

**NORTH CAROLINA UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1300, SUB 60

**IN THE MATTER OF:
APPLICATION BY OLD NORTH STATE WATER COMPANY, LLC
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING
WATER UTILITY SERVICE IN ALL OF ITS SERVICE AREAS
IN NORTH CAROLINA**

**PRE-FILED DIRECT TESTIMONY OF
OF
JOHN MCDONALD
ON BEHALF OF
OLD NORTH STATE WATER COMPANY, LLC**

JUNE 29, 2021

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE**
2 **RECORD.**

3 A. My name is John McDonald, and my business address is 3212 6th Avenue South,
4 Suite 200, Birmingham, Alabama 35222.

5

6 **Q. PLEASE STATE THE NAME AND BUSINESS ADDRESS OF YOUR**
7 **EMPLOYER.**

8 A. I am the Manager of Old North State Water Company, LLC (“ONSWC”). The
9 business address of ONSWC is 3212 6th Avenue South, Suite 200, Birmingham,
10 Alabama 35222.

11

12 **Q. WHAT IS YOUR CURRENT ROLE WITH OLD NORTH STATE WATER**
13 **COMPANY?**

14 A. As noted above, I am the Manager of ONSWC.

15

16 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WITH ONSWC.**

17 A. My responsibilities with ONSWC include general oversight of ONSWC’s day-to-
18 day operations, and direct oversight of all corporate, compliance, finance, and
19 regulatory matters related to ONSWC. I am also responsible for the strategic
20 direction of ONSWC.

21

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

2 A. I have a Bachelor of Science degree with honors in Natural Resource
3 Management from the University of the South in Sewanee, Tennessee.

4
5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

6 A. In addition to being the Manager of ONSWC, in 2004, I founded Integra Water,
7 LLC (“Integra Water”), a water and wastewater utility that is headquartered in
8 Birmingham, Alabama. I am the sole owner of Integra Water, as I hold one
9 hundred percent (100%) of its membership interests. Integra Water owns and
10 operates water and wastewater utility systems throughout the Southeastern United
11 States and the Gulf Coast of the United States. Prior to my founding of Integra
12 Water, I was involved in industrial real estate development in Alabama and
13 Georgia. I was also previously responsible for the management of various entities
14 ranging from telecommunications facilities to timber holdings.

15
16 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE IN**
17 **WATER AND WASTEWATER UTILITIES.**

18 A. Beginning in 2004, I have had extensive experience in the water and wastewater
19 industries due to my roles as Manager of ONSWC and sole owner of Integra
20 Water. In these capacities, I have been responsible for the management and
21 oversight of both companies since their inception. I am responsible for the

1 development, construction, operations, and management of more than sixty (60)
2 water and wastewater systems located from North Carolina to Texas. For the
3 wastewater systems, the systems have included various technologies, including
4 facultative lagoons and extended air and membrane treatment facilities.
5

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
7 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

8 **A.** Yes. I previously provided testimony to the Commission in Docket Nos. W-661,
9 Sub 9; W-1300, Sub 55; W-1320, Sub 0; and W-1320, Sub 2.
10

11 **GENERAL INFORMATION ABOUT ONSWC**

12 **Q. WHEN DID ONSWC ACQUIRE ITS FIRST FRANCHISE FOR A WATER**
13 **SYSTEM IN NORTH CAROLINA?**

14 **A.** The Commission granted the first certificate of public convenience and necessity
15 (“CPCN”) to ONSWC to provide water utility service on July 21, 2014. The CPCN
16 was issued for Leone Landing Subdivision in Wake County, North Carolina in
17 Docket No. W-1300, Sub 4.
18

19 **Q. SINCE THE TIME THAT ONSWC WAS GRANTED A CPCN FOR LEONE**
20 **LANDING SUBDIVISION, PLEASE DESCRIBE THE ADDITIONAL**

**CPCNS FOR WATER SYSTEMS THAT HAVE BEEN ISSUED TO
ONSWC.**

A. Since the time that the Commission issued a CPCN to ONSWC for Leone Landing Subdivision, ONSWC has been granted many additional CPCNs for water systems. Specifically, ONSWC had been granted CPCNs for the following water systems:

