

SANFORD LAW OFFICE, PLLC
Jo Anne Sanford, Attorney at Law

December 31, 2019

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

Via Electronic Delivery

Re: Petition by Aqua North Carolina, Inc., and Carolina Water Service, Inc. of North Carolina for Rulemaking to Adopt Rules Governing Determination of Fair Value and of Rate Base, in Acquisitions of Governmentally Owned Water and Sewer Systems by Regulated Public Utilities
Docket No. W-100 Sub 60

Dear Ms. Campbell:

Aqua North Carolina, Inc. ("Aqua") and Carolina Water Service, Inc., of North Carolina ("CWSNC") submit for electronic filing in the above-referenced docket their joint Petition for a rulemaking in the referenced matter.

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

Sincerely,

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

Attorney for Aqua North Carolina, Inc. and for
Carolina Water Service, Inc. of North Carolina

c: David Drooz, Chief Counsel, Public Staff
Megan Jost, Staff Attorney, Public Staff
Zeke Creech, Staff Attorney, Public Staff
David Furr, Director, Water and Communications Division, Public Staff
Windley C. Henry, Water and Communications Manager, Public Staff

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OFFICIAL COPY

Dec 31 2019

Carolina Water Service, Inc. of North Carolina
4944 Parkway Plaza Boulevard, Suite 375
Charlotte, North Carolina 28217

2. Notices and Communications. The contact information for the Companies' attorney who is authorized to receive notices and communications with respect to this Petition is:

Jo Anne Sanford
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3. Description of Companies. Petitioners operate as investor-owned public utilities in North Carolina, pursuant to North Carolina General Statute ("G.S.") 62-3; they do business as regulated water and sewer utilities in North Carolina; and they are subject to the regulatory oversight of the Commission. Both provide water and sewer service in territories widely dispersed across North Carolina. Aqua is the largest Commission-regulated water and sewer public utility in North Carolina, and CWSNC is the second-largest.

Aqua presently serves approximately 82,328 water customers and 19,910 sewer customers in North Carolina, and operates 741 water systems, 59 wastewater treatment plants, and 203 sewer collection systems in the state. Aqua's service territory spans 51 counties, from Turkey Pen Gap in Transylvania County in the west to Harkers Village in Carteret County in the east.

CWSNC presently serves approximately 34,915 water customers and 21,403 sewer customers in North Carolina and operates approximately 93 water

systems and 38 sewer systems in the state. The Company's service territory spans 38 counties in North Carolina, from Bear Paw in Cherokee County to Corolla in Currituck County.

The Companies have an obligation to comply with changing environmental, health, and safety regulations and to fulfill their overall obligation to provide quality, dependable service to their customers pursuant to their respective certificates of public convenience and necessity.

4. Fair Value Legislation. In 2018, the North Carolina General Assembly passed Session Law 2018-51 (House Bill 351), amending Chapter 62 of the General Statutes by the addition of G.S. 62-133.1(A), which is Attachment A to this filing.

Essentially, the stated purpose of the addition to the statute is to allow and establish rules for determination of "fair value"---as distinct from "reasonable original cost"---of a water or wastewater company's property, "used and useful" in service to customers, for property which is purchased from one of the governmental providers specified in Chapter 162A. The determination of "fair value" is then utilized to calculate the rate base value of the acquired property. Petitioners supported this legislation, based upon their understanding of the beneficial role that privately-owned water and wastewater companies---highly experienced in the environmental, health, and operational necessities for safe, efficient operation of these systems---can bring to customers and to some local governmental providers of water and wastewater service. The legacy statutory restriction to consideration of "reasonable original cost" as a determinant of the

value of property in rate base is an impediment to sensible private investment and to the extension of capable utilities management opportunities from the private sector to those units of government whose interests are better served by sale of their utilities properties. G.S. 62-133.1(A) establishes a mechanism by which willing sellers and willing buyers can overcome some of the barriers to negotiations in this space, all subject to the independent action of the governmental providers, with the participation of the Public Staff, and under the oversight of the Commission. It is important to note that the NCUC: retains the authority to set rates for the acquired systems in future rate cases; has the discretion to classify the acquired system as a separate entity for ratemaking purposes; and has the authority to adjust the “fair value” as it deems appropriate and in the public interest. G.S. 62-133.1(A).(e).

The General Assembly has authorized a path through which the interests of all customers can be advanced and safeguarded, the benefits of expanded rate base and economies of scale can be realized, and the expertise contained in these multi-state, professional, experienced providers can be focused on a wider number of North Carolina systems and customers, some of whom need the assistance.

The General Assembly set forth a number of requirements in G.S. 62-133.1(A) which, when adopted in the form of rules by the Commission, will clarify uncertainties, modify the restrictions currently contained in the recognition of “reasonable original cost” as the primary valuation tool, and allow the carefully supervised development of this market in North Carolina---all with safeguards in place to protect those interests which are served by regulatory oversight.

5. Proposed Rules. Petitioners' draft rules for water companies are configured as Rule R7-41 and appended as Attachment B. Similarly, the draft rules addressing the sewer industry are configured as Rule R10-28, and are appended as Attachment C.

SUMMARY OF PROPOSED RULES

6. Paragraph (a) in each proposed rule deals with the scope of the rule, both in terms of the process of determining fair value of purchased utility property and in calculating rate base.

7. Paragraphs (b) address definitions.

8. Paragraphs (c) deal with the regulated utility's option to elect "fair value" calculation of rate base, as opposed to using the "original cost" methodology.

9. Paragraphs (d) address "Utility Valuation Experts" and the Commission's responsibility to maintain a list of same.

10. Paragraphs (e) define the methodology for determination of "fair value."

11. Paragraphs (f) define the methodology for determination of "rate base," when using this acquisition mechanism.

12. Paragraphs (g) speak to the Public Utilities' opportunity to recommend assignment of the purchased asset to a specific rate division.

13. Paragraphs (h) address the regulatory process to be employed for determination both of "fair value" and "rate base."

14. Paragraphs (i) specify the necessary components of and time for issuance of the Commission's final order.

CONCLUSION

Adoption of rules that allow fair market valuation as a component of the determination of rate base, when a regulated water and/or wastewater provider purchases a governmental-owned system, has the potential to unleash a number of benefits in North Carolina. Under the careful regulatory oversight of the Commission and with input from the Public Staff, these benefits include---but are not limited to---the following:

- Options for governmental entities, and their customers, for access to service that is more compliant with health and environmental standards, is more efficiently provided, and is more reliable over the long run. A number of governmental entities struggle with the increasing levels of compliance responsibilities, which are even more difficult to meet as infrastructure ages and deteriorates. These are capital intensive obligations which demand an increasing level of expertise and funding. These governmental entities should have access to the service that can be provided by experienced, capable specialists in the field. To do so can benefit an increased number of customers from the regulated and the governmental communities, the governmental entities themselves, the environment, and---overall---the State of North Carolina.

- Reduced reliance on government funded monies via the infusion of private capital, which can help maintain, repair, and replace water and wastewater infrastructure.
- Additions to the customer base of currently regulated public utility providers, which allows overhead to be allocated across more customers.
- Potential economies of scale, which hold promise of benefits to all customers.
- Enhanced efficiencies, when the acquired governmental system is located near existing facilities owned and operated by the regulated Public Utility.

WHEREFORE, Petitioners respectfully request the Commission to initiate a rulemaking in this matter.

Respectfully submitted, this the 31st day of December, 2019.

SANFORD LAW OFFICE, PLLC

Electronically Submitted

/s/Jo Anne Sanford

State Bar No. 6831

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/s/Robert H. Bennink, Jr.

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**ATTORNEYS FOR AQUA NORTH
CAROLINA, INC. AND CAROLINA
WATER SERVICE, INC. OF NORTH
CAROLINA**

VERIFICATION

Edward Thill, being duly sworn, deposes and says:

That he is the Controller for Aqua North Carolina, Inc.; that he is familiar with the facts set out in this **PETITION FOR RULEMAKING TO ADOPT RULES GOVERNING FAIR VALUE AND DETERMINATION OF RATE BASE FOR ACQUISITIONS OF GOVERNMENT-OWNED WATER AND WASTEWATER SYSTEMS**, filed in Docket No. W-100, Sub 60; that he has read the foregoing Petition and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.



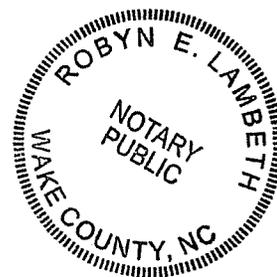
Edward Thill, Controller
Aqua North Carolina, Inc.

Sworn to and subscribed before me this

the 30th day of December 2019


Notary Public

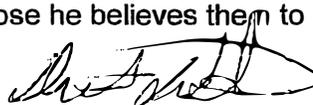
My Commission Expires: May 13, 2021



VERIFICATION

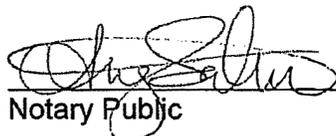
Dante DeStefano, being duly sworn, deposes and says:

That he is the Financial Planning and Analysis Director for Carolina Water Service, Inc. of North Carolina; that he is familiar with the facts set out in this **PETITION FOR RULEMAKING TO ADOPT RULES GOVERNING FAIR VALUE AND DETERMINATION OF RATE BASE FOR ACQUISITIONS OF GOVERNMENT-OWNED WATER AND WASTEWATER SYSTEMS**, filed in Docket No. W-100, Sub 60; that he has read the foregoing Petition and knows the contents thereof; and that the same is true of his knowledge except as to those matters stated therein on information and belief, and as to those he believes them to be true.



Dante DeStefano, Director
Financial Planning and Analysis
Carolina Water Service, Inc. of North
Carolina

Sworn to and subscribed before me this
the 30th day of December 2019



Notary Public

My Commission Expires: Feb 26, 2023

ANGEL CABRERA SALINAS
Notary Public - State of New Jersey
My Commission Expires Feb 26, 2023

§ 62-133.1A. Fair value determination of government-owned water and wastewater systems.

(a) Election. – A water or wastewater public utility, as defined by G.S. 62-3(23)a.2., may elect to establish rate base by using the fair value of the utility property instead of original cost when acquiring an existing water or wastewater system owned by a municipality or county or an authority or district established under Chapter 162A of the General Statutes.

(b) Determination of Fair Value. –

(1) The fair value of a system to be acquired shall be based on three separate appraisals conducted by accredited, impartial valuation experts chosen from a list to be established by the Commission. The following shall apply to the valuation:

- a. One appraiser shall represent the public utility acquiring the system, another appraiser shall represent the utility selling the system, and another appraiser shall represent the Public Staff of the Commission.
- b. Each appraiser shall determine fair value in compliance with the uniform standards of professional appraisal practice, employing cost, market, and income approaches to assessment of value.
- c. Fair value, for rate-making purposes under G.S. 62-133, shall be the average of the three appraisals provided for by this subsection.
- d. The original source of funding for all or any portions of the water and sewer assets being acquired is not relevant to an evaluation of fair value.

(2) The acquiring public utility and selling utility shall jointly retain a licensed engineer to conduct an assessment of the tangible assets of the system to be acquired, and the assessment shall be used by the three appraisers in determining fair value.

(3) Reasonable fees, as determined by the Commission, paid to utility valuation experts, may be included in the cost of the acquired system, in addition to reasonable transaction and closing costs incurred by the acquiring public utility.

(4) The rate base value of the acquired system, which shall be reflected in the acquiring public utility's next general rate case for rate-making purposes, shall be the lesser of the purchase price negotiated between the parties to the sale or the fair value plus the fees and costs authorized in subdivision (3) of this subsection.

(5) The normal rules of depreciation shall begin to apply against the rate base value upon purchase of the system by the acquiring public utility.

(c) An application to the Commission for a determination of the rate base value of the system to be acquired shall contain all of the following:

- (1) Copies of the valuations performed by the appraisers, as provided in subdivision (1) of subsection (b) of this section.
- (2) Any deficiencies identified by the engineering assessment conducted pursuant to subdivision (2) of subsection (b) of this section and a five-year plan for prudent and necessary infrastructure improvements by the acquiring entity.
- (3) Projected rate impact for the selling entity's customers for the next five years.
- (4) The averaging of the appraisers' valuations, which shall constitute fair value for purposes of this section.
- (5) The assessment of tangible assets performed by a licensed professional engineer, as provided in subdivision (2) of subsection (b) of this section.
- (6) The contract of sale.

- (7) The estimated valuation fees and transaction and closing costs incurred by the acquiring public utility.
- (8) A tariff, including rates equal to the rates of the selling utility. The selling utility's rates shall be the rates charged to the customers of the acquiring public utility until the acquiring public utility's next general rate case, unless otherwise ordered by the Commission for good cause shown.

(d) Final Order. – If the application meets all the requirements of subsection (c) of this section, the Commission shall issue its final order approving or denying the application within six months of the date on which the application was filed. An order approving an application shall determine the rate base value of the acquired property for rate-making purposes in a manner consistent with the provisions of this section.

(e) Commission's Authority. – The Commission shall retain its authority under Chapter 62 of the General Statutes to set rates for the acquired system in future rate cases, and shall have the discretion to classify the acquired system as a separate entity for rate-making purposes, consistent with the public interest. If the Commission finds that the average of the appraisals will not result in a reasonable fair value, the Commission may adjust the fair value as it deems appropriate and in the public interest.

(f) The Commission shall adopt rules to implement this section. (2018-51, s. 2.)

R7-41¹ Determination of Fair Value and Establishment of Rate Base for Acquisitions of Governmental-Owned Water Systems

- (a) Scope of Rule. – This rule provides the process for determination of the “fair value” of used and useful utility property purchased by a regulated Public Utility from a qualifying unit of government, for purposes of inclusion in a regulated water utility’s rate base. It also sets forth the method of calculation of rate base, for ratemaking purposes, using the “fair value” methodology. Determination and use of “fair value” for rate base calculation is an alternative to the use of “reasonable original cost.”
- (b) Definitions. – As used in this rule:
- (1) “Public Utility” means a water utility as defined in G.S. 62-3(23)a.2 and regulated by the North Carolina Utilities Commission (“Commission”).
 - (2) “Chapter 162A Utility” means an existing water or wastewater system owned by a governmental entity---a municipality, county, authority or district, established under Chapter 162A of the General Statutes.
 - (3) “Rate Division” means a separate tariff of a utility for one or more established customer service areas.
 - (4) “Utility Valuation Expert” is an expert in the appraisal of utility plant, whose proficiency is demonstrated and established according to the provisions of subsection (d), below, and who, as an individual or a firm, qualifies to be maintained on a list established by the Commission, pursuant to G.S. 62-133.1A.(b)(1).
 - (5) “Licensed Professional Engineer” is a Professional Engineer, licensed by the North Carolina Board of Examiners for Engineers and Surveyors or an equivalent state licensing agency.
 - (6) “Asset Purchase Agreement” is the contract for sale of the utility property which is to be valued for purposes of rate base. The Asset

¹ Note that the rule applicable to the water industry, proposed by the Public Staff in W-100, Sub 61 (the Consumption Adjustment Mechanism rulemaking) is styled as R7-40. Therefore, this proposed rule is shown as R7-41.

Purchase Agreement reflects the price negotiated between the Public Utility purchaser and the Chapter 162A Utility.

- (7) "Application for Determination of Fair Value and Rate Base and Approval of Transfer" ("Application") is the application to be filed with the Commission pursuant to G.S. 62-133.1(A).(c)
- (c) Election by Acquiring Regulated Public Utility. – A regulated Public Utility may elect to establish rate base, when purchasing qualifying utility property from a Chapter 162A Utility, by use of "fair value" instead of "reasonable original cost" by filing an Application for Determination of Fair Value and Rate Base and Approval of Transfer with the Commission.
- (d) Establishment of list of "Utility Valuation Experts." – The Commission shall establish and maintain a list of accredited, impartial Utility Valuation Experts, from which the purchasing Public Utility, the selling Chapter 162A Utility, and the Public Staff shall each select for purposes of development of appraisals to use in determining "fair value." To qualify for the list, a person or firm presenting themselves to the Commission for recognition as a Utility Valuation Expert must:
 - (1) demonstrate the education and experience necessary for providing utility valuations and appraisals, as differentiated from other types of appraisals, such as for real estate;
 - (2) attest in writing to a fiduciary duty to provide a thorough, objective, and fair valuation;
 - (3) demonstrate financial and technical fitness, such as through production of professional licenses, technical certifications, and/or names of current or past clients with a description of dates and types of services provided; and
 - (4) demonstrate adequate utility valuation and appraisal experience to support the Commission's decision to consider these persons or entities as experts in this field.
- (e) Methodology for Determination of Fair Value. –
 - (1) The acquiring Public Utility and seller/Chapter 162A Utility shall negotiate an Asset Purchase Agreement.

- (2) The acquiring Public Utility and the seller, a Chapter 162A Utility, shall jointly retain a Licensed Professional Engineer to conduct an assessment of the tangible assets of the system to be acquired. The assessment shall be used by the three Utility Valuation Experts [who are selected as prescribed in subsection (3), below], in determining fair value, and shall ultimately be filed with the Application.
 - (3) The Chapter 162A Utility, the Public Utility, and the Public Staff shall each secure a written appraisal, or valuation, from persons or entities on the Commission's list of Utility Valuation Experts.
 - (4) Each Utility Valuation Expert shall appraise the subject property in compliance with the uniform standards of professional appraisal practice, employing cost, market, and income approaches to assessment of value.
 - (5) "Fair value," for rate-making purposes under G.S. 62-133, shall be the average of the three appraisals provided for by this section.
- (f) Methodology for Determination of Rate Base. –
- (1) The rate base value of the acquired system, which shall be reflected in the acquiring Public Utility's next general rate case for rate-making purposes, shall be the lesser of the purchase price negotiated between the parties to the sale, reflected in the Asset Purchase Agreement, or the "fair value" plus the fees and costs authorized in subsection (2) of this section, below.
 - (2) As determined by the Commission, reasonable fees paid to Utility Valuation Experts---including for the engineering assessment---and reasonable transaction and closing costs incurred by the acquiring Public Utility may be included in the cost of the acquired system.
 - (3) The normal rules of depreciation shall begin to apply against the rate base value upon purchase of the system by the acquiring Public Utility.
- (g) Rate Division Assignment. –
- (1) In any petition filed under G.S. 62-133.1A, the acquiring Public Utility may recommend whether the service area of the customers of the Chapter 162A Utility being acquired should be integrated into an

- existing Rate Division of the acquiring Public Utility or be established as a new Rate Division.
- (2) If the recommendation is for integration into an existing Rate Division, the acquiring Public Utility shall recommend how the area is to be integrated, including any necessary tariff revisions.
 - (3) If the recommendation is for establishment of a new Rate Division, the acquiring Public Utility shall include proposed tariffs or tariff revisions in its petition.
- (h) Regulatory Application Process for Determination of Fair Value and of Rate Base - A Public Utility Application for Determination of Fair Value and Rate Base and Approval of Transfer, filed under these Rules, shall be signed and verified by the president or designated officer of the acquiring Public Utility and shall contain all of the following:
- (1) explanation of the object and purposes desired and of the public interest served by the acquisition;
 - (2) copies of the appraisals or valuations performed by the three Utility Valuation Experts, of the engineering assessment, and of the Asset Purchase Agreement;
 - (3) a statement of any deficiencies identified by the engineering assessment, and a five-year plan for prudent and necessary infrastructure improvements;
 - (4) the projected rate impact for the customers of the selling, Chapter 162A utility for the next five years;
 - (5) a proposed tariff;
 - (6) any recommendations for Rate Division assignment of the customers of the Chapter 162A utility being acquired;
 - (7) a map of the service area for the system(s) being acquired;
 - (8) the total cost of obtaining the valuations, including the estimated valuation fees, engineering fees, and transaction and closing costs incurred by the acquiring Public Utility; and
 - (9) any other information required or relevant under G.S. 62-133.1A.(c).

- (i) Final Order. – If the Application meets the requirements of G.S. 62-133.1A.(c), the Commission’s order approving or denying the Application must be issued within six months of the date of filing of the Application, in accordance with G.S. 62-133.1A.(d). In an order approving an Application, the Commission shall include the following:
- (1) A determination of the fair value and the rate base value, inclusive of costs delineated in subsection h(8) of this rule, of the acquired utility property for rate-making purposes;
 - (2) The Rate Division under which the acquired service area shall be served; and
 - (3) Approval of the necessary tariffs or tariff revisions.

(NCUC Docket No. W-100, Sub 60, 12/31/2019)

R10-28¹ Determination of Fair Value and Establishment of Rate Base for Acquisitions of Governmental-Owned Sewer Systems

- (a) Scope of Rule. – This rule provides the process for determination of the “fair value” of used and useful utility property purchased by a regulated Public Utility from a qualifying unit of government, for purposes of inclusion in a regulated sewer utility’s rate base. It also sets forth the method of calculation of rate base, for ratemaking purposes, using the “fair value” methodology. Determination and use of “fair value” for rate base calculation is an alternative to the use of “reasonable original cost.”
- (b) Definitions. – As used in this rule:
- (1) “Public Utility” means a sewer utility as defined in G.S. 62-3(23) a.2 and regulated by the North Carolina Utilities Commission (“Commission”).
 - (2) “Chapter 162A Utility” means an existing water or wastewater system owned by a governmental entity---a municipality, county, authority or district, established under Chapter 162A of the General Statutes.
 - (3) “Rate Division” means a separate tariff of a utility for one or more established customer service areas.
 - (4) “Utility Valuation Expert” is an expert in the appraisal of utility plant, whose proficiency is demonstrated and established according to the provisions of subsection (d), below, and who, as an individual or a firm, qualifies to be maintained on a list established by the Commission, pursuant to G.S. 62-133.1A.(b)(1).
 - (5) “Licensed Professional Engineer” is a Professional Engineer, licensed by the North Carolina Board of Examiners for Engineers and Surveyors or an equivalent state licensing agency.
 - (6) “Asset Purchase Agreement” is the contract for sale of the utility property which is to be valued for purposes of rate base. The Asset

¹ Note that the rule applicable to the sewer industry, proposed by the Public Staff in W-100, Sub 61 (the Consumption Adjustment Mechanism rulemaking) is styled as R10-27. Therefore, this proposed rule is shown as R10-28.

Purchase Agreement reflects the price negotiated between the Public Utility purchaser and the Chapter 162A Utility.

- (7) "Application for Determination of Fair Value and Rate Base and Approval of Transfer" ("Application") is the application to be filed with the Commission pursuant to G.S. 62-133.1(A).(c)
- (c) Election by Acquiring Regulated Public Utility. – A regulated Public Utility may elect to establish rate base, when purchasing qualifying utility property from a Chapter 162A Utility, by use of "fair value" instead of "reasonable original cost" by filing an Application for Determination of Fair Value and Rate Base and Approval of Transfer with the Commission.
- (d) Establishment of list of "Utility Valuation Experts." – The Commission shall establish and maintain a list of accredited, impartial Utility Valuation Experts, from which the purchasing Public Utility, the selling Chapter 162A Utility, and the Public Staff shall each select for purposes of development of appraisals to use in determining "fair value." To qualify for the list, a person or firm presenting themselves to the Commission for recognition as a Utility Valuation Expert must:
 - (1) demonstrate the education and experience necessary for providing utility valuations and appraisals, as differentiated from other types of appraisals, such as for real estate;
 - (2) attest in writing to a fiduciary duty to provide a thorough, objective, and fair valuation;
 - (3) demonstrate financial and technical fitness, such as through production of professional licenses, technical certifications, and/or names of current or past clients with a description of dates and types of services provided; and
 - (4) demonstrate adequate utility valuation and appraisal experience to support the Commission's decision to consider these persons or entities as experts in this field.
- (e) Methodology for Determination of Fair Value. –
 - (1) The acquiring Public Utility and seller/Chapter 162A Utility shall negotiate an Asset Purchase Agreement.

- (2) The acquiring Public Utility and the seller, a Chapter 162A Utility, shall jointly retain a Licensed Professional Engineer to conduct an assessment of the tangible assets of the system to be acquired. The assessment shall be used by the three Utility Valuation Experts [who are selected as prescribed in subsection (3), below], in determining fair value, and shall ultimately be filed with the Application.
 - (3) The Chapter 162A Utility, the Public Utility, and the Public Staff shall each secure a written appraisal, or valuation, from persons or entities on the Commission's list of Utility Valuation Experts.
 - (4) Each Utility Valuation Expert shall appraise the subject property in compliance with the uniform standards of professional appraisal practice, employing cost, market, and income approaches to assessment of value.
 - (5) "Fair value," for rate-making purposes under G.S. 62-133, shall be the average of the three appraisals provided for by this subsection.
- (f) Methodology for Determination of Rate Base. –
- (1) The rate base value of the acquired system, which shall be reflected in the acquiring Public Utility's next general rate case for rate-making purposes, shall be the lesser of the purchase price negotiated between the parties to the sale, reflected in the Asset Purchase Agreement, or the "fair value" plus the fees and costs authorized in subsection (2) of this section, below.
 - (2) As determined by the Commission, reasonable fees paid to Utility Valuation Experts---including for the engineering assessment---and reasonable transaction and closing costs incurred by the acquiring Public Utility may be included in the cost of the acquired system.
 - (3) The normal rules of depreciation shall begin to apply against the rate base value upon purchase of the system by the acquiring Public Utility.
- (g) Rate Division Assignment. –
- (1) In any petition filed under G.S. 62-133.1A, the acquiring Public Utility may recommend whether the service area of the customers of the Chapter 162A Utility being acquired should be integrated into an

- existing Rate Division of the acquiring Public Utility or be established as a new Rate Division.
- (2) If the recommendation is for integration into an existing Rate Division, the acquiring Public Utility shall recommend how the area is to be integrated, including any necessary tariff revisions.
 - (3) If the recommendation is for establishment of a new Rate Division, the acquiring Public Utility shall include proposed tariffs or tariff revisions in its petition.
- (h) Regulatory Application Process for Determination of Fair Value and of Rate Base - A Public Utility Application for Determination of Fair Value and Rate Base and Approval of Transfer, filed under these Rules, shall be signed and verified by the president or designated officer of the acquiring Public Utility, and shall contain all of the following:
- (1) explanation of the object and purposes desired and of the public interest served by the acquisition;
 - (2) copies of the appraisals or valuations performed by the three Utility Valuation Experts, of the engineering assessment, and of the Asset Purchase Agreement;
 - (3) a statement of any deficiencies identified by the engineering assessment, and a five-year plan for prudent and necessary infrastructure improvements;
 - (4) the projected rate impact for the customers of the selling, Chapter 162A utility for the next five years;
 - (5) a proposed tariff;
 - (6) any recommendations for rate division assignment of the customers of the Chapter 162A utility being acquired;
 - (7) a map of the service area for the system(s) being acquired;
 - (8) the total cost of obtaining the valuations, including the estimated evaluation fees, engineering fees, and transaction and closing costs incurred by the acquiring Public Utility; and
 - (9) any other information required or relevant under G.S. 62-133.1A.(c).

- (i) Final Order. – If the Application meets the requirements of G.S. 62-133.1A.(c), the Commission’s order approving or denying the petition must be issued within six months of filing of the petition. In any order approving a petition filed under G.S. 62-133.1A.(d), the Commission shall include the following:
- (1) A determination of the fair value and the rate base value, inclusive of costs delineated in subsection (h)(8) of this rule, of the acquired utility property for ratemaking purposes;
 - (2) The rate division under which the acquired service area shall be served; and
 - (3) Approval of the necessary tariffs or tariff revisions.

(NCUC Docket No. W-100, Sub 60, 12/31/2019)

CERTIFICATE OF SERVICE

I hereby certify that on this the 31st day of December 2019, a copy of the foregoing **PETITION** has been duly served upon the Public Staff by electronic service, as follows:

David T. Drooz
Chief Counsel
North Carolina Utilities Commission – Public Staff
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Gina C. Holt
Staff Attorney, Legal Division
North Carolina Utilities Commission - Public Staff
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William E. Grantmyre
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