

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1075, SUB 12

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application by KRJ, Inc., d/b/a KRJ Utilities,) ORDER APPROVING
Post Office Box 2369, Swansboro, North) STIPULATION WITH A
Carolina 28584, for Authority to Increase Rates) CONDITION, GRANTING
for Water and Sewer Utility Service in Its) PARTIAL RATE INCREASE,
Southern Trace and Rockbridge Subdivisions) AND REQUIRING
in Wake County, North Carolina) CUSTOMER NOTICE

HEARD: Tuesday, May 15, 2018, at 7:00 p.m., in Commission Hearing Room 2115,
Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

Wednesday, June 20, 2018, at 9:30 a.m., in Commission Hearing
Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North
Carolina

BEFORE: Commissioner Charlotte A. Mitchell, Presiding, Chairman Edward S. Finley,
Jr., and Commissioner James G. Patterson

APPEARANCES:

For KRJ Inc., d/b/a KRJ Utilities:

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

For the Using and Consuming Public:

Gina C. Holt and William E. Grantmyre, Staff Attorneys, Public Staff – North
Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North
Carolina 27699-4300

BY THE COMMISSION: On December 4, 2017, KRJ, Inc., d/b/a KRJ Utilities (KRJ
or Company) filed a letter notifying the North Carolina Utilities Commission (Commission
or NCUC) of its intent to file a general rate case as required by Commission
Rule R1-17(a).

On January 10, 2018, KRJ filed an application with the Commission seeking
authority to increase its rates and charges for water utility service in Southern Trace

Subdivision and for water and sewer utility service in Rockbridge Subdivision, both in Wake County, North Carolina.

By letter dated and filed on January 25, 2018, the Public Staff – North Carolina Utilities Commission (Public Staff) informed the Company that, pursuant to Commission Rule R1-17(f)(1), certain additional information needed to be filed to complete the Company's rate increase application.

On January 30, 2018, the Company filed its response to the Public Staff's January 25, 2018 letter, which provided the identified additional information in compliance with the provisions of Commission Rule R1-17(b).

By Order dated February 6, 2018, the Commission declared this docket to be a general rate case, suspended the Company's proposed rates, scheduled public and evidentiary hearings, and required customer notice. The Commission's Order specified that KRJ's direct testimony should be filed on or before May 8, 2018; that the Public Staff and intervenors should prefile testimony on or before May 21, 2018; and that KRJ should prefile any rebuttal testimony no later than June 4, 2018.

The intervention and participation by the Public Staff was made and recognized pursuant to N.C. Gen. Stat. § 62-15(d) and Rule R1-19(e) of the Rules and Regulations of the Commission.

KRJ filed the Commission-required Certificate of Service on February 20, 2018, indicating that the Company provided the Notice to Customers in compliance with the February 6, 2018 Order.

On May 4, 2018, KRJ filed the direct testimony and exhibits of its witness, James R. Butler, P.E.

On May 18, 2018, the Public Staff filed a motion for extension of time to file testimony until May 25, 2018, which was granted by Commission Order issued on that same date.

On May 24, 2018, the Public Staff filed a second motion for extension of time to file testimony until May 31, 2018, which was granted by Commission Order issued on May 25, 2018.

On May 30, 2018, the Company filed a Report on Customer Comments from Public Hearing held in Raleigh, North Carolina on May 15, 2018.

On May 31, 2018, the Public Staff filed a third motion for extension of time to file testimony until June 7, 2018, which was granted by Commission Order issued on June 1, 2018.

Subsequent to the filing of the Company's Application in this docket, the Public Staff engaged in substantial discovery of KRJ regarding the matters addressed by the Company's Application and further examined the relevant books and records of KRJ with

respect to the Company's Application. The Public Staff's discovery efforts spanned a period of 19 weeks, entailed 10 sets of data requests directed to the Company and numerous informal follow-up questions. The Public Staff also conducted field inspections of the water system at Southern Trace Subdivision and the water and sewer system at Rockbridge Subdivision.

Following completion of the Public Staff's investigation of the Company's Application and accompanying documents, review of the results of its examination of the Company's books and records, and review of the Company's responses to the Public Staff's data requests, the Stipulating Parties corresponded and participated in meetings and conference calls over the course of several business days to discuss possible settlement.

After significant negotiations, the Stipulating Parties were ultimately able to arrive at a settlement of all issues in this case. The Stipulation reflects the stipulated rate of return on rate base and operating margin and the Company's revenue requirements. The Stipulation and the new water and sewer rates set forth therein reflect an increase of 16.1% in KRJ's combined water and sewer revenues when compared to the Company's total operating revenues under present rates.

On June 7, 2018, the Public Staff prefiled the testimony and exhibits of Public Staff witnesses Iris Morgan, Staff Accountant, Water Section, Accounting Division; and Gina Y. Casselberry, Utilities Engineer, Water, Sewer, and Telecommunications Division; and the affidavit of John R. Hinton, Director, Economic Research Division.

On June 7, 2018, the Public Staff also filed a Stipulation entered into by KRJ and the Public Staff (Stipulating Parties). In the Stipulation, the Stipulating Parties agreed that the levels of rate base, revenues, and expenses set forth in Morgan Exhibit I and Morgan Exhibit II, which were incorporated by reference therein, are the appropriate levels for use in this proceeding.

On June 8, 2018, the Public Staff filed the corrected testimony and exhibits of Iris Morgan.

Eleven different witnesses testified at the public hearing in Raleigh on May 15, 2018. Three of those witnesses, who reside in KRJ's Southern Trace service area and are water utility customers, were Thomas D. Rains, Jacqueline Walker, and Shelley Iverson. The remaining eight witnesses, who reside in the Company's Rockbridge service area and are water and sewer utility customers, were Craig E. Buzak, Pat Foran, Robert C. Herbert, Jr., Taunia Teel, Brian Maxwell, Gerald Daniel, Kathleen Kendzierski, and Ginger Rodgers.

On Wednesday, June 20, 2018, the evidentiary hearing was convened in Raleigh, North Carolina as scheduled. Five customers testified at the evidentiary hearing. Four of those witnesses, who reside in KRJ's Southern Trace service area and are water utility customers, were Shelley Iverson, Jacqueline Walker, Gregory Cols, and Gabriel Hoxie. Witnesses Iverson and Walker, who previously testified at the public hearing, offered

additional testimony. The fifth customer witness was Veronica Long, who resides in the Company's Rockbridge service area and is a water and sewer utility customer.

The prefiled testimony presented by KRJ witness Butler and Public Staff witnesses Morgan and Casselberry, and the Hinton affidavit, were copied into the record as if given orally from the witness stand. The following documents were admitted in evidence: the exhibits to the testimony of KRJ witness Butler; KRJ's Application, including attached exhibits; KRJ's additional information filed on January 30, 2018; the report filed by KRJ related to customer testimony at the public hearing held on May 15, 2018; the Stipulation; and the exhibits to the testimony of Public Staff witnesses Morgan and Casselberry.

On July 10, 2018, the Public Staff filed certain late-filed exhibits as requested by the Commission during the evidentiary hearing. These exhibits were prepared by Public Staff witnesses Morgan and Casselberry.

On July 10, 2018, KRJ filed the Verified Affidavit and Late-Filed Exhibit of James R. Butler.

On July 11, 2018, KRJ and the Public Staff filed a Joint Proposed Order.

On the basis of the Application; the Stipulation; the testimony of the public witnesses; the testimony and exhibits of KRJ witness Butler; the testimony and exhibits of Public Staff witnesses Morgan and Casselberry; the affidavit of John R. Hinton; and the entire record in this proceeding, the Commission is of the opinion that the provisions of the Stipulation are just and reasonable. Accordingly, the Commission now makes the following

FINDINGS OF FACT

1. KRJ is a corporation duly organized under the law and is authorized to do business as a regulated investor-owned water and sewer public utility in the State of North Carolina. The Company is subject to the regulatory oversight of this Commission. KRJ provides water utility service to customers in the Southern Trace Subdivision and water and sewer utility service to customers in the Rockbridge Subdivision.

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

3. As of March 31, 2018, KRJ served 190 water customers at Southern Trace Subdivision and 324 water and sewer customers and three water-only customers at Rockbridge Subdivision.

4. A total of 14 different customers testified at the public hearing and the evidentiary hearing (including two customers who testified at both hearings),¹ with many of those witnesses expressing service-related concerns. Those concerns generally included level of service (including repairs), water quality, communications, and other concerns. In addition, most, if not all, of the customers who appeared as witnesses testified in opposition to the proposed rate increase.

5. KRJ filed a report with the Commission, verified by Company witness James R. Butler, addressing the service-related concerns and other comments expressed by the 11 customers who testified at the public hearing. Such report described each of the witnesses' specific service-related concerns and comments, the Company's response, and how each concern and comment was addressed, if applicable. KRJ witness Butler, during his testimony at the evidentiary hearing, responded to and addressed in detail the service-related concerns and comments offered by the five customers who testified at that hearing.