- W-1300, Sub 4: Leone Landing Subdivision in Wake County.
- W-1300, Sub 7: Blaney Farms and Yates Mill Estates in Wake County.
- W-1300, Sub 10: Twin Lake Farm Subdivision in Wake County.
- W-1300, Sub 13: Kingston Manor Subdivision in Wake County.
- W-1300, Sub 14: Bella Vista Subdivision in Wake County.
- W-1300, Sub 16: Knights Landing Subdivision in Guilford County.
- W-1300 Sub 17: Bold Run Subdivision in Wake County.
- W-1300, Sub 18: Jackson Manor Subdivision in Wake County.
- W-1300, Sub 21: Ellington Meadows Subdivision in Wake County.
- W-1300, Sub 22: Ethans Meadows Subdivision in Wake County.
- W-1300, Sub 23: Bailey's Glen Subdivision in Wake County.
- W-1300, Sub 24: Rocklyn Subdivision in Davidson County.
- W-1300, Sub 25: Blaney South Subdivision in Wake County.

- 1 • W-1300, Sub 26: Asheboro County Club in Randolph County, and
- 2 Carriage Way, Kensington Place, Rachel's Landing, Spencer's Grove,
- 3 Weatherstone at Olde Forest in Guilford County.
- 4 • W-1300, Sub 27: Camp Kanata Subdivision in Wake County.
- 5 • W-1300, Sub 31: Blawell Subdivision in Cumberland County.
- 6 • W-1300, Sub 32: Donnybrook Subdivision in Wake County.
- 7 • W-1300, Sub 34: Olde Mill Trace Subdivision in Wake County.
- 8 • W-1300, Sub 35: Avalyn Subdivision in Wake County.
- 9 • W-1300, Sub 37: Bailey Farms in Franklin County.
- 10 • W-1300, Sub 38: Shiloh Subdivision in Guilford County.
- 11 • W-1300, Sub 39: Ashcroft Park Subdivision in Guilford County.
- 12 • W-1300, Sub 40: Senter Property Park Subdivision in Wake County.
- 13 • W-1300, Sub 43: Camberly Subdivision in Wake County.
- 14 • W-1300, Sub 44. Mendenhall Subdivision in Wake County.
- 15 • W-1300, Sub 45: Stonewood Manor Subdivision in Wake County.
- 16 • W-1300, Sub 46: Bingham Woods Mobile Home Park in Orange County.
- 17 • W-1300, Sub 48: Autumn Ridge Subdivision in Guilford County.
- 18 • W-1300, Sub 50: Dogwood Acres Mobile Home Subdivision in
- 19 Rockingham County.
- 20 • W-1300, Sub 53: Carriage Cove Subdivision in Guilford County.

- 1 • W-1300, Sub 54: Yardley Subdivision in Wake County.

2

3 **Q. HOW MANY WATER CUSTOMERS DID ONSWC SERVE AT THE END**
4 **OF THE TEST YEAR?**

5 A. At the end of the Test Year of December 31, 2020, ONSWC was serving a total of
6 1,576 water customers. In the month of December 2020, ONSWC sold 6,049,467
7 gallons of water to its water customers.

8

9 **Q. PRIOR TO THIS RATE CASE REQUEST, HAD ONSWC FILED AN**
10 **APPLICATION FOR A GENERAL RATE CASE?**

11 A. No. ONSWC has never requested rate increases for any of its water or wastewater
12 utility systems.

13

14 **Q. HOW WERE ONSWC'S RATES FOR ITS WATER SYSTEMS**
15 **ESTABLISHED?**

16 A. The rates for ONSWC's water systems were established when the Commission
17 issued CPCNs to ONSWC or when the Commission approved the transfer of
18 existing water systems to ONSWC. When the Commission approved the transfer
19 of water systems to ONSWC, the current rates at the time of the transfer remained
20 in effect.

21

1 **Q. DOES ONSWC CURRENTLY HAVE INDIVIDUAL RATES OR UNIFORM**
2 **RATES FOR ITS WATER SYSTEMS?**

3 A. ONSWC currently has stand-alone rates for its water systems. The current rates for
4 the water systems vary by system and are shown on Schedule E.
5

6 **Q. IS ONSWC REQUESTING UNIFORM RATES FOR ITS WATER**
7 **SYSTEMS IN THIS GENERAL RATE CASE APPLICATION?**

8 A. Yes. ONSWC is requesting uniform rates for all of its water systems due to the
9 substantial benefits that uniform rates will provide to its customers.
10

11 **Q. PLEASE DESCRIBE SOME OF THE BENEFITS OF UNIFORM RATES**
12 **TO ONSWC'S WATER CUSTOMERS?**

13 A. A uniform rate structure is the most appropriate means of allocating ONSWC's
14 cost of service, as uniform rates will increase the economies of scale. As a
15 result, the cost per customer will be reduced, which will result in costs savings for
16 all customers. Furthermore, ONSWC's separate water systems are located within
17 only the following eight counties: Cumberland, Davidson, Franklin, Guilford,
18 Orange, Randolph, Rockingham, and Wake Counties. Within those eight
19 counties, ONSWC has a large number of water systems located in Wake County.
20 When systems are located close to one another geographically, as is the case in

1 Wake County, there is the possibility of customer confusion and frustration when
2 the systems have different rate structures.

3
4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to address certain financial aspects of the rate case,
6 the clear need for a rate increase, and the need for uniform rates for ONSWC.

7
8 **Q. WHAT ROLE HAVE YOU HAD IN THE PREPARATION OF THE**
9 **RATE CASE APPLICATION?**

10 A. The schedules and exhibits to the Application were coordinated and prepared by
11 me or someone working under my supervision.

12
13 **Q. WHAT TEST YEAR PERIOD DOES YOUR PRE-FILED TESTIMONY**
14 **ADDRESS?**

15 A. ONSWC is utilizing a Test Year in this proceeding of the twelve months ended
16 December 31, 2020.

17
18 **REVENUE REQUIREMENT AND RATE OF RETURN**

19 **Q. HAS ONSWC SUSTAINED INCOME LOSSES FOR ITS WATER**
20 **SYSTEMS DURING THE TEST YEAR?**

21 A. Yes. ONSWC experienced a net income loss of \$354,571.49 during the Test Year.

1

2 **Q. PLEASE EXPLAIN THE REASONS THAT ONSWC SUSTAINED**
3 **INCOME LOSSES DURING THE TEST YEAR.**

4 A. ONSWC's substantial net income loss of \$354,571.49 during the Test Year was
5 due to acquiring water systems since 2014 with set rates that had not been
6 adjusted to accurately reflect the operating costs and expenses. The substantial
7 net income loss was also the result of not having previously requested a rate
8 adjustment for any of the water systems to cover ONSWC's operating expenses.
9 From the time that ONSWC first began acquiring water systems in 2014, it has
10 never requested a rate increase.

11

12 **Q. WHAT IS THE REVENUE INCREASE REQUESTED BY ONSWC?**

13 A. ONSWC's current pro-forma revenues based on the current rates are \$690,700.19,
14 and ONSWC's current expenses are \$1,045,500. These revenues currently leave
15 ONSWC operating at a net income loss of \$354,571.49. ONSWC proposes an
16 increase in revenue of \$506,794.02, for total revenue of \$1,257,538.78, which
17 represents an increase in revenue of 68%.

18

19 **Q. WHAT IS ONSWC'S PROPOSED CAPITAL STRUCTURE IN THIS**
20 **RATE CASE?**

1 A. ONSWC is proposing an equity ratio of 17% and a debt ratio of 83%. The
2 proposed cost of long-term debt is 7.34%. These ratios and cost rates are
3 consistent with the actual capital structure values as of the end of the Test Year
4 ended December 31, 2020. ONSWC requests that the Commission accept
5 ONSWC's current capital structure of 17% debt and 83% equity.
6

7 **Q. WHAT RATE OF RETURN DOES ONSWC'S CURRENT RATES YIELD?**

8 A. ONSWC's current rates yield a rate of return of -33.94%.
9

10 **Q. WHAT RATE OF RETURN WOULD ONSWC'S PROPOSED RATES**
11 **YIELD?**

12 A. The rates proposed by ONSWC would yield on overall rate of return on rate base
13 of 7.75%, based on a rate of return on common equity of 9.75%. ONSWC's
14 proposed rates would yield a rate of return that is consistent with the rates of return
15 allowed by the Commission for Carolina Water Service in Docket No. W-354, Sub
16 360 and for Aqua North Carolina in Docket No. W-2018, Sub 497, which are their
17 most recent rate cases. The average of the approved overall return on rate base in
18 those cases is 7.46% ($7.75\% + 7.17\% = 14.92\% \div 2 = 7.46\%$), which is based on
19 the average authorized rate of return on common equity in those two rate cases of
20 9.73% ($9.75\% + 9.70\% = 19.45\% \div 2 = 9.73\%$). ONSWC believes it appropriate
21 for the Commission to set a rate of return on common equity for ONSWC that is

1 comparable to the amounts that it set for Carolina Water Service and Aqua North
2 Carolina in their most recent rate cases.

3
4 **Q. IS ONSWC ASKING THE COMMISSION TO AUTHORIZE A RATE OF**
5 **RETURN AT THAT LEVEL FOR ONSWC AT THIS TIME?**

6 A. Yes. ONSWC is asking the Commission to authorize an overall rate of return on
7 rate base for ONSWC of 7.75%, and a rate of return on common equity of 9.75%,
8 which is commensurate with what the Commission has recently approved for other
9 similar water and wastewater utilities.

10
11 **Q. PLEASE EXPLAIN WHY ONSWC IS REQUESTING A RATE INCREASE**
12 **AT THIS TIME.**

13 A. Under ONSWC's current rates, ONSWC is earning a rate of return of -33.94%.
14 Under the current rates and with prudent management of its water systems,
15 ONSWC is unable to cover its operating costs and earn a reasonable return on its
16 investment for its water systems. ONSWC needs to be able to receive sufficient
17 revenue to cover its operating expenses, which will enable ONSWC to maintain
18 and improve the quality of service that it provides to its water customers.

19
20 During the Test Year, ONSWC experienced an overall a rate of return for its
21 operations of -33.94%. This rate of return is substantially below the currently-

1 authorized rates of return on rate base of other comparable water and wastewater
2 utilities in North Carolina (based on the above-referenced calculation of the average
3 rates of return recently approved for Carolina Water Service and Aqua North
4 Carolina), which average an overall rate of return on rate base of 7.46%, based on
5 an authorized rate of return on common equity of 9.73%.

6
7 **Q. PLEASE EXPLAIN ONSWC'S RELATIONSHIP WITH INTEGRA**
8 **WATER.**

9 A. Integra Water provides support services to ONSWC's water and wastewater utility
10 systems, as well as to Integra Water's utilities in in the Southeastern United States
11 and the Gulf Coast of the United States. These support services include financial
12 and corporate management, as well as support, expertise, and assistance in the
13 areas of customer service, billing, regulatory compliance, engineering design,
14 construction, information technology, human resources, insurance, and accounting.
15 These corporate expenses are allocated across all of ONSWC's water and
16 wastewater utilities in North Carolina and Integra Water's water and wastewater
17 utilities, based on each operating entity's customer count relative to the total
18 number of customers served.

19
20 **Q. HAS ONSWC MADE ANY RECENT CAPITAL IMPROVEMENTS IN ITS**
21 **WATER SYSTEMS?**

1 A. Yes. ONSWC paid \$113,298 towards an approximately \$254,000 green sand filters
2 installation for Twin Lakes Farms in Docket No. W-1300, Sub 10. Before making
3 this capital investment for Twin Lakes Farms, ONSWC first attempted sequestration,
4 but was unable to lower the iron and manganese levels to comply with state water
5 quality standards.
6

7 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**
8 **KNOWLEDGE, INFORMATION, AND BELIEF?**

9 A. Yes.
10

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

12 A. Yes. However, I reserve the right to update or amend this testimony upon receipt of
13 additional data or other information that may become available.
14