embedded Cost	Overall Cost Rate	Net Operating Income
	(a)	(b)	(c)	(d)	(e)
<u>Present Rates:</u>					
Debt	50.90%	\$3,914,499	5.36%	2.73%	\$209,817
Equity	49.10%	3,776,069	6.61%	3.25%	249,649
Total	100.00%	\$7,690,568		5.98%	\$459,466
<u>Approved Rates:</u>					
Debt	50.90%	\$3,914,499	5.36%	2.73%	\$209,817
Equity	49.10%	3,776,069	10.20%	5.01%	385,159
Total	100.00%	\$7,690,568		7.74%	\$594,976

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 57 – 59
(Rate Design)

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

Regarding the Corolla Light/Monteray Shores sewer service area, CWSNC has maintained CLMS system-specific rates for the last four general rate cases (Docket Nos. W-354, Subs 336, 344, 356, and 360) in order to allow the remainder of the Uniform Sewer Rate Division to move toward parity with the CLMS sewer rates. In this proceeding, the Company proposed to consolidate the CLMS sewer service area rates with the Uniform Sewer Rate Division rates,

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

The Commission concludes that it is reasonable and appropriate for CWSNC's rate design in this case to be based on a 50/50 ratio of fixed/volumetric revenues for the Company's Uniform Water and Treasure Cove/Bradfield Farms/Fairfield Harbour residential customers and an 80/20 ratio of fixed/volumetric revenues for the Company's Uniform Sewer residential customers.

In addition, the rates and charges included in Appendices A-1, A-2, B-1, and B-2, attached hereto, are just and reasonable and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 60 – 63
(Water System Improvement and Sewer System Improvement Charges)

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 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:

<u>Item</u>	<u>Service Revenues</u>	<u>Cap %</u>	<u>WSIC & SSIC Cap</u>
Uniform Water	\$19,569,240	X 5% =	\$978,462
Uniform Sewer	\$16,168,929	X 5% =	\$808,446
BF/FH/TC Water	\$ 1,415,673	X 5% =	\$ 70,784
BF/FH/TC Sewer	\$ 2,277,718	X 5% =	\$113,886

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 CWSNC's Petition to defer net depreciation and financing costs associated with the wastewater treatment plant projects and the AMR installation projects shall be, and hereby is, approved; provided, however, that the Company shall be, and hereby is, required to cease deferring said costs

concurrent with the date the Company is authorized to begin reflecting the costs associated with the WWTP projects and the AMR installation projects in rates.

4. That, CWSNC shall be, and hereby is, required to begin amortizing the costs deferred pursuant to the provisions of Ordering Paragraph 3 above over a 60-month period, beginning on the date the Company is authorized to begin reflecting such costs in rates.

5. 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 G.S. 62-138, and are hereby authorized to become effective for service rendered on and after the issuance date of this Order.

6. 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.²⁸

7. 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.

8. That the unprotected EDIT associated with the reduction in the federal corporate income tax rate, as approved in Sub 360 Rate Case Order, shall be modified per the Stipulation in this proceeding, and shall be returned by

²⁸ **NOTE:** Customer notices are not attached to this Proposed Order.

CWSNC to ratepayers through a levelized rider to rates over a two-year period at a surcredit rate of 0.941% of the customer's base rate charges per bill.

9. That all late-filed exhibits filed by CWSNC and the Public Staff are hereby admitted in evidence. The Resolution filed by CLCA on December 2, 2019, is also admitted in evidence.

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

ISSUED BY ORDER OF THE COMMISSION.

This the _____ day of _____, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Kimberley A. Campbell, Chief Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notices to Customers issued by the North Carolina Utilities Commission in Docket No. W-354, Sub 364, and the Notices were mailed or hand delivered by the date specified in the Order. This the _____ day of _____, 2020.

By: _____
Signature

Name of Utility Company

The above-named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notices to Customers were mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket No. W-354, Sub 364.

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

Notary Public

Printed or Typed Name

(SEAL)

My Commission Expires: _____
Date

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, Larkhaven, Silvertown, and Woodland Farms Subdivisions, and Hawthorne at the Green Apartments)

WATER RATES AND CHARGES

Monthly Metered Water Service (Residential and Commercial):

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

< 1" meter	\$ 29.31
1" meter	\$ 73.28
1½" meter	\$ 146.55
2" meter	\$ 234.48
3" meter	\$ 439.65
4" meter	\$ 732.75
6" meter	\$1,465.50

Usage Charge:

A. Treated Water, per 1,000 gallons	\$ 8.45
B. Untreated Water, per 1,000 gallons (Brandywine Bay Irrigation Water)	\$ 4.91

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.

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

<u>Service Area</u>	<u>Bulk Provider</u>		
Carolina Forest	Montgomery County	\$	3.19
High Vista Estates	City of Hendersonville	\$	3.40
Riverbend Estates	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

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

Sugar Mountain Service Area:

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

Mount Mitchell Service Area:

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

Monthly Flat Rate Water Service: (Billed in Arrears) \$ 60.37

Availability Rate: (Semiannually)

Applicable only to property owners in Carolina Forest
and Woodrun Subdivisions in Montgomery County \$ 24.65

Availability Rate: (Monthly)

Applicable only to property owners in Linville Ridge
Subdivision \$ 12.35

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire
Valley Service Area \$ 9.10

Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls \$ 4.80

Meter Testing Fee: ^{1/} \$ 20.00

New Water Customer Charge: \$ 27.00

Reconnection Charge: ^{2/}

If water service is cut off by utility for good cause \$ 42.00

If water service is discontinued at customer's request \$ 42.00

Management Fee: (in the following subdivisions only)
(Per connection)

Wolf Laurel \$150.00

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

Oversizing Fee: (in the following subdivision only)
(One-time charge per single-family equivalent)

Winghurst \$400.00

Meter Fee:

For <1" meters \$ 50.00

For meters 1" or larger Actual Cost

Irrigation Meter Installation: Actual Cost

SEWER RATES AND CHARGES

Monthly Metered Sewer Service:

A. Base Facility Charge:

Residential (zero usage)	\$ 56.94
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Commercial (based on meter size with zero usage)	
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< 1" meter	\$ 56.94
1" meter	\$ 142.35
1½" meter	\$ 284.70
2" meter	\$ 455.52
3" meter	\$ 854.10
4" meter	\$1,423.50
6" meter	\$2,847.00

B. Usage charge, per 1,000 gallons (based on metered water usage)	\$ 5.47
--	---------

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)	\$ 38.92
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Usage charge, per 1,000 gallons (based on metered water usage from the water supplier)	
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<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 Sewer Service:</u>	\$ 75.64
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Multi-residential customers who are served by a master meter shall be charged the flat rate per unit.	\$ 75.64
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Mt. Carmel Subdivision Service Area:

Monthly Base Facility Charge	\$ 7.11
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Monthly Collection Charge (Residential and Commercial)	\$ 38.92
Usage Charge, per 1,000 gallons (based on metered water usage from the water supplier)	\$ 6.32

Regalwood and White Oak Estates Subdivision Service Area:

Monthly Flat Rate Sewer Service	
Residential Service	\$ 75.64
White Oak High School	\$2,006.21
Child Castle Daycare	\$ 249.24
Pantry	\$ 133.20

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

Monthly Sewer Rates:

Residential	
Collection charge/dwelling unit	\$ 38.92
Treatment charge/dwelling unit	\$ 69.50
Total monthly flat rate/dwelling unit	<u>\$ 108.42</u>

Commercial and Other:

Minimum monthly collection and treatment charge	\$ 108.42
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Monthly collection and treatment charge for customers who do not take water service	\$ 108.42
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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)	\$ 38.92
--	----------

Treatment Charge (Residential and Commercial)
 < 1" meter
 2" meter

\$ 18.42
 \$ 147.36

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Sapphire
 Valley Service Area

\$ 8.30

Availability Rate: (Monthly rate, billed quarterly)

Applicable only to property owners in Connestee Falls

\$ 4.70

New Sewer Customer Charge: ^{4/}

\$ 27.00

Reconnection Charge: ^{5/}

If sewer service is cut off by utility for good cause

Actual Cost

MISCELLANEOUS UTILITY MATTERS

<u>Charge for Processing NSF Checks:</u>	\$ 25.00
<u>Bills Due:</u>	On billing date
<u>Bills Past Due:</u>	21 days after billing date
<u>Billing Frequency:</u>	<p>Bills shall be rendered monthly in all service areas, except for Mt. Carmel, which will be billed bimonthly.</p> <p>Availability rates will be billed quarterly in advance for Connestee Falls, semiannually in advance for Carolina Forest, Woodrun, and Fairfield Sapphire Valley, and monthly for Linville Ridge.</p>
<u>Finance Charge for Late Payment:</u>	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

^{1/} 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.

^{2/} 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.

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

^{4/} This charge shall be waived if customer is also a water customer within the same service area.

^{5/} 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, 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	\$ 17.51
1" meter	\$ 43.78
1½" meter	\$ 87.55
2" meter	\$ 140.08

Usage Charge, per 1,000 gallons	\$ 4.25
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Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 3.28
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Connection Charge:

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

Fairfield Harbor: ^{1/}

All Areas Except Harbor Pointe II Subdivision:

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

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

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

Bradfield Farms:

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

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	\$ 54.79
Bulk Flat Rate, per REU	\$ 54.79

Commercial and Other:

Monthly Flat Rate (Customers who do not take water service)	\$ 54.79
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Monthly Metered Rates
(based on meter size with zero usage)

<1" meter	\$ 48.41
1" meter	\$121.01
1½" meter	\$242.03
2" meter	\$387.24

Usage Charge, per 1,000 gallons	\$ 1.68
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Bulk Sewer Service for Hawthorne at the Green Apartments: ^{4/}

Bulk Flat Rate, per REU	\$ 54.79
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(To be collected from Hawthorne and delivered to Carolina Water Service, Inc. of North Carolina for treatment of the Hawthorne wastewater pursuant to Docket No. W-218, Sub 291)

Availability Rate: (Monthly rate, billed semiannually)

Applicable only to property owners in Fairfield Harbour Service Area	\$ 2.65
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Connection Charge:

Fairfield Harbour: ^{1/}

All Areas Except Harbor Pointe II Subdivision

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

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

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

Bradfield Farms:

Connection charge per tap	None
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<u>New Sewer Customer Charge:</u> ^{5/}	\$ 27.00
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Reconnection Charge: ^{6/}

If sewer service is cut off by utility for good cause	Actual Cost
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MISCELLANEOUS UTILITY MATTERS

<u>Charge for Processing NSF Checks:</u>	\$ 25.00
<u>Bills Due:</u>	On billing date
<u>Bills Past Due:</u>	21 days after billing date
<u>Billing Frequency:</u>	Bills shall be monthly for service in arrears. Availability billings semiannually in advance.
<u>Finance Charge for Late Payment:</u>	1% per month will be applied to the unpaid balance of all bills still past due 25 days after billing date.

Notes:

^{1/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

^{2/} 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.

^{3/} 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.

^{4/} 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.

^{5/} This charge shall be waived if customer is also a water customer within the same service area.

^{6/} 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: ^{1/}

The following uniform connection fees apply unless specified differently by contract approved by and on file with the North Carolina Utilities Commission.

Connection Charge (CC), per SFE (Single-Family Equivalent)	\$ 100.00
Plant Modification Fee (PMF), per SFE	\$ 400.00

The systems where connection fees other than the uniform fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows. These fees are per SFE:

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Abington	\$ 0.00	\$ 0.00
Abington, Phase 14	\$ 0.00	\$ 0.00
Amherst	\$ 250.00	\$ 0.00
Bent Creek	\$ 0.00	\$ 0.00
Blue Mountain at Wolf Laurel	\$ 925.00	\$ 0.00
Buffalo Creek, Phase I, II, III, IV	\$ 825.00	\$ 0.00
Carolina Forest	\$ 0.00	\$ 0.00
Chapel Hills	\$ 150.00	\$ 400.00
Eagle Crossing	\$ 0.00	\$ 0.00
Elk River Development	\$1,000.00	\$ 0.00
Forest Brook/Old Lamp Place	\$ 0.00	\$ 0.00
Harbour	\$ 75.00	\$ 0.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 300.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Lemmond Acres	\$ 0.00	\$ 0.00
Linville Ridge	\$ 400.00	\$ 0.00
Monterrey (Monterrey LLC)	\$ 0.00	\$ 0.00
Quail Ridge	\$ 750.00	\$ 0.00
Queens Harbour/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Riverwood, Phase 6E (Johnston County)	\$ 825.00	\$ 0.00
Saddlewood/Oak Hollow (Summey Bldrs.)	\$ 0.00	\$ 0.00
Sherwood Forest	\$ 950.00	\$ 0.00

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Ski Country	\$ 100.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Wildlife Bay	\$ 870.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00
Winston Plantation	\$1,100.00	\$ 0.00
Winston Pointe	\$1,080.00	\$ 0.00
Wolf Laurel	\$ 925.00	\$ 0.00
Woodrun	\$ 0.00	\$ 0.00
Woodside Falls	\$ 500.00	\$ 0.00

Other Connection Fees:

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

Amber Acres, Amber Acres North, Amber Ridge, Ashley Hills North, Bishop Pointe, Carriage Manor, Country Crossing, Covington Cross, Heather Glen, Hidden Hollow, Jordan Woods, Lindsey Point, Neuse Woods, Oakes Plantation, Randsdell Forest, Rutledge Landing, Sandy Trails, Stewart's Ridge, Tuckahoe, Wilder's Village, and Forest Hill Subdivisions

Connection Charge:

- | | |
|--------------------------|---------------------------------------|
| A. 5/8" meter | \$ 500.00 |
| B. All other meter sizes | Actual cost of meter and installation |

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>
Lindsey Point Subdivision	\$ 0.00
Amber Acres North, Sections II & IV	\$ 570.00
Fairfield Mountain/Apple Valley	
(a.k.a. Rumbing Bald) Service Area	\$ 500.00
Highland Shores Subdivision	\$ 500.00
Laurel Mountain Estates	\$ 0.00
Carolina Trace	\$ 605.00
Connestee Falls	\$ 600.00

The following connection fees apply unless specified differently by contract approved and/or filed with the North Carolina Utilities Commission.

All Areas Except Holly Forest XI, Holly Forest XIV, Holly Forest XV, Whisper Lake I, Whisper Lake II, Whisper Lake III, Deer Run, Lonesome Valley Phases I and II, and Chattooga Ridge:

Recoupment of Capital Fee (RCF) ^{2/}	\$ 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

Notes:

^{1/} These fees are only applicable one time, when the unit is initially connected to the system.

^{2/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum

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CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

SCHEDULE OF CONNECTION FEES FOR

SEWER UTILITY SERVICE UNDER UNIFORM RATES

Uniform Connection Fees: ^{1/}

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
Corolla Light	\$ 700.00	\$ 0.00
Corolla Bay ^{3/}	\$ 100.00	\$1,000.00
Corolla Bay ^{4/}	\$ 700.00	\$ 0.00
Corolla Shores	\$ 700.00	\$ 0.00
Elk River Development	\$1,200.00	\$ 0.00
Hammock Place	\$ 100.00	\$1,456.00
Hestron Park	\$ 0.00	\$ 0.00
Hound Ears	\$ 30.00	\$ 0.00
Independent/Hemby Acres/Beacon Hills (Griffin Bldrs.)	\$ 0.00	\$ 0.00
Kings Grant/Willow Run	\$ 0.00	\$ 0.00
Kynwood	\$ 0.00	\$ 0.00
Monteray Shores	\$ 700.00	\$ 0.00
Monteray Shores (Degabrielle Bldrs.)	\$ 0.00	\$ 0.00
Mt. Carmel/Section 5A	\$ 500.00	\$ 0.00
Queens Harbor/Yachtsman	\$ 0.00	\$ 0.00
Riverpointe	\$ 300.00	\$ 0.00

<u>Subdivision</u>	<u>CC</u>	<u>PMF</u>
Riverpointe (Simonini Bldrs.)	\$ 0.00	\$ 0.00
Steeplechase (Spartabrook)	\$ 0.00	\$ 0.00
The Ridges at Mountain Harbour	\$2,500.00	\$ 0.00
White Oak Plantation	\$ 0.00	\$ 0.00
Willowbrook	\$ 0.00	\$ 0.00
Willowbrook (Phase 3)	\$ 0.00	\$ 0.00
Winston Pointe	\$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

SubdivisionCC

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) ^{2/}	\$ 0.00
Connection Charge	\$ 550.00

The systems where other connection fees have been approved and/or allowed to become effective by the North Carolina Utilities Commission are as follows:

<u>Subdivision</u>	<u>CC</u>	<u>RCF</u>
Holly Forest XIV	\$ 550.00	\$1,650.00
Holly Forest XV	\$ 550.00	\$ 475.00
Deer Run	\$ 550.00	\$1,650.00
Lonesome Valley Phases I and II	\$ 0.00	\$ 0.00

Notes:

^{1/} These fees are only applicable one time, when the unit is initially connected to the system.

^{2/} The recoupment of capital portion of the connection charges shall be due and payable at such time as the main water and sewer lines are installed in front of each lot, and the tap-on fee for water and sewer shall be payable upon request by the owner of each lot to be connected to the water and sewer lines. With written consent of the company, payment of the recoupment capital portion of the connection charge may be made payable over five-year period following the installation of the water and sewer mains in front of each lot, payment to be made in such a manner and in such installments as agreed upon between lot owner and the company, together with interest on the balance of the unpaid recoupment of capital fee from said time until payment in full at the rate of 6% per annum.

^{3/} The connection charge of \$100 per SFE and the plant modification fee of \$1,000 per SFE specified herein apply to new wastewater connections requested at Corolla Bay prior to June 4, 2015.

^{4/} The connection charge of \$700 per SFE applies to new wastewater connections requested at Corolla Bay on and after June 4, 2015.

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

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

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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)	AFFIDAVIT OF
Rates for Water and Sewer Utility Service in)	MATTHEW SCHELLINGER
All of Its Service Areas in North Carolina)	

AFFIDAVIT OF MATTHEW SCHELLINGER
FINANCIAL PLANNING AND ANALYSIS MANAGER
CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

Matthew Schellinger, Financial Planning and Analysis Manager for Carolina Water Service, Inc. of North Carolina ("CWSNC" or "Company"), first being duly sworn, deposes and says:

1. On June 28, 2019, CWSNC filed an Application for a general rate increase in Docket No. W-354, Sub 364 seeking authority to increase and adjust its rates for water and sewer utility service in all of its service areas in North Carolina.

2. On November 27, 2019, CWSNC and the Public Staff filed a Joint Partial Settlement Agreement and Stipulation ("Stipulation") in Docket Nos. W-354, Subs 363, 364, and 365. Section IV, Paragraph E of the Stipulation provides as follows:

The Stipulating Parties have agreed to a methodology for calculating regulatory commission expense, also known as rate case expense, and will 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 agree to amortize rate case expense for a five-year period.

3. As required by the November 27, 2019 Stipulation, CWSNC has provided the Public Staff with all required documentation of rate case expense incurred to date in conjunction with this proceeding. The documentation provided by the Company includes an estimate for the costs of preparing and mailing Notices to Customers (\$27,944)¹ once the Commission issues its Final Order in this case and two estimates totaling \$3,953 for post-hearing work (including preparation of the Company's Proposed Order) by the Company's attorneys and its cost of capital expert witness; for a total estimated post-hearing expense of \$31,897. Otherwise, all costs submitted by CWSNC for review by the Public Staff and for inclusion in the Company's cost of service in this proceeding are based on actual costs incurred to date.

4. CWSNC's rate case costs related solely to this case total \$519,416. Those costs are broken down into the following categories and applicable amounts:

Capitalized Time	\$ 97,252
Administrative	\$ 59,958
Consulting Fees	\$ 49,036
Attorney Fees ²	\$309,983
Travel Expenses	\$ 3,187
TOTAL	\$519,416

¹ CWSNC has included an estimate for this expense in the amount of \$27,944, which is identical to the cost incurred by the Company to prepare and mail the first Notices to Customers at initiation of this case.

² The listed expense for attorney fees also includes costs related to the NCUC Sub 364 Rate Case Application filing fee, printing costs for the Company's Rate Case Application and direct and rebuttal testimony, and travel expenses for attorneys to attend public and evidentiary hearings.


5. CWSNC requests that the Commission approve cost recovery of the Company's total rate case costs in the amount of \$1,169,222 with those costs being amortized over five years. The total amount of \$1,169,222 includes \$649,806 of costs related to unamortized rate case expense from prior proceedings plus the amount of \$519,416 related to this case. The amount was agreed to be amortized over five years. The annual amortization expense for rate case costs which CWSNC requests that the Commission include in rates is \$233,844.

6. Also included in the Regulatory Commission Expense line is \$73,911 in miscellaneous regulatory costs for filings and compliance type activities not directly related to rate case costs. These expenses are a direct cost of service, not disputed, and were agreed upon between CWSNC and the Public Staff in the Stipulation.

7. Thus, CWSNC requests that the Commission include in rates an annual amount of rate case costs of \$233,844 and miscellaneous regulatory costs of \$73,911, for a total amount of \$307,755.

FURTHER AFFIANT SAYETH NOT.

This the 10 day of January, 2020.


Matthew Schellinger
Financial Planning and Analysis Manager
Carolina Water Service, Inc. of North Carolina

Sworn and subscribed before me this 10th day of January, 2020.

Victoria Young (SEAL)
Notary Public

My Commission Expires: December 10th 2020



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Jan 10 2020