

Summary of Key Discussions and Responses – Kinnakeet HOA Leadership Meeting December 3, 2025

1. Recovery of Repair Costs

- The utility company has no contract or agreement with the original plant owner.
- Authority to recover costs comes from the North Carolina Utilities Commission under N.C.G.S. § 62-116(b), who appointed Carolina Water as emergency operator (EO) allowed rates to be charged to cover expenses and capital investment.

2. Cost Estimates and Overruns

Initial \$1M estimate was based on minimum emergency needs identified by Carolina Water and approved by NC Department of Environmental Quality (DEQ), Division of Water Resources (DWR), Water Quality Regional Operations.

The Public Staff states that based on North Carolina Department of Environmental Quality (DEQ), Division of Water Resources (DWR), Water Quality Regional Operations Section records, and its preliminary due diligence, CWSNC anticipates spending no less than \$1,000,000 for necessary replacements and upgrades to the WWTP. In its preliminary due diligence, CWSNC identified the immediate needs which must be addressed to alleviate the emergency, and materially improve the operation and compliance status of the WWTP to require repairing or replacing: (a) the existing irrigation system for effluent disposal; (b) critical pumps, motors, and blowers; (c) electrical systems; (d) emergency generator; (e) disinfection system; (f) stairs and walkways; (g) building roof; and (h) tank coatings.

- Actual costs exceeded \$5M due to unforeseen equipment deterioration and additional regulatory requirements.
- Current \$1.5M estimate for irrigation system restoration is under review and we are working with DEQ to determine if this is necessary.

3. Allocation of Repair Costs

- Commercial and multi-residential customers are billed based on Residential Equivalent Units (REUs) per NCDEQ standards that were calculated before Carolina Water Service was named EO.

- One commercial customer accounts for 62 REUs.

4. Rate Structure (Bedrooms vs. Usage)

- Rates are based on bedrooms due to lack of water usage data.
- Accessing usage data requires HOA consent and coordination with the county, plus associated costs.
- Rate Calculation Based on Usage is possible if water usage data is obtained and approved by the Commission.
- Would require HOA initiation and county cooperation.

5. Ownership and Transfer

- The utility owns its investment in the system; transfer of ownership would require negotiation and regulatory approval.
- Customers do not gain ownership by paying rates; payments cover cost of service.

6. Insurance and Disaster Recovery

- The utility is working with legal counsel to determine appropriate insurance coverage for emergency-operated systems.

7. Liens and Existing Ownership

- No known liens; original owner retains ownership of existing assets.
- Any transfer would require lien resolution (if there were any) and regulatory approval.

8. Impact of Ownership Changes on Rates

- Rate recalculation depends on transfer terms and Commission approval.
- New owners typically recover original plant costs through rates.

9. Responsibility for Collection System

- Ownership is mixed among the utility, original owner, and individual property owners.
- Utility maintains its portion; HOA and individuals maintain theirs per bylaws.
- Carolina Water Service is focused on maintaining/replacing what we maintain, not what customers own, but will inform customers as needed if we identify needed customer repairs

10. Negotiations for Purchase

- No public information available regarding potential purchase negotiations.

11. Future Rate Adjustments

- Quarterly financial reports monitor adequacy of rates; downward adjustments considered if revenues exceed costs.

14. Oversight of Spending

- No fixed timeline for ending EO status; likely ends upon ownership transfer.
- Improvements coordinated with DEQ to ensure compliance.
- Quarterly financial reports reviewed by Public Staff and Commission; final accounting at EO term end.