6. The overall quality of service provided by KRJ is adequate.

7. The test period for this rate case proceeding is the 12-month period ended June 30, 2016, updated to March 31, 2018, and adjusted for certain known, actual, and measurable changes in plant, revenues, and costs based upon circumstances and events occurring or becoming known through May 31, 2018, prior to the close of the evidentiary hearing in this proceeding.

8. The Company's present rates have been in effect since they were approved by the Commission for the Southern Trace Subdivision in a general rate case Order dated January 14, 2005, in Docket No. W-1075, Sub 4, and for the Rockbridge Subdivision in the Order Granting Certificate of Public Convenience and Necessity and Approving Rates dated November 30, 2006, in Docket No. W-1075, Sub 5. The approved rates for both Southern Trace and Rockbridge Subdivisions were subsequently reduced by the Commission for the repeal of the gross receipts tax and State corporate income tax rate reductions.

9. On June 7, 2018, KRJ and the Public Staff filed a Stipulation which settled all issues between the Company and the Public Staff. The Public Staff filed a Corrected Stipulation Page 8 on June 14, 2018. The Stipulation reflects an agreed-upon increase of approximately 16.1% in KRJ's combined water and sewer revenues above the Company's total operating revenues under present rates.

10. The levels of rate base, revenues, and expenses set forth in Morgan Exhibit I and Morgan Exhibit II, attached to the corrected testimony of Public Staff witness Morgan filed on June 8, 2018, which are incorporated by reference herein, are the reasonable and appropriate levels for use in this proceeding.

¹ Eleven customer testified at the public hearing and five customers testified at the evidentiary hearing.

11. The original cost rate base used and useful in providing service to the Company's customers is \$83,398 for Southern Trace water operations, \$448,926 for Rockbridge water operations, and \$336,054 for Rockbridge sewer operations. The stipulated revenue requirements result in a 43.3% increase in total water revenues for Southern Trace water operations compared to the applied for 81.8% increase; a 90.4% increase in total water revenues for Rockbridge water operations, compared to the applied for 136.3% increase; and a 14.3% decrease in total sewer revenues for Rockbridge sewer operations compared to the applied for 52.4% increase.

12. The levels of total operating revenues under present rates appropriate for use in this proceeding are \$74,797 for Southern Trace water operations; \$85,093 for Rockbridge water operations; and \$274,950 for Rockbridge sewer operations, for a total level of operating revenues for combined operations of \$434,840 as follows:

| | Service Revenues Under Present Rates | Misc. Revenues & Uncollectibles Present Rates | Total Operating Revenues Under Present Rates |
|----------------------|--------------------------------------|---|--|
| Southern Trace Water | \$74,606 | \$191 | \$ 74,797 |
| Rockbridge Water | \$82,944 | \$2,149 | \$ 85,093 |
| Rockbridge Sewer | \$265,667 | \$9,283 | \$274,950 |
| Total | \$423,217 | \$11,623 | \$434,840 |

13. The overall levels of operating revenue deductions, including depreciation, regulatory fees, and taxes, under the present rates which are reasonable and appropriate for use in this proceeding are \$97,299 for Southern Trace water operations, \$120,634 for Rockbridge water operations, and \$218,897 for Rockbridge sewer operations.

14. The reasonable level of plant in service for use in this proceeding consists of the following balances for water and sewer operations:

| | |
|-----------------------------|-------------|
| Southern Trace Water | \$389,501 |
| Rockbridge Water Operations | \$1,472,674 |
| Rockbridge Sewer Operations | \$5,305,677 |

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

| | |
|-----------------------------|-------------|
| Southern Trace Water | \$ 257,622 |
| Rockbridge Water Operations | \$ 462,569 |
| Rockbridge Sewer Operations | \$1,450,273 |

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

| | |
|-----------------------------|-------------|
| Southern Trace Water | \$ 59,327 |
| Rockbridge Water Operations | \$ 574,071 |
| Rockbridge Sewer Operations | \$3,541,012 |

17. The overall levels of total operating expenses under present rates appropriate for use in this proceeding are \$88,089 for Southern Trace water operations; \$103,128 for Rockbridge water operations; and \$173,305 for Rockbridge sewer operations, for a total level of operating expenses under present rates for combined operations of \$364,522.

18. It is reasonable and appropriate for KRJ to recover total rate case costs of \$66,759, related to the current proceeding, to be amortized and collected over a three-year period, for an annual level of rate case expense of \$5,027 for Southern Trace water, \$8,653 for Rockbridge water, and \$8,573 for Rockbridge sewer. The total rate case costs in the amount of \$66,759 include the cost of the application filing fee of \$250, legal fees of \$26,793, administrative fees of \$37,988, and office supplies and overhead of \$1,728.

19. The affidavit of Public Staff witness Hinton supports and justifies approval of an overall rate of return on rate base and an operating margin of 7.75% for KRJ in this rate case. The return of 7.75% was agreed to by the Company and the Public Staff in the Stipulation. The stipulated return of 7.75% is just, reasonable, and appropriate for use in setting rates in this proceeding. This stipulated rate of return will provide the Company with a reasonable opportunity, by sound management, to produce a fair return for its shareholders, considering changing economic conditions and other factors, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchises, and to compete in the market for capital funds on terms that are fair to its customers and to its existing investors. The stipulated overall rate of return, together with the Company's supported levels of rate base and operating expenses, result in a revenue requirement that is just and reasonable to the Company's customers in light of changing economic conditions.

20. It is reasonable and appropriate to determine the revenue requirement for KRJ for Rockbridge water and sewer rates using the rate base method as allowed by N.C. Gen. Stat. § 62-133 and the operating ratio methodology for Southern Trace water rates as allowed by N.C. Gen. Stat. § 62-133.1.

21. The overall rate of return that the Company should be allowed an opportunity to earn on its rate base in Rockbridge Subdivision is 7.75%.

22. The Company should be allowed a 7.75% margin on operating revenue deductions requiring a return for the Southern Trace Subdivision, which results in an operating ratio of 92.97% (including taxes) or 92.81% (excluding taxes). KRJ's reasonable and appropriate operating revenue reductions requiring a return in this case are \$97,194, which produces a net operating income for return of \$7,533.

23. It is reasonable and appropriate to use the current statutory regulatory fee rate of 0.14% to calculate KRJ's revenue requirement.

24. It is reasonable and appropriate to use the current State corporate income tax rate of 3% and the federal income tax rate of 21% to calculate KRJ's revenue requirement.

25. The agreed-upon stipulated rates will provide KRJ with a net increase in its annual level of authorized service revenues through rates and charges approved in this case by \$70,105, a 16.1% increase, consisting of an increase for Southern Trace water operations of \$32,377, an increase for Rockbridge water operations of \$76,944, and a decrease for Rockbridge sewer operations of \$39,216. After giving effect to these authorized increases in water revenues and a decrease in sewer revenues, the total annual operating revenues for the Company will be \$504,945, consisting of the following levels of just and reasonable operating revenues:

| | Service Revenues Under Stipulated Rates | Misc. Revenues & Uncollectibles Stipulated Rates | Total Operating Revenues Under Stipulated Rates |
|----------------------|---|--|---|
| Southern Trace Water | \$106,983 | \$191 | \$107,174 |
| Rockbridge Water | \$159,888 | \$2,149 | \$162,037 |
| Rockbridge Sewer | <u>\$226,451</u> | <u>\$9,283</u> | <u>\$235,734</u> |
| Total | \$493,322 | \$11,623 | \$504,945 |

26. In the next general rate case filed by KRJ for the Company's Southern Trace and Rockbridge service areas, the stipulated amounts agreed to in this case, as approved herein by the Commission, for plant in service, accumulated depreciation, contributions in aid of construction (CIAC), depreciation and amortization expense, and original cost rate base, shall be used as the starting point for the Company's rate case application and the Public Staff's investigation.

27. It is reasonable and appropriate for the Commission to authorize KRJ to increase its reconnection charge for Southern Trace Subdivision from \$23.91 to \$25.00, if water service is cut off by the Company for good cause; increase the reconnection charge for Southern Trace Subdivision from \$19.12 to \$20.00, if water service is disconnected at the customer's request; and increase the Southern Trace returned check charge from \$23.96 to \$25.00. For Rockbridge Subdivision, it is reasonable and appropriate to authorize KRJ to increase the Company's reconnection charge from \$14.40 to \$15.00 if water service is cut off for good cause or if water service is disconnected at the customer's request; and to increase the Company's returned check charge from \$23.96 to \$25.00. The Company's tariffs for Southern Trace and Rockbridge Subdivisions should continue to reflect a late charge of 1% per month to be applied to the unpaid balance of all bills still past due 25 days after the billing date. The Schedule of Rates (attached hereto as Appendices A-1 and A-2) for KRJ water and sewer utility service, agreed to by KRJ and the Public Staff, is just and reasonable and should be approved.

28. It is fair and reasonable to approve the stipulated provision which provides that no changes will be made to the Company's currently authorized tap fees. Therefore, KRJ's tap fees should continue to be reflected on the Company's approved rate schedule as follows:

Southern Trace Subdivision

| | <u>Present Rates</u> | <u>Commission-Approved Rates</u> |
|---|----------------------|----------------------------------|
| <u>Monthly Metered Water Rates</u> | | |
| Base charge, zero usage | \$19.12 | \$19.12 |
| Usage charge, per 1,000 gallons | \$ 2.66 | \$ 5.44 |
| Average Bill (Average usage 5,115 gallons) | \$32.73 | \$46.95 |
| Percent Increase | | 43.45% |

Rockbridge Subdivision

| | <u>Present Rates</u> | <u>Commission-Approved Rates</u> |
|---|----------------------|----------------------------------|
| <u>Monthly Metered Water Rates</u> | | |
| Base charge, zero usage | \$14.40 | \$16.30 |
| Usage charge, per 1,000 gallons | \$ 1.49 | \$ 5.41 |
| Average Bill (Average usage 4,520 gallons) | \$21.13 | \$40.75 |
| Percent Increase | | 92.85% |
| Monthly Flat Rate Sewer | \$68.33 | \$58.25 |
| Percent Decrease | | (14.75%) |
| Combined Water and Sewer | \$89.46 | \$99.00 |
| Net Percent Increase | | 10.66% |

33. The Stipulation contains the provision that the Stipulating Parties agree that, except for Paragraph 4.G. thereof (i.e., see Finding of Fact No. 26 above), none of the positions, treatments, figures, or other matters reflected in the agreement should have any precedential value, nor should they otherwise be used in any subsequent proceedings before this Commission or any other regulatory body as proof of the matters in issue.

34. The Stipulation contains the provision that the agreements made therein do not bind the Stipulating Parties to the same positions in future proceedings, and the parties reserve the right to take different positions in any future proceedings. The Stipulation also contains the provision that no portion of the Stipulation is binding on the Stipulating Parties unless the entire Stipulation is accepted by the Commission.

DISCUSSION AND CONCLUSIONS

The evidence for the following conclusions is contained in the Application; the Stipulation; the testimony of the public witnesses; the testimony and exhibits of KRJ witness Butler, including his Verified Affidavit and Late-Filed Exhibit; the testimony and exhibits of Public Staff witnesses Morgan and Casselberry, including their Late-Filed Exhibits; the Public Staff Hinton affidavit; KRJ's Report on Customer Comments from Public Hearing in Raleigh, North Carolina, filed on May 30, 2018; and the entire record in this proceeding.

I. Public and Evidentiary Hearings and Service Quality

A public hearing was held in Raleigh on May 15, 2018, at 7:00 p.m., in Commission Hearing Room 2115 for the benefit of public or customer witnesses. Public witnesses were also given the opportunity to testify at the evidentiary hearing which was held in Raleigh on June 20, 2018, beginning at 9:30 a.m. Eleven different customers testified during the May 15, 2018 public hearing. Five customers, including two customers who also testified at the public hearing, testified at the evidentiary hearing. A total of 14 different customers testified at both hearings. Many customers expressed service-related concerns. Those concerns generally included level of service (including repairs), water quality, communications, and other concerns. In addition, most, if not all, of the customers who appeared as witnesses testified in opposition to the proposed rate increase.

In response to the customer comments, KRJ filed a report with the Commission on May 30, 2018, which was verified by KRJ witness James R. Butler, P.E., addressing the service-related and other concerns expressed by the customers who testified at the Raleigh public hearing. The report described each of the witnesses' specific service-related and other concerns, the Company's response, and how each concern was addressed, if applicable. A total of 11 witnesses testified at the Raleigh public hearing. Three of those witnesses reside in KRJ's Southern Trace service area and are water utility customers. The remaining eight witnesses reside in the Company's Rockbridge service area and are water and sewer utility customers. Customers variously raised issues about the level of service (including repairs), water quality, communications, and other concerns.

The Raleigh public hearing report is summarized and discussed below. In that report, KRJ initially set forth general comments applicable to both the Southern Trace and Rockbridge utility systems which are set forth, in pertinent part, as follows:

A public hearing was held by the Commission in Raleigh on May 15, 2018, which was attended by representatives of the Public Staff and the Company. An evidentiary hearing will be held in Raleigh on June 20, 2018, to receive evidence and to examine the expert witnesses. Eleven customers testified, while numerous others attended the hearing but chose not to testify. Customers were given a full and fair opportunity to

express their complaints and concerns. In addition, the Public Staff will conduct its own independent investigation to assess the quality of water and sewer utility service provided by KRJ to its customers at Southern Trace and Rockbridge.

The rate-setting process before the NCUC is rigorous and intensive, as it should be, and the burden of proof is on KRJ in this case to prove in a judicial arena that it merits additional rates. The public's assurance of fairness is found in the strict, highly-skilled oversight of the Public Staff and the Commission. Consumers can review every document that is filed and every NCUC Order that is issued on the Commission's website. The rate case procedures are open and fair. Rates charged by KRJ must be based on cost of service and must be justified by detailed proof which is carefully examined and may be challenged by the Public Staff in a contested legal proceeding. Rate increases, while controversial, are necessary to support prudent investment by public utilities, such as KRJ, in the capital-intensive water and sewer utility industry.

...KRJ is always willing to speak with customers regarding any questions they may have regarding billing, service, rates, etc. The Company takes very seriously its duty as a public utility in North Carolina to provide its customers with adequate, efficient, and reasonable service at reasonable rates as required by North Carolina law and the rules and regulations promulgated by the NCUC and NCDEQ.

...the water supplied by KRJ at Southern Trace and Rockbridge is potable and entirely safe to drink. It meets all State and Federal Safe Drinking Water Act requirements for potability and safety. KRJ concedes that customers may experience intermittent problems with the appearance of the water, such as cloudiness or a milky appearance, but those problems are generally transient and do not present health concerns. That said, by offering these comments, KRJ does not mean to minimize, in any way, customer testimony regarding their water quality concerns. To the contrary, the Company is fully committed to rectifying any problems, once reported, which are capable of correction as expeditiously as possible.

However, as a matter of full disclosure, some customers at Southern Trace recently experienced an episode of "muddy" brown water and air which was first reported to KRJ on the morning of Thursday, May 24, 2018. Company personnel were immediately dispatched to resolve the reported water quality problems and worked diligently for two days to do so. The situation is now stable. A copy of the May 28, 2018 Incident Report which KRJ sent to David Furr, who is the Director of the Public Staff Water and Sewer Division, is attached to this report as Exhibit A. KRJ's Incident Report describes in detail the actions taken by the Company to address and resolve the situation.

...the water pressure supplied by KRJ consistently meets or exceeds minimum State requirements and standards. As the case with any water system, pressure varies somewhat from time to time during the day due to the necessary expenditure and replenishment of water in the storage facilities that are a part of the water system.

...KRJ has implemented certain important and significant customer communication and service policy changes in response to the testimony offered by customers at the public hearing which are detailed later in this report.

Report Regarding Southern Trace Water System

The three witnesses served with water utility service by KRJ at Southern Trace were Thomas D. Rains, Jacqueline Walker, and Shelley Iverson. KRJ offered the following general responses to customer comments regarding the Southern Trace water system.

1. Replacement of Submersible Pump at Well 2

The replacement of the failed submersible pump located within well 2, which occurred during the period of time in July and August 2015, was complicated by failure of suppliers to provide proper replacement equipment. Much of the problems were as a result of the pump being powered by a 15-horsepower single phase submersible motor, which is quite difficult to find. Maintaining one as a spare is ill advised as there is a recognized "shelf" life of such a device which could render it unusable at a future date. At such time as the pump must again be replaced, KRJ will consider replacing it with the combination of a 3-phase pump powered by a modified variable frequency drive (VFD) to convert the only power available within Southern Trace (single phase) to 3-phase.

2. Diminished Pumping Capacity of Well 2

After replacement of the pump in well 2, it was determined in August 2015 that the yield of well 2 had diminished from its original 78 gallons per minute (gpm) to approximately 25 gpm. Fortunately, well 3 had been placed into service in June 2015 to augment production from wells 1 and 2. Upon identifying the decline in production of well 2, KRJ immediately set about locating a suitable contractor who could successfully renovate the well to recover as much of the lost capacity as possible. Such a contractor is not the typical well driller, but one who utilizes very specialized equipment and technique. The first such contractor provided a totally unresponsive proposal. KRJ's pursuit of a contractor continued through yet another, who declined to provide a quotation due to the scope of the project. KRJ is waiting on a proposal from a third prospective contractor.

At this time, the available well yield from all three wells serving Southern Trace is approximately 91 gpm; with the full capacity of well 2 restored, the well production capacity would be 144 gpm. Even with the reduced production from well 2, no low-pressure complaints were received by KRJ's office during 2017. However, the current situation does point out the limitation of the Southern Trace water system, and any small system, to support irrigation loads. A single in-ground irrigation spray head will discharge approximately 5 gpm. Were three irrigation systems each operating four spray heads at a time to be actuated simultaneously, the demand would consume two-thirds of the well production, leaving only 31 gpm, under current conditions, to accommodate domestic needs. KRJ has consistently attempted to educate its customers of the need to refrain from irrigation of lawns as small well-sourced water systems are not designed to accommodate other than domestic usage; such effort appears to have had some success.

3. Electronic Pressure Control System

Although the current system controlling the operation of the wells at Southern Trace is functioning well, KRJ intends to pursue a system that will utilize a control system that utilizes an electronic pressure transducer, which will produce more accurate pressure measurement than the pressure switches currently used; cellular data transmission, to avoid local interference with the radio communications system; and computer-based control logic. To date, equipment manufacturers have been identified, quotes obtained, and cellular field strength measurements made, to determine the most desirable cellular system to use. Scheduling of the installation will depend on availability of funds.

4. Water Pressure Variations

Pressure variations are both normal and necessary in any water system due to the necessary partial expenditure and replacement of water within the tank to assure that the water is turned over and does not lose its chlorine residual. When demand exceeds the pumping rate of the wells, pressure tanks (or elevated storage tanks) serve to provide water to the system when instantaneous demand rate exceeds instantaneous production rate. Water storage tanks serve as "shock absorbers" between demand and supply by contributing or receiving water from the distribution system. They may be either pressure tanks, as at Southern Trace, or an elevated storage tank, as at Rockbridge.

In its report, KRJ then discussed specific Southern Trace customer comments. With certain exceptions as discussed below (in particular, the extensive testimony of customer Thomas Rains and certain other specific concerns expressed by a few customers), the summary of Southern Trace customer testimony included in the report and the Company's specific responses to those comments are incorporated herein by

reference and will not be repeated in this Order, because they are adequately and fully addressed in the general comments set forth above.

Response of KRJ to Testimony of Thomas Rains

First, KRJ wants to acknowledge appreciation for Mr. Rains' positive comments during his testimony to the effect that, in his opinion, during the last three years, customers have not experienced water pressure problems at Southern Trace to the extent they did in 2015, and that, in fairness to KRJ, the water system seems to be operating better today than it did in 2015. Next follows the Company's response to Mr. Rains' other less positive comments:

Test Year. As was stated by Public Staff Attorney William Grantmyre, the Public Staff will update the test year in this case for ratemaking purposes to the period April 1, 2017 - March 31, 2018, to be more reflective of current circumstances. KRJ has been fully cooperative with the Public Staff during its investigation and has supplied voluminous utility records during the discovery process.

Failure to Upgrade System. The service lives of various components of a water system vary widely from 10 years for mechanical items such as pumps to 50 years for buried mains and services. Normal water utility practice is to replace items as they indicate pending failure or in fact fail, unless upgrade is necessary to accommodate changes in system demand or water quality. Premature replacement of plant facilities serves only to unduly expedite the expenditure of capital funds and could needlessly exaggerate and expedite the necessity of more frequent, higher rate increases. The Southern Trace water system is less than 20 years old. Accepted service lives of principal system components are as follows: Storage tanks - 50 years; distribution mains - 50 years; wells - 50 years; well pumps - 7 years. With the exception of well pumps, failure due to age of the system is well into the future. KRJ stocks most routinely-needed repair parts, such as electric or electronic components and chemical feed equipment repair kits.

System Design. The entire water source, including the treatment and distribution system at Southern Trace, was designed, permitted and constructed consistent with the requirements of the NCDEQ, or that agency's predecessors. All water systems exhibit differing pressures at different locations due to their different elevations above sea level due to the effects of gravity; and Southern Trace is no exception. There is approximately 100 feet of elevation differential from the front (highest) to back (lowest) portions of the system, thereby resulting in a differential pressure at any given time of approximately 43 psi.

The system controls that cause the operation of the well pumps, the source of the pressure in the system, are set to cause the submersible pumps in

the wells to run, pumping water into the system, at 70 psi, and cause the pumps to stop at 78 psi. The difference between system demand rate and pumping rate is accommodated by the two hydropneumatic tanks located proximate to well 1, which is also in the higher area of the subdivision. The result of this is that normal operation of the system causes pressures to be 70-80 psi at the higher areas and 110-120 psi in the lower areas. As a comparison, Raleigh's "497" system exhibits pressures ranging from 40 psi to 135 psi.

The issue at Southern Trace is not "pressure" but the "perception of pressure." As was stated, when customers located at the higher portions of the system observe reduced pressure, those at the lower ends of the system do not observe the same reduction. Stated differently, if the pressure at the higher portions of the system drop by 45 psi (from 80 to 35 psi) that change is very easily observed; whereas, if the same drop occurs at the lower portions of the system, which they will, the change in pressure from 120 to 75 psi will not be observed by affected customers, as all of the houses have code-required pressure reducing valves, which deliver a uniform pressure to the household plumbing, normally around 50 psi.

It should be noted that the required minimum pressure on a public water supply system is 30 psi. System pressure at Southern Trace is noted by the operator during each of his periodic rounds and system pressure is consistently observed to be in excess of 30 psi. KRJ knows of no way, other than continuous education of the customers, to address the issue; and clearly not by a physical system that would introduce not only additional complexity in the system but additional opportunities for mechanical failure.

"Remote" Management of the System / Lack of On-Site Engineering. The portion of the management that exists out of the Wake County area is that of customer support, accounting, and billing. KRJ's management contractor, Management Group of NC, Inc. (MGNC), has trained personnel in the Wake County area to cause meter readings, customer collections, and, as necessary, triage system issues. Mr. Butler, the Vice President of MGNC, to whom Mr. Rains referred several times during his testimony, does live some distance from Wake County, but often returns to perform periodic observations of the systems of KRJ and provide technical support to other contract personnel, such as plant operators. He is both a licensed Professional Engineer and holds Treatment Operator Certifications well in excess of those required to operate the Southern Trace water system.

During the period of system duress in the spring/summer of 2015, Mr. Butler was on site in Southern Trace on three separate occasions to gain knowledge of exactly what was happening. The sequence of events during 2015 was: the submersible pump in well 2 failed; the particular model of pump was not available within the Continental United States, due to the manufacturer, and the large (15 horsepower) single-phase motor required

due to the availability of electric power within Southern Trace; a new pump was ordered after the pump supplier advised KRJ's well contractor that it was a proper replacement based on his translation of the model number of the pump that failed; and the new pump was installed. This would have been the end of the issue, were it not for the fact that the supplier was incorrect in his translation of the model number which resulted in the new pump that been installed being incapable of performing. A proper replacement pump was obtained, and installed, only to find that its motor was defective. The pump had to be again removed from the well, a new motor affixed, and the pump had to again be reinstalled. Barring external damage, such as lightning, the pump should be functional for the remained of its anticipated service life of 7 years.

Overhaul of the Entire System. As stated previously, with the exception of the need for remediation work at well 2, the system is well within its useful life, and such an expense is not warranted.

Irrigation Demand. It is true that KRJ has opined on several occasions that increased demand for water imposed by irrigation systems may be exacerbating the water pressure/availability issues. Point of fact, it has been explained to Mr. Rains and many other customers that small water systems, such as the one serving Southern Trace, are not designed to accommodate irrigation demands, only domestic water usage. Unfortunately, a builder in the lower portion of the system offered in-ground irrigation systems to the prospective home purchasers, without the knowledge or consent of KRJ. Fortunately, recently, as was acknowledged by Mr. Rains, their use and potential for system stress has reduced.

KRJ's report also addressed the following additional specific comments from Southern Trace customers:

Cloudy Water. Intermittent cloudy water in systems with hydropneumatic tanks is not uncommon due to dissolution of air from within the tank into the water. As the water is tested consistent with the Safe Drinking Water Act and has been found compliant with the requirements of the Act, the cloudiness does not reflect any safety or health hazard.

Coloration of Water. As Public Staff attorney Grantmyre observed, the coloration of the water is most likely due to oxidized iron. Iron, although potentially imparting undesirable coloration, is not considered a health hazard, which is why it is on the United States Environmental Protection Agency's (USEPA) "Secondary" contaminant list as an aesthetic issue, rather than the "Primary" list which identifies health-risk contaminants. KRJ utilizes a process known as "sequestration" where a National Sanitation Foundation (NSF) approved chemical sequestering agent is added to the water containing free ion iron, which is colorless. The sequestering agent combines with the iron ion, as well as manganese, to prevent it from being oxidized by the chlorine added as a disinfectant, which would impart a color.

Ideally, the distribution system would be flushed frequently to expel any settled sequestered iron. With the reduced yield of well 2, at present, flushing operations must be undertaken at less frequent intervals to conserve potable water.

Odor of Water. KRJ has no explanation for the odor that Ms. Iverson reports, as KRJ has not received odor complaints from the customers served by the Southern Trace system in many years.

Water Pressure. Ms. Iverson's residence is located in the "higher" portion of the subdivision, thus not enjoying the greater pressures present toward the lower areas. The water pressure that KRJ maintains, except in periods where demand exceeds well output, is well above the 30-psi minimum and approaches in some cases the 80-psi maximum allowed by the plumbing code. Given the elevation above sea level of the residence, it is very possible that her residence is equipped with an unnecessary pressure reducing valve installed when the house was constructed. Mr. Butler contacted Mr. Iverson and provided information on re-setting the device to cause it to deliver the maximum pressure it will allow.

Report Regarding Rockbridge Water and Sewer Systems

The eight witnesses served with water and sewer utility service by KRJ at Rockbridge were Craig E. Buzak, Pat Foran, Robert C. Herbert, Jr., Taunia Teel, Brian Maxwell, Gerald Daniel, Kathleen Kendzierski, and Ginger Rodgers. KRJ offered the following general responses to customer comments regarding the Rockbridge water and sewer systems.

1. Water Leaks

The water leaks spoken to by the customers providing testimony were, with one exception, as a result of service line leaks and not main breaks. The exception was when a main which had been marked was drilled into in 2017 by a contractor installing fiber-optic cable. The customers are correct in their observations that the vast majority of the service line leaks occurred on three specific streets within the 2006-2007 initial development phase of Rockbridge. What KRJ has determined is that the rock present in those areas fractures when being excavated during underground installations resulting in knife-like shards that if allowed to come in contact with the polyethylene tube service lines will over time cut the service, resulting in a water service leak. *Following the hearing, KRJ has established a new policy that if a given service line presents a leak for two occasions, it will be replaced rather than being repaired.*

2. Repair Response Times and Improved Communications with Customers

The customers offering testimony also observed their difficulty in obtaining information on repair of reported water leaks and that the leaks were not repaired in a timely fashion. *The day following the hearing, KRJ initiated a new protocol providing for improved communication between the plant operating personnel, maintenance/construction supervisor, contract manager, and utility contractor used to make repairs to assure that all Company personnel are kept abreast of the situations as they evolve so that customer inquiries can be answered with the best information possible and that the coordination of all utility personnel is significantly improved. The utility contractor was also counseled on the necessity that the response to reported problems should be as expeditious as possible and that the contractor was expected to provide timely completion of clean-up activities, including surface restoration, such as seeding or pavement repair. Mr. Butler will utilize his field technician in addition to the field maintenance/construction supervisor to triage the reported problems to better direct the repair contractor as to what materials and equipment they may require to address the problem. Additionally, to facilitate documentation and timely response to service issues, MGNC (through Mr. Butler) has established a new e-mail account - **info@mgnc.biz** - that is dedicated to receipt and response to customer reports of service issues and inquiries associated with other water/sewer utility matters. That e-mail address will soon appear on monthly customer bill statements.*

3. Unwillingness of Certain Customers to Drink the Water Supplied by KRJ

Several customers testified that they do not drink the water provided by KRJ and, instead, purchase bottled water. Although that may be their preference, or response to inaccurate information, they should be aware that KRJ's water system serving Rockbridge has had only one instance of a contaminant exceeding EPA's established levels. That instance was the identification of uranium, which is naturally occurring in some rock formations in the Wake County and some adjoining counties, and Gross Alpha which is most often associated with the presence of uranium in water. That situation never became such that the North Carolina Department of Environmental Quality Public Water Supply Section, USEPA's agent in enforcing the Federal Safe Drinking Water Act, declared a health emergency, requiring that alternate drinking water be provided.

The entire uranium issue was resolved by KRJ's installation of a uranium removal system which was placed into operation in June of 2016. No uranium has been detected in finished water samples since that time and the gross alpha has fallen to levels well below those acceptable under the Safe Drinking Water Act.

4. Rate Case Test Year

As was stated by Public Staff attorney Grantmyre, the Public Staff has updated the test year for ratemaking purposes in this case through the period April 1, 2017 - March 31, 2018, to be more reflective of current circumstances. KRJ has been fully cooperative with the Public Staff during its investigation and has supplied voluminous utility records during the discovery process.

5. System Outages

KRJ is aware of three system outages which occurred during the three-year period from 2015 through 2017: one associated with the damage caused by the fiber-optic installer, one where a control relay failed, and one caused by an error of the contractor installing the uranium removal system. To guard against significant pressure drops or equipment trips, a remote alarm system was installed at Rockbridge some time ago.

Although the current system controlling the operation of the wells at Rockbridge is functioning well, KRJ is pursuing a system that will utilize a control system that utilizes an electronic pressure transducer, which will produce more accurate pressure measurement than the pressure switches currently used; cellular data transmission, to avoid proximal interference; and computer-based control logic. To date, equipment manufacturers have been identified, quotes obtained, and cellular field strength measurements made, to determine the most desirable cellular system to use. Scheduling of the installation will depend on availability of funds.

6. Water Pressure Variations

Pressure variations are both normal and necessary in any water system due to the necessary partial expenditure and replacement of water within the tank to assure that the water is turned over and does not lose its chlorine residual and when demand exceeds pumping rate as the tank serves to provide water to the system when instantaneous demand rate exceeds instantaneous production rate. The water level in the Rockbridge elevated tank is designed to fluctuate between 115 feet to 144 feet above the base of the tank which translates to a normal pressure variation of 13 psi.

7. Chlorine-Related Complaints

Chlorine is required to be continuously applied, more recently by USEPA, to all public drinking water systems placed into operation since the mid-1970s. USEPA sets the maximum concentration of chlorine in drinking water to be 3.5 mg/L. Some people may exhibit higher sensitivity to chlorine than others and the Company sympathizes with those customers who offered testimony in that regard; for that reason, KRJ attempts to maintain

the chlorine concentration as low as possible while complying with applicable regulations. The electronic control system for the application of chlorine and all other water treatment chemicals is such that they are applied in a flow proportional manner. Some variation in chlorine concentrations will always exist throughout a distribution system due to distance from the water plant and changes in flow patterns within the system. KRJ must maintain the chlorine concentration leaving the treatment facility at a level that assures at least a 0.1 mg/L concentration throughout the distribution system. Representative copies of recent operating reports which indicate actual chlorine residual measurements within the distribution system, as filed with the North Carolina Department of Environmental Quality, are attached to this report as Exhibit B.

In its report, KRJ then discussed specific Rockbridge customer comments. With certain exceptions as discussed below, the summary of Rockbridge customer testimony included in the report and the Company's specific responses to those comments are incorporated herein by reference and will not be repeated in this Order, because they are adequately and generally addressed in the general comments set forth above.

Maintenance of Spray Fields. KRJ's ownership and the maintenance and construction supervisor have been consulted regarding the maintenance of the spray fields and they have committed to more frequent mowing and maintenance of those areas. To a large degree, the cost of mowing of the spray fields has to date been absorbed by the developer of Rockbridge; KRJ will be paying for mowing of the spray fields beginning this summer. In the specific case of the field to which Mr. Buzak referred, the slopes from the curb to the fields will be re seeded, as grass cover is sparse. The field itself has not yet been placed into service and is therefore not visited as often as those that are in service. The "geyser" referred to was a result of vandalism of both a control valve and a spray riser, both of which have been repaired.

Billing Practices. The Schedule of Rates ordered by the Commission for Rockbridge states: "Bills Past Due: 15 days after billing date." KRJ has always considered that the "billing date" was the date that the bills are mailed and applied to earned income and receivable ledger accounts. The "Date Mailed" that appears on the bill is the date that the bills are physically delivered to the United States Postal Service. Mr. Butler advises each new customer at the time that he is contacted by the customer to initiate their customer account that KRJ holds the "Past Due Date" uniform as the 5th day of each month and that the bills are mailed no less than 15 days prior to the "Past Due Date". The assertion that the bills are mailed after the "Due Date" is incorrect. A copy of a sample redacted utility bill is attached to this report as Exhibit C.

M&M Response. The statement from M&M reported by Mr. Daniel to the effect that that, recently, KRJ did not want to send a plumber out on a weekend to make a repair because "it was too expensive" was not, nor has

it ever been, the position or attitude of KRJ regarding necessary repairs. KRJ sincerely apologizes to Mr. Daniel for the unauthorized and inappropriate comment. Newly-adopted protocols require that KRJ representatives triage reported leaks as soon as possible, and determine the most appropriate level of response, which includes “immediate” and “next working day” response times, depending on the severity of the issue.

Dress of Leak Repair Site. Subsequent to the hearing, Mr. Butler contacted the maintenance and construction supervisor and asked that personnel be sent to Mr. Daniel's residence to more appropriately dress the site of the service line repair. The supervisor revisited the site on May 23 and reports that the area has now been re-shaped and additional seed and mulch were added. Mr. Butler then attempted to contact Mr. Daniel to determine the customer's level of satisfaction with the site repair, but the cell phone number on file with KRJ was incorrect.

Milky Water. There are two potential causes for "milky water". The first is trapped air within water mains recently placed into service where the air becomes entrained in the water as microscopic bubbles. The second is insufficient alkalinity in the water which results in the water evolving carbon dioxide, the fizz in soda pop. KRJ augments alkalinity by the addition of lime slurry as part of the treatment process. Minor variations in water quality from the wells may result in the lime slurry feed rate being insufficient, as KRJ attempts to minimize the application of lime to a concentration just above the effective level since alkalinity is observed by the customer as hardness. When KRJ receives such a complaint, it immediately determines whether the lime feed system is operating properly and, if appropriate, slow flushes the potentially offending water main in an attempt to purge it of any air-laden water.

Smell in the water. KRJ is unsure as to what smell Ms. Kendzierski is referring unless it is chlorine, which is spoken to in KRJ's general responses.

Uranium Issue. The issue regarding uranium and gross alpha exceedances is discussed in KRJ's general responses that precede the Company's customer-specific responses. At no time did the State of North Carolina or KRJ recommend or require acquisition of treatment systems by the customers; however, it is understood that some did so at their own choosing.

Raleigh Evidentiary Hearing (June 20, 2018)

The evidentiary hearing was convened in Raleigh, North Carolina as scheduled. Five customers testified at the evidentiary hearing. Four of those witnesses, who reside in KRJ's Southern Trace service area and are water utility customers, were Shelley Iverson, Jacqueline Walker, Gregory Cols, and Gaylord Hoxie. Witnesses Iverson and Walker, who previously testified at the public hearing, offered additional testimony. The

fifth customer witness was Veronica Long, who resides in the Company's Rockbridge service area and is a water and sewer utility customer.

KRJ witness Butler, during his testimony at the evidentiary hearing, responded to and addressed in detail the service-related concerns and comments offered by the five customers who testified at the evidentiary hearing. He also expounded on and explained many of the observations and comments contained in the Company's written report, particularly as they applied to the customer testimony offered at the evidentiary hearing. Mr. Butler fully addressed and responded to the customer testimony from the evidentiary hearing which pertained to the late-May 2018 incident report attached to his prefiled testimony as Exhibit A.

Public Staff witness Casselberry testified that her investigation included review of customer complaints; contact with the Division of Water Resources (DWR), Public Water Supply Section (PWSS) and Water Quality (WQ); review of Company records and analysis of revenues at existing and proposed rates; and site inspection of the three KRJ utility systems. Witness Casselberry testified that she had contacted representatives of the Raleigh regional office regarding the operation of the KRJ water and sewer systems. She testified that none of the regional office personnel she contacted expressed any concerns with the water systems or the sewer system serving KRJ customers.

Witness Casselberry further testified that on May 15, 2018, she inspected the three KRJ systems with Mr. Rod Butler and other members of the Public Staff. The water systems in Southern Trace and Rockbridge were in good condition and adequately maintained. The new uranium removal system in Rockbridge was installed and operational. All of the chemical feed pumps used for treatment were operating and the containers were approximately 85 percent full. The WWTP in Rockbridge was in good condition. Witness Casselberry testified that she did not notice anything unusual about the operation of the plant, nor did she detect any odor, other than next to the intake and bar screen which is normal. She stated that the ponds were well maintained and had plenty of free board. The wastewater effluent spray fields located near the entrance to Rockbridge were adequately maintained. Witness Casselberry stated that is the Public Staff's opinion that the water and sewer systems in Southern Trace and Rockbridge are adequately maintained and operating properly.

Further, witness Casselberry testified that the Public Staff received six written complaints. She stated, in her prefiled direct testimony that the public hearing was held as scheduled and eleven customers testified. The two primary concerns in Southern Trace were water pressure and coloration of the water. Mr. Rains had concerns with the design of the system and operations. The primary complaints in Rockbridge Subdivision were response time to water leaks, system outages, water pressure, chlorine levels and the safety of the water. KRJ was required to file a report addressing customer complaints and concerns.

Witness Casselberry testified that on May 30, 2018, KRJ filed its Report on Customer Comments from Public Hearing in Raleigh, North Carolina as required by the Commission. She stated that she read the report and commended KRJ for its thorough response concerning customer complaints. Witness Casselberry stated that the Public

Staff is satisfied with the Company's response to customer concerns, the implementation of its new procedures and policies to improve response times to leaks and customer complaints, and its commitment to install supervisory control and data acquisition (SCADA) control systems in Southern Trace and Rockbridge Subdivisions. Witness Casselberry concluded her testimony by stating that she had no further recommendations.

Conclusions Regarding Overall Quality of Service

Based upon the foregoing, and after careful review of the testimony of the customers at the public and evidentiary hearings, the testimony of Company witness Butler, the Report on Customer Comments provided by KRJ, and the Public Staff's engineering and service quality investigation, the Commission concludes that the overall quality of service provided by KRJ is adequate. In reaching this conclusion, the Commission notes that the Company has initiated certain important and significant customer communication and service policy changes in response to the testimony offered by customers at the public and evidentiary hearings.

Furthermore, the Commission notes that Public Staff witness Casselberry testified that none of the North Carolina environmental agency regional office personnel she contacted expressed any concerns with water quality or KRJ's operation of the water and sewer systems serving its customers. In addition, witness Casselberry stated that the water and sewer systems at Southern Trace and Rockbridge Subdivisions were observed, during her inspection, to be adequately maintained and operating properly. Witness Casselberry also testified that the Public Staff was satisfied with KRJ's report and the Company's "thorough response concerning customer complaints", as well as the implementation by KRJ of new procedures and policies to improve response times to leaks and customer complaints.

Notwithstanding the above observations, the Commission recognizes the validity of the customer complaints regarding specific service quality issues voiced at the hearings and does not intend, in any way, to minimize those complaints. With respect to the concerns expressed concerning communications with KRJ, the Commission strongly supports that customers must be able to quickly and easily voice their concerns to their utility company and also receive a timely response that their concern will be addressed as soon as possible or within a specified estimated time period. Otherwise, customers become frustrated and are likely not to report their concerns to the utility resulting in rate case proceedings being the first time the company, the Public Staff, and/or the Commission become aware of a quality of service concern. It is imperative that customers are able to communicate with the utility when a problem arises; that the utility respond to the customer without delay; and that the problem is addressed by the utility within a reasonable time period. The Company's newly-established e-mail account dedicated to the receipt and response to customer reports of service issues and other inquiries associated with water/sewer utility matters should help address this service-related concern. However, the Commission is of the opinion that KRJ should also seek to obtain and maintain the current email addresses and/or telephone numbers for its customers in Southern Trace and Rockbridge Subdivisions in order to better communicate with its

customers concerning matters pertaining to their utility service. KRJ should also establish a process for customers to update KRJ concerning such contact information as needed.

Further, KRJ's newly-initiated protocol for providing for improved communication and coordination between the plant operating personnel, maintenance/construction supervisor, contract manager, and utility contractor used to make repairs to assure that all Company personnel are kept abreast of the situations as they evolve so that customer inquiries can be answered with the best information possible should also aid in addressing this service-quality concern expressed by the public witnesses.

The Commission acknowledges that the Public Staff testified it is satisfied with the Company's response to customer concerns and the implementation of new procedures and policies to improve response times to leaks and customer complaints. However, to ensure that these new procedures and policies are effective in improving KRJ's communications with customers and also aid in addressing the reported service-related concerns as expeditiously as possible, the Commission will require the Public Staff, not later than six months from the date of this Order, to follow up on the concerns expressed by customers of KRJ at the public and evidentiary hearings and file a report on the implementation status of the service improvements described in KRJ's report filed with the Commission on May 30, 2018.

With respect to the coloration of the water and low pressure issues expressed by the customers in Southern Trace Subdivision, the Commission encourages KRJ to continue its efforts to restore Well 2 to increased pumping capacity as soon as practicable to help alleviate these concerns. The Commission is of the opinion and therefore finds and concludes that KRJ should provide the Commission an update on a quarterly basis regarding the status of obtaining a contractor and once such contractor has been obtained, the estimated start date and completion date of the project. Such quarterly reporting should continue until KRJ has reported to the Commission the actual project completion date for restoring Well 2 to increased pumping capacity.

In regard to the concerns expressed by customers in Rockbridge Subdivision concerning the Company's response time to leaks, system outages, water pressure, chlorine levels, and the safety of the water, the Commission agrees with the Public Staff that KRJ's implementation of new procedures and policies should improve response time to leaks and other customer complaints. Moreover, the Company's newly-adopted protocols that require KRJ representatives to triage reported leaks as soon as possible, and determine the most appropriate level of response, which includes "immediate" and "next working day" response times, depending on the severity of the issue should adequately address customer customers. Further, following the hearing, KRJ expressly stated it has established a new policy that if a given service line presents a leak for two occasions, the line will be replaced rather than repaired. With respect to customer concerns regarding the safety of the water, the Commission notes that KRJ reported that the entire uranium issue was resolved with the installation of a uranium removal system which was placed into operation in June of 2016. KRJ stated that no uranium has been detected in finished water samples since that time and the gross alpha has fallen to levels well below those acceptable under the Safe Drinking Water Act.

Accordingly, the Commission, after careful review of the Company's detailed service report and KRJ witness Butler's testimony at the evidentiary hearing, concludes that the Company has acted in good faith to address and remedy service problems. The Commission also notes that some of the customers who testified at the public hearing voiced no current or ongoing service quality complaints which personally affected their utility service.

For the foregoing reasons, the Commission concludes that the overall quality of the water and sewer service provided by KRJ to its customers is adequate.

II. Cost of Capital

Public Staff witness Hinton testified by affidavit that the purpose of his affidavit was to recommend to the Commission a fair rate of return to be employed as a basis for determining the appropriate revenue requirement for KRJ to provide water utility service at Southern Trace Subdivision and water and sewer utility service at Rockbridge Subdivision in Wake County, North Carolina.

For the water utility service and the sewer utility service, witness Hinton recommended that KRJ be granted a 7.75% margin on operating revenue deductions or a 7.75% overall return on rate base. Witness Hinton testified that, after investigation, the Public Staff determined that (1) KRJ's reasonable level of operating expenses is greater than its rate base for Southern Trace water utility service and (2) for the Rockbridge Subdivision, the Company's utility rate base is greater than the reasonable level of operating expenses for both water and sewer utility service. As allowed under N.C. Gen. Stat. § 62-133.1, witness Hinton stated that he used the operating ratio method to evaluate KRJ's proposed rate increase for utility service in the Southern Trace Subdivision and that, as allowed under N.C. Gen. Stat. § 62-133, he used the rate base method to evaluate KRJ's proposed rate increase for utility service in the Rockbridge Subdivision.

Witness Hinton stated that, as outlined in Docket No. W-173, Sub 14, a Montclair Water Company docket, several factors should be considered when judging the adequacy of a return. These are interest coverage, adequacy of the income level after interest expense, the level of inflation, and the quality of service.

In considering the Montclair factors in conjunction with this proceeding, witness Hinton testified that he did not incorporate any consideration with respect to quality of service. He stated that interest coverage has been provided at an adequate level; and that the level of inflation has been factored into the U.S. Treasury bond rate by investor expectations of the future levels of inflation. Witness Hinton opined that the recommended margin on expenses and overall return on rate base provide an adequate level of income after interest expense.

For these reasons, witness Hinton recommended to the Commission that KRJ be granted a 7.75% margin on operating revenue deductions and a 7.75% return on rate base.

In Paragraphs 4.C., 4.D., and 4.E. of the Stipulation, KRJ and the Public Staff stated the following in support of an authorized return of 7.75% in this proceeding:

C. The Stipulating Parties stipulate and agree that an overall return on rate base and an operations margin of 7.75% are appropriate to use to establish rates in this proceeding. For purposes of this proceeding, this agreed overall rate of return is deemed by the Stipulating Parties to be a reasonable rate of return that will provide the Company with a reasonable opportunity, by sound management, to produce a fair return for its shareholders, considering changing economic conditions and other factors, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchises, and to compete in the market for capital funds on terms that are fair to its customers and to its existing investors. Each of the Stipulating Parties further agrees that such stipulated overall rate of return, together with the Company's supported levels of rate base and operating expenses, results in a revenue requirement that is just and reasonable to the Company's customers in light of changing economic conditions.

D. The overall rate of return that the Company should be allowed an opportunity to earn on its rate base in Rockbridge Subdivision is 7.75%.

E. The Company should be allowed a 7.75% margin on operating revenue deductions requiring a return for the Southern Trace Subdivision, which results to an operating ratio of 92.97% (including taxes) or 92.81% (excluding taxes).

N.C. Gen. Stat. § 62-133(b)(4) requires the Commission to fix rates for service which will enable a public utility, by sound management, to produce a fair profit for its stockholders, in view of current economic conditions, maintain its facilities and services and compete in the market for capital, and no more. This is the ultimate objective of ratemaking. Utilities Commission v. General Telephone Company, 281 N.C. 318, 189 S.E.2d 705 (1972).

Accordingly, the Commission is of the opinion that, based on the affidavit submitted by Public Staff witness Hinton and the applicable provisions of the Stipulation as set forth above, there is adequate evidence in the record to support (a) the return of 7.75% agreed to by the Public Staff and KRJ and (b) a finding that such return should allow KRJ to properly maintain its facilities and services, provide adequate service to its customers, and produce a fair return, thus enabling the Company to attract capital on terms that are fair and reasonable to its customers and investors. Consequently, the Commission finds and concludes that the return of 7.75% that was agreed to by KRJ and the Public Staff is just and reasonable, should be approved, and is appropriate for use in this proceeding considering the impact of changing economic conditions on customers and relevant statutory and case law.

III. Overall Conclusions

At the evidentiary hearing, the Commission posed several questions to the Public Staff's witnesses for which late-filed exhibits were provided. In its late-filed exhibits, the Public Staff acknowledged that it had erroneously calculated the loss on disposal of property for both the Southern Trace and Rockbridge water systems. Further, the Public Staff stated that KRJ did not in any way contribute to these errors. The Public Staff did not quantify the revenue requirement amount of the errors, either individually for Southern Trace and Rockbridge Subdivisions or on a combined total company basis. Nevertheless, the Public Staff requested that the Commission approve in full the Stipulation as originally filed, including all of the revenue requirements that were achieved through good faith difficult negotiations. In support of its position, the Public Staff contended that KRJ had relinquished several significant issues that KRJ planned to litigate when it agreed to the Stipulation and that it would now be unfair to KRJ to lessen the agreed-upon revenue requirements as a result of these errors.

In response to the questions posed by the Commission at the evidentiary hearing, KRJ filed the Verified Affidavit and Late-Filed Exhibit of James R. Butler. In its affidavit, KRJ asserted that the Company would be materially impacted to the detriment of the Company if the amounts for loss on disposal of property were adjusted as a result of the discovery of these errors. KRJ submitted that, upon further review of its books and records, there were at least six additional instances of loss from disposal of equipment incurred by KRJ during the three-year period ending June 30, 2018, which could have been included for cost recovery in this case, but were not. KRJ detailed these additional losses from disposal of equipment in Attachment A to witness Butler's affidavit. Similar to the Public Staff, KRJ did not quantify the revenue requirement amount of these errors or the amount by which the six additional instances of loss on disposal of equipment would mitigate the revenue requirement impact; but rather, maintained that the Stipulation as originally filed, which was agreed to only after intense and extensive negotiations with the Public Staff, is fair to both the Company and its customers.

The Commission recognizes that, to date, the parties have expended considerable time, effort, and expense to achieve a settlement in this proceeding. The Commission notes that Paragraph 15 of the Stipulation states that "no portion of this Stipulation shall be binding on the Stipulating Parties unless the entire Stipulation is accepted by the Commission". In general, the Commission encourages the various parties in a general rate case proceeding to work together to reach a stipulation, if possible. Such stipulations provide benefits to both the utility and its customers. However, in this particular rate case proceeding, the Commission is aware that errors exist in the Stipulation. The Commission acknowledges that if the parties were to engage in further negotiations at this point in time, it would likely materially increase the amount of rate case expense to be included in the new rates that would ultimately be approved for customers. Moreover, the Commission notes that the Public Staff, the consumer advocate for customers in this proceeding, who was a party to the lengthy and difficult settlement negotiations, continues to support Commission approval of the Stipulation as originally filed notwithstanding acknowledgment of its errors.

At this juncture, the Commission is of the opinion that it would be beneficial to both the Company and its customers for the Commission to accept the Stipulation of KRJ and the Public Staff as originally filed. Although the Commission is not bound to accept the Stipulation as filed, based upon all evidence of record, the Commission finds and concludes that the Stipulation represents a reasonable result for both KRJ and its customers. The Commission observes that in reaching a stipulation with the Public Staff in this proceeding KRJ has agreed to accept, without further litigation before the Commission and resulting rate case expense, a 43.3% increase in total operating revenues for Southern Trace Subdivision when it applied for a 81.8% increase and a 10.5% increase in total operating revenues for Rockbridge Subdivision (Water and Sewer Operations combined) when it applied for a total increase of 72.2%.

However, in light of the errors identified in the Public Staff's testimony and exhibits and the Company's statement that KRJ would be materially impacted to the detriment of the Company if the amounts for loss on disposal of property were adjusted as a result of the discovery of the errors, and that the additional instances of loss on disposal provided by KRJ witness Butler in his Verified Affidavit, which would likely mitigate these errors, have not been reviewed and accepted by the Public Staff, the Commission is of the opinion that it would be reasonable and appropriate to require KRJ to not file a general rate case prior to October 10, 2019, with changes in rates effective no sooner than August 6, 2020. This condition, imposed by the Commission, attached to the Stipulation as originally filed would benefit both customers and the Company. Customers would be shielded from the possibility of further rate increases for the next two years and KRJ would be able to implement the stipulated rates effective upon issuance of this Order.

Therefore, after carefully reviewing the Stipulation and all of the evidence of record, including the Late-Filed Exhibits filed by Public Staff witnesses Morgan and Casselberry and the Verified Affidavit and Late-Filed Exhibit filed by KRJ witness Butler, and with the condition that KRJ would not have any further general rate case increases for the next two years, the Commission finds and concludes that the Stipulation is the product of the give-and-take settlement negotiations between KRJ and the Public Staff; that the Stipulation constitutes material evidence; that the Stipulation is entitled to be given appropriate weight in this proceeding, along with all other evidence in the record; and that the Stipulation is fully supported by competent evidence in the record.

Accordingly, based on the foregoing findings of fact and the entire record in this proceeding, the Commission concludes that the stipulated rates, the stipulated rate of return of 7.75%, and all of the other provisions of the Stipulation, which are incorporated herein by reference, are just and reasonable and should be approved. Further, KRJ should not file a general rate case prior to October 10, 2019, with changes in rates effective no sooner than August 6, 2020.

IT IS, THEREFORE, ORDERED as follows:

1. That the Stipulation filed by KRJ and the Public Staff in this docket on June 7, 2018, as amended on June 14, 2018, is incorporated by reference herein and is hereby approved in its entirety with the condition imposed by the Commission discussed hereinabove and expressly stated in Decretal Paragraph No. 15 hereinbelow.

2. That the Schedules of Rates, attached hereto as Appendices A-1 and A-2, are hereby approved and deemed to be filed with the Commission pursuant to N.C. Gen. Stat. § 62-138.

3. That the Schedules of Rates, attached hereto as Appendices A-1 and A-2, are hereby authorized to become effective for service rendered on and after the issuance date of this Order.

4. That the Notice to Customers, attached hereto as Appendix B, shall be mailed with sufficient postage or hand delivered to all affected customers in conjunction with KRJ's next regularly scheduled billing process.

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

6. That, with the exception of Stipulation Paragraph 4.G. discussed in Decretal Paragraph 7 below, the Stipulation, and the parts of this Order pertaining to the contents of that agreement shall not be cited or treated as precedent in future proceedings.

7. That, in the next general rate case filed by KRJ for the Company's Southern Trace and Rockbridge service areas, the stipulated amounts agreed to in this case, as approved herein by the Commission, for plant in service, accumulated depreciation, contributions in aid of construction, depreciation and amortization expense, and original cost rate base, shall be used as the starting point for the Company's rate case application and the Public Staff's investigation.

8. That the provision whereby KRJ is currently required, pursuant to Commission Order in Docket No. W-1075, Sub 5, to disclose the current Rockbridge Subdivision water and sewer rates in marketing materials, with lot purchase agreements, and in the restrictive covenants pertaining to all lots in the Rockbridge Subdivision, to notify future customers in Rockbridge of the utility rates prior to their purchasing their lots or residences, is hereby rescinded.

9. That the provision whereby KRJ is currently required, pursuant to Commission Order in Docket No. W-1075, Sub 5, to file annual reports, beginning on October 31, 2007, on the status of the Rockbridge Subdivision and utility system, is hereby rescinded.

10. That Docket No. W-1075, Sub 5 is hereby closed.

11. That the Late-Filed Exhibits filed by Public Staff witnesses Morgan and Casselberry and the Verified Affidavit and Late-Filed Exhibit filed by KRJ witness Butler are hereby admitted in evidence in this proceeding.

12. That, not later than six months from the date of this Order, the Public Staff shall follow up on the concerns expressed by customers of KRJ at the public and

evidentiary hearings and shall file a report on the implementation status of the service improvements described in KRJ's report filed with the Commission on May 30, 2018.

13. That in order to facilitate improved electronic, voice, and/or written communications between the Company and its customers, within 30 days of the issuance date of this Order, KRJ shall seek to obtain the current email addresses and/or telephone numbers of its customers in Southern Trace and Rockbridge Subdivisions. The Company shall file a written report with the Commission not later than six months after the issuance date of this Order detailing the status of obtaining such contact information. Such report shall also state the process established for a customer to notify KRJ when needed concerning any future changes to a customer's contact information.

14. That KRJ shall update the Commission on a quarterly basis concerning the status of the project to restore Well 2 in Southern Trace to increased pumping capacity. The first quarterly report shall be filed on or before October 15, 2018, for the quarter ending September 30, 2018. Such quarterly reporting shall continue until the actual project completion date has been reported by KRJ.

15. That KRJ shall not file a general rate case prior to October 10, 2019, with changes in rates effective no sooner than August 6, 2020 (after a six-month suspension period under N.C. Gen. Stat. § 62-134).

ISSUED BY ORDER OF THE COMMISSION.

This the 6th day of August, 2018.

NORTH CAROLINA UTILITIES COMMISSION



Linnetta Threatt, Deputy Clerk

SCHEDULE OF RATES

for

KRJ, INC., D/B/A KRJ UTILITIES

for providing water utility service

in

SOUTHERN TRACE SUBDIVISION

Wake County, North Carolina

Monthly Metered Water Rates:

| | |
|---------------------------------|----------|
| Base charge, zero usage | \$ 19.12 |
| Usage charge, per 1,000 gallons | \$ 5.44 |

Tap on Fee: \$500.00 per REU

Reconnection Charges:

| | |
|---|---------|
| If water service is cut off by utility for good cause | \$25.00 |
| If water service cut off by utility at customer's request | \$20.00 |

Returned Check Charge: \$25.00

Bills Due: On billing date

Bills Past Due: 15 days after billing date

Billing Frequency: Shall be monthly for service in arrears

Finance Charge For Late Payment: 1% per month will be applied to the unpaid balance of all bills still past due 25 days after the billing date

Issued in Accordance with Authority by the North Carolina Utilities Commission in Docket No. W-1075 Sub 12, on this the 6th day of August, 2018.

SCHEDULE OF RATES

for

KRJ, INC., D/B/A KRJ UTILITIES

for providing water and sewer utility service

in

ROCKBRIDGE SUBDIVISION

Wake County, North Carolina

Monthly Metered Water Rates:

| | |
|---------------------------------|---------|
| Base charge, zero usage | \$16.30 |
| Usage charge, per 1,000 gallons | \$ 5.41 |

Monthly Flat Sewer Rate: \$58.25

Availability Rates: ^{1/}

| | |
|---------------------------------|---------|
| Water monthly availability rate | \$15.00 |
| Sewer monthly availability rate | \$70.00 |

Tap-on Fee:

| | |
|----------------|---------|
| Water, per REU | \$1,000 |
| Sewer, per REU | \$8,000 |

Reconnection Charges:

| | |
|---|---------|
| If water service is cut off by utility for good cause | \$15.00 |
| If water service cut off by utility at customer's request | \$15.00 |

Returned Check Charge: \$25.00

Bills Due: On billing date

Bills Past Due: 15 days after billing date

Billing Frequency: Shall be monthly for service in arrears

Finance Charge For Late Payment: 1% per month will be applied to the unpaid balance of all bills still past due 25 days after the billing date

Note:

^{1/} Developer shall pay monthly availability fees on all lots not receiving service once plat creating lots is recorded.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1075, SUB 12

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

NOTICE IS HEREBY GIVEN that the North Carolina Utilities Commission has issued an Order authorizing KRJ, Inc., d/b/a KRJ Utilities to increase rates for water utility service in the Southern Trace and Rockbridge Subdivisions and to decrease the rate for sewer utility service in the Rockbridge Subdivision, effective for service rendered on and after the date of this Notice. The new approved rates are as follows:

Southern Trace Subdivision

Monthly Metered Water Rates:

| | |
|---------------------------------|---------|
| Base charge, zero usage | \$19.12 |
| Usage charge, per 1,000 gallons | \$ 5.44 |

Reconnection Charges:

| | |
|---|---------|
| If water service is cut off by utility for good cause | \$25.00 |
| If water service cut off by utility at customer's request | \$20.00 |

Returned Check Charge: \$25.00

Rockbridge Subdivision

Monthly Metered Water Rates:

| | |
|---------------------------------|---------|
| Base charge, zero usage | \$16.30 |
| Usage charge, per 1,000 gallons | \$ 5.41 |

Monthly Flat Sewer Rate: \$58.25

Reconnection Charges:

| | |
|---|---------|
| If water service is cut off by utility for good cause | \$15.00 |
| If water service cut off by utility at customer's request | \$15.00 |

Returned Check Charge: \$25.00

ISSUED BY ORDER OF THE COMMISSION.

This the 6th day of August, 2018.

NORTH CAROLINA UTILITIES COMMISSION



Linnetta Threatt, Deputy Clerk

CERTIFICATE OF SERVICE

I, _____, mailed with sufficient postage or hand delivered to all affected customers the attached Notice to Customers issued by the North Carolina Utilities Commission in Docket No. W-1075, Sub 12, and such Order was mailed or hand delivered by the date specified in the Order.

This the ___ day of _____, 2018.

By: _____
Signature

Name of Utility Company

The above named Applicant, _____, personally appeared before me this day and, being first duly sworn, says that the required Notice to Customers was mailed or hand delivered to all affected customers, as required by the Commission Order dated _____ in Docket No. W-1075, Sub 12.

Witness my hand and notarial seal, this the ___ day of _____, 2018.

Notary Public

Printed Name

Date

(SEAL) My Commission Expires: