PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Wednesday, December 6, 2023
TIME: 1:00 p.m. - 3:35 p.m
DOCKET: W-100, Sub 67
BEFORE: Chair Charlotte A. Mitchell
Commissioner Kimberly W. Duffley
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.
Commissioner Karen M. Kemerait
Commissioner William M. Brawley
Commissioner Tommy Tucker

IN THE MATTER OF:

Investigation Regarding Consolidation
of Water and Wastewater Utilities
and the Utilization of Uniform Rates

A P P E A R A N C E S:

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FOR THE USING AND CONSUMING PUBLIC:

Chuck Junis, Director, Public Staff - Water, Sewer, and Telephone

P R O C E E D I N G S

CHAIR MITCHELL: Good afternoon. Let's go on the record, please. I'm Charlotte Mitchell, Chair of the Utilities Commission. With me today are Commissioners Duffley, McKissick, Hughes, Kemerait, Brawley, and Tucker.

This technical conference is being held in Docket Number W-100, Sub 67, which is titled "In the Matter of Investigation Regarding Consolidation of Water and Wastewater Utilities and the Utilization of Uniform Rates."

In compliance with the State Government Ethics Act, I remind members of the Commission of our duty to avoid conflicts of interest, and inquire at this time as to whether any member of the Commission has a known conflict with respect to the matters coming before us this afternoon?

(No response)

The record will reflect that no conflicts were identified, so we will go ahead and proceed.

On September 18th 2023, the Commission issued an Order scheduling a technical conference which was later rescheduled to this date and this time in Raleigh. The purpose of this technical conference is to receive information from the water and wastewater utilities as well as from the Public Staff, to assist the Commission in its consideration of matters related to the consolidation of small systems and the use of uniform rates. The September Order directed the Public Staff, Aqua North Carolina, Inc., which I will refer to as Aqua, and Carolina Water Service, Inc. of North Carolina, to which I will refer to as Carolina Water, to participate in this technical conference and present information including but not limited to whether the uniform rate paradigm continues to serve the public interest in North Carolina, and whether the path to uniformity should and must change in light of the challenges faced by the water and wastewater utilities in North Carolina.

On November 22nd, 2023, Red Bird Utility Operating Company, LLC, filed a Petition to Intervene, and the Commission allowed Red Bird's intervention by Order dated December 4th.

Today, we will hear presentations from Carolina Water, from Aqua, and from the Public Staff in that order. The presenters have been asked to keep their remarks to approximately 20 minutes. After each presentation, I will allow the parties to ask questions of the presenter followed by questions from the Commissioners if there are any.

The technical conference today is being transcribed and the transcript will be made available in this docket as soon as it is ready.

Before we begin, I would ask counsel to identify themselves for the record, please.

MS. SANFORD: Thank you. I'm Jo Anne Sanford with the Sanford Law Office representing Carolina Water Service of North Carolina, Inc. With me today are Don Denton, Matt Schellinger, and Zack Payne, and other company officials are on line enjoying the proceeding remotely. Thank you.

CHAIR MITCHELL: Good afternoon, Ms. Sanford.

MR. DROOZ: David Drooz representing Aqua North Carolina and Shannon Becker up there who will be making the presentation.

CHAIR MITCHELL: Good afternoon, Mr. Drooz.

MS. JOST: Good afternoon. Megan Jost with the Public Staff. We represent the Using and Consuming Public. With me at counsel table is Charles Junis. He's the Director of the Public Staff's Water, Sewer, and Telephone Division.

CHAIR MITCHELL: Good afternoon Ms. Jost.

Before we begin, just as a reminder, please do your best to keep your remarks to 20 minutes. Take advantage of that 20 minutes. Tell us what you want us to hear. You'll take questions from counsel for the parties. You may take questions from Commissioners. And then we will move on to the next presenter. My goal is to have us out of here by about 3:00 o'clock this afternoon. That's my goal. My hope is that we can meet that goal.

Any questions before we get started?

(No response)

Mr. Denton, you may take it away.

MR. DENTON: Great.

MS. SANFORD: Actually, I'll make a couple of opening remarks if I might. We have allocated our time here and I'll take a little bit of it.

We appreciate greatly this opportunity to have a broader conversation than we are usually able to have about topics that are implicated by this uniform rate issue. Decisions about uniform rates directly impact a lot of other policies and decisions. Acquisition policy, consolidation, and just the cost-effectiveness of the regulatory process.

The comments you've received speak to the goals by proliferation of stand-alone rates and the incentives that are provided -- that are created by allocating costs within a uniform rate structure. So there's a lot of information on the table here and it's really interesting to figure how it comes together in the production of the best policy, and the best rules, and guidelines for setting rates.

Water and wastewater rate setting. I'll observe this quickly because I know everybody in the room knows it, but it's sort of a good thing to think about as we enter this conversation. Water and wastewater rate setting differs from that of other regulated utilities in the Application of the Contribution in Aid of Construction, the CIAC principles.

Water and sewer rates presumably would have been higher from the beginning, possibly presumably if the cost of plant was borne by customers initially, but it wasn't, it was borne by the developers initially.

Overtime, infrastructure degrades, environmental and health standards increase, growth drives expansion, and costs inevitably rise. That's our experience. That's what we're seeing. And particularly with a number of decades that many of these systems have been in the ground.

Some utilities keep up with investment and responsible rate increases as they go, some do not or cannot. Of the ones who do not, they live in a continuum characterized by needing investment and rate increases either now or facing them in the future. In other words, if you didn't have work done yesterday and you're not having it done today, you're probably going to have to do it tomorrow. I mean, it's sooner or later. Repairs, upgrades need to be made to these systems.

The Commission set forth the reasons that consolidation of separate water and wastewater systems into a single cost of service. And utilization of uniform rates has been considered to be in the public interest. You've asked -- well, you've set forth a lot of things. That's one of them. I'm not saying that's the only thing you addressed because you were broad reaching in your instructions here.

You've asked whether the various sources of increased upward pressure on investment and rates impact the usefulness of this uniform rate paradigm.

You've also asked how and when to achieve -- we would achieve rate uniformity as water and wastewater providers seek to acquire new systems.

The impacts are far-reaching. Don Denton will begin the conversation for Carolina Water. Thank you.

CHAIR MITCHELL: Thank you.

MR. DENTON: Good afternoon. And thank you for the opportunity to be here today. With over 90 water and wastewater utilities in North Carolina regulated by the NCUC and hundreds that are not regulated, and an increasing environmental imparity of compliance, the policy around consolidation in the state makes sense by companies such as ours with deep operational experience, the policy in support of consolidation seems clear. It's not new.

Carolina Water believes that the uniform rate paradigm is critical to a successful consolidation effort. Support for consolidation suggests we should streamline the process for acquisitions including decisions about what the rates should be upon the acquisition.

One path is to treat each acquisition as a stand-alone exercise in determination of value and requiring full-blown rate case level of determination of investment before rates are changed. We've seen this recently in a number of proceedings. And in one, in a case in particular where the proceeding cost actually exceeded the cost of the acquisition.

CWSNC believes that treatment of such acquisitions undermines the opportunity for lowering transaction costs and fully maximizing the benefits of bringing a wide range of systems into the uniform rate folder. We believe ideally that every system should be included in a uniform rate group to maximize the benefits of consolidation and to afford protection to smaller vulnerable systems in a way that is fair to them and to larger systems at the same time. We believe that acquisition of smaller, more vulnerable systems, even if not officially troubled in a historical sense, is inherently, irrefutably a benefit to that system's customers through the expertise of the operations provided which is our primary focus of business.

And with that, we do have a presentation. I think each of you have a copy of. But I didn't say the opportunity to welcome Commissioners Brawley and Tucker. This actually will give you little bit of an overview of Carolina Water.

CHAIR MITCHELL: And Mr. Denton, while your working on the overview, do introduce -- and Ms. Sanford introduced you, but since we have new Commissioners introduce yourself and tell us what your role is with the Company and, sort of, what your jurisdiction or your purview is and your position.

MR. DENTON: Sure. My name is Don Denton. I'm the President of Carolina Water. I've been with the Company for about four years. I'm also within Corix regulated utilities, the Senior Vice-President of the Eastern Operations which includes North Carolina, South Carolina which I'm also president of, and Florida, and the president of Florida reports to me. That's the current situation. Closing of our merger, that all will change, but I will still remain President of Carolina Water.

MR. SCHELLINGER: Good afternoon. I'm Matthew Schellinger. I'm the Regional Director of Financial Planning and Analysis. Primary duties over North Carolina, South Carolina, and Florida.

MR. DENTON: Thank you.

Carolina Water, we span basically from Tennessee to the coast, in 38 counties, and we serve roughly about 50,000 connections in 38 counties.

We have four different rate divisions currently, and we have a number of pending, although, I will note this needs to be updated. Echota and Seven Devils have closed. We did close those at the end of November. The Carteret systems, which is the North River / Mill Creek, and Merrimon Water systems, those are in the process of closing right now.

MR. SCHELLINGER: If I can jump in here. I think this slide really helps illustrate some of the challenges we're going to be facing coming up. Because even in between when the Commission issued its Order on this technical conference, our rate divisions blew up from four to 10. Right. And as acquisitions occur, if this is kind of the paradigm, this is the model, that number is going to continue to grow. You're going to have rates everywhere. And even in something where arguably like Mountain Air, for instance, where the rates are set at a uniform rate, it's now a base year uniform rate which is now still different than say the rate year one uniform rate and you can see even in something that's quote, unquote uniform, it's already starting to diverge just because of that extra wrinkle that the multi-year rate plan adds into this whole context.

MR. DENTON: Do you want to jump into this?

MR. SCHELLINGER: I don't -- we're going to go ahead and move onto this slide. This one really, I think, just outlines really the benefits that we see of consolidation and summarizes really those same benefits that I think the Commission outlined in their initial Order as well.

MR. DENTON: So public interest. As we've stated previously, and we think that uniform rates go hand-in-hand with the consolidation strategy. It does serve the public interest in North Carolina by mitigation of rate shock. It addresses the capital for -- the capital need for smaller systems, lowers the administrative cost across the board, and service quality for all customers; it allows us through the consolidation efforts to do the things like we have done out at Kinnakeet recently. We were in Manteo out there. It wasn't an acquisition but we were able to step in at the behest of the Commission and within a little over a year's timeframe turned that system around. The rates were set at the uniform rate construct in that Emergency Operator Order. So, we believe that it does benefit the public. Most definitely.

CHAIR MITCHELL: Mr. Denton.

MR. DENTON: Yes.

CHAIR MITCHELL: I'm going to ask you a question sort of out of order here, but you mentioned Kinnakeet and you said you've turned it around. Give us a quick status update on Kinnakeet.

MR. DENTON: So Kinnakeet, right now we are continuing to invest capital. The plant is back in operation. There are some other -- we do have -- we're currently install SCADA systems on collection systems, replacing the pumps that are out there in the field on all the lift stations. And the moratorium by DEQ was lifted two to three weeks ago by DEQ for new builds for the existing homes that were waiting to connect to the system and new homes. So we feel like that was a huge milestone for the team and we're very proceed of the effort they put into this so far.

CHAIR MITCHELL: Thank you for that update.

MR. DENTON: Do you want to jump in?

MR. SCHELLINGER: Sure. So we've kind of just talked about what we envision as that path to uniformity and I think that does start with gradualism and incrementalism.

There's -- a lot of these utilities haven't been in for rate cases in a number of years and their rates are going to differ quite a bit from where we are on a uniform level so we have to acknowledge that potential for rate shock. We have to acknowledge that it may take some time to get there. I think one of the most important considerations that we're looking for though is understanding what that path really looks like and how the Commission envisions that movement over time.

Doing my best here not to read the slides for you because every one here can read very well.

So really, like I said, kind of highlighting that last bullet point here is hammering down that path. And part of that path I think really needs to acknowledge the administrative burden both on the Company, the Public Staff, as well as the Commission, where as we've gone from four rate groups to nine rate groups that could very quickly become the need for multiple rate cases in every year or every couple of years. You end up with timing mismatches between when we're in for say a multi-year rate plan as opposed to when maybe Echota needs its rate case and there's absent having that clearly defined path you really --

it just gets messy. I would argue it gets messy quickly.

Do you have anything you want to add on that one?

MR. DENTON: No.

MR. SCHELLINGER: Transfer proceedings. So here, on the next couple of slides, I just want to kind of go through how, I guess, we envision the three types of acquisition rates. There's going to be transfers where current cost of service is maybe below where we are for uniform. Then, there's going to be transfers where maybe the current cost of service is above uniform. Then, there's going to be what I would say are kind of the new developments, the new CPCNs.

So on the acquisition of -- it jumped ahead a slide. I apologize.

MR. DENTON: No, you're fine. Go ahead. Existing utilities.

MR. SCHELLINGER: Existing utilities. I apologize. So I would -- I think, the WSIP and the multi-year rate plan really provide a lot of protections for the acquisition of an existing utility to really kind of roll right into the multi-year, and in some ways those customers have more protections now than they ever have before.

A top end to earnings. There's an ROE band that protect these customers in any given year through during the multi-year rate plan process, during the period there. And then it will mitigate the need to file rate cases and the in between. We know these rate cases are exceptionally expensive. And if you're filing a rate case for a small rate group or a small subset of customers, that adds up very quickly. And at the end of the day I don't think it gets away from traditional cost-of-service rate-making paradigm because when you roll into that next multi-year rate plan, that next WSIP, you're resetting back to cost of service and you're constantly on this lag and reset and lag and reset. So, at the end of the day, their rates get rolled in, they get set on cost of service.

I just want to touch a little bit on kind of the way the emergency operator systems have worked in that they have differed from a regular acquisition but I think provides some insight into how the whole process can work. Right. Like, these systems need capital investment. Their cost of service may at that specific point in time may not fully justify the cost of service, but the capital is coming. There's mechanisms in order to keep the Company whole. So -- and it makes sense to jump out in front of these things before they become distressed systems and become an emergency operator situation.

Do you want to add anything?

MR. DENTON: It's that point in particular is one that has come up in our discussions internally a lot when we, quite frankly, discuss business development. And when I first came on board the first thing I was handed was a list of distressed assets. I was like okay. That's not a complete list, right, because why just the systems that are in the dirt, in the ground. Right. We offer so much more than just fixing something that's broken.

And so I think that as we look at this it's the broader perspective from a strategic consolidation within the State, not just the distressed systems but those systems also that are operating well that the owners just quite frankly don't want to operate or own. And those all play a part in this broader concept because some of those systems, quite frankly, they may either come at a higher price because they're not distressed but they do add value to the portfolio. And obviously, as we've said in other proceedings as well as this one, is you're spreading costs, you're providing operational excellence, all the same things that we've said that our company does provide, it provides to those customers as well.

MR. SCHELLINGER: So as you get into a transfer proceeding where maybe their current cost is below the uniform rate, it may be below the uniform rate at that period in time. It doesn't mean it's going to stay there. It doesn't mean they're not going to have the future capital investment.

And I believe Chair Mitchell in a prior hearing had asked us, you know, "how do we get rate relief", I think was really the crux of it. And I think it was really surrounding SRF funding at that point in time. And I think SRF funding is one tool in the toolbox.

Another tool in the toolbox, and I would argue maybe even a bigger tool, is continued consolidation. And that has to involve systems with a lower cost of service at that point in time being rolled into that uniform rate group, because that will drive the rates down at that point in time. And eventually, their need, their capital investment will come and now you have offsetting timelines where this system needs work now, this system needs work in 20 years, this system just finished all of their work and it's going to start depreciating over some period of time, and it all starts flipping again. You know, it's a very long ranging vision and it takes 50, 60, 80 years to see that vision where you're constantly going up and down for every individual system, but when you start looking at it on a consolidated basis, if you have a large enough consolidated entity, you know, you get to start really flat lining that a little bit. I think that's really part of this vision here.

MS. SANFORD: If I can close out, we're about to close out on our time here, but I would like to raise a point by way of I guess it's somewhere between a question and a statement. I'm trying to find somebody in the room who's been here as long as I have and I'm, unfortunately, having trouble with that.

But what I'm harking back to and asking you, I know this was before your time, but you know that your company undertook an effort to consolidate some years ago here in North Carolina, right?

MR. DENTON: 2017.

MS. SANFORD: 2017. Your memory is better than mine. And you have a lot of little companies and a proliferation of rate cases; isn't that right?

MR. DENTON: (Nods head affirmatively).

MR. SCHELLINGER: (Nods head affirmatively).

MS. SANFORD: And the Commission acknowledged in those proceedings which were conducted both by Carolina Water Service and then by Aqua as well, an effort to consolidate. There was a lot of conversation about an acknowledgment of the benefits of consolidation and one being that you had fewer rate cases. You didn't have a rate case every 20 minutes with all the little companies. And so the considerations that pertained to the consolidation effort are very much alive and well in these conversations, aren't they?

MR. SCHELLINGER: Yes.

MS. SANFORD: Because your finding yourself with, again, a proliferation of stand-alone systems with that same, sort of, the back to the future, if any, that same imperative or at least consideration of do I go ahead and pay this amount for a system and then come back in for a little rate case with all that it costs.

So, it's just to say that in the sense that maybe nothing new under the sun this is new and it's different in some ways but it is grounded in Commission and Public Staff experience in other ways I think. I think with that our 20 minutes is done unless there's anything else you needed to say quickly.

MR. SCHELLINGER: No. Thank you.

MR. DENTON: No.

CHAIR MITCHELL: Let's move to questions then. Aqua, do you-all have any questions for Carolina Water?

MR. DROOZ: No.

CHAIR MITCHELL: Public Staff.

MS. JOST: I do have a couple. Mr. Schellinger, I believe it was you who spoke about the number of Carolina Water's rate divisions going from four to 10 and that creating some consistency or inconsistency. I think you specifically mentioned Mountain Air that their base rate is already different from the rate year one rates.

So how has the -- number one, I guess, would you agree there are feasibility issues with incorporating new systems into an MYRP?

MR. SCHELLINGER: Can you ask that question a different way. Maybe I'm not tracking what you mean by feasibility issues.

MS. JOST: In terms of performance metrics, for example, just timing; would you agree that trying to incorporate new systems when we have an MYRP in place creates some complications, I'll say?

MR. DENTON: I'll be glad to answer that. I'll say yes because we haven't ever done it before. This was the first multi-year plan. We just received it. We are in unchartered waters but we think this is the right way to go.

MS. JOST: And so have you -- has Carolina Water attempted -- I guess have you encountered any issues thus far and, if so, what have you done to try to ameliorate them?

MR. SCHELLINGER: I don't think we've encountered any issues thus far mostly because at this point we don't have anything new coming into the multi-year rate plan. I think bringing those things into the multi-year rate plan is the right thing to do and I welcome working with Public Staff in order to figure out the right way to do that.

MS. JOST: Thank you. One other question. I think you mentioned resetting to cost of service, but I'm curious what should happen during the interim period between the closing of an acquisition and the next WSIP rate case?

MR. SCHELLINGER: I think their rates should be set at whatever our current uniform rate is at that period in time. I believe some other jurisdictions have, and Aqua might be touching on this in their hearing, but there's things like a filed rate doctrine where, you know, a new item just comes in at your uniform rate.

MS. JOST: So would that create a concern that the Company would over earn if the cost of service of the acquired utility or system is less than the uniform rate?

MR. SCHELLINGER: No, because the multi-year rate plan provides an ROE banding on over-earnings so the customers would be -- let's roll them into multi-year, they're in the ROE banding, the company won't over earn. And if they do over earn, the customers get a refund of that, anything above that ROE band.

MS. JOST: But would those individual customers be paying too much?

MR. SCHELLINGER: Possibly. But we already have 98 water systems that are in, you know, a uniform rate and those costs are everywhere.

MR. DENTON: Yeah, and so I guess I'd answer that be a little bit differently. I wouldn't say that they're paying too much, they're paying the uniform rate. And at some point in time whether or not they came in above or below depending on where they were in the cost of service it could be higher than the uniform rate, right. And so it's a matter of when that capital infusion in their particular system would occur. But if they are below, they're paying into the system that they will in the future benefit from and, if they're above they are benefiting from it immediately.

MS. JOST: Thank you. Those are all of my questions.

CHAIR MITCHELL: Let's see if there are questions from Commissioners. Go ahead, Commissioner Kemerait.

COMMISSIONER KEMERAIT: I have --

CHAIR MITCHELL: I'm sorry, Hughes asked first.

COMMISSIONER HUGHES: Thank you very much.

So on the first slide I think you had your different rate divisions and after uniform you have "includes several different unique rates for pass through systems".

Could you just give a little bit more detail on that? How many customers is that? What's the variation? Because I've had a hard time reconciling going with different rates for purchased systems but then having a uniform rate for everyone else. And I understand there's some actual logistic reasons for doing that, but could you just comment a little bit on that?

MR. SCHELLINGER: Yeah, I'd be happy to. I don't have customer numbers or anything like that in from of me so I apologize on that end. But from a general perspective, if there's a pass-through system that's on the uniform rate, they're all going to have, say, the same base facility charges one another and that makes kind of what makes them uniform. And then their commodity charges, you -- it's pretty much one-for-one exact cost of whatever we're being charged by the third-party vendor in that case.

So, you know, this gets into a little bit of the difference between rates and revenue requirements. They're in the uniform water revenue requirement bucket, right, and then we peel off the cost associated with their specific purchase water cost and then we've got a pile of wonderful calculations based on an 80/20 or 70/30 split that starts to allocate portions of that revenue requirement into base facility costs or the other commodity charges for the uniform rate, other uniform rate customers that aren't passed through.

So that's kind of -- there's a lot of rates that are in the uniform water revenue requirement and that's a little bit of -- the focus of a lot of this conversation is on rate divisions and rates but the reality is it really starts with what all do you put into your revenue requirement to begin with. And then, maybe then you have to start peeling things off like purchased water systems to build up to that revenue requirement. And they're still uniform. They're still part of that whole revenue requirement but there's some variance in the rates even within a uniform category.

COMMISSIONER HUGHES: And I appreciate that and, I mean, obviously in your position looking at things through a revenue requirement lens makes a lot of sense. But from a customer lens, you know, if you have someone whose relative lives in a different area and they are both Carolina Water customers and someone gets water from a purchase system and someone doesn't, and over dinner they decide a good conversational topic is to compare water rates, you know, and they're quite different. How do you reconcile that from a customer perspective?

MR. SCHELLINGER: I think the idea is that the items that make up their costs are different. Right. There's different levels of infrastructure that's been invested in, say, a purchase water system as opposed to a system with wells. And then there's the additional O&M expense that's associated with the systems where we're purchasing water versus those systems where we have wells.

So, I think the idea has really just been that there's maybe, even within the same revenue requirement group there's a little bit of a different cost basis or cost allocation that needs to take takes place. I think that's kind of the difference there.

COMMISSIONER HUGHES: I know we've got a full afternoon and lots of great presentations so I'm going to put that to rest for now but it might come up again for some other presenters.

MR. DENTON: You would be surprised at how often that conversation actually occurs.

MR. SCHELLINGER: Yes.

COMMISSIONER DUFFLEY: So in listening to the answer and question that just occurred, I think about the Electric Division and I think of cost to serve, right, and how electric companies do a cost-of-service study for cost allocation. Has that ever been discussed like a cost-of-service study to cost allocate to different rate divisions or certain portions to different rate divisions, or how does that work within the uniform rates type?

MR. DENTON: While I've been with the Company we've never gone through an entire cost-of-service study for all of our service territories.

Are you aware of one?

MR. SCHELLINGER: No. I would add though that in the context of, say, a rate case, we do make allocations, right. That's how we build up that revenue requirement for the different territories as opposed to the other. It may not go through a full formal cost-of-service study, but we are making allocations in order to build up to there. Yeah, that's the -- but I think in an ideal world, you'd have your full revenue requirement. You wouldn't need to make those allocations at least not between rate groups. Maybe there's some -- it still makes sense to have some level of cost of service associated with, say, the difference between residential or commercial. Not too big of an issue with our systems but there's still some other layers of cost of service that could make sense.

COMMISSIONER DUFFLEY: Okay. Thank you for that.

MS. KEMERAIT: I have a couple of questions. The first is about the upon transfer moving the transfer systems immediately upon transfer into uniform rates. And I heard testimony that that would benefit customers in -- for cost savings because you would not have to have essentially some full-blown rate cases at the time of transfer in order to determine what the rate should be.

But what about rate base at the time of transfer? If you move into uniform rates, at some point you're going to have to know what the rate base is for these systems that are being transferred. And that while if you moved immediately into uniform rates you wouldn't have to be determining the rates, but rate base is something that has to be determined. When would that be determined? At the time of transfer or the next rate case? And how could you continue to save costs if you -- if rate base has to be determined regardless of what the rates are?

MR. SCHELLINGER: I'll start. I would say that the determination of rate base at least in my experience with the Echota/Seven Devils, for instance, was not the hard part of determining cost of service in that transfer proceeding. It's the "what do you think an ongoing level of expenses are," right. Like, getting to a rate base number, at least in my experience, was not the hard part there. That wasn't the time consuming part. That wasn't the digging into hundreds and thousands of invoices and getting to an agreement on what the future costs will be even though we know the prior costs are already old the second you look at them. Those aren't the cost-of-service components I think were the hard parts, you know, at least in that transfer proceeding.

MR. DENTON: I'll add to that just to directly answer your question. I think it would have to be determined at the time of transfer, obviously, in order to start depreciation and other things, right. But I do agree with Matt that at least from our experience to date that's not been the difficult part.

COMMISSIONER KEMERAIT: Okay. And then we're seeing, obviously PFAS and PFOA is a major concern among the water/wastewater utilities and the capital investment that's going to be needed to address PFAS and PFOA, does that make uniform rates a better situation for customers or does the PFAS and PFOA problem make it so that potentially we should have stand-alone rates? How does PFAS and PFOA fit into the view of uniform rates?

MR. DENTON: I think a lot of that is going to depend on what the EPA finally lands and what that threshold looks like and what the timeline for remediation turns out to be, but I do think that there will be upward pressure on rates. There's no question due to PFAS and PFOA. It's coming. We know it's coming. It's just what's the magnitude. And then, what are -- are there other mechanisms that are out there, whether it's SRF funding or other mechanisms, that we can do to help offset those costs. We will have costs. But I think it is beneficial across when you look at where we think they're going to land that it's going to impact more systems than anticipated, and so putting those systems in the uniform basis makes sense from that perspective.

COMMISSIONER KEMERAIT: And then my last question. I appreciate CWSNC being the Emergency Operator for Kinnakeet. And just for my own understanding, how many systems are the EO for currently other than Kinnakeet?

MR. DENTON: Oh gosh!

MR. SCHELLINGER: I have the four operating entities. There's -- some of these entities have a couple of systems in them. So I'll tell you the four entities and then -- so there's Hardscrabble, which I believe has -- there's Hardscrabble which is Harrco. Harrco has Hardscrabble. There's Cross State which is made of up Niknor, Ash Lake, Beaver Creek, and another Ash Lake. There's OBKI which is Kinnakeet. And then there's MAUC which is Mountain Air. So four entities.

COMMISSIONER KEMERAIT: Thank you.

MR. DENTON: But multiple systems.

CHAIR MITCHELL: Just a few quick questions for you. Following on Commissioner Kemerait's questions, discussion about the rate base, so I'm just trying to work through this in my mind. If upon transfer, the acquired system is included in the uniform rate category, and you establish a rate base, depreciation begins I assume when you take, when Carolina Water officially places that unit in service or that plant in service, are you not recovering on that rate base until your next rate case? I mean, is it just depreciating away until your next rate case.

MR. SCHELLINGER: It would depend on if their cost of service was higher or lower than uniform. Yes, their rate base will be depreciating from day one as of the close. Whether or not we're recovering on that rate base kind of depends on if uniform rates was enough to cover that, you know, that depreciation on that rate base.

CHAIR MITCHELL: Okay.

MR. SCHELLINGER: So, if we were to have a system where their cost of service was well above uniform, we brought them in and put them on uniform, it starts depreciating on day one. In theory, you're not recovering on any of that depreciating rate base because that uniform rate even on that higher cost system isn't covering it yet.

CHAIR MITCHELL: Okay. How do you deal with or manage the issue of rate shock on, at time of transfer for those systems that are low-cost systems?

MR. DENTON: I think there are a number of ways. One, there is an opportunity depending on the timeline of acquisition for the seller to start to move rates up if it's needed prior to close. That's one option. The other is to have a gradual impact and work to -- and agree to get to uniform rates within a reasonable timeframe but gradually move up to that, but have the understanding that they will get to that point at some point in time. It provides certainty across the board not only for us but also for the customers.

CHAIR MITCHELL: So is the -- I mean, of course the devil is in the details therein, I mean I get that. You know, you'd be negotiating, sort of, what that time period would be for getting the system straight into uniform rates. But -- well, I'll just pass on that question.

This kind of -- this question kind of feeds into what you were -- I think the point that you're making. Mr. Schellinger, you discussed a clearly defined path, a clearly defined path to uniformity, and the way I interpret that is the Company wants to see that the system is going to be included in uniform rates, part of uniform rates, within a set period of time, either at transfer or as you've described, Mr. Denton, at some set defined point in the future. How do you -- first, confirm that I am understanding what y'all mean by clearly defined path.

MR. DENTON: My interpretation is that we would at the time of acquisition receive an Order from the Commission. This would be our desire to see that defined as either in that gradual component or immediately to uniform rates such that we can then say this is the plan that we're working towards.

CHAIR MITCHELL: Okay. Anything to add, Mr. Schellinger?

MR. SCHELLINGER: No. I think he's hit the nail on the head. We're just looking for the guidance.

CHAIR MITCHELL: And so -- all right. Let me just make sure there's nothing else. Low cost of service systems. Where are those systems? What are those systems? Give me an example of some of those sort of a low cost of service system.

MR. SCHELLINGER: Echota is a low cost of service system. If we're going based off of the proceeding we just had and where the rates were set at coming out of that system, where the capital investment is needed, I think it's primarily with AMI water metering. It's a relatively new system. It's been contributed by the developer as relatively low rate base, not going to need a lot of immediate replacements and repairs and all of that stuff, so Echota I think is an example of a lower cost system.

CHAIR MITCHELL: Any others that you can think of?

MR. DENTON: There are a number in our funnel but I'd rather not say --

CHAIR MITCHELL: Well, I'm not asking you to disclose that.

MR. DENTON: -- in this forum.

CHAIR MITCHELL: But there are such systems out there that you-all have identified.

MR. DENTON: Yes.

CHAIR MITCHELL: Because, I mean, what I'm hearing from you-all is the benefit to customers here is that there may be some high cost of service systems but there are also the low cost of service systems out there that might help even out that need among the customers. So, I guess I just want to hear from you-all that there are such systems out there and you have your eye on them.

MR. DENTON: There are a lot of them on both sides of the equation. And again, I go back to it's not just the distressed system. There are many that are non-distressed that are out there that the owners just don't want anymore or don't have the capacity to continue to operate.

CHAIR MITCHELL: And the Company is confident in being able to bring such systems on in a way that maintains or ensures that benefit to the large body of customers which is that downward pool on the cost of service?

MR. DENTON: Yes.

CHAIR MITCHELL: Okay. Let's see if --

MR. SCHELLINGER: If I may.

CHAIR MITCHELL: Go ahead.

MR. SCHELLINGER: I would just like to maybe add the fact that we do have two different water rate groups. It shows, you know, our Bradfield Farms, Barefoot Harbor, Treasure Cove is a lower cost of service system. That's why they are not in uniform yet. That's why that full consolidation in those two rate groups hasn't occurred yesterday. Those were kind of pulled aside because they were lower cost already. So, that would be another example I would put out there just within what we currently have.

CHAIR MITCHELL: Okay. Any questions before we move on to Aqua?

Anybody have a pressing question on Commissioners' questions that they want to ask?

MS. SANFORD: No.

CHAIR MITCHELL: Thank you, gentlemen. Let's move on then to Aqua.

MR. BECKER: Good afternoon. Thank you, Chair Mitchell. I have a statement that I'd like to read in advance of the presentation and I'll do a brief introduction here for the benefits of new Commissioners Brawley and Commissioner Tucker. I'm looking forward to working with you.

Thank you, Chair Mitchell, for the opportunity to speak today. For those who do not know me, my name is Shannon Becker. I'm the President for Aqua North Carolina. My colleague Ruffin Poole and I will present today. Ruffin is the Director of Business Development here in North Carolina as well. As we prepare for today's conference, we understand that this docket was geared towards answering how single tariff pricing and rate consolidation should be considered for system acquisitions and transfer proceedings. Aqua hopes to address the Commission's questions throughout its presentation and in the following Q and A.

Aqua believes that the basic principles and benefits of consolidation and single tariff pricing that benefits customers apply in system acquisition and transfer proceedings. Benefits exist for the current consolidated customers as well as the newly acquired customers receiving a similar service. After all, all customers within a consolidated utility, with any type of geographic dispersion, were newly acquired customers at one time or another.

Rate consolidation and single tariff pricing is a foundation of utility rate making that is commonly used to absorb newly acquired customers within contiguous and non-contiguous systems across the utility industry. As a regular practice, Aqua's consolidated rate structure is used to establish rates for all newly acquired customers through contiguous extensions and new developer agreements.

Reaffirming the reasons stated in the Commission's Order within this docket, Aqua affirms that the uniform rate paradigm continues to serve the public interest for customers receiving a similar service.

Further, Aqua believes that single tariff pricing promotes needed capital investment in aged infrastructure; promotes regulatory compliance; improves environmental compliance; and provides improved operational efficiency.

The attachment to this opening statement provides additional references to resources further discussing the pros and cons of rate consolidation. I will not be reading that into the record.

Aqua generally supports moving to be a consolidated rate over time, over time in acquisition and transfer proceedings and this can be done in a number of ways. Unfortunately, I'm not aware of a one-size-fits-all answer to defining specific situations where rate consolidation should or should not be applied to the newly acquired customers in a transfer proceeding. Over time, the cost of service for each customer should reasonably approximate each other, but there will always be subsidizers and subsidizees at any point in time. This happens and is happening in every utility sector.

While special situations will always exist, and each case must be examined to determine if consolidation is in the public interest, Aqua generically supports that the highest level of similarity be utilized to define a group of customers receiving a similar service to maximize the benefits of consolidation; regardless of whether that is determined in a transfer proceeding or a rate case. Optimally, that would leave one singular revenue requirement and tariff for water customers and one separately for sewer customers.

Aqua currently owns and operates approximately 750 water and 59 wastewater treatment plants across 51 North Carolina counties. While these systems now exist within three water rate entities and two wastewater entities, each stand-alone system could potentially have a separate rate based on its unique cost of service at any point in time. For all these protections and benefits just mentioned, the management of these separate systems is not feasible. On a stand-alone basis, many of these systems' cost of service may not approximate the consolidated rates of the larger consolidated group; however, the needs for infrastructure replacement and costs of compliance related to each system will likely approximate each other and balance out over time. The cost to replace the low depreciated original cost on a utilities books tomorrow will eventually approximate and supersede the fair market value cost of a newly acquired system today. These same principles and comments apply to acquisitions and transfer proceedings in addressing the newly acquired system rates.

The increasing challenges on utilities to maintain rates in our current environment while providing safe, adequate, reliable, and affordable service is real. Heightened costs to replace aging infrastructure; heightened environmental regulations, such as emerging contaminants and lead and copper; not to mention the increased operational and debt costs, serve to further emphasize the importance of working towards a uniform/consolidated rate structure.

Is the presentation ready to go?

I'll jump in into the presentation of slides now that myself and Ruffin will present and I will not read everything but I will summarize a little bit.

The first two slides, in particular, have been mostly covered by my opening. There's a point that I wanted to make and emphasize on the first one which is "Why Consolidation and Single Tariff Pricing is Beneficial". So again, I think the benefits and the reduction of risk and spreading of risk across a broader pallet of customers has been thoroughly investigated, reviewed, and there's a lot of research on that.

But the second point there, fewer revenue requirements -- some of the benefits are fewer revenue requirements lowers administrative costs from reduced need for asset tracking, and less financial reporting and streamlined filings. There's additional costs that just naturally occur through consolidation. And again, the time -- over time, the cost of service for almost any of a similar type of group, water customers, will approximate each other, but you will get efficiencies with consolidation, and we mentioned cost-of-service studies. If you had to do a cost-of-service study for break out of industrial customers or commercial customers from residential, having a less need to do cost of service, less need to do asset tracking by system, time tracking by operator by system; we have corporate allocations that's done. This is a lot of back-end overhead allocations that are performed; and then financial reporting on a separate level. So the more entities that there are, the more separate trackings required and management needed, let alone rate cases, the separate rate cases are a draw on not just the Public Staff but the Commission's time as well as the Company's time.

So why consolidated rates are beneficial for acquisitions. Rate parity is something we want to work towards for all similar customers. Consolidated rates upon acquisition, soon their effort can mitigate rate increases; help address system viability issues; and utilities with greater scale could optimize the overall capacity and spread costs to address affordability, and this can be obtained through interconnection of similar systems in similar areas or application of just the larger entities technical expertise. Instead of having to have the redundancy of having a separate engineering group, a separate geologist, a separate customer service group, a separate accounting group. That consolidation and that merger provides those efficiencies that can be spread and reduces the cost for all customers.

So with that, I'm going to hand the reigns offer to Ruffin and he'll go through the next couple example slides.

MR. POOLE: Thanks, Shannon. We just wanted to address a couple of items about the Commission's ability statutorily, right, to handle rates in transfer proceedings. So clearly the Commission has flexibility to set rates outside of base rate case. So we wanted to set an example that we were involved in two thousand -- a couple of years ago with Water Works of Alamance where Aqua came in, took over a system that needed some improvements. The Commission and the Public Staff, we worked with the Public Staff on this case, there needed to be capital improvements done pretty quickly. So they held over the rate Order as part of the proceeding. So the preceding hearing was held but before the final Order was issued there was a definitive period of time that was agreed upon and set out between, an agreement between the Public Staff, the Commission, and the Company to make them by that definitive date. And once those were completed and proof was provided by invoices and other items, then the Commission issued the final rate Order, and they were not rolled into our consolidated rates but there was an interim set of rates that were established for that utility that exceeded their previous rates. Eventually, they were rolled into our consolidated rates at our next rate case.

So, just wanted to provide this as an example that the Commission continues to have authority to be creative and create solutions that fit acquisition proceedings.

Each acquisition is truly unique in its set of circumstances that takes place. And so, as Shannon mentioned, you can't look at them at one lens, you have to actually look at them with what they presented to you, right. The sets of circumstances that are involved in the case and there are obviously always variables in that, right.

So the other thing we want to talk about is just, sort of, other models. Well, first of all, before I get to that, apologize, the next slide is about just, sort of, fair market value legislation then we're going to talk about other models for, that are out there by other commissions and how they handle this topic. But I know part of the question comes around fair market value and acquisitions of systems, right. So I think the legislation is pretty clear in regards to how the process works and what the Commission's authority is in this those fair market value transactions.

There was a question that came up about transparency or about education or how do you we make sure that we're communicating the rates that are going to impact customers on transfer proceedings. Within FMV, there are legislative, the statutory requirements that require the Company to communicate those capital improvements that are going to be coming in place over a five-year period that are going to impact those rates. So we have to demonstrate, the Company or the industry who's acquiring has to demonstrate what those rates are going to be and what the projections are. Worst-case scenario is a stand-alone rate entity. So there is transparency set forth statutorily in that process.

With that, I'm going to move forward and just talk a little bit about how some other states handle and may handle transfer proceedings. So, Aqua is active in Illinois. We have a base of operations there. And in Illinois they have a step in or tiered rate structure upon acquisition. So they have various rate structures within their consolidated network, within Aqua Illinois. And the customers that are being, I guess transferred or being brought into the consolidated network fit into a different scale. And there's a negotiation between the Company and the consumer advocate and the Commission about where do they fit it based on their cost of service and based on their location and all the variables, and then they're slided into that tier of group. And then gradually over time as capital improvements are made they graduate up the system or up the ladder, and ultimately at some point in time, they make their way up to the full consolidated group.

In Texas, there has been a recent law passed in 2021. The Commission is currently dealing with the rule so it is unclear in regards to, you know, what the rules of the Commission has set forth. There's been no transfer proceeding that has taken place under this new law in Texas. But the Statute provides that -- it protects customers by applying rates that the Commission has previously approved that a representative of that rate cost for those customers. So it allows them to basically be slided into a rate division that already exists where there's similar cost of service.

So those are two examples that are done in states that Aqua currently represents. Shannon is going to talk about how they're done in Virginia.

MR. BECKER: So in Virginia, for those of you that know me, I was the President for Aqua Virginia for about four years prior to coming back to North Carolina after being the controller here for several years. So, I am very knowledgeable about how they did it up in Virginia. I was involved in several of the rate cases, and they use groups. So they have a single revenue requirement for their water customers and they have a single revenue requirement for their sewer customers, and they use actually a set of groups that allow customers to progress ultimately as rate cases come, remove the different groups towards a rate parity, and reducing the groups to get to one singular rate. That's the intent.

When I was there I want to say we had seven groups and the first rate case I did we squeezed them down. I can't remember if we went down to four or five. We started after we got through identifying what the revenue requirement was. We said, "okay, well there's five different groups here at different levels", and the reason for that was there were various acquisitions or separate rate entities. And I think in 2010, you will see it on the detail here, in 2013, I'm sorry, we had 69 water systems that were separate. So just as we talked about the inefficiencies of having 69 rate cases which I don't think anybody would enjoy -- well, I like that but -- but 69 rate cases just would not be feasible, right. And to try to track the costs related to those 69 would just be not feasible. So, they took the contracts -- and those were contracted rates -- they took the contracts, brought them all into a rate case, consolidated them, and kind of formulated these groups and they brought some very low rate customers into a lower group and some of them they already had higher rates were into the higher group. And the ultimate intent over time is through rate cases as a rate increase comes, if it was a 10 percent overall rate increase, the highest group already paying the highest rates would get the smallest rate increase; the lowest group would get the highest rate increase.

In fact, as an example, I was talking to the controller just to get an understanding of so what did that mean to the different groups. In the last rate case in 2021 that they had, the highest group with the highest current rates got an 8 percent rate increase, the second highest group got a 20 percent increase, and the lowest -- the group with the lowest current rates got a highest rate increase of 27 percent. They gradually move towards that rate parity over time. And I'll say that there are lots of different ways that you could do this, right. That's one way. It's one way that I'm familiar with and it actually seemed to work. So when you're doing transfer proceedings and you're bringing customers in, you could potentially, if they were that different, bring them into the rate entity into a different group once you have a rate case. All right. I think it has to be formalized in the rate case. But at the onset I think the Commission has the ability to use that structure however they see fit and apply those rates to the proceeding or to the transfer proceeding, and bring them into kind of consolidated rates currently.

In fact, so Aqua, we're considering this kind of methodology and proposing this in a future rate case. Whether it's going to happen in a next one or not I'm not positive yet. But we plan on applying rates in a graduated basis to an ultimated consolidated rate structure.

Slide forward here and I'm going to jump to the -- everybody likes graphics. This is how we're set up today on the screen. We have three water rate entities. ANC Water, Aqua North Carolina Water is one. Fairways Water is another. And then Brookwood Water is another. And subject to check, I think this was done in about 2007 when we had all our rate consolidation work done. We ended up with those three water rate entities. And then next to it are the two wastewater rate entities which is ANC Wastewater and then Fairways Wastewater. And in our last proceeding, we've seen that our Fairways Wastewater has realized a significant amount of infrastructure upgrading that's been spent in Fairways. Their wastewater rate, it used to be much lower than our ANC Wastewater rate. The Fairways Wastewater rate is approximate -- is very close now to our consolidated wastewater ANC Wastewater rate. So it makes natural sense, and that's exactly what happens over time, and that's the intent. I think a lot of what we're seeing here is over time these are similar water customers, wastewater customers over time, are similar. They are going to catch up with each other. If you didn't spend it yesterday you're going to spend it tomorrow.

The original cost -- the original cost that's on the books for systems that were built in 1970, it's going to be extremely currently, right. So there's not much expense being pushed off by depreciation or the ROE or the interest cost on the rate base. But when I go to replace those assets in that 1970 system that is inevitably going to happen, that cost that I'm going to incur today is going to approximate probably the fair market value or close to the market cost of brand new systems that are coming on today. So eventually it's going to even itself out, and that's why Aqua supports consolidation as much as feasibly possible.

With that, that closes our presentation. We are available for questions.

CHAIR MITCHELL: Let's see, Carolina Water?

MS. SANFORD: No questions.

CHAIR MITCHELL: Okay. Public Staff?

MS. JOST: Just one question.

Mr. Becker, you said earlier, and I think you were reiterating this just now, that eventually cost of service will balance out, that the investments will have to be made at some point but wouldn't you agree that different systems have different needs for different infrastructure? For example, radiological filters and one system may have greater iron and manganese and require additional filtration.

MR. BECKER: Based on what -- absolutely. You know, there's different operating identities to water systems today. We can talk about PFAS. You've got RADs, uranium, some have grinder pumps some don't have grinder pumps. The point is we don't know what's going to come up tomorrow either, right. So today, the PFAS, we didn't know that 10 years ago, right, but this is a protection for those customers. Ten years ago we put into our consolidated rate entities, putting a million dollar system or a $500,000 system on a 30-customer stand-alone entity would be just unaffordable.

So that actually goes to help with explaining the protections that are offered by being in a uniform system of rates. It's that risk -- it's a reduction of risk. When something does happen, what if we run out of water, I don't know whether that's going to happen, but I might have to haul water in for those customers. It's that mass protection. They're all similar customers. They all have a little bit different needs. But over time, again, there's always going to be subsidizers. As I said in the opening, there's always going to be subsidizers and subsidizees at any point in time. The idea is the approximation over time is going to more or less even out but you never know when you're going to be the person who's in need.

MS. JOST: I guess I see your point, but would you agree that, you know, there could be a significant difference in the cost of addressing some of these different systems or issues with systems like radiological filters; significantly different costs than iron and manganese? Would you agree with that?

MR. BECKER: I would agree at any point in time there are probably operational differences that may be more costly than others; yes.

MS. JOST: That's all I have. Thank you.

CHAIR MITCHELL: Questions from Commissioners. Let's see, Commissioner Duffley, and then Hughes, and Kemerait. Go ahead.

COMMISSIONER DUFFLEY: Thank you, Shannon. So with respect to the pages regarding Illinois, Texas, and the Virginia programs. This kind of gets into what I was initially exploring with CWS. Could you tell me over what period of time -- it sounds like with all three of these programs, the ultimate goal is to obtain total 100 percent consolidation. Is that an accurate statement?

MR. BECKER: I'd say yes. Yes. Over time yes.

COMMISSIONER DUFFLEY: And what -- for each one of these, what's the over period of time is it? Five years? Fifty years? Somewhere in between?

MR. BECKER: I don't know that. I know with Virginia there is no established timeframe, 10, 20 years or whatever. It's a -- that's where reasonableness is judgmental but over a reasonable amount of time. And, you know, you take into consideration rate shock. Is a 27 percent rate increase shock compared to 50 percent, not so much. Compared to 5 percent, maybe. But it's just done on a reasonableness overtime and it's an approximate graduation toward the center point, but there is no -- from what I understand, there's no defined timeline.

COMMISSIONER DUFFLEY: Okay. And following up on Public Staff's questions, when they're placed in, for example, in Virginia, these three different rate groups, is it based upon being above or below the consolidated or uniform rate or are they placed in these three different groups based upon like a cost-of-service study or unique cost to each of the systems? How are they put in these three different groups?

MR. BECKER: I'll say my recollection when that happened is not specific. But I do know that when new acquisitions come in, they'll put them in that rate entity in the next rate case. So they might establish that rate or assign a rate.

In the case where we had all of those separate systems that were brought in, they -- we identified where there was some approximate similarities and kind of just established -- is it five tiers or is 10 tiers -- there was an approximation just to try to avoid a reasonable graduation and avoid rate shock. So it wasn't very specific. It's just kind of an approximate. They established a number of groups and then brought them into a group that was near their existing rates. Or understanding of what -- I can't say what the Commission in Virginia was thinking or would think of this but I would assume that the future needs for capital may have been considered to determine where they were going to go. But at the end of the day it was a revenue, a single revenue requirement that was distributed among the several rate groups.

COMMISSIONER DUFFLEY: And so is there a

place that I could go and look within something filed with the Virginia Commission that might spell out further what considerations -- you know, what was considered when putting in these three different groups.

MR. BECKER: You would probably have to read the Orders. Well, not even just the Orders but the case testimony in support of each of those individual rate cases over the past 10 years. There were actual progressions. You know, bringing new customers in was in one rate case. Consolidating the existing systems was in one as well. And the actual progression down in squeezing into fewer groups that, I believe, was -- one of them was in 2017 I think. I think they may have done another one after that.

COMMISSIONER DUFFLEY: Chair Mitchell, I'll just ask her a question along these same lines. Is there statutory authority for this in Virginia?

MR. BECKER: I do not -- since they're doing it, I'm assuming so but I do not know that for sure.

COMMISSIONER DUFFLEY: Okay.

CHAIR MITCHELL: Well, specific to this type of grouping that's not -- that would be different from part of the general rate making authority set forth in the Statute?

MR. BECKER: I'm not aware of any.

COMMISSIONER DUFFLEY: Thank you.

CHAIR MITCHELL: Let's see, I think Commissioner McKissick and Commissioner Kemerait.

COMMISSIONER McKISSICK: And of course, the question I have is kind of a follow up on these approaches other states are taking. I mean, if you had to contrast them and compare them to what we do here in North Carolina, and we had to come up with something that perhaps is best practices based upon the way transfers or acquisitions are taking place, I mean, what could you share with us based upon the experience of the Company you're affiliated with? I mean, perhaps it's not one or the other, maybe it's a hybrid. I mean, what approach -- or maybe there isn't one. It's just different.

MR. BECKER: And I think that's why we referenced Illinois and Texas in there.

COMMISSIONER McKISSICK: Yeah.

MR. BECKER: I think there's different approaches. The one I'm familiar with is really just the one in Virginia because that's where I was. So I've been involved in several rate cases there and then obviously here.

From a conceptual perspective, I like the idea of a single revenue requirement. I think there's a lot of efficiencies to be had, less reporting, fewer rates cases. And then within it, how you establish the groups, there's a hundred ways or more that we could establish those. Whether they're structured in set, you know, we're going to do a 5 percent, 10 percent a year.

There's a lot of ways to suggest it and I like an overall reasonableness approach. We just have to be considered. I liked what Virginia did in that respect because it was just one revenue requirement. I would love to move towards one revenue requirement here for my water and one for my sewer.

COMMISSIONER McKISSICK: Okay. Thank you.

COMMISSIONER HUGHES: Just following up on the same question I asked Carolina Water about, the purchased systems, if you have any comments. And since you provided some other state examples, if you're aware of how they might do that in other states or those, specifically bulk water costs or bulk wastewater treatment costs. Do they get wrapped into revenue requirements or are they just an operating cost like electricity or like other things that you do spread across all the systems or are they separated. And if you have opinions about moving forward, how that structure fits into what you go see as the ideal moving forward.

MR. BECKER: So I'm not familiar with other states and quite honestly I don't recall if in Virginia if we had purchased water pass through or purchased wastewater pass through.

Do you happen to know that, Ruffin?

MR. POOLE: I don't.

MR. BECKER: I could find that out in our eight states that we operate water or the water states I could find out how we do that if we have that as a separate rate design. I'm sorry.

COMMISSIONER HUGHES: When you find the pass through, I'd be curious if it is pass through per system or if it's pass through again as a consolidated cost similar to like we do our fuel rider and our electric utilities.

MR. BECKER: Yeah, and I know that we, I think in 2013, one of our previous rate cases after I had started as a controller, we had actually recommended that purchased water pass through. And that was more of a cost like a rider recovery than it was meant to be a rate design. We have I think almost 60 systems that have separate purchase water pass throughs, right, and they automatically get our base facility charge which is an approximation. Well, it doesn't approximate the fixed cost. We just have a -- what is it 60/40; is that correct? I think it's around 60/40 now. Sixty percent variable, 40 percent fixed. That fixed piece becomes their base facility charge. It's not really representative of everything. It's kind of more of a policy. It's a social policy or it's a policy that's been used to set our rate design.

I would have a problem with those purchased water costs were consolidated and it became a cost of our operations especially under a WSIP now where we're projecting. Again, I think the primary reason for installing that purchased water pass through was to make sure that we are recovering. We couldn't control the increases by municipals and as they came through we wanted to make sure that we're getting recovery because that could bring us into a rate case for just that reason by itself. So if we include it as an operating cost, I'd appreciate that, especially under a WSIP because you can actually project a little bit more of what you think those costs are going to be to match them.

COMMISSIONER HUGHES: Thank you. That's helpful.

MS. KEMERAIT: And Mr. Becker, I think you heard my question to CWS about the rate base and I think that the response was that rate base needs to be determined at the time of transfer and that you can save costs for customers when you don't have to establish rates at the time of transfer and that determining the rate base is not nearly or is not as costly as establishing the rates.

Do you want to comment about whether you agree or disagree or have anything in addition to provide?

MR. BECKER: So the rate base upon transfer, especially when it's a developer transfer or developer proceeding where we're bringing in basically new customers, that rate base or what ultimately become rate base is what we ended up paying that developer for reimbursing usually a less percentage than what it actually costs. You know, if it's $10,000 or $15,000 per customer to install a water or wastewater system, the treatment plant, the collection system, the distribution system, we might give them $2000 or $3000. We might give them $500 if it's water only.

So it doesn't really -- you know, a lot of it -- I think Ms. Sanford mentioned earlier, a lot of it is contributed. So you're going to get a different system with various rate base because a lot of it is contributed at the onset. And when you're doing an acquisition, a fair market value acquisition, rate base is determined through the actual process itself, right. The fair market value statute requires that that rate base be determined at that time. But what that is ultimately --

MS. KEMERAIT: Can I interrupt you for a minute?

MR. BECKER: Yes.

COMMISSIONER KEMERAIT: I think that I'm actually thinking a little bit more of these systems have been in operation for some time that are being transferred and they're not necessarily quite as easy to determine the rate base. And should that be determined at the time of transfer or at the time of rate case? And do you still save costs at the time of transfer if you still have to determine the rate base at the transfer?

MR. BECKER: I think consolidation is a principle that should be applied and accepted. And if you know you're going to accept it, whatever that rate base is, whether it's determined in the transfer or not, it will become part of the next rate case, if it is allowed to be consolidated. I think it's a concept that is based upon the principle that all the costs are going to be similar eventually. So some are going to pay more now and some are going to pay less.

COMMISSIONER KEMERAIT: And just to be clear, is your position the same as CWS's that we should determine at the time of transfer or do you have a different position about that? Because I think that does go to cost or potentially at the time of transfer.

MR. BECKER: I think there's some nuances here so I don't want to make a generic statement.

COMMISSIONER KEMERAIT: Okay.

MR. BECKER: In general, we do agree with their position. We didn't go through the same proceedings that they did so maybe there's some nuances that I'm not familiar with. But I think the rate base does come out of most transfer proceedings just as result of the proceeding. I would not recommend that a the full blown rate case on the cost of service, improving the O&M. You know what the previous work rates were and you know what the consolidated rates are going to be if that's an assumed acceptable methodology is to consolidate them. So I don't know if it is as important to have that determined but it usually is, I think.

COMMISSIONER KEMERAIT: And just one last question. The Commission has always historically believed that it's in the public interest to consolidate individual systems into the larger utilities. So we've heard today about having uniform rates is a way to make that consolidation perhaps more feasible. Are there any other ways that we could -- that could be considered that would make consolidation less expensive and more feasible for the utilities so that we can continue to encourage that consolidation?

MR. BECKER: Yes. I think a streamlining of the process, and I wouldn't be able to layout the details of it, but the process is rather extensive to get the reviews and go through the whole proceedings. If there was a streamlining of process, let's say it was by size. You know, we have a lot of distressed systems out there that are small but those systems of 50 customers take just as much time as a 5,000-customer system to actually go through the process from the beginning to end. Not just the Commission process but everything, the permitting, the approval process with the municipal or maybe not so much with another investor-owned if you're merging there. But a streamlining of the process in particular for smaller systems would be hugely beneficial to, I think, every one.

COMMISSIONER KEMERAIT: Thank you.

CHAIR MITCHELL: Go ahead.

COMMISSIONER TUCKER: Thank you. Mr. Becker, I'm sitting here as a business guy thinking what else the secret sauce to consolidation and what advantage is it to you and what disadvantage it may be to the consumer. To you, I can see certainty in business, would be something we all would like to have, all of us who run businesses. I would also love to have a year-to-year guaranteed revenue stream as you do, but both you and CWS are advocating consolidation.

I shared with Mr. Poole earlier that I had spoken today with my old college roommate. We've been friends for over 50 years and he's on an Aqua system here in North Carolina, and he said four years ago his bill was $67 and now today it's $91 dollars. I shared with Mr. Poole he can afford to pay that but he's always -- he's an engineer and he's always nitpicking anything he can.

But just tell me why the push or advocating for us to make a decision on the consolidation. Historically, as she mentioned the Commission always wanted to do that, but I'm just trying to understand the mechanics of what it is. Is it, you know, the fact that you can spread cost, I understand that, from one system that needs capital improvements to a newer system? The fairness of all of the consolidation throughout the entire Aqua system, what does it impact? Are all the rates going to need to be increased substantially even to the customers that have the newer system versus the one that you acquire and need capital improvements?

MR. BECKER: So, being regulated, we have a responsibility not just to our shareholders but to our customers, right. We are always considering affordability. The more customer complaints that come out of higher rates is just not something that's a --

COMMISSIONER TUCKER: Oh yeah.

MR. BECKER: -- it's not a revenue producing activity or effort that is needed to address. Customers who are just not happy, right.

So we're always looking at being prudent in everything that we do, you know, everything that we can do. One of those things is consolidation eliminates some additional costs. So we can focus on what we're here to do, which is provide -- protect and provide earth's most essential resources. So water and sewer. And if we can do that cheaper by consolidating, let alone all the benefits we just talked about, the protections for the customers, the rates will go up for everybody.

And for your college roommate who experienced that increase, I don't know if they had brand new -- I don't know if they had a brand new wastewater plant or a lift station or replaced something that was significant. But again, those rates will generally go up over time for everybody, but it doesn't mean that your college roommate may actually -- if you put them on a stand-alone system their rate may be a $100.00, if you broke down that. So maybe they're getting a benefit but they're not seeing it that way.

So there's always benefits of consolidation primarily through protection, risk reduction, spreading of risks, spreading of rates, and then as we bring in new developer, growth, those customers are usually on the cheaper side. Their cost of service is not necessarily -- they're highly contributed. We paid a small amount for their rate base and their system is brand new but they're being brought into our consolidated system which helps our existing customers. So the faster and the more I can grow, the most customers I can bring in, actually helps to loop a lot of those overhead costs and fixed costs. So growth is good.

COMMISSIONER TUCKER: Just to follow up. So you're saying that through consolidation if you can do it cheaper that doesn't mean consumer rates would go down, right? You said cheaper and then you're saying raising rates in the same sentence.

MR. BECKER: Yes.

COMMISSIONER TUCKER: So I'm trying to wrap my head around where we're going here.

MR. BECKER: So everything holding the same, the costs would be diluted by more people; however, what happens with growth is typically future rate increases not minimized. So it's not going to become cheaper based on where I'm at today. It will become cheaper. I guess it could but that's generally not what happens. Over time, that growth dilutes future growth, future rate increases.

COMMISSIONER TUCKER: Okay. Thank you.

CHAIR MITCHELL: Questions on Commissioners' questions?

MS. SANFORD: No.

MR. DROOZ: I'd like to do a little bit of follow up if I may.

CHAIR MITCHELL: Okay.

MR. DROOZ: So, taking these in reverse order. Commissioner Tucker was asking about the pluses and minuses for customers with uniform rates.

Let me throw out a hypothetical. You say you acquire a 30-customer system. It's rates are real low because the prior owner hadn't increased rates in 15 years. The prior owner made the books balance by not doing repairs and maintenance in that time, too, so you know you're going to have to sink money into bringing that system up to adequate service level.

Now, when you go into that transfer hearing, what are the odds those customers are going to say keep our rates at the current level. Don't put them at the uniform rate level that's higher?

MR. BECKER: Pretty strong.

MR. DROOZ: Okay. And yet if you say put in a quarter-million dollar greensand filter the next year and you're spreading that cost over 30 customers, what are the rates going to look like after that if they're a stand-alone system?

MR. BECKER: Significantly higher.

MR. DROOZ: So really, in terms of the pluses and minuses to customers, are you averaging out the risk of having a really major capital cost in one system and spreading that risk over all the customers?

MR. BECKER: Exactly, yeah.

MR. DROOZ: And do you see that as a benefit in uniform rates?

MR. BECKER: Absolutely. And that's what I was speaking about earlier. If you didn't need it -- if you didn't need it yesterday and you didn't get it, you're going to need it today or tomorrow.

MR. DROOZ: Right.

MR. BECKER: Eventually, it's going to even out for all of those customers.

MR. DROOZ: Let me also ask you about if you do keep some of the smaller systems as stand alone, then are they going to require separate rate case proceedings?

MR. BECKER: Yes, unless I request that they be merged into a consolidated entity.

MR. DROOZ: And even if you did several of these stand-alone systems together, would they still need separate rate designs for each one?

MR. BECKER: Not if we have consolidated rates.

MR. DROOZ: Right. But if they remain stand alone.

MR. BECKER: If they remain stand alone we would have to look at the -- basically, do a rate case for each one.

MR. DROOZ: Yeah. And are rate cases expensive?

MR. BECKER: They are approximately a million dollars or more.

MR. DROOZ: And even for a small system, are those rate case expenses passed on to customers?

MR. BECKER: They are.

MR. DROOZ: So, do customers actually get a benefit by having all of the rate cases consolidated under a uniform system into one instead of doing separate cases for all of these systems?

MR. BECKER: Absolutely. Absolutely.

MR. DROOZ: Okay, thanks. You were asked by Commissioner Kemerait about when rate base should be determined at transfer or at a later date. When you acquire a system, the rate base for that system, does it actually change the rates at time of transfer or does it not change the rates until a future rate case, when you incorporate that system's particular rate base?

MR. BECKER: Well, I think the Commission has the authority to set the rates at that point in time during the transfer. Of course, when we go in for a rate case either on a single entity or a consolidated, they would be brought in and considered as part of the rate base of the greater rate case or the rate entity.

MR. DROOZ: So, in a transfer typically that's not a full blown rate case proceeding, is it?

MR. BECKER: No, it's not.

MR. DROOZ: So, in terms of that rate base, if it wasn't determined in the transfer but was determined in a future rate case for that system that's been nearly acquired, it really doesn't impact rates either way until the new rate case. Is that a fair statement?

MR. BECKER: It does not impact the rates of the consolidated entity.

MR. DROOZ: Right.

MR. BECKER: No, it does not.

MR. DROOZ: You were asked by Commissioner Hughes about purchased water costs or I guess purchased sewer treatment costs, too. Is that a statutory right that utilities have to recover, if you know?

MR. BECKER: I don't know.

MR. DROOZ: Is there a pass-through statute for North Carolina?

MR. BECKER: I'm not sure. Ruffin, do you know?

MR. POOLE: No, I don't know.

MR. BECKER: I do not know that.

MR. DROOZ: If the systems that have pass-through rates were separated out from your consolidated group so that their fixed costs as well as their purchased water costs were determined on a stand-alone basis, that would mean separate rate cases for those systems, wouldn't it?

MR. BECKER: That would, yes.

MR. DROOZ: Do you know how many other systems you have?

MR. BECKER: I think it's around 60. I'm not positive.

MR. DROOZ: You were asked some questions by Commissioners Duffley and Mitchell that related to gradualism and you talked about in Virginia and other states where you had groups. I want to ask if you're familiar how differing class rates of return are handled in electric cases where one class is underpaying its cost of service and another is overpaying its cost of service. Are you familiar at all with how gradualism is handled in those? We haven't talked about this so I don't know if you are.

MR. BECKER: I don't know what the propriety of this is but I would assume Mr. Denton may know that a little better than I do. I do not.

MR. DROOZ: Conceptually, it would make sense that whether you have a group that's based on different water systems or you have a customer class that you look at the cost for that group or class, you look at the revenue being brought in under the rates for that group or class, and then you determine if they're underpaying or overpaying their cost of service, and from that point you adjust the rates for that group or class to bring it closer to paying its full cost of service and not overpaying or underpaying. Conceptually, would that make sense?

MR. BECKER: I think --

MR. DROOZ: And if you want to beg off and think about it, that's okay. I just thought I'd put it out there.

MR. BECKER: Because I'm not familiar with the details of it. And that's why we say every situation in itself has to be looked at it. The facts and circumstances have to be looked at in each situation. I don't feel comfortable answering that because I don't know how they arrived at that methodology or application.

MR. DROOZ: Thanks. That's all I have.

CHAIR MITCHELL: Public Staff, questions for Aqua?

MS. JOST: I think we already asked.

CHAIR MITCHELL: Oh, I'm sorry.

MS. JOST: We're all set. Thanks.

CHAIR MITCHELL: I did have one more question. Just a quick follow up. I meant to ask you this. You mentioned the streamlined process for transfers. Is there -- can you give me an example of a jurisdiction that does it well; that has a streamlined process that should emulated?

MR. BECKER: I don't have one that I can actually -- not that I can't share, I'm not aware of one. How they actually do that.

CHAIR MITCHELL: So you're not drawing on experience in another state?

MR. BECKER: No.

CHAIR MITCHELL: Okay. Then Public Staff is up. Thank you, gentlemen.

MR. BECKER: Thank you.

MR. JUNIS: Ready? All right. Chuck Junis with the Public Staff - Water, Sewer, and Telephone Division. I know we're cutting it close. We want to be done by three. I was under the perception that the Public Staff is representing customers of 90 different utilities so I get 20 minutes per company, so 1800 minutes so I've got you for the next 30 hours.

(Laughter)

I think I can fill the time so don't worry about that. Nah, I'll try to move here very quickly.

First, I want to address some of what the Companies have said and some of the questions to try to streamline. Yes, I have a lot of slides. It's to give you information. I'm going to hit on a couple of them here shortly.

So, just big picture issues. When we talk about consolidation, I think we have to talk about what are the consequences of consolidation. Yes, there are potential benefits. For example, economies of scale. But you have to realize those economies. It's nice in theory but if you don't actually put into effect there is no benefit to customers. So we have to do consolidation smart.

I'll give you an example. Government utility serves an area. They leave a stub or a line to serve a future area that's currently undeveloped. Directly neighboring, there is a private regulated utility. Okay. So we have already two utilities adjacent to each other in a similar area and another utility comes in for a CPCN to that undeveloped area. Well, it's physically contiguous to one private utility that is regulated by this Commission, it is also physical contiguous and there is a line that was expecting to be extended to serve that area from a government utility, yet a new entity comes in. That's what a CPCN could be. Now, what authority do you have to impact that decision? Because that's not smart consolidation. That's not consolidation at all. You're creating a system that is physically inefficient. You're creating a whole new water system that could have been an extension from another water system.

So, I want you to keep that in the back of your head when thinking about all this because you have two utilities, one covers 51 counties, the other serves tens of counties, also. They have systems that directly neighbor each other. They have systems that serve each other. Why wouldn't those be consolidated?

So, we can talk about consolidating uniform -- into uniform rates, but the extreme is why not have one utility across the entire state if that is the most efficient. I don't think that's necessarily the case. I think there is a regional aspect. I just want y'all to be thinking critically that, yes, there's the potential for benefits but you have to realize them. And there's also some detriments.

For example, and I'm going to jump -- John, if you don't mind pulling up my slides. And I'm sorry, if I'm talking fast, I'm just trying to be efficient with your time. If it seems like I'm excited, I am excited because I love this stuff. I love my job and representing the Using and Consuming Public.

I'm going to skip around so hold on.

Potential benefits. This comes stright from the Commission's Order. This is not to question you guys' wisdom. It is more a just this has to be a balanced conversation.

When you talk about uniform rates you can spread costs over a larger customer base which provides downward pressure on rates. That's not entirely true. So when you consolidate customers, yes, some customers there is downward pressure because their cost of service is higher, but for other customers their cost of service is lower and so there's upward pressure when you throw them into uniform rates. And the point about infrastructure is not every system, when we talk about comparable price for comparable service, not all systems receive necessarily comparable service or there's not a comparable cost of service.

The idea of a filter, not every system needs a filter. So eventually, yes, you might have to replace a collection system or you might have to replace a distribution system, but not every system may have to have the installation or a replacement of a filter. So they have inherently different cost of service.

Bob Hinton would -- I would be remiss if I didn't mention a conversation I had with Bob Hinton before -- a couple of weeks ago when his spouse worked for the Public Staff they went through this exercise of cost-of-service study for stand-alone systems. When you get to 700 systems, it's just not feasible. We can give consideration of how should those systems be, for example, the term was used "grouped". Who has similar cost of service, should those be grouped together; instead of should everybody be grouped together.

And then on the issue of gradualism. If a customer's cost of service does not justify that uniform rate, when you start talking about gradualism between rate cases, you're asking that customer to pay more than the cost of service.

If I'm a customer and I have the choice of I can pay $50 for the next three years or I can pay $50 for one year, $75 the next year, and $100 the year after that per month for my service to get to uniform, and let's say uniform is $100, what would you choose? I mean, from the aspect of rate shock versus gradualism, I'd rather pay $50 per month until I get rolled into uniform than to pay an increasing step rate for the same service that I was paying for and the same cost that was justified. So, I think we've got to be careful with gradualism and rate shock. And what are we protecting? And what are customers aware of? Because at the time of transfer if you tell me this information, if I'm a customer I would be irate if I have to pay extra to mitigate this rate shock for there's no justification in the cost of service. Because where does that extra money go? It goes to a company's earnings or their bottom line or it offsets some other cost that wasn't contemplated.

The other thing I want to hit on from just the back and forth here is I think there are feasibility issues with trying to incorporate a system from transfer into a water, sewer, investment plan or a WSIP or a multi-year rate, whatever you want to call it. I think there are real implications to performance metrics. If a system comes in mid-year, how do you factor them into performance metrics that existed for a discreet set of systems that were included in a rate case.

How does it affect earnings? Let's say they agree to a rate freeze. So we know that rate might be below the uniform cost of service. That means that's -- incorporating that system into the multi-year would be detrimental to their earnings. Would it be big enough to impact their earnings to a point where it would fall below the low end of the band and thereby justify a rate case before the end of the three-year plan?

Does that make sense? Like, there are real implications here that I don't think have been thought out. I haven't seen even these questions being asked let alone solutions to these problems. So, I think it's too early to jump to trying to incorporate new systems into a multi-year. We haven't even done the first annual review. I mean, we are not -- we don't have full four quarters, a full rate year of a multi-year and we're already talking about new challenges or modifications to that, and I think that's a bit premature.

The other question preempting, Commissioner Kemerait, you establish rate base at a transfer. It's been my experiences at the Public Staff for now 10 years, and I know sometimes that doesn't seem like that long but it also seems like forever, given how many cases I've worked on and then the institutional knowledge that I've been around, you know, there's some absorption. So, to move an issue such as establishing rate base into a rate case that already is time constrained, right, we only have 270 or how many ever days to decide it and investigate it, when you add scope to that process it inherently becomes a feasibility problem and arguably you can only get so efficient. Like, when you talk about, okay, what's easier, 60 rate cases or one rate case that covers 60 systems. Well, that's all jammed into the same period of time. That is inherently challenging. That removes us from some degree to handle all of that in one time period. You step out of the details a little bit. You can only get so granular with your investigation because you only have so much time. So these are the real implications to consolidation.

So I think I'm going to return to my slides.

I kind of got off the tracks there. I don't even know when I started. I think I have 29 hours and 45 minutes to go, so.

We're going to jump to Slide 8, actually 7. This prompts about uniformity or the path uniformity. I don't think we have one. And I think that's Carolina Water's point. I think that's somewhat Aqua's. Yes, we have taken steps toward uniformity but there is no clear path. I don't know if there should be. I think you've got to take this on a case-by-case basis because there is uniqueness to each of these systems. I mean, I think Aqua would admit there's no other state where they have 700 water systems, 60 sewer systems, nearly 1600 wells. Like that is a very unique system profile and so that may necessitate a unique solution and, also, the regulatory constructs of every state are unique, and so you have to work within the statutes of North Carolina.

For Mr. Drooz' question about pass throughs, yes, there's a statutory access to pass throughs. There is a real world feasibility issue when you talk about, okay, we have pass throughs that are rate-for-rate, dollar-for-dollar matching principle on the usage versus if you consolidate, truly consolidate to single tariffs, single usage charge, the 60 plus -- and I'm going to jump to my next slide. When you talk about 24 purchased water for Aqua, 14 purchased water or purchased services for Carolina Water, when you bunch those up and then you have pass throughs, does that mean you have to notice every single customer multiple times a year of the different pass throughs that happened, or are you going to say we will defer those pass throughs throughout the year to one filing a year.

These are problems and potential solutions that haven't been discussed. So, while I appreciate the information that the utilities came with, I don't think they came with enough detail to give you information to push this into action. Nowhere did I see anything about actual rates. Where are these rates trending. We're seeing from investment, Fairways sewer is likely to trend towards uniform Aqua sewer. Depending on investment over the coming years, you could see a situation where that rate may surpass the uniform. So should we be anticipating those being consolidated?

You know, I just -- this is the level of information we need. We need data. The utilities are the keepers of their information. They have to give that to you, to us.

Another real world example, and I'm sort of jumping around, I think consolidation has to factor in affordability. I think we have to start looking at our most vulnerable customers and can they afford service, and what, if at all, statutorily is that possible, through Commission Rules. Is that possible to factor that into these decisions? Because when you start talking about the concept of insurance, that's what I think Shannon talked about was uniform rates function as insurance. I may be a low-cost system now but tomorrow I may need a PFAS/PFOA filter that may cost hundreds of thousands of dollars or millions of dollars. And if you put that on my small system then my rate would skyrocket. Yes, that is a protection but not all systems need that protection or will fulfill that. But then you have people that can barely pay their bill paying insurance for people that use 40,000 gallons a day -- or 40,000 gallons a month. Those customers put a demand on the system that leads to higher costs. And I don't think we've entirely answered that question of is it fair when that tariff when they pay that same price per thousand gallons for every gallon or every thousand gallons, and they are heavy users like that, and the investment that's necessary to supply that demand can be millions of dollars. For example, elevated storage.

So you have customers were very different usage profiles, too. And we see this somewhat regionally. Fairways Sewer or, I mean, Fairways Water, those customers use about 50 percent more water than a uniform water customer. Okay. But their costs are lower right now. They are low-cost systems. Why? I think we got into it a little bit about developer contributions.

Why would a developer contribute utilities or a portion of utilities? I heard somebody say they have to. I don't know if they have to. It's negotiated. But also there's a benefit to that developer to have water and sewer service, right. That makes their lots more attractive. It gives them the ability potentially for density. So if you install a wastewater treatment plant, you can put more lots on the land you have than if you did septic, and who would pay for the septic systems? The developer. And then he's going to likely pass that -- or she --

would pass that cost on to the buyer or eat a portion, depending on the market.

I'm pushing. I know we're at three. I'm going to just hit a couple of more slides if you will allow me.

So this slide, I just wanted to emphasize price signals. And this balance when you look at a high-cost system where if they are in a consolidated rate structure, they might not get the proper price signals that would deter their usage that would lead to those higher costs, and that's not dissimilar from the concept of a high-demand customer; that I use a bunch of water and that necessitates capital investment.

So rate design is a tool to help mitigate some of the detriments of consolidation and uniform rates but it has to be really thoughtful. So that's just a reminder. Docket W-100, Sub 59. All of these parties provided information in there. It is still a resource. Some of it might be a little dated but the water and sewer industry is sort of slow anyways so there's not that much new concept there that is going to be overwhelming and provide some magic solution.

We already talked about some of the real world implications for a performance metrics earnings test at transfer. And I'm just going to jump to a couple.

Slide 14. Stand-alone rate paradigm. So inevitably, and I think Mr. Drooz hit on this, talking about what happens from transfer to rolling into uniform and if you charge a uniform rate or a cost-of-service rate, what are the implications. If that customer pays a uniform rate that is higher than their cost of service, the benefit is not passed to the uniform customers immediately. It is not until that actual rate case when that customer is rolled in.

We also -- I think it was Chair Mitchell asked about where are the low-cost systems. It's not just where are the low-cost systems. Are the low-cost systems plentiful enough or big enough to materially impact the rates of the uniform customers. If Aqua has 80,000 customers and they add a low-cost system of a hundred customers or even a thousand customers, the benefit to the uniform customers is going to be relatively small. That is the spreading concept, right.

So it works be the other way, too. If it's a super high-cost system or you decide to pay a significant purchase price for a system, you can mitigate to some degree the impact to uniform if you roll them into uniform. The problem being if you make a habit of that those impacts add up. That's the pancaking effect, right. And you also potentially just eliminated a low-cost system by what that purchase price was. If you could have gotten it for less, that would have been a direct benefit to customers. And did the benefits of that transfer actually outweigh that additional cost of that purchase price. So you've really got to show me, okay, if it's a low-cost system and the operating expenses go up, do the benefits match that cost.

I'm going to hurry the heck up. That really goes into -- ut-oh. Okay, he caught up. Cost benefit analysis. US Water Alliance recognizes this. It may be heard but it's important and it has to be done. Assessing, estimating, and quantifying not only the benefits but the cost can be daunting but it's essential to the process of knowing whether it is in the public interest. And that's Slide 15.

A couple of things, Shannon and Ruffin hit on this perfectly, that instance where the record was held open to allow for some initial investment. They did the example of Water Works of Alamance. We did the example of Clear Meadows. These cases happened within a year. I personally worked on both of those cases. I will say that initial investment was relatively small. So it was between $10,000 and $20,000 of investment within the first 30 to 60 days. The record was held open. It was incorporated into rates. It was audited by the Public Staff and approved by the Commission. That is feasible. When you talk about capital improvements that may take months or years and a step-in rate to accommodate that, I think that goes beyond what is feasible or allowed by the current ratemaking construct. So that was in regard to 2.f.

And I think that hits a majority of my slides. The only, if you will allow, one last comment and that goes into the resources and then the additional resources. There are toolboxes, and this is Slide 25. There are entities out there that are doing the work to give utilities the tools to quantify affordability. You have the UNC EFC. You have NRDC. EPA has put out new guidelines for affordability or at least in terms of financial capability. And again, those implications for the most vulnerable. There's also, and I have to add this because my boss already mentioned the ties of some of our Commissioners to Duke University, the Nicholas Institute of Energy, Environment, and Sustainability also has a water affordability dashboard. I'm not seeing participation from our private utilities. Part of that participation is data, which I've already hit on. Where are these service areas? Because once you can show where the service areas are you can match that with census block data. What can people afford? What is their income versus what are they paying and what rate entity do they fall into? And then we can talk about some of the grouping.

This has been actually incorporated in Reg. Conditions in the Carolina Water Southwest merger. I'm hopeful that it's something that Aqua will also take initiative to join us in. Access to data, access to mapping, because it's an important tool for assessing these issues.

And I will by quiet now except to answer questions.

CHAIR MITCHELL: Questions for Mr. Junis or the Public Staff?

MS. SANFORD: Yes. Mr. Junis, I'm just

going to touch on some of my questions hoping that this conversation extends to another day and not to the totally end of this one. There are some matters on which I think we agree and I want to clarify that. There is not currently a path forward towards the standardization or uniformity that we discuss and we would agree on that. But I think we would also agree that this is a first of its type of a conversation, a generic conversation on the topic and -- correct?

MR. JUNIS: Yes.

MS. SANFORD: Do you think it would be productive if this signals more to come by way of these conversations?

MR. JUNIS: Yes. And I hope that these conversations, if the utilities intend to move to uniform, that those decisions are made prior to the next multi-year rate case, if that's how they proceed, because without some consideration of the implications of that decision beforehand, it's going to make those multi-year rate cases so much harder. And I think, looking at these faces that experienced that process over the last two years, essentially, I don't think anybody wants that process to be significantly harder.

MS. SANFORD: So we would agree, this needs to be a very examined conversation of which we're really having the first one today, I think.

Affordability. Whether this industry moves toward standardization of rates or not, affordability is an issue, isn't it?

MR. JUNIS: Absolutely.

MS. SANFORD: And it permeates all rate decisions even when it is not statutorily specified as a reason for it. The concern about it permeates the rate decisions being made in this room under the current construct or on any that we could imagine; isn't that correct?

MR. JUNIS: I sure oppose so. I mean, obviously, there are constraints. This Commission is limited to some degree how it can factor that in, but I hope it is definitely a --

MS. SANFORD: Absolutely. And I don't recite it as a matter to be briefed or whatever in a rate case. I'm just talking about the existence of this thing sitting in the middle of the room as this Commission makes so many decisions. And companies are concerned about affordability, aren't they, particularly in the face of PFAS/PFOA kinds of --

MR. JUNIS: Yeah. I hope so. I think the

Companies have put this into action definitely with their participation in SRF funds not only on PFAS/PFOA but also LCR and now with LCRI coming out. The next 10 years is going to be interesting. And there is inevitably rate pressure up. We have to implement solutions that push down the best we can.

MS. SANFORD: Exactly. And there are public policy considerations, some currently within the purview of this Commission and some that might require legislative reaction to determine how costs of, I'll call it these catastrophic things, I'll call that PFAS and PFOA just to put a name on it. There are public policy considerations within the regulated sector as to how and whether those costs should be spread. I've heard you speak today about somebody may have a PFAS problem over here but they don't have it over here. Well, does that mean it's got to be dumped on -- I mean, do we the people dump it on this poor little body of ratepayers or is it spread throughout the regulated sector or must it be spread more broadly across the State of North Carolina. Things that go beyond what can be considered here. But do you agree that those are components of decisions about how these costs will be handled?

MR. JUNIS: Definitely components, and I let you finish your sentence and I wanted to jump in. I think spreading across more folks in North Carolina definitely needs to be a consideration, and that's part of that thoughtful consolidation. Inevitably, while their may be transactions where government utilities are purchased by private utilities, I think some private systems should also be being bought by government systems.

I think we really need to look at who can provide the most efficient service to those customers and, sort of, set aside to some agree what is the implications to that company or how do we mitigate some of those implications to the Company to the benefit of the customers. Because we have seen material changes in the regulatory construct over the last 10 years. You've seen it.

We went to the water and sewer surcharge, the WSIC/SSIC. That was to the benefit of the utility. There are some benefits to customers, too, but I think the driver was utility interest. The W-S-I- P, the same except I think there is potential benefit to customers. We have to make sure that those are implemented and come to fruition. I think the driver was utility interest. The WSIP, same concept. I think there are potential benefits to customers. We have to make sure that those are implemented and come to fruition but I think the driver was utility interest. And so with uniformity, again, I think there are benefits to both sides, but is the driver the utility and how do we balance that.

MS. SANFORD: I agree with you about these larger and multiple public policy issues. Again, some of which can be settled maybe now inside this room, many of which probably can't. But without regard to how these policy concerns are addressed and in agreement that they're going to have to be and that they're complicated and they may be very, very expensive, doesn't that make it incumbent upon this Commission and upon the parties that appear before them to try to undertake and to try to find the most efficient, I'll say streamlined, that's not a -- I don't really like that word. That sounds like you're just being lazy or something. But the most efficient cost-effective kind of means of doing what we currently have authority and responsibility to do, which is to figure out how to set these rates efficiently.

MR. JUNIS: I agree. I think this hearing in and of itself is a huge step. I applaud the Commission for prompting this just the same as Sub 59, talking about rate design. I think we have to have these conversations outside of the transfer proceedings, outside of the rate cases, because there's so much to deal within those time constraint proceedings that you really need an opportunity to thoughtfully discuss these issues.

MS. SANFORD: We agree. We agree on so many things. We're probably not going to agree on the next thing and it will be my conclusion so I've saved it up.

As we talk about the earlier part of the conversation, the gradualism and what it takes to move towards this standardization, or uniformity, or whatever we want to call what we want to talk about over this table it strikes me, and I'm going to say how it strikes me and I guess just ask you to tell me what's wrong with the way I'm looking at it. It strikes me that you tend towards a view of customers, I won't name a system, but customers who have some sort of entitlement, in perpetuity, to a set of lower rates that they had at one time without regard to deterioration of the system, without regard to whether anybody has kept up with rate increases, without regard to whether there is an inherent value in some of these systems being purchased by some of these people, and without regard to this risk -- and this is partly the same thing as what I just said about the inherent value of being purchased by these people at this table -- but without the regard to also the risk of just catastrophe of something terrible happens in that one situation. It would seem to me that your focus, if I'm correct about it, that your focus on saying on the stand-alone arguments that these people are entitled. You know, they had a low rate and nobody paid much attention to them for a long time and, you know, they're entitled. That's your starting point for it. And you've got to have you a little mini rate case to figure out what their net, you know, what the original cost was, and that we should treat all of them that way.

This table's position is that that day should be over with all of the other pressures and that you should move toward some standardization. There are different ways to do it. We see how the electrics do it; we're familiar with that and we're comfortable with that. But that we should move -- would you agree out of all this that it is time to move away from that onsie, twosie individual, very rigid, specific examination of each acquisition and move towards something not to be decided today that makes it a more standardized process with safeguards imposed?

MR. JUNIS: I don't think I can give a clear --

MS. SANFORD: That's fair. Because there was a lot of questions and talking.

MR. JUNIS: -- yes or no answer here. The cost-of-service principles are the core of utility ratemaking. And so when you diverge from those, I think there has to be a sizeable or at least offsetting benefit to customers. Are transfers -- are some transfers harder than others? Yes. Do they take time? Yes. Could they be more efficient? Yes. I think we are seeing some level of attrition there in terms of folks are learning how to navigate that process. I think the utilities are being somewhat smarter with their acquisitions.

I'll tell you, there was a former utility president in my office the other day and he spoke of recognizing that the Public Staff and the Commission were going to scrutinize that purchase price and so they had to stop entering into purchase prices that far exceeded the net book value of those assets because they didn't have the justification. And so I think there can be movement in the regulatory construct but I think there also needs to be movement by the industry in recognizing that purchase premiums are really hard to justify because that is a significant cost that is hard to offset with benefits that match or exceed that.

So, it's a balancing act. I think there are opportunities to make the transfer process more efficient. But I think it's still a, I don't want to call it a necessary evil because I don't think it's evil. I think it's very important and necessary to protect the customers.

MS. SANFORD: But you can't set rates. Can you set rates that are specific to a customer or a block or, I mean, there's a limit to your ability to impose granularity on that examination and that decision. Would you agree with that just as a starting principle?

MR. JUNIS: To some disagree but in an

individual transfer we do have that opportunity and the ability.

MS. SANFORD: Well, I think it's clear where we agree and where we don't yet agree. So hopefully, more conversation for another day. Thank you.

MR. DROOZ: No questions.

CHAIR MITCHELL: Let's see if Commissioners have questions for Mr. Junis. Public Staff?

MS. JOST: No.

CHAIR MITCHELL: Go ahead, Commissioner Duffley.

COMMISSIONER DUFFLEY: So two quick questions. You talked at the very beginning about thoughtful consolidation and you mentioned how there was a system, you know, an owner of a system on one side, a different owner on the other side, and then the third owner, you know, a different utility comes in for the middle one. Obviously, the Commission cannot do this, but are you thinking of some type of territorial assignment act or some type of legislative fix to look forward to having thoughtful consolidation or expansion of existing systems?

MR. JUNIS: So, let's talk about a CPCN and that's what I was referring to. That forum requires you to identify the nearest public utility. So one thing is important, accurate information being put on applications. And then I think it's actually a question of does a new provider in that service area -- oops, sorry, I'm ringing a little bit -- actually serve the public convenience and necessity by entering into that service area or would that area be better served by one of the neighboring utilities. Could that CPCN technically be denied? That's ultimately up to the Commission to decide. I don't know if it necessarily needs a new statutory fix to that problem.

COMMISSIONER DUFFLEY: Thank you. And then my second quick question is you mentioned about let's use 60 systems, 60 rate cases versus one rate case but you're looking at 60 systems within a rate case, and I heard you talk about the level of granularity that you would do in one consolidated rate case. So, I mean, do you have a position on you'd rather do 60 rate cases or one rate case?

MR. JUNIS: That point was kind of feeding off of what Shannon was talking about the groups and I think his example in Virginia was 60 systems obviously in North Carolina and Aqua has over 700 water systems.

I think there is a balancing act there. So with five rate divisions you see more clearly the rate implications of individual projects. And that's sort of what it stems to of when you have 60 systems under one rate division a large project for one system has relatively small impacts on the greater good in terms of rates. But I think we have to make those decisions as if they were being done on a stand alone of what is cost beneficial and what are the alternatives. Because I think it's easy to hide behind well it's just a few cent impact if we spend $10 million here but was there alternatives. What were the options and are we making sure that we are incentivizing the utilities to be creative, to be efficient, and to actually implement least cost solutions. And again, when you're trying to handle a huge scope of work in one rate case that accountability is very challenging. I will also say the prudence standard is really hard for us to challenge. So you have to address some of this on the front end to properly incentivize them and also with the scrutiny of their actual planning process.

COMMISSIONER DUFFLEY: Thank you.

MS. KEMERAIT: Mr. Junis, just one question.

This is following up from I think it may have been Ms. Sanford's last question to you, and I think you said that there were opportunities to make the transfer process more efficient. And let's just assume that it's a transfer that has benefits and would be in the public interest. Do you have any -- do you want to elaborate on what those opportunities would be or have you thought about how we could make the transfers more efficient so it can happen.

MR. JUNIS: Yeah. I think part of that process is making sure that the Applicants are bringing forth clear and accurate information. So right on the front end, do we have complete information because we've seen, there's been some transfers where I think you-all took some blame, we took some blame, that they weren't happening in a timely fashion. Well, the Applicants also need to take some of that blame. That you have to provide information that is required by the regulations in the State. So then you-all can make informed decisions and we can make informed recommendations.

The other thing is there are, sort of, regulatory norms, right. When we talk about rate base. Matt Schellinger said I haven't experienced that problem. Like, rate base is the easy part of a transfer. I think you would see other utilities' experience, the rate base part is a challenging part. And I think the utilities have to take some of the ownership here of are they making these decisions and entering into these purchase agreements having done some of the due diligence before determining the number. Did you know how big the acquisition adjustment might be before you agreed to that number that the seller supposedly won't accept less than? So, it takes both sides.

I think there can also -- and we're seeing it now -- we are time constrained on transfers. So that's going to help make this process go a little bit quicker. I hope that the parties in instances where there are not significant differences that settlements can happen. I think we've seen settlements create efficiencies. It saves you-all time in a hearing. It saves us time in a hearing. But having those conversations earlier in the process so then maybe we can avoid some of the testimony that gets filed and then ultimately is less relevant when you enter into a settlement.

So, those re the bits and pieces. I think we do need to become a little more systematic in terms of the scheduling process and that can also create some efficiencies. When you talk about public hearings, when those happen, when those reports come out in relation to our testimony so then we're not doing direct testimony and then supplemental, or the company is doing supplement. If we can get those timelines to be a little more efficient, I think that would help also.

CHAIR MITCHELL: Mr. Junis, a question for you about your example of the municipal utility and the two investor owns, or you said private utilities, sort of, situation in the same or wanting -- situation in the same location.

MR. JUNIS: Yes.

CHAIR MITCHELL: Are you -- has the Commission ever denied a CPCN on the basis that you would have us deny that hypothetical CPCN?

MR. JUNIS: To my knowledge, I'm not familiar with an instance that that has happened.

CHAIR MITCHELL: Does the Public Staff -- has the Public Staff ever dug in on that issue? Ever taken a position on that issue?

MR. JUNIS: So I don't know if we've come across a situation that was that egregious is the word I'm going to use.

CHAIR MITCHELL: Okay. Let me just -- I just want to -- I'm cognizant of time so I want to get through this quickly. So we have the contiguous extension process, right, and when does the contiguous extension process come into play?

MR. JUNIS: So, I mean, that existing private utility or investor owned could have done a contiguous extension process.

CHAIR MITCHELL: And is a contiguous extension less controversial and time consuming, potentially controversial and time consuming than a CPCN proceeding?

MR. JUNIS: Absolutely.

CHAIR MITCHELL: So, from a regulatory standpoint, the more efficient -- I'm just going to be quick about this -- the more efficient utility already has some regulatory incentive to acquire that new area. But can you -- can you, and I don't want you to do it from the stand, but are there other regulatory mechanisms that could be developed and deployed to incent the more efficient outcome there? What can this body do? We can't do anything about annexation.

You know, in Commissioner Duffley's suggestion about exclusive service areas or territorial assignment is an interesting one. But then when you look at the map -- you know, when you look at the map that's sort becomes difficult given where our utilities are situated in the State at this point in time. So, I'm just interested as to whether regulatory mechanisms could be established to incent the type of efficient outcome of which you would like to see happen.

One other question. You said the benefits to the acquired customers don't occur or do not accrue until they are rolled into uniform rates. Did I -- am I misquoting what you said?

MR. JUNIS: Not the acquired, the existing uniform customers. So if it's a lower cost system that is coming in --

CHAIR MITCHELL: Okay. I was going to ask you about it.

MR. JUNIS: It a benefit to the existing customers --

CHAIR MITCHELL: I'm there with you. I got it.

So let me just make sure there are no other questions from Commissioners before we wrap up today.

And any questions on what you've heard?

MR. DROOZ: Sorry. Yes.

CHAIR MITCHELL: Be very quick.

MR. DROOZ: With respect to your last question there. Mr. Junis, under 62-111 if a utility comes in to acquire a new area and there is a more efficient alternative out there, can't the Commission rule that the Application is not in the public interest because there is a lower cost or a more efficient alternative?

MR. JUNIS: So you just said 62-111, right?

MR. DROOZ: Yeah, the transfer statute.

MR. JUNIS: Right. So that's a transfer but that's different than a CPCN under 62-110, correct. And that's where I was talking about public convenience and necessity under 110 for a CPCN versus public interest for a transfer under 111.

MR. DROOZ: Great point. Now a public convenience and necessity is also a public interest in effect, isn't it, so the same outcome would apply?

MR. JUNIS: I think they're comparable. Yeah.

MR. DROOZ: Thank you. That's all.

CHAIR MITCHELL: And I guess I would just, sort of, following up there. So then what? What is the logical conclusion? So then a CPCN is denied and these customers go unserved? Where do we go from there? I'm not asking for responses. I'm asking for you-all to keep thinking about this. And so I'm going to wrap up here. I'm going to give it one, anything else. Okay.

MR. JUNIS: Can I just respond to that?

CHAIR MITCHELL: Quickly.

MR. JUNIS: One second. So essentially you're giving -- the way the current construct works --

CHAIR MITCHELL: And be cognizant of Kim Mitchell. She's been going for two and a half hours now.

MR. JUNIS: The utility and the developer or whoever the seller is or the party that's getting service, they're setting the table and then we've got to eat what's there, which is not always an enjoyable meal. And at what point do we push it away and say no thank you. I'm not eating that. Try again.

CHAIR MITCHELL: I hear you but I also -- we need to put on our problem-solving hats so that's what we're going to do.

MR. JUNIS: Yes.

CHAIR MITCHELL: The Commission is going to schedule a series of technical conferences over the coming year to continue this discussion. We will do our best to schedule those at routine intervals so that we can hear from you-all. We don't want to overwhelm anyone's schedules. We recognize time is precious and costly so we are not going to, you know, we're not asking you to do more than --

(Noisy due to microphone issue)

So we will get on -- we will schedule those probably one at a time and we will provide you with some direction in those Orders. But the idea is we're going to have a continuation on the conversation around a path to uniformity.

And I appreciate the effort that has gone into helping us understand sort of at this high level what the issues are and what the challenges are. And so I want you all to -- the Commission wants you-all to continue to dig in and understand these issues and think about ways we can address them. They ultimately serve the public interest here in North Carolina.

With that, we will wrap up for today. I do want to thank you-all for your time and your participation. We apologize for the scheduling mishap that occurred initially in this proceeding but thank you-all for your patience and your willingness to show up today and share this information with us and answer our questions. With that, we will be adjourned. Thank you.

(The technical conference is adjourned)

C E R T I F I C A T E

I, KIM T. MITCHELL, do hereby certify that the Proceedings in the above-captioned matter were taken before me, that I did report in stenographic shorthand the Proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell