

1 PLACE: Dobbs Building, Raleigh, North Carolina
 2 DATE: Tuesday, September 18, 2018
 3 TIME: 3:55 p.m. - 5:30 p.m.
 4 DOCKET NO: W-218, Sub 497
 5 BEFORE: Commissioner ToNola D. Brown-Bland, Presiding
 6 Chairman Edward S. Finley, Jr.
 7 Commissioner Jerry C. Dockham
 8 Commissioner James G. Patterson
 9 Commissioner Lyons Gray
 10 Commissioner Daniel G. Clodfelter
 11 Commissioner Charlotte A. Mitchell

IN THE MATTER OF:

14 Application by Aqua North Carolina, Inc.,
 15 202 MacKenan Court, Cary, North Carolina 27511,
 16 for Authority to Adjust and Increase Rates
 17 for Water and Sewer Utility Service in
 18 All Service Areas in North Carolina.

VOLUME: 9

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NORTH CAROLINA UTILITIES COMMISSION

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T A B L E O F C O N T E N T S

E X A M I N A T I O N S :

WINDLEY E. HENRY and MANASA L. COOPER, as a panel

Continued Examination by Ms. Culpepper..... 6

Examination by Mr. Bennink..... 10

Further Examination by Ms. Culpepper..... 11

LINDSAY DARDEN

Direct Examination by Ms. Jost..... 11

Cross Examination by Mr. Britton Allen..... 32

Redirect Examination by Ms. Jost..... 46

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Examination by Mr. Britton Allen..... 55

CHARLES JUNIS

Direct Examination by Mr. Grantmyre..... 58

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E X H I B I T S

IDENTIFIED / ADMITTED

Public Staff Henry Redirect	
Exhibit 1.....	6/8
Henry Additional Direct Partial	
Settlement to Agreement 1.....	-/9
Public Staff Darden Exhibits 1 - 5...	31/31
Aqua-Darden Cross Examination	
Exhibit 1.....	40/57
Public Staff Darden Redirect Exam	
Exhibit 1.....	47/57

1 P R O C E E D I N G S

2 COMMISSIONER BROWN-BLAND: We'll come back
3 on the record. Ms. Culpepper, you're already on
4 redirect, I believe.

5 MS. CULPEPPER: We have just handed out an
6 exhibit that has been premarked Public Staff Henry
7 Redirect Exhibit 1.

8 COMMISSIONER BROWN-BLAND: It will be so
9 identified.

10 (WHEREUPON, Public Staff Henry
11 Redirect Exhibit 1 is marked for
12 identification.)

13 CONTINUED EXAMINATION BY MS. CULPEPPER:

14 Q Mr. Henry, this is a four-page document. The
15 first page is Duke Energy Progress, LLC, Docket
16 No. E-2, Sub 1142. It's a detailed narrative of
17 the adjustment they made in their rate case --

18 A Yes.

19 Q -- when they filed it --

20 A Yes.

21 Q -- is that correct?

22 A Yes, that is correct.

23 Q Page 2 is the detailed work paper related to
24 that?

1 A Yes, it is.

2 Q Page 3 is the filing that Duke Energy Carolinas
3 made in their rate case, Docket No. E-7, Sub
4 1146, with the adjustment they made, the detailed
5 narrative and also the detailed -- the work
6 papers which is on page 4 of this exhibit; is
7 that correct?

8 A Yes, it is. That is correct.

9 Q When each of these Companies filed, is it correct
10 that they made an adjustment to eliminate
11 50 percent of the compensation of their four --
12 of four executives with the highest level of
13 compensation?

14 A That is correct.

15 Q In DEC's case we also took out, both of the cases
16 actually, we took out another executive, the
17 chief legal officer, so that it was the top five
18 executives with 50 percent of their compensation;
19 is that correct?

20 A That is correct.

21 Q And then subsequent to that, the Companies in
22 each the cases the Company and the Public Staff
23 stipulated to this adjustment, 50 percent of the
24 top five?

1 A Yes, that's correct.

2 Q Is that correct? And their benefits?

3 A That's correct; yes, ma'am.

4 Q Is it your understanding that Duke Energy
5 Progress and Duke Energy Carolinas removed these
6 expenses in recognition of the work done on
7 behalf of shareholders not customers?

8 A Yes, I am aware of that.

9 Q Is this adjustment in agreement with the Public
10 Staff's principled position that work and
11 loyalties are divided between shareholders and
12 customers?

13 A That's correct.

14 MS. CULPEPPER: That's all I have.

15 COMMISSIONER BROWN-BLAND: All right.

16 MS. CULPEPPER: We would ask to move the
17 admission of this exhibit Public Staff Henry Redirect
18 Exhibit 1.

19 COMMISSIONER BROWN-BLAND: That motion will
20 be allowed and that Exhibit will be received into
21 evidence.

22 (WHEREUPON, Public Staff Henry
23 Redirect Exhibit 1 is admitted
24 into evidence.)

1 MS. CULPEPPER: I believe we moved the
2 stipulation into evidence but, if we did not, we
3 request -- we would move that into evidence.

4 COMMISSIONER BROWN-BLAND: That Exhibit
5 which we identified as Henry Additional Direct Partial
6 Settlement to Agreement 1, that will be received into
7 evidence if it wasn't, out of an abundance of caution.

8 (WHEREUPON, Henry Additional
9 Direct Partial Settlement
10 Agreement 1 is admitted into
11 evidence.)

12 COMMISSIONER BROWN-BLAND: And I believe
13 that's all for these witnesses.

14 MS. CULPEPPER: Yes, ma'am.

15 MR. BENNINK: May I ask a question based on
16 the Public Staff's Exhibits, just briefly?

17 COMMISSIONER BROWN-BLAND: This was on a
18 Redirect Exhibit so I think not.

19 MR. BENNINK: Well, I mean, it wasn't used
20 on redirect.

21 MS. CULPEPPER: It was used on Commission
22 questions.

23 MR. BENNINK: Right.

24 COMMISSIONER BROWN-BLAND: It was questions

1 on Commission questions. You didn't ask questions on
2 the Commission's questions, did you?

3 MR. BENNINK: No, I didn't but then this
4 Exhibit came in.

5 COMMISSIONER BROWN-BLAND: Quickly.

6 MR. BENNINK: All right.

7 EXAMINATION BY MR. BENNINK:

8 Q Mr. Henry, can you tell us or provide as a
9 late-filed exhibit how does the size of Duke
10 Energy Progress and Duke Energy Carolinas compare
11 to Aqua?

12 A They are quite larger than Aqua.

13 Q Can you --

14 MS. CULPEPPER: I believe the Commission
15 requests late-filed exhibits, not a party.

16 MR. BENNINK: That's fine.

17 BY MR. BENNINK:

18 Q Can you tell us how the compensation of the Duke
19 Energy executives compare to the compensation of
20 the Aqua executives?

21 A No, I can't tell you that.

22 MR. BENNINK: All right. Thank you.

23 MS. CULPEPPER: May I ask a question based
24 on his questions?

1 COMMISSIONER BROWN-BLAND: I will because I
2 allowed that. Go ahead.

3 FURTHER EXAMINATION BY MS. CULPEPPER:

4 Q Mr. Henry, is the Public Staff's principled
5 position the same irregardless of the size of the
6 Company?

7 A That's correct.

8 MS. CULPEPPER: Thank you.

9 COMMISSIONER BROWN-BLAND: All right.
10 Witnesses, you're excused.

11 (The witnesses are excused)

12 MS. JOST: The Public Staff calls witness
13 Lindsay Darden.

14 LINDSAY DARDEN;
15 having been duly sworn,
16 testified as follows:

17 COMMISSIONER BROWN-BLAND: You may be
18 seated. Pull the microphone up close.

19 DIRECT EXAMINATION BY MS. JOST:

20 Q Good afternoon, Ms. Darden. Could you please
21 state your name, business address and current
22 position for the record?

23 A My name is Lindsay Darden. My business address
24 is 430 North Salisbury Street, Raleigh, North

1 Carolina, and I'm a Utilities Engineer with the
2 Water, Sewer and Telephone Division of the Public
3 Staff.

4 Q On August 21, 2018, did you prepare and cause to
5 be filed in this docket direct testimony
6 consisting of 14 pages and five exhibits?

7 A Yes, I did.

8 Q Do you have any corrections to that testimony?

9 A I do have one correction on page 11 of my
10 testimony, it's line 15, the word "test" should
11 be replaced with the words "two-year". So that
12 the end of the sentence appearing on line 15
13 reads, "a level closer to the two-year average in
14 June 2018".

15 Q With the exception of that correction, if you
16 were asked the same questions today, would your
17 answers be the same?

18 A Yes, they would.

19 MS. JOST: I move that the prefiled direct
20 testimony of Ms. Darden be copied into record as if
21 given orally from the stand.

22 BY MS. JOST:

23 Q Do you have a summary?

24 COMMISSIONER BROWN-BLAND: The motion is

1 allowed.

2 MS. JOST: Oh, I'm sorry.

3 (WHEREUPON, the prefiled direct
4 testimony of LINDSAY DARDEN, as
5 corrected, is copied into the
6 record as if given orally from the
7 stand.)
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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 497

In the Matter of
Application of Aqua North Carolina,)
Inc., 202 MacKenan Court, Cary, North)
Carolina, 27511, for Authority to Adjust)
and Increase Rates for Water and)
Sewer Utility Service in All Service)
Areas in North Carolina)

TESTIMONY OF
LINDSAY DARDEN
PUBLIC STAFF – NORTH
CAROLINA UTILITIES
COMMISSION

AQUA NORTH CAROLINA, INC.
DOCKET NO. W-218, SUB 497

TESTIMONY OF LINDSAY DARDEN
ON BEHALF OF THE PUBLIC STAFF
NORTH CAROLINA UTILITIES COMMISSION

AUGUST 21, 2018

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS
2 ADDRESS, AND PRESENT POSITION.

3 A. My name is Lindsay Darden. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Utilities Engineer with the Water, Sewer & Telephone Division of the
6 Public Staff – North Carolina Utilities Commission (Public Staff).

7 Q. BRIEFLY STATE YOUR QUALIFICATIONS AND EXPERIENCE
8 RELATING TO YOUR PRESENT POSITION WITH THE PUBLIC
9 STAFF.

10 A. I graduated from North Carolina State University, earning a Bachelor
11 of Science Degree in Civil Engineering. I am a licensed Professional
12 Engineer (PE - State of North Carolina #042110). I am also certified
13 as a B-Well Operator (#130281) by the North Carolina Water
14 Treatment Facility Operators Certification Board. I worked for the
15 North Carolina Department of Environmental Quality (DEQ), Public
16 Water Supply Section for four years prior to joining the Public Staff in
17 December 2016. While employed by the Public Staff I have presented
18 recommendations in water/wastewater rate proceedings, new

1 franchise applications, and other matters relating to water, wastewater,
2 and telephone utility regulation before the Commission.

3 **Q. WHAT ARE YOUR DUTIES IN YOUR PRESENT POSITION?**

4 A. My duties with the Public Staff are to monitor the operations of
5 regulated water and wastewater utilities with regard to rates and
6 service. Included in these duties are conducting field investigations to
7 review, evaluate, and recommend changes in the design, construction,
8 and operations of regulated water and wastewater utilities;
9 presentation of expert testimony in formal hearings; and presentation
10 of information, data, and recommendations to the Commission.

11 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR INVESTIGATION IN
12 THIS CASE.**

13 A. On March 7, 2018, Aqua North Carolina, Inc. (Aqua or Company) filed
14 an application with the Commission seeking authority to increase its
15 rates for providing water and wastewater utility service in all of its
16 service areas in North Carolina. My areas of investigation in this
17 proceeding have been the review of Company records and assisting in
18 the review of customer complaints and DEQ records. I have also
19 assisted the Public Staff Accounting Division in reviewing expenses
20 and I accompanied Public Staff Engineer Charles Junis on several site
21 inspections.

1 Q. HAVE YOU RECOMMENDED ANY ADJUSTMENTS TO
 2 EXPENSES RELATED TO WATER AND WASTEWATER
 3 OPERATIONS?

4 A. Yes, I have provided Public Staff Accountants Windley Henry and
 5 Manasa Cooper with recommendations for adjustments to expenses
 6 related to contractual services – lab testing, testing updates,
 7 purchased power, chemicals, sludge hauling, and purchased
 8 wastewater.

9 **CONTRACTUAL SERVICES – LAB TESTING EXPENSES**

10 I reviewed Aqua's water and wastewater testing expenses. In
 11 calculating water testing expenses, Aqua used the test year per books
 12 expense levels and made pro forma adjustments based on 2015-2017
 13 data and testing projections for 2018. Aqua's filed pro forma totals are
 14 as follows:

	<u>Per Books</u>	<u>Pro forma</u>	<u>Expense</u>
15 Aqua NC Water	\$ 640,240	\$ 15,363	\$ 655,603
17 Brookwood Water	\$ 61,928		\$ 61,928
18 Fairways Water	\$ 20,417	(\$ 4,845)	\$ 15,572
19 Aqua NC Sewer	\$ 221,947		\$ 221,947
20 Fairways Sewer	\$ 16,098		\$ 16,098

21 I do not agree with the Company's use of per books amounts or the
 22 manner in which the Company calculated pro forma adjustments. The
 23 Company's calculations do not account for the variation in the

1 frequency with which specific water quality tests must be performed.
2 For example, several of the tests are conducted at a frequency of once
3 every three, six, or nine years and should be annualized over the
4 corresponding number of years.

5 The types of tests that must be performed and the testing frequency
6 are determined by DEQ compliance standards for the Safe Drinking
7 Water Act for each water system and by DEQ wastewater permits for
8 each wastewater system. Aqua provided the Public Staff with the
9 compliance frequency schedule for each water and wastewater
10 system. Using this information, I calculated the lab testing expense as
11 the Public Staff traditionally has, using current testing schedules going
12 forward, amortizing the expense over the number of years
13 corresponding to the testing frequencies for the various tests, and
14 using the current unit costs for the tests.

15 For the wastewater testing expense, Aqua added a 5% increase to the
16 total amount as an incidental cost. I removed this cost to accurately
17 reflect the actual amount spent on testing. I also removed the testing
18 costs associated with the Dolphin Bay WWTP from the Fairways
19 Sewer rate entity because the WWTP was retired in March 2017. In
20 addition to the two adjustments described above, I added to the Aqua
21 North Carolina rate entity the annual cost of testing for the WWTPs at
22 The Legacy and Westfall, which started operations in 2018, post-test
23 year.

1 Based on my review, I recommend the following water and wastewater
2 testing expenses:

		<u>Public Staff</u>	
	<u>Per Books</u>	<u>Adjustment</u>	<u>Expense</u>
5 Aqua NC Water	\$655,603	(\$90,737)	\$564,866
6 Brookwood Water	\$ 61,928	(\$19,552)	\$ 42,376
7 Fairways Water	\$ 15,572	(\$5,407)	\$ 10,165
8 Aqua NC Sewer	\$ 221,947	\$29,364	\$ 251,311
9 Fairways Sewer	\$ 16,098	(\$2,070)	\$ 14,028

10 My calculations are shown in **Darden Exhibits 1 and 2.**

11 **TESTING UPDATE EXPENSE**

12 Aqua filed an updated testing expense for a post-test year sampling
13 program in the Aqua NC Central/Cary area. DEQ issued Notices of
14 Deficiency (NODs) for approximately 50 systems in the Aqua NC
15 Central/Cary region. Subsequently, the DEQ Public Water Supply
16 Section (PWSS) and Aqua collaborated to set short-term sampling
17 schedules for the sites that were issued NODs. Pursuant to the
18 sampling schedule, Aqua was to sample raw well water, entry point,
19 and one location within the distribution system for total, soluble, and
20 dissolved iron and manganese. Once the water quality has been
21 addressed, Aqua may submit to PWSS a request to stop or reduce
22 the sampling. Aqua has submitted multiple requests to PWSS, but
23 has been approved to stop sampling at only one site thus far.

1 For the remaining sites, PWSS requested that Aqua continue
2 sampling until the third quarter of this year (through September
3 2018), after which the sampling frequency at all sites will be
4 reevaluated. The Public Staff has discussed this on-going issue with
5 Aqua and PWSS on numerous occasions and will continue to
6 communicate with the parties.

7 I have reviewed the sampling schedule and testing invoices Aqua
8 provided for the time period of January 2018 through June 2018.
9 Some tests included in the sampling schedule were for compliance
10 and/or National Pollutant Discharge Elimination System (NPDES)
11 site testing. The compliance and NPDES site testing was included
12 in Aqua's testing expense and was, therefore, removed from the
13 testing update. Aqua stated that its post-test year testing cost was
14 \$55,769. Aqua arrived at this figure by annualizing the additional
15 testing expense and accounting for a decrease in the price of testing
16 which took effect in April 2018.

17 The Public Staff does not agree with annualizing the testing costs for
18 the period of January 2018 through June 2018. The total sampling
19 cost incurred in the post-test year is not an on-going expense.
20 PWSS may reduce sampling frequencies drastically after September
21 2018, when the third quarter sampling has been completed, and/or
22 approve Aqua's previous or future requests to stop sampling.
23 Furthermore, once treatment projects are completed for each

1 system, the sampling schedule will be reduced or ended. For these
2 reasons, Aqua's sampling requirements and the associated costs
3 are likely to decrease in the near future. Therefore, annualizing
4 testing costs for the period from January 2018 through June 2018
5 would artificially inflate the future projection and result in the recovery
6 of testing costs that may not be incurred. Once the sampling
7 schedules for the NOD sites are established by PWSS and Aqua, the
8 associated expenses can be updated in future rate cases to reflect
9 the actual testing requirements.

10 I calculated the total cost of testing from January 2018 to June of
11 2018 to be \$58,278. In arriving at this figure, I applied the decrease
12 in the price of testing which took effect in April 2018 only over the
13 period of April 2018 through June 2018. The total cost of testing from
14 January 2018 to June of 2018 in the amount of \$58,278 will be added
15 by Public Staff witness Cooper to the testing expense category as a
16 sub-category for NOD site testing.

17 For ratemaking purposes, the total NOD site testing expense
18 will be averaged and recovered over three years. Accordingly, I
19 recommend that \$19,426 be added as a sub-category to the testing
20 expense. My calculations are shown in **Darden Exhibit 3**.

PURCHASED POWER EXPENSE

1
2 I reviewed Aqua's purchased power expenses for both water and
3 wastewater operations. Aqua's purchased power records and Aqua's
4 total per books purchased power expenses appear to be accurate, with
5 the exception of the Duke Energy pro forma adjustment. Aqua applied
6 a 10.8% increase to Duke Energy accounts due to the Duke Energy
7 Progress (DEP) and the Duke Energy Carolinas (DEC) rate cases that
8 were pending before the Commission at the time Aqua filed its rate
9 case application. Aqua stated pro forma totals for Accruals and Duke
10 Energy as follows:

				<u>Public Staff</u>
	<u>Per Books</u>	<u>Pro forma</u>	<u>Pro forma</u>	<u>Recommended</u>
		<u>Accruals</u>	<u>Duke Energy</u>	<u>Expense</u>
14 Aqua NC Sewer	\$1,028,177	\$4,578	\$39,944	\$1,072,699
15 Aqua NC Water	\$2,119,515	\$18,336	\$106,875	\$2,244,725
16 Brookwood Water	\$228,928	(\$14,211)	\$544	\$215,261
17 Fairways Sewer	\$90,493	(\$6,944)	\$8,867	\$92,416
18 Fairways Water	\$61,655	(\$5,183)	\$5,867	\$62,340

19 When the DEP and DEC rate cases were finalized, Aqua updated the
20 Duke Energy pro forma adjustment to reflect a 4.7% increase to both
21 its DEP and its DEC accounts, citing the Notice to Customers for
22 Docket No. E-2, Sub 1142, the DEP rate case.

1 Aqua's update to the Duke Energy pro forma adjustment is not
 2 appropriate because the 4.7% increase proposed by Aqua is only
 3 associated with the North Carolina Retail Tariff Revenue rate class for
 4 DEP accounts. While Aqua was unable to provide the Public Staff with
 5 the rate class records for all its power accounts, Aqua did confirm that
 6 the majority of its power accounts are Small General Service (SGS)
 7 rate class accounts. Listed below are the increase/decrease
 8 percentages for the SGS rate class stated in the tariffs approved in the
 9 DEP and DEC rate cases.

10	<u>NCUC Docket No.</u>	<u>Company</u>	<u>SGS Increase/Decrease (%)</u>
11	E-2, Sub 1142	DEP	5.1%
12	E-7, Sub 1146	DEC	-3.2%

13 The Public Staff and Aqua have agreed to the above percentages. The
 14 percentages were applied to the DEP and DEC accounts, and the
 15 Duke Energy adjustment was corrected. The resulting expense levels
 16 recommended by the Public Staff are as follows:

17				<u>Public Staff</u>	
18		<u>Per Books</u>	<u>Pro forma</u>	<u>Recommended</u>	
19			<u>Pro forma</u>	<u>Expense</u>	
			<u>Duke Energy</u>		
		<u>Accruals</u>			
20	Aqua NC Sewer	\$1,028,177	\$4,578	\$11,164	\$1,043,919
21	Aqua NC Water	\$2,119,515	\$18,336	\$26,359	\$2,164,209
22	Brookwood Water	\$228,928	(\$14,211)	\$279	\$214,996
23	Fairways Sewer	\$90,493	(\$6,944)	\$4,541	\$88,090
24	Fairways Water	\$61,655	(\$5,183)	\$2,981	\$59,453

1 My calculations are shown in **Darden Exhibit 4**. Any necessary
2 adjustments for growth and consumption are being made by Public
3 Staff witness Henry.

4 SLUDGE EXPENSE

5 I have reviewed the historical sludge hauling quantities and
6 expenses provided by Aqua. In its sludge expense update submitted
7 to the Public Staff on July 20, 2018, Aqua stated that, "Beginning late
8 in the test year, operational changes have been made in the Aqua
9 NC Central area to reduce sludge inventory." Following the test year,
10 Aqua increased sludge hauling rates at several WWTPs. Overall,
11 the data provided by the Company shows an increase in the quantity
12 of sludge hauled in the post-test year period from January 2018
13 through June 2018 as compared to the test year, with more
14 significant increases in March, April, and May 2018, and a return to
15 a level closer to the ^{two-}test year average in June 2018. See **Darden**
16 **Exhibit 5**.

17 When sludge storage approaches full capacity, compliance and
18 operational issues can arise. An increase in hauling would be
19 necessary to decrease the amount of sludge. However, once the
20 sludge volume is decreased, the hauling frequency may return to
21 regular maintenance levels. Given the limited timeframe over which
22 the increased sludge hauling occurred, it is unclear whether Aqua's

1 post-test year increase in hauling represents a peak due to the
2 Company's efforts to catch up on sludge inventory at plants or trend.

3 In order to account for this uncertainty, the Public Staff used a two-
4 year average of sludge hauling records, from July 2016 through June
5 2018. The use of a two-year average factors in both the increased
6 hauling in March 2018 through May 2018 and the maintenance
7 hauling during the remainder of the period and avoids annualizing
8 what is potentially an isolated peak in hauling levels and not a long-
9 term trend.

10 Two WWTPs, The Legacy WWTP and Westfall WWTP, started
11 producing sludge in 2018. The expected sludge hauling quantities
12 for these two plants were annualized based on the available
13 historical data. This annualized amount was then added to the two-
14 year average amount for the Cary region in the Aqua NC Sewer rate
15 entity.

16 Based on the analysis, I recommend the following sludge expenses:

	<u>Total Expense</u>
17 Aqua NC Sewer	\$470,173
18 Fairways Sewer	\$89,209

20 My calculations are shown in **Darden Exhibit 5**.

CHEMICALS EXPENSE

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I reviewed Aqua's expenses for chemicals for both its water and wastewater operations. My review of Aqua's chemical records revealed a discrepancy between Aqua's records and its book totals. When asked to clarify the discrepancy in Public Staff Engineering Data Request No. 14, Aqua provided additional invoices that were included on the books, but were missing from the records. These invoices were reviewed and added to the record amount, and the total expense amount was updated. The expense amounts were also adjusted to reflect the latest pricing provided by the chemical vendors, including an update to the July 2018 pricing from Water Guard for 25% Sodium Hydroxide (Caustic), Sodium Aluminate, and OP37-Bulk.

The following totals, which include the additional invoices and the current pricing adjustments, were provided by Aqua and agreed to by the Public Staff:

	<u>Total Expense</u>
Aqua NC Water	\$467,003
Aqua NC Sewer	\$589,467
Brookwood Water	\$333,327
Fairways Water	\$20,977
Fairways Sewer	\$111,193

Any necessary adjustments for growth and consumption are being made by Public Staff witness Henry.

1 **PURCHASED WASTEWATER TREATMENT EXPENSE**

2 I reviewed Aqua's expenses for purchased wastewater treatment for
3 wastewater operations. Based on my review of Aqua's purchased
4 wastewater treatment expense records, Aqua's total per books
5 purchased wastewater treatment expenses appear to be accurate.
6 Aqua stated test year purchased wastewater treatment expenses as
7 follows:

	<u>Total Expense</u>
8 Aqua NC Sewer	\$440,871
9 Fairways Sewer	\$1,572

10

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A. Yes, it does.**

1 BY MS. JOST:

2 Q Do you have a summary of your testimony?

3 A Yes.

4 Q Would you please read it?

5 A Yes.

6 (WHEREUPON, the summary of LINDSAY
7 DARDEN is copied into the record.)
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Summary of the Direct Testimony of Lindsay Darden

Docket No. W-218, Sub 497

The purpose of my testimony is to present to the Commission the Public Staff's positions on the following issues:

- Lab testing expenses for water and wastewater;
- Testing update expense;
- Purchased power expense;
- Sludge expense;
- Chemicals expense; and
- Purchased wastewater expense

The Public Staff and Aqua have reached agreement on purchased power expense, chemicals expense, and purchased wastewater expense. These areas of agreement are reflected in a filing that was made by the Public Staff.

Regarding testing expense, Aqua provided the Public Staff with the schedules establishing the required compliance testing frequency for each of Aqua's water and wastewater systems. Using this information, I calculated the lab testing expense as the Public Staff traditionally has, using current testing schedules going forward, amortizing the expense over the number of years corresponding to the testing frequencies for the various tests, and using the current unit costs for the tests.

For the wastewater testing expense, I removed the increase that Aqua included for incidental costs. I also adjusted the testing costs associated with retired and newly operational wastewater treatment plants.

Aqua filed updated testing expenses for a post-test year sampling period associated with the 50 notices of deficiency or NODs issued in the Central/Cary region. Aqua and the North Carolina Department of Environmental Quality Public Water Supply Section are still in the process of establishing the sampling schedule which will likely include reductions in the current testing frequencies. Therefore, annualizing testing costs incurred during the period from January to June 2018 could overstate actual costs. The Public Staff recommends that Aqua recover the actual cost spent during the January to June period and that it track the expenses associated with NOD testing to be updated in future rate cases.

Regarding sludge expense, Aqua provided an update to their filed test year sludge expense to capture an operational change it indicated it made at wastewater treatment plants located in the Central/Cary region. Although data provided by Aqua shows an increase in sludge hauling over part of the update period, given the limited timeframe over which the increase occurred and the subsequent return to average levels shown by the data, it is unclear whether this increase can be expected to continue at the same levels. In order to account for this uncertainty, I used a two-year average from July 2016 through June 2018 and included the expected costs from two wastewater treatment plants that began operating post-test year to calculate my recommendation.

This concludes my summary.

1 MS. JOST: I move that the exhibits be
2 identified as marked when filed and entered into
3 evidence.

4 COMMISSIONER BROWN-BLAND: There being no
5 objection, that motion will be allowed and the
6 exhibits will be identified as they were marked when
7 prefiled and received into evidence.

8 MS. JOST: Thank you.

9 (WHEREUPON, Public Staff Darden
10 Exhibits 1 - 5 were marked for
11 identification as prefiled and
12 received into evidence.)

13 MS. JOST: The witness is available for
14 cross examination.

15 MR. BRITTON ALLEN: Commissioner Gray, how's
16 my volume level?

17 COMMISSIONER GRAY: If you speak into the
18 microphone, sir, it will be just fine.

19 MR. BRITTON ALLEN: All right. I just
20 wanted to make sure. Ms. Darden, my name is Britton
21 Allen. I'm an attorney based in Raleigh. I represent
22 Aqua North Carolina. As I was kind of going through
23 and looking at some of the old stuff, I came across
24 the name Lindsay Quant and I was confused for a

1 second. I figured you were the same person and I
2 figured you may have gotten married, so I wanted to
3 say congratulations, but I was kind of afraid there
4 might have been a divorce so I had to ask this
5 morning. So now that I have the answer to that,
6 congratulations on your recent marriage.

7 THE WITNESS: Thank you.

8 CROSS EXAMINATION BY MR. BRITTON ALLEN:

9 Q I'm going to kind of start -- I'm going to start
10 with sludge. That's a good a place to start as
11 any, I guess. We can get that over with. To
12 calculate your adjustment to sludge hauling
13 expenses you create an average going back two
14 years; is that correct?

15 A Yes.

16 Q So, essentially, you took the hauling amount of
17 each month and then divided it by 24?

18 A Yes.

19 Q I know that's a silly question for an engineer,
20 but I'm a lawyer and I didn't take a math class
21 after high school so. Now, are you familiar --
22 actually, you didn't account for any operational
23 changes in putting together your average, did
24 you?

1 A We included the data provided by Aqua for the
2 actual months leading up into July 2018. The
3 operational changes was stated that they were
4 made in April 2018, so whatever effect that may
5 have had on the data. It was included in the
6 two-year average.

7 Q Okay. So it was included in the actual amounts
8 but you didn't necessarily adjust for an
9 operational change; it was just included in the
10 data?

11 A Yes.

12 Q Throughout this hearing or before have you become
13 familiar with the term "burping"?

14 A Yes, it was in Joe Pearce's testimony.

15 Q Can you describe it to me as best you can?

16 A When -- as described in Joe Pearce's testimony
17 it was described accurately when the sludge is at
18 a high level and then there would be a potential
19 event, a rain event, then it could back up into
20 the plant, into the clarifiers and cause a
21 burping of, basically giving an operational
22 issue.

23 Q Okay. So would -- sludge burping would be a
24 service and environmental concern to a water

1 company; would you agree with that?

2 A Yes.

3 Q And it would also be a concern for an
4 environmental regulator like DEQ, wouldn't it?

5 A Yes, it would be a concern but it's also
6 something that could be prevented with
7 operational functioning that is consist with how
8 the plant is normally operated.

9 Q Right. So that kind of leads to my next
10 question. A water company would want to adjust
11 its operations to eliminate burping?

12 A Yes.

13 Q And I believe you already said you had the
14 opportunity to reveal the testimony Mr. Pearce
15 filed?

16 A Yes.

17 Q So in his testimony he goes through various
18 changes in operations Aqua has made to reduce
19 burping and how that would cause an increase in
20 sludge hauling; is that correct?

21 A Yes.

22 Q Do you have your testimony with you? I assume
23 you do.

24 A Yes.

1 Q You have a graph, it's like, I think it's the
2 very, very last page. It's like Exhibit 5, page
3 2. It's a bar graph.

4 A Uh-huh.

5 Q So this graph shows basically the month-by-month
6 of you doing your two-year average. It's got 24
7 months from July 2016 to June 18th (sic)?

8 A Yes.

9 Q So would you agree, and I counted but you can
10 count behind me if you want to, that July of 2016
11 to November '17 is 17 months?

12 A Subject to check, I'll agree.

13 Q Okay. So in that period do you see how many
14 months are over the two-year average?

15 A When did you have the range ending?

16 Q I'm sorry. From July 10th (sic) until November
17 the 17th (sic)?

18 A November 2017?

19 Q Yes, that's correct. From July 2016 until
20 November 2017, how many months were over your
21 two-year average.

22 A Two.

23 Q So two out of 17? In the final seven months how
24 many were over your two-year average?

1 A The final seven.

2 Q Several times in your testimony you express
3 uncertainty and the reasons for the rise for
4 sludge. If you could turn to page 11, if you
5 need to, you state that *the hauling frequency may*
6 *return to a regular maintenance level*; is that
7 correct?

8 A That is correct.

9 Q Well, if --

10 A With -- because you're pointing out these on the
11 graph. There are several different causes that
12 can make the fluctuation besides just operational
13 changes, and not shown on the graph with the
14 updated testimony we can include the July 2018
15 data which is under the two-year average so we're
16 not -- the Public Staff recognizes that
17 operational changes can could affect the sludge
18 hauling amounts but it's based on the data that's
19 been provided. Being that it's a short period
20 and that there is great variations in the data
21 that's provided, we couldn't project an ongoing
22 cost just based on the operational data that we
23 have today.

24 Q So on page 11, line 20 or 21, you said *the*

1 hauling frequency may return to regular
2 maintenance levels. It was line, I'm sorry, I'll
3 give you lines 9 to 10, I believe -- no, sorry,
4 wait, 20 to 21. I apologize.

5 A Right. Like I said it's just based on the short
6 time period; it's too early to tell if it's not.

7 Q If it's something that may return though, it also
8 may not. I mean, that's why you use the word
9 "may", right, to express some uncertainty?

10 A Right. And just, and as you said, it shows the
11 July, the July periods do return to average
12 levels.

13 Q Well, on page 11 -- I'm sorry, page 12, lines 7
14 to 8, you say this *is potentially an isolated*
15 *peak*. So when you say "potentially" it's also
16 potentially not an isolated peak?

17 A Correct.

18 Q So, if we assume, or is it possible that, if this
19 does not return to its lower level as you have
20 assumed it would in your calculations, this would
21 result in an under-recovery for the Company,
22 wouldn't it?

23 A It's too early to tell at this point to make a
24 projection based on just the past few months

1 where these operational changes have made. If
2 you make the projection now you have the
3 potential to under-recover or over-recover.

4 Q Correct. But, if you're projection -- you're
5 making the projection that the average will
6 return to where it was where for the past seven
7 months it was up, it was above it. So if does
8 not return to where it was in 2016 they would
9 under-recover, wouldn't they?

10 A In that specific scenario, yes.

11 Q Okay. So you said you reviewed Mr. Pearce's
12 testimony; one more question on that. Do you
13 have any dispute with his statement that the
14 improvement in operations to better control
15 sludge could be an appropriate explanation for
16 the increase in the last seven months of your
17 graph?

18 A Do you have the location of that?

19 Q I can find it. Give me one second, please. It's
20 kind of all through in here but --

21 MR. BRITTON ALLEN: Thank you. (Directed to
22 Mr. Becker).

23 BY MR. BRITTON ALLEN:

24 Q It appears on page 4, lines 15 to 22, is one

1 example. Starting, yes. To improve an
2 environmental compliance, the Company reduced
3 concentrations of wastewater -- it finishes --
4 will produce greater quantities of sludge solids?

5 A So your question is --

6 Q Do you have any reason to dispute that that may
7 be an appropriate explanation for the increase in
8 the last seven months of your graph?

9 A I don't have a reason to dispute the idea, but it
10 is not connected to any particular Aqua facility.

11 Q I'm going to move to lab testing quickly. You
12 disagreed with the Company's per book and pro
13 forma amounts because of variations in the
14 treatment schedules for different systems; is
15 that correct?

16 A I disagreed with the pro forma amounts. They
17 were based on comparisons of the test year to the
18 past three years individually and as an average.
19 So I disagreed with that being the basis for
20 their pro forma adjustments and it not -- and not
21 capturing that annual -- the amortization of
22 different test frequencies that occur over one
23 year.

24 Q The Company's calculations -- I'm on page 4 or

1 the bottom of page 4. The Company's calculations
2 do not account for the variation in the frequency
3 with which specific water quality tests must be
4 performed. I'm sorry. I'll give you a chance to
5 get to that.

6 A So you're -- what was the --

7 Q So the question is part -- at least part of your
8 disagreement was because they didn't account for
9 variations on the different schedules of
10 treatments?

11 A Yes.

12 MR. BRITTON ALLEN: Okay. I have an
13 exhibit. Do you want to hand it out for me? This can
14 be marked Aqua-Darden Cross Exhibit 1, Madam Chair.
15 And I'm not going to read a whole lot. There's only
16 one question on this so we're not going to be reading
17 together.

18 COMMISSIONER BROWN-BLAND: This one page
19 document will be identified Aqua-Darden Cross
20 Examination Exhibit 1.

21 (WHEREUPON, Aqua-Darden Cross
22 Examination Exhibit 1 is marked
23 for identification.)

24

1 BY MR. BRITTON ALLEN:

2 Q So, in your testimony you stated that the types
3 of these tests and the schedules are determined
4 by DEQ; is that correct?

5 A For the compliance testing, yes.

6 Q For the compliance testing, yes. And did you
7 base your calculation on a data request from the
8 Company, from Aqua?

9 A On several data requests, yes.

10 Q So this in front of you is Public Staff
11 Engineering Data Request No. 3; would you agree?

12 A Yes.

13 Q And the first question that's here is, *please*
14 *provide spreadsheets showing the minimum water*
15 *testing system, test types and frequencies, as*
16 *currently required by DEQ, for all water systems?*

17 A Yes, that's what it says.

18 Q Okay. So this analysis only accounts for the
19 minimum schedules done -- minimum testing
20 schedules done by DEQ; is that correct?

21 A This specific question is asking for, yes, all
22 the required -- all the required testing by DEQ.
23 Our recommendation includes the compliance
24 testing and factors in the testing update with

1 the NOD sites. Operational testing historically
2 has always been something that has not been
3 tracked by the Company so it's been an amount
4 that's been agreed upon between the Company and
5 the Public Staff. In this case, that agreement
6 was never reached and that's why my
7 recommendation includes the required compliance
8 testing and also the testing update that was
9 provided by Aqua.

10 Q But it doesn't include operations testing?

11 A No.

12 Q Okay. So you were aware of some of the service
13 concerns expressed by customers in this docket?

14 A Yes. And I will state the Public Staff does, we
15 do recognize that operational testing should be
16 recovered as long as it's reasonable and
17 cost-effective, and that's why in the past we've
18 encouraged Aqua to track these costs, and when
19 this came up later when an agreement could not be
20 reached, the Public Staff asked for the tracked
21 operational costs and Aqua was not able to
22 provide it at the time.

23 Q So, if Aqua could improve water quality,
24 including secondary standards, color, drinking,

1 all the things we've heard about, through
2 proactive testing or operational testing, that
3 may be worth some extra expense?

4 A Yes.

5 Q I want to move now to the update, the testing
6 update, the June through -- January through June
7 disagreement here. So you disagree with the
8 Company annualizing its samples; is that correct?

9 A Yes.

10 Q And you said it was because the Public Water
11 Supply Section of DEQ may reduce sampling
12 frequencies after September; is that right?

13 A It's kind of right. The -- Aqua is to submit to
14 DEQ their sampling schedules and DEQ reviews the
15 frequency that Aqua proposes.

16 Q But it's certainly possible that DEQ may not
17 reduce sampling frequencies after September?

18 A On some systems they may not. It's treated by a
19 case-by-case basis.

20 Q And there's no defined time test, in fact, for
21 this testing to end, is there?

22 A No. It's an ongoing test and it's fluid, and the
23 initial part of this testing which occurred
24 between January and June was to kind -- was to

1 get a historical benchmark and now that, which
2 we'll have a year's full of testing ending in
3 September, and that's why the reduction of
4 sampling frequencies are likely to occur around
5 that time.

6 Q So I believe you read you worked for PWSS for
7 about four years, right?

8 A Yes, I did.

9 Q So, in your experience working there is PWSS or
10 DEQ in the habit of ending testing before it's
11 satisfied the problem is fixed?

12 A They are not in the habit of ending testing, but
13 they are in the habit of giving the ownership and
14 control over to the utility. They want the
15 utility to determine how they best see fit to
16 perform these operational tasks, whether it be
17 testing or other compliance issues.

18 Q But they wouldn't want the testing to stop before
19 they think the problem is corrected, would they?

20 A No, I don't think anybody would.

21 Q Okay. I agree, I was -- So do you know how many
22 systems were subject to that testing?

23 A The testing that Aqua proposed in their updates
24 mentioned 50 NOD sites specifically.

1 Q And do you happen to know how many are still
2 under that testing?

3 A I'm not sure how many are under. I know that one
4 of -- at least one of the systems has been ended
5 because of a case-by-case situation where the
6 well was no longer used.

7 Q So it's possible one out of the 50 has -- or one
8 of the 50 has been ended at least?

9 A Well, and it's not -- it's not just a matter of
10 ending the testing. Like I said before, it could
11 also be a reduction and how often these tests are
12 done. So, if there is a basis that all of the
13 samples are coming back relatively around the
14 same area, there's no point in continuingly --
15 continuing the frequency of the testing if that
16 benchmark is already established.

17 Q So did you suggest cutting this expense off, for
18 the purposes of this rate case, after June of
19 this year or September of this year?

20 A We -- my recommendation is including the actual
21 cost spent that was provided by Aqua with the
22 intent that Aqua would continue to track these
23 expenses like they had and that the actual cost
24 will be recovered in future rate cases when it's

1 in that current timeframe. So it is the June --
2 it is the January to June 2018.

3 Q You would agree now that we're well into
4 September and the testing is still going?

5 A Yes.

6 MR. BRITTON ALLEN: I have nothing further.

7 COMMISSIONER BROWN-BLAND: Is there
8 redirect?

9 MS. JOST: Yes.

10 REDIRECT EXAMINATION BY MS. JOST:

11 Q All right. Ms. Darden, counsel pointed out that
12 you say in your testimony that -- and, I'm sorry,
13 I'm talking about sludge hauling -- that levels
14 may return to maintenance levels in the future,
15 and you asked whether in turn that could mean
16 that the levels will not return to maintenance
17 levels, correct?

18 A Yes.

19 Q We are passing out right now what has been
20 premarked as Public Staff Darden Redirect Exam
21 Exhibit 1, and I'll pause for a moment while
22 everybody gets a copy of that.

23 COMMISSIONER BROWN-BLAND: This will be
24 identified as Public Staff Darden Redirect Exam

1 Exhibit 1.

2 (WHEREUPON, Public Staff Darden
3 Redirect Exam Exhibit 1 is marked
4 for identification.)

5 BY MS. JOST:

6 Q Could you describe, please, what's on this
7 exhibit? Do you have it?

8 A I didn't --

9 Q Sorry. That would be hard without you --

10 A This is an extension of my Exhibit 5 that was
11 referenced earlier and it's adding the updated
12 month of July 2018 as seen in the last column of
13 the chart.

14 Q And so where did that data come from that you
15 used to calculate the July 2018 sludge hauling
16 quantity?

17 A This was actual data provided by Aqua.

18 Q And does that data, in fact, show that the sludge
19 hauling amount has returned to a level below the
20 two-year average that you calculated?

21 A Yes, it does.

22 Q All right. You were also asked whether you agree
23 that the operational changes that Mr. Pearce
24 discusses in his testimony could lead to an

1 increased sludge production, and you said that
2 was possible; is that correct?

3 A Yes, that's correct.

4 Q Are there any reasons why you wouldn't say that
5 it's definitively the case that there will be an
6 increase in sludge hauling? Is there anything
7 about his testimony that would lead you to not
8 give a full approval of that statement?

9 A The operational changes example that was
10 described in the testimony, it describes a
11 calculation that has several variables that were
12 not specifically tied to Aqua, a Aqua wastewater
13 treatment plant so as I do agree with that an
14 operational change can affect it. There was not
15 a specific example of which ones it was making
16 that effect to.

17 Q And in his calculation did Mr. Pearce use data
18 from actual Aqua wastewater treatment plants?

19 A Not in the example in the testimony.

20 Q All right. You were asked about operational
21 testing expenses. You don't disagree that it's
22 important for the Company to be able to recover
23 operational testing expenses, correct?

24 A Yes, that's correct.

1 Q But you believe, correct, that those expenses
2 should be quantified by the Company so that it
3 can be determined whether they are reasonable?

4 A Yes, that's correct.

5 Q And has the Company quantified those expenses?

6 A The Company was unable to provide those tracked
7 expenses when we did request them.

8 Q You were asked whether it is possible that there
9 will -- and we're talking about the testing
10 update now -- whether it's possible that there
11 will not be a reduction in sampling frequencies
12 and you -- would you agree that it's possible
13 that those frequencies won't be reduced in the
14 future?

15 A It's impossible as -- based on the amount of data
16 that this testing has allowed to have there
17 are -- there's potential that the reductions
18 would be able to be made based on the historical
19 data that can prove that the reduction of
20 frequency is would be allowable. So when I
21 stated before that they would be stopped, it
22 doesn't necessarily mean that the testing would
23 be stopped after September 2018, it would just be
24 that reductions would be -- or the frequencies

1 would be changed.

2 Q And what is your understanding that the
3 frequencies could be changed based upon?

4 A Based on the data that's collected, if certain
5 sites are consistently providing the same results
6 on a monthly basis, the frequency could be
7 changed to quarterly. It could eventually be
8 changed to semiannually and annually just
9 depending on the historical data. And, also,
10 when treatment is installed, a different sampling
11 schedule would be needed to monitor that
12 treatment than there would be to monitor the
13 wells before the treatment has been installed.

14 Q Okay. I'd like to return to sludge for just a
15 moment and if I could have you look at this
16 redirect examination. Is it correct that it
17 shows levels that are higher, significantly
18 higher than the preceding levels in March, April,
19 and May of 2018?

20 A Yes, that is correct.

21 Q Could those levels be representative of a -- the
22 Company's need to get rid of sludge that had been
23 stockpiled prior to that period?

24 A Yes, that is correct.

1 Q And so, if that were the case, would that be an
2 increased amount of sludge that you would expect
3 to occur on a regular basis?

4 A If the sludge was being hauled as a catch up to
5 get back into compliance, as long as the plants
6 are operating within compliance, you would not
7 expect to have to do that again.

8 MS. JOST: I don't have any further
9 questions.

10 COMMISSIONER BROWN-BLAND: Questions by the
11 Commission? Commissioner Mitchell.

12 EXAMINATION BY COMMISSIONER MITCHELL:

13 Q Just two very quick questions. The first is
14 about the -- I just want to make sure I
15 understand your testimony and the Public Staff's
16 position on operational testing. So the testing
17 that DEQ is requiring in association with the
18 NODs, is that what you're calling operational
19 testing?

20 A There's kind of -- because the NODs have been
21 brought in there's three -- normally testing is
22 just compliance which is required by DEQ, and
23 operational which is determined by the Company,
24 how they see fit to what testing needs to be done

1 to maintain their regular operations. This NOD
2 testing is kind of an addition to all of that and
3 it is -- it has been enforced by DEQ, but the
4 actual sampling schedule is determined by the
5 Company.

6 Q Okay. And so I heard -- did I understand your
7 testimony correctly when you said that the Public
8 Staff in general supports operational testing?

9 A Yes. We do agree that operational testing is
10 necessary and should be recovered. Normally
11 when -- historically how operational testing
12 since it hasn't been tracked, it's in between the
13 final, doing our compliance calculation and then
14 coming to a final number, there's discussions
15 back and forth between the Public Staff and the
16 Company. In this case, the Public Staff and the
17 Company weren't able to agree on a testing number
18 and that's why it's not included in the
19 recommendation.

20 Q Okay, gotcha. The testing that has been done in
21 association with the NODs, is that testing -- so
22 I understand that you describe that as a third
23 category of testing. But I understood
24 Dr. Crockett's testimony this morning to be that

1 the Company really doesn't -- hasn't been testing
2 for iron and manganese issues, but those
3 issues -- the Company is alerted to those issues
4 by customer complaints. So what I understood him
5 to say was that they're not aware of a problem on
6 a system until they get a call from a customer or
7 notified by a customer that there's a problem.
8 Could the testing that Aqua is now doing for the
9 NODs, could that be incorporated into operations
10 going forward so that some of these problems are
11 avoided or addressed before they rise to the
12 level of an issue for customers?

13 A Yes. And I think what is kind of tricky about
14 putting the NOD testing into either compliance or
15 operational is because they -- it is operational
16 testing but since they're associated with an NOD
17 that pulls in DEQ so that makes it kind of fit
18 into either category. And it is for water
19 quality sampling like these NODs are doing, it's
20 tests that -- compliance sampling does test for
21 that occasionally but if Aqua chooses, you know,
22 on, unnecessarily a troubled system, they can
23 increase that frequency. So it's not required by
24 DEQ, but they realize they need an increase so

1 then that extra testing would become operational
2 testing.

3 Q Okay, got it. Just one question about sludge
4 expenses. Were the expenses that appear to be
5 higher than sort of normal expenses - I use that
6 word because I can't think of a better one - were
7 those -- did the Public Staff determine that that
8 activity occurred in conjunction with the system
9 for which there had been an NOV issued or for
10 which DEQ had had otherwise notified the Company
11 of a compliance --

12 A We can't specifically tie any -- the increase to
13 any particular compliance issue. They did -- the
14 increase did occur outside the test year. During
15 the test year there was high amounts for the
16 wastewater compliance fees so there were some
17 compliance issues there, but it's -- you're not
18 able to tie this increase to a particular event.

19 COMMISSIONER MITCHELL: Okay. Thank you.

20 COMMISSIONER BROWN-BLAND: Any questions on
21 Commissioner Mitchell's questions?

22 MR. BRITTON ALLEN: I have a couple.

23 COMMISSIONER BROWN-BLAND: Mr. Allen.

24 EXAMINATION BY MR. BRITTON ALLEN:

1 Q Commissioner Mitchell went back and asked you
2 about the sludge quantity hauled again and
3 whether you could determine if any particular
4 operational -- or an adjustment by Aqua caused
5 that. Do you remember that question?

6 A Yes.

7 Q So this July date here, the last one.

8 A Yes.

9 Q Is -- that July '18 date is still higher
10 significantly than July '16 or July '17, isn't
11 it?

12 A It is higher, yes.

13 Q Okay. And generally speaking, is the best
14 evidence of what's going to happen going forward
15 better and the later evidence is generally more
16 predictive?

17 A I feel like this goes back to what I had already
18 said. Because there is this evidence of an
19 increase just in these past four months of data,
20 that being such a short time period we're not
21 going to -- the Public Staff did not want to make
22 a recommendation just off the short time period.
23 But to encompass this increase is why we did
24 shift from not just using the test year, we

1 updated to using through June 2018, so that this
2 increase would be a factor in our recommendation,
3 but it we wouldn't be -- or we wouldn't be making
4 a recommendation off just a couple of months of
5 data.

6 Q And she also asked you a question about the
7 operational testing --

8 A Yes.

9 Q -- expense and the tracking and how that works.
10 I appreciate that the Public Staff agrees with
11 the Company that that is important. Did you --
12 when did you ask the Company for their
13 operational sampling data? Do you recall the
14 date?

15 A We officially asked the Company in a data request
16 on September 5th in response to rebuttal
17 testimony submitted by the Company.

18 Q So you didn't ask for that information until
19 after rebuttal testimony was filed?

20 A We did not formally ask for it, no.

21 MR. BRITTON ALLEN: I have no further
22 questions.

23 COMMISSIONER BROWN-BLAND: All right.

24 Public Staff Darden Redirect Exam Exhibit 1 and

1 Aqua-Darden Cross Examination Exhibit 1 both will be
2 received into evidence.

3 (WHEREUPON, Public Staff Darden
4 Redirect Exam Exhibit 1 and
5 Aqua-Darden Cross Examination
6 Exhibit 1 were admitted into
7 evidence.)

8 COMMISSIONER BROWN-BLAND: And, Ms. Darden,
9 you are excused.

10 (The witness is excused)

11 (Public Staff is passing out papers)

12 COMMISSIONER BROWN-BLAND: The Commission is
13 feeling left out, but other people -- we didn't get
14 some of --

15 MS. CULPEPPER: We gave it to Chairman
16 Finley.

17 (Laughter)

18 CHAIRMAN FINLEY: I thought it was only for
19 me.

20 (Laughter)

21 MR. JUNIS: I did cut it down a little bit.

22 CHAIRMAN FINLEY: I thought that was a long
23 summary.

24 (Laughter)

1 CHARLES JUNIS;

2 having been duly sworn,

3 testified as follows:

4 COMMISSIONER BROWN-BLAND: You may be
5 seated.

6 And before we begin with this witness, is
7 this when the issue related to the motion of
8 confidentiality and the Company's Response will come
9 into play?

10 MS. CULPEPPER: (Shakes head no).

11 COMMISSIONER BROWN-BLAND: This will be at a
12 later date, a later -- with a later witness?

13 MS. CULPEPPER: (Nods head affirmatively).

14 COMMISSIONER BROWN-BLAND: Okay. Then we'll
15 proceed.

16 DIRECT EXAMINATION BY MR. GRANTMYRE:

17 Q Please state your name.

18 A Charles Junis.

19 Q And by whom are you employed?

20 A The Public Staff.

21 Q In what capacity?

22 A I am a Utilities Engineer in the Water,
23 Wastewater and Telephone Division.

24 Q Did you cause to be prefiled on August 21, 2018,

1 direct testimony consisting of 66 pages and
2 Exhibits 1 through 25?

3 A Yes, sir.

4 Q Now, if I were to ask you those same -- and did
5 you also prefile supplemental testimony on
6 September 5, 2018, consisting of 20 pages and
7 Supplemental Exhibit -- Revised Exhibits 7, 8, 9,
8 and Junis Supplemental Exhibits 4, 5, 6 and 7?

9 A Yeah, I would just summarize that as there were
10 seven supplemental exhibits.

11 Q And, if I were to ask you those same questions
12 again today, would your answers be the same?

13 A Yes, sir.

14 Q And do you have any additions or corrections?

15 A Not at this time.

16 Q Do you have a summary of your testimony? Please
17 proceed.

18 A Yes.

19 (WHEREUPON, the summary of CHARLES
20 JUNIS is copied into the record.)
21
22
23
24

Summary of Testimony of Charles Junis
Docket No. W-218, Sub 497

The primary purpose of my testimony is to present to the Commission the Public Staff's positions on the following issues:

1. **Public Hearings and Customer Statements** - The customers' testimony and written statements received in this docket detail comments, questions, and concerns about topics including, but not limited to, water quality, customer service, and the magnitude of the proposed rate increase. I believe it is of the utmost importance that the Commission continue to probe Aqua's efforts to address customer service and poor water quality in communities across its service territories. We have all seen the pictures and videos of dirty water coming out of faucets and filling bathtubs. While Aqua has made improvements in some communities since its last rate case in 2014, there is still significant work to be done. In addition, there is a clear disconnect between the regular business hours and after-hours call centers that has resulted in an under quantification of customer complaints pertaining to discolored water and reported in the Semi-Annual Report Concerning Secondary Water Quality Concerns. The customer complaints were also diminished by Aqua's utilization of the now defunct interactive voice response, or "IVR," function that provided an automated response about the status of service issues based on a caller's zip code. The reporting requirements as ordered by the Commission in the Sub 363 docket have provided valuable information and accountability to consumers and I believe these reports should continue.

2. **Plant Conditions and Operations** - Once properly incentivized, Aqua has utilized the water and sewer system improvement charges to invest in eligible projects on an expedited schedule. Significant repairs, replacements, and expansion projects were completed on multiple wastewater treatment plants since Aqua's last general rate case and Aqua plans significant further investment at Governors Club and The Cape. Operational compliance, especially pertaining to wastewater treatment and secondary water quality, has presented challenges for the Company and its customers.
3. **AMR Meters** - Aqua proposes to include in Aqua NC Water rates the recovery of approximately \$4 million in AMR meter costs. This is in addition to the AMR meter costs being recovered through Brookwood Water rates, which the Public Staff reserved the right to challenge the reasonableness, prudence, and cost effectiveness of in the Sub 363 rate case. The implementation of AMR meters was not justified by a realistic cost-benefit analysis and therefore is an unreasonable cost. I recommend reductions in rate base, prior to depreciation, for Aqua NC Water and Brookwood Water in the amounts of approximately \$2.8 million and \$1.4 million, respectively, for the unreasonable AMR costs.
4. **Sewer Utility Plant in Service** - Aqua's filed rate case application includes excess capacity adjustments for the Carolina Meadows, The legacy at Jordan Lake, and Westfall (also known as Booth Mountain) wastewater treatment facilities. Based on the calculation methodology established by the Commission and used in Aqua's prior two general rate cases, I have calculated excess capacity percentages which have been implemented by Public Staff Accountant Cooper.

5. **Purchased Wastewater Capacity from Johnston County** - Aqua has negligently managed its contracts with the County and developers over a period of many years. This has resulted in uncollected contributions in aid of construction or "CIAC" for the Buffalo Creek Pump Station and Force Main and a costly discrepancy between the wastewater capacity fees collected by Aqua from developers and the capacity fees paid by Aqua to the County, both of which Aqua seeks to recover in rates from customers. The customers should not be forced to indemnify Aqua for Aqua's contractual mismanagement. While the Company has collected \$2 million in CIAC by selling over 333,000 gallons of capacity to developers, only \$1.497 million of that was collected for the first 250,000 gallons sold. Therefore, I recommend that approximately \$2.12 million in capacity fees paid to the County for 250,000 gallons per day of wastewater capacity and the associated \$1.497 million in CIAC be removed from plant because the capacity is not "used and useful." In addition, I recommend the Commission impute \$315,687 of uncollected contributions in aid of construction for the Buffalo Creek Pump Station and Force Main.
6. **Contract Services – Other** - The Public Staff and Aqua have reached a partial settlement, including a reasonable ongoing amount of contract services expense for utility locates and other activities in response to the One Call or NC 811 system.
7. **Salaries and Wages** - Aqua has transitioned from conducting utility locates and other activities in response to the One Call system with Company personnel to contracting the services of USIC. Aqua included salary expense for in-house personnel who had been doing a small part of the locate work, but beginning in May 2018 all that work has been done by USIC. I recommend reducing workforce

expense for 50% of a Field Supervisor I's workload and 50% of three Utility Technicians' workload, one from each of the three regions, to pass this savings to customers.

8. **Purchased Water** - Aqua seeks to recover in rates an excessive amount of purchased water expense that includes extraordinarily high levels of water losses. For many of the purchased water systems, Aqua had one or more water main leaks during the applied for test year, but has repaired leaks and since operated with known and measurably lower water losses. Accordingly, I recommend a more normal 15% loss of purchased water, which means the total ongoing purchased water expense level should be decreased to approximately \$1,874,222.
9. **Billing Analysis** - With consideration of the Environmental Finance Center Report, I determined the application and calculation of the growth and consumption factors utilized by Public Staff Accountant Cooper. The Public Staff believes the Consumption Adjustment Mechanism (CAM) if approved absent legislative authority puts the cart before the horse. In addition, the Public Staff has concerns about the proposed 1% threshold, lack of consideration of growth, and the impact on risk and associated rate of return. I performed the customer billing analysis for the test year period of October 2016 through September 2017 and then calculated the updated June 2018 end of period customer annualization. The billing analysis includes the calculation of the pro forma present and proposed revenues and rate design.

This completes my summary.

1 MR. GRANTMYRE: The witness is available for
2 cross examination.

3 MR. DWIGHT ALLEN: Good afternoon,
4 Mr. Junis.

5 MS. FORCE: I'm sorry.

6 MR. DWIGHT ALLEN: Oh, I'm sorry --

7 MS. FORCE: May I go first?

8 MR. DWIGHT ALLEN: -- You had --

9 MS. FORCE: I just have a --

10 MR. DWIGHT ALLEN: My problem, my fault.

11 COMMISSIONER BROWN-BLAND: I'm happy to see
12 everybody anxious to move it along.

13 (Laughter)

14 Go ahead, Ms. Force.

15 MS. FORCE: I'll try to move it along.

16 THE WITNESS: Me, too.

17 MR. DWIGHT ALLEN: I put my pencil to it to
18 move along as we were admonished to do earlier in the
19 process, so my apologies to both of you.

20 CROSS EXAMINATION BY MS. FORCE:

21 Q Mr. Junis, I just have a brief line of questions
22 for my own clarification. You've testified about
23 the difference in the cost-benefit analysis
24 between the Public Staff and the Company, am I

1 right, as far as the AMR meters are concerned?

2 A That's correct.

3 Q On page 11 of your supplemental testimony, you --
4 I think as I understand it you came up with
5 \$15.87 as the average labor installation cost for
6 a standard meter?

7 A You said in my supplemental testimony, correct?

8 Q Yes.

9 A Okay.

10 Q Page 11.

11 A Page 11.

12 Q Down on line 13 is what I'm looking at.

13 A That's correct.

14 Q And when you say standard meter are you talking
15 about mechanical meters then?

16 A Yes. When I say a standard meter I mean a person
17 has to go and read it.

18 Q Okay.

19 A Some may refer to it derogatorily but a standard
20 meter is what we like to say.

21 Q Is that based on a pretty quick change out of
22 meters? Is that the idea? You said that -- say
23 something about that on page 12 I think.

24 A So that's right. So, based on my own knowledge

1 and also the knowledge of three very experienced
2 people from the industry, nearly a hundred years
3 of experience not only in the industry but
4 specifically either supervising or actually
5 conducting meter change outs. And I know the
6 Company had filed a motion to strike this portion
7 of my testimony, and so the Public Staff had
8 prepared a showing of proof. And I would request
9 that the Commission allow me five minutes to
10 break -- to bring a meter onto the stand and
11 conduct a meter change out for context for this
12 discussion.

13 COMMISSIONER BROWN-BLAND: If that's to be
14 done, that will be done when your counsel asks you
15 questions.

16 THE WITNESS: Okay.

17 MS. FORCE: I'll -- shall I go forward with
18 my next question?

19 BY MS. FORCE:

20 Q I was going to ask you, I think in this analysis
21 you used a fairly short turn-around time. Is
22 that assuming that five -- to cut 15 minutes, is
23 that assuming that multiple meters are being
24 changed out?

1 A So my calculation is, the idea being that
2 75 percent of these meter replacements would take
3 approximately 15 minutes, or on average 15
4 minutes. The other 25 percent would take on
5 average an hour. There's complexity sometimes -
6 you have to change out the meter box, the yoke,
7 perhaps a coupler - so my calculation comes to
8 about 32 minutes per change out.

9 Q Okay. So I think what you're doing here, for
10 purposes of that is an apples-to-apples - because
11 this is my understanding - if you're going
12 through the neighborhood to replace with AMR
13 meters, it would be a whole neighborhood done at
14 the same time, right?

15 A That's correct. If you're doing a large scale
16 meter change out like what the Company has done
17 both in Brookwood and the A&C Water, you would
18 expect that to be a home-to-home-to-home, not
19 pertaining to Witness Thompson's rebuttal where
20 he talks about this would be done as part of the
21 normal working day. You're not going to change
22 out 10,000 meters in a year just doing it
23 whenever you have a minute, and then you're also
24 going to have additional drive time. So I think

1 the hour and a half the Company has estimated was
2 not true to the question of that EDR and vastly
3 overestimates the time to change out a meter.

4 Q Would there be some advantage with AMR meters to
5 having the whole neighborhood that is readable
6 from a van, whereas otherwise, if the Company
7 were not changing out the whole neighborhood at
8 the time but were just replacing meters as they
9 show signs of functioning less well? Is that
10 something that might be a different approach --

11 A I'm sorry. It seems like --

12 Q -- using mechanical or standard meters?

13 A It seems like you had two separate questions. Is
14 there a cost savings or time savings associated
15 with reading meters using AMI techno- -- or AMR
16 technology, and then you were talking about
17 installation. Do you mind clarifying?

18 Q I'm sorry. That isn't very clear. I'm assuming
19 that the use of the AMR meters offers some
20 advantage in terms of if the whole neighborhood
21 or most of the neighborhood uses that technology,
22 then it's quicker to read the meters at that
23 point?

24 A So the Company has quantified, I believe it's an

1 \$0.86 cost savings to the customer that's
2 included in their cost benefit, I don't change
3 that. That's included in both versions that I
4 filed where we made changes to the equipment
5 costs and labor costs because we feel that's
6 where it was too high. We'll accept a
7 theoretical savings on to customers, and it will
8 be quicker. Me walking and reading meters is not
9 going to be as fast as if I drive by. There are
10 challenges to each though.

11 Q Okay. And here's my question, would it be the
12 Public Staff's position that using the standard
13 meters, those would be replaced neighborhood by
14 neighborhood or as there's some sign of
15 degradation in a certain type of meter or in --

16 A You would want to look at the age of those meters
17 obviously. You don't want to change out a meter
18 if it hasn't gotten close to or met its service
19 life or shown signs of decreased functionality or
20 accuracy, so you would likely plan accordingly.
21 And usually all the meters in one subdivision
22 would have been installed around the same time,
23 unless it's been singularly changed out due to a
24 malfunction or a broken meter.

1 Q Okay. I think I understand.

2 A Okay.

3 MS. FORCE: Thank you. I have no further
4 questions.

5 MR. DWIGHT ALLEN: Finally.

6 (Laughter)

7 THE WITNESS: It didn't take that long.

8 MR. DWIGHT ALLEN: I know. Mr. Junis, we
9 have met but just of the purposes of the record and
10 the -- well, we've got a new court reporter now -- my
11 name is Dwight Allen. I'm also appearing on behalf of
12 Aqua.

13 CROSS EXAMINATION BY MR. DWIGHT ALLEN:

14 Q You were in the hearing room, were you not, just
15 now when --

16 COMMISSIONER GRAY: Mr. Allen. Thank you,
17 sir.

18 BY MR. DWIGHT ALLEN:

19 Q You were in the hearing room just now when
20 Mr. Henry was testifying as to data requests
21 submitted by the Public Staff to the Company and
22 he said that at times there were difficulty in
23 getting answers from Aqua. Do you recall that?

24 A Yes, sir, and I can attest to that. On numerous

1 occasions we would have to send follow up after
2 follow up to either clarify or to get exactly
3 what we were asking for the first time. So that
4 created delays because we were typically giving
5 the Company two weeks in between responsiveness.
6 So if we sent it we would give them two weeks to
7 respond and so you can see how quickly your time
8 evaporates in the discovery process.

9 Q Well, let's talk about delays a little bit. You
10 prepared the engineering data request, did you
11 not?

12 A I prepared a number of them, yes.

13 Q I -- well, did you do that in consultation with
14 Ms. Darden?

15 A That is correct.

16 Q But they were certainly not sent out without you
17 taking a look at them, were they?

18 A Most -- more often than not I looked at all of
19 them.

20 Q Okay. Do you know of any specifically that you
21 didn't look at?

22 A Not off the top of my head.

23 Q Now, the Company filed its case on March 7, 2018;
24 is that correct?

- 1 A Yes, sir. And, if you would remember, I was
2 engrossed in a Duke Energy Carolinas case at that
3 time and actually my wife had to go into the
4 hospital at that time. So --
- 5 Q And you think --
- 6 A -- we all have personal challenges with the
7 timing --
- 8 Q We have personal challenges, but in March you
9 submitted a total of seven applications (sic),
10 did you not?
- 11 A Yes. So what we did before we sent our first
12 batch of discovery, we looked back at the
13 discovery that was sent in the last rate case.
14 And so those first data requests had numerous
15 items within each one because we were trying to
16 get the baseline information we needed for our
17 analysis, and I think you can attest to that,
18 too.
- 19 Q In the first month you filed seven engineering
20 data requests; is that correct?
- 21 A Yes, sir. And then --
- 22 Q And then in April --
- 23 A -- when they --
- 24 Q -- wait, wait --

1 A Oh, I'm sorry.

2 MR. GRANTMYRE: Objection. Could he answer
3 the question?

4 MR. DWIGHT ALLEN: Well, he can answer --

5 COMMISSIONER BROWN-BLAND: Let him answer
6 the question, please, complete his answer.

7 THE WITNESS: Thank you.

8 MR. DWIGHT ALLEN: Okay.

9 A So those initial data requests, as I pointed out,
10 encompassed a lot of information. And so when we
11 got those initial responses, it took a lot of
12 time to review what we had and to provide initial
13 feedback to the Company of what we needed next.

14 Q So in April you filed zero engineering data
15 requests; is that correct?

16 A Subject to check I'll accept that.

17 Q And then May you filed three. Would you accept
18 that subject to check?

19 A Certainly so.

20 Q And similarly in March the Accounting Division
21 filed one data request. Would you accept that
22 subject to check?

23 A I would accept that subject to check, but I only
24 reviewed a handful of accounting data requests --

- 1 Q You can check how many you filed, can you not?
- 2 A And I said I would accept that number subject to
3 check.
- 4 Q And in April the Accounting Division also filed
5 one --
- 6 A Again, I would --
- 7 Q -- would you accept that?
- 8 A And, if you'd let me answer the question, I will
9 accept that subject to check but would like to
10 add the context that again those initial data
11 requests cover a plethora of information. It's
12 not just one question and then the response.
13 These are multi-part. You're asking for their
14 work papers, the exhibits, the schedules with the
15 working calculations from the filing. So this is
16 not just a piece of paper that I can review and
17 instantly give feedback.
- 18 Q They were comprehensive and that might have been
19 one of the reasons that sometimes it took time
20 and difficulty in responding to those, as
21 Mr. Henry said. The complication of the data
22 requests would lead to how easy it was to respond
23 to and whether there was difficulty, wouldn't it?
- 24 A So, yes, it's my understanding there is a

1 statutory burden of proof that the Company has to
2 do to justify their costs, and then the Public
3 Staff reviews that and audits that. And so there
4 is a great deal of complexity and work on either
5 side.

6 Q And I will cut down, in June, you ratcheted up
7 the number of engineering data requests, did you
8 not?

9 A Subject to check I would accept that. And you're
10 also getting closer to the timeframes where we
11 need to be making final determinations, starting
12 to draft testimony, meeting within the Public
13 Staff of how these adjustments then impact other
14 adjustments. So it's a big puzzle and the pieces
15 are starting to come together at that point, so
16 you're trying to really lock down those numbers.

17 Q Well, would you accept subject to check, and I'll
18 try to short circuit this, that out of the total
19 number of engineering data requests you filed,
20 you filed them between June and September and you
21 filed only 10 prior to June?

22 A I'm sorry. I missed the first part of that
23 question. Did you say number?

24 Q You filed 50 data requests from June until

1 September and you only filed 10 during the first
2 three months after the Company's Application was
3 filed?

4 A So you're referring to engineering data requests?

5 Q And these are engineering.

6 A Okay. I believe we sent a total of 62 so I will
7 accept that subject to check.

8 Q And would you accept subject to whatever check
9 you might wish to make that the similar trend was
10 for the accounting data requests? There were 67
11 data requests filed between June and September
12 and only 29 between March and May.

13 A Subject to check I would accept that, but I would
14 like to again give the context. Initial data
15 requests are complex and comprehensive, later
16 data requests typically are more narrow.

17 Q Is that universally true?

18 A I said typically.

19 Q But you filed a lot of atypical data requests in
20 those last four months, didn't you?

21 A I don't know how you --

22 Q That had multiple parts to it.

23 A Multiple parts does not change from more narrow
24 scope in the questions.

1 Q But you were still asking for spreadsheets and
2 for the Company here to compile --

3 A Now remember --

4 Q -- data for your benefit --

5 COMMISSIONER BROWN-BLAND: Excuse me.
6 Excuse me. Mr. Allen and Mr. Junis, I don't see what
7 this line of questioning has to do with the decisions
8 that we have to make. I think it's already --

9 MR. DWIGHT ALLEN: I think it has a lot to
10 do with it.

11 COMMISSIONER BROWN-BLAND: -- it's already
12 established on the record through Counsel Bennink
13 that there was quite a bit of discovery, that the
14 Company feels put upon, and that it was behind the
15 eight ball due to the scheduling conflicts. I don't
16 hear the Public Staff totally disagreeing with that,
17 but I have heard the Public Staff say they don't think
18 they had the fair playing field.

19 MR. DWIGHT ALLEN: Well --

20 COMMISSIONER BROWN-BLAND: So I do not see
21 that this is going to help this Commission make its
22 decision. I'll give you a little bit more time with
23 this if you think it's important, but I would like us
24 to --

1 MR. DWIGHT ALLEN: Well, after --

2 COMMISSIONER BROWN-BLAND: -- be able to
3 move on.

4 MR. DWIGHT ALLEN: I appreciate that.

5 BY MR. DWIGHT ALLEN:

6 Q But the Public Staff did make a recommendation
7 after the Company's rebuttal request was filed
8 that they would change the amortization period
9 for rate case expenses from three years to five
10 years, didn't you?

11 A And I would be happy to comment on that. So I
12 believe --

13 Q Could you answer my question yes or no? Did you
14 make that recommendation?

15 A Did I personally make that recommendation?

16 Q Did the Public Staff make that recommendation?

17 A We have moved from a three-year amortization to a
18 five year. And, if you would recognize that you
19 filed your Motion of Appearance adding three
20 additional attorneys to this rate case between
21 that timeframe, and so that may dictate as an
22 update that may impact the Public Staff's
23 position.

24 Q And that decision by Aqua to make an addition to

1 the legal staff might have been to answer the
2 late data requests that the Public Staff filed in
3 this case, might it not?

4 A I don't --

5 Q Couldn't that be a possibility?

6 MR. GRANTMYRE: Wait a minute! You asked
7 the question, he gets to answer it.

8 MR. DWIGHT ALLEN: I said couldn't that be a
9 possibility --

10 MR. GRANTMYRE: Well, he gets --

11 MR. DWIGHT ALLEN: My question was not
12 finished, Mr. Grantmyre.

13 COMMISSIONER BROWN-BLAND: That's enough!
14 That's enough! It's obvious that there --

15 MR. DWIGHT ALLEN: Let me ask him the
16 question.

17 COMMISSIONER BROWN-BLAND: It's obvious that
18 there's been unpleasant feelings between the two
19 parties but we're going to move on. That's the end of
20 that spilling over into this.

21 THE WITNESS: Madam Chair, would it okay to
22 answer that question?

23 COMMISSIONER BROWN-BLAND: You can answer --

24 MR. DWIGHT ALLEN: Sure it will.

1 COMMISSIONER BROWN-BLAND: You can answer
2 the question to the extent that you know.

3 And, Mr. Allen, you cannot answer for me or
4 this Commission that sure he can answer so just wait
5 for our answer please.

6 MR. DWIGHT ALLEN: Well, I --

7 COMMISSIONER BROWN-BLAND: Wait for our
8 answer, please.

9 MR. DWIGHT ALLEN: (Laughing).

10 COMMISSIONER BROWN-BLAND: Mr. Junis, please
11 answer the question.

12 THE WITNESS: Thank you, Madam Chairman. I
13 would just say you also have the update period and so
14 that will create a lot of discovery, because we have
15 then done a complete analysis of the test year and
16 then we have to basically scrap portions of that to
17 update through June, and so that's why you're seeing
18 discovery in July, in August, because they're not
19 going to have the financials for June until mid-July
20 or later.

21 BY MR. DWIGHT ALLEN:

22 Q Okay. Now, moving on to another topic. You
23 graduated from NC State University in 2011 with a
24 Bachelor's Degree in Civil Engineering; is that

1 correct?

2 A That is correct.

3 Q And when did you join the Public Staff?

4 A I joined the Public Staff in April of 2013.

5 Q And prior to that, you were a -- worked with a
6 consulting group called the Farnsworth Group, did
7 you not?

8 A Yes, in central Illinois near my hometown.

9 Q So I guess you worked for them for about two
10 years?

11 A Yes, and before that I have additional intern
12 experience. So I have a real insight into
13 municipal water and wastewater which I think also
14 is applicable in certain circumstances for a
15 private or investor-owned utility. So I worked
16 basically every summer up to that point --
17 actually, let's back up. So I worked for two
18 years at Farnsworth Group, consulting group as a
19 municipal engineer. So we were doing projects -
20 water and wastewater design - typically for small
21 municipals, which the scale would be comparable
22 to a large Aqua system. And before that, I
23 interned with that company, again working and
24 observing construction on those projects. And

1 before that I worked for the Town of Normal,
2 again observing construction and helping review,
3 design plans, specs. So I have more knowledge
4 than my age may suggest.

5 Q Have you ever worked for a corporation other than
6 a consulting company in any management position?

7 A No.

8 Q Have you ever been in a senior management
9 position with a utility?

10 A No.

11 Q Have you ever been involving -- involved in
12 developing a capital budget or an operating
13 budget for a public utility?

14 A No. But obviously in my five years with the
15 Public Staff I've reviewed utility expenditures,
16 both in the water and wastewater industry, but
17 also the electric industry.

18 Q But you've never prepared one from scratch from a
19 corporation's standpoint?

20 A No.

21 Q In developing a capital or operating budget, do
22 you know whether companies generally look at book
23 numbers derived from rate case decisions or they
24 do -- they look at the actual expenses incurred

1 by the Company?

2 A I'm sure they consider both.

3 Q Have you ever been in a decision-making
4 conference where they -- decision -- made a
5 decision on one or the other?

6 A I think clearly the Company makes decisions based
7 on either the past approval on their expenditures
8 and also what they anticipate going forward. So,
9 as we've seen a pattern, Aqua was not
10 historically heavily investing in secondary water
11 quality filters, and then when they were properly
12 incentivized with the WSIC and SSIC, they
13 expended considerably more dollars to address
14 that problem.

15 Q Now, you said you were sure that they base those
16 decisions on both book numbers from rate cases
17 and numbers based on actual experience. How can
18 you be sure of that if you've never been involved
19 in one of those discussions?

20 A I would expect that they would look at both. And
21 we have reviewed, the Public Staff requested
22 their monthly budget reports. When the Company
23 looks at their budget amount in comparison to
24 their actual and then recognize concerns or

1 benefits to what has happened over that period of
2 time, and those amounts may tie to their
3 operating budget. But I'm sure when setting that
4 operating budget amount there is some
5 consideration given to what are they recovering
6 in rates.

7 Q Have you ever served as a project manager on a
8 major construction project?

9 A Not a project manager but I've assisted a project
10 manager.

11 Q Never were in charge of it yourself?

12 A No.

13 Q Have you ever been responsible for a meter
14 exchange program?

15 A Not in charge.

16 Q Have you ever been in charge of a meter exchange
17 program for more than 15,000 meters that were
18 being exchanged?

19 A No.

20 Q When the Commission issues an Order in a general
21 rate case or any other Order for that matter,
22 does the public have a reasonable expectation
23 that it can read that Order and rely on the
24 decisions that the Commission made for making

1 their own decisions?

2 A You're referring to the general public or who?

3 Q Well, at first I'll say the general public.

4 Should they be able to read a Commission's Order
5 and rely on what the Commission says?

6 A I think you're putting me in a position to
7 speculate. But I'm sure my wife would have a
8 different understanding of a Commission Order
9 than I would or you would. So to generalize like
10 that, I don't think is appropriate.

11 Q Okay. What about lenders? What about a lender
12 that extends credit to a company like Aqua or any
13 other utility. Do they have a reasonable
14 expectation that they can look at the
15 Commission's Order and count on the Commission's
16 Order for what it says?

17 A I don't think I'm in a position to opine on that.

18 Q So you don't know whether a lender who extends
19 credit --

20 A I didn't say I don't know. I said I'm not in a
21 position to opine on that. I am not our economic
22 specialist. Mr. Hinton was here on the stand and
23 this question would have been better geared
24 towards him.

1 Q Well -- so as a professional engineer who's
2 worked for the Public Staff since 2013, you don't
3 have been an opinion as to whether or not a
4 lender ought to be able to look at a Commission's
5 Order and rely on what that Order says?

6 A I think they would consider it as part of their
7 analysis.

8 Q What about an invesper (sic), an investor? If an
9 investor wants to invest in Aqua or Duke Energy
10 or any other company regulated by the North
11 Carolina Utilities Commission, do they have a
12 right to look at that Commission Order and think
13 it means something and they can act in reliance
14 on what the Commission says?

15 A They can certainly take that into consideration
16 as part of their analysis.

17 Q What about the utility rating agencies that rate
18 the bonds and rate the stocks of Aqua and other
19 utilities. Do they have a right to look at
20 Commission Orders and think they can rely on what
21 the Commission says?

22 A I'm sure that that would be part of their
23 analysis.

24 Q Have you ever had the opportunity to attend a

1 meeting between a rating agency and a utility
2 where the Commission's Orders are discussed?

3 A I don't believe a rating agency. I believe I did
4 sit in on a meeting where investors were in
5 attendance.

6 Q Have you ever been in one so -- where Moody's or
7 Standard & Poors, or some rating agencies, you
8 haven't --

9 A I don't believe a rating agency.

10 Q Okay. Describe the one where you attended where
11 investment analysts were involved?

12 A I believe it was - and I'm trying to recall -
13 that meeting included basically supervisors or
14 managers of investment groups, and I forget what
15 banks they were associated with. But, in terms
16 of level of details, certainly they had concerns
17 of what this Commission would rule on significant
18 costs and I believe it was -- I believe it was
19 tied to the Duke case.

20 Q They asked Commissions about -- they asked
21 questions about what the Commission has ruled in
22 the past?

23 A I think they were more concerned with Public
24 Staff's position, where we thought the industry

1 was going and what was going on. But --

2 Q Well --

3 A -- again, I don't -- I don't have my meeting
4 notes with me and so I'm just trying to recall
5 off memory of a meeting, and I don't even
6 remember when it was.

7 Q Well, if they are concerned about what the Public
8 Staff's position is and what you think of the
9 regulatory policy in North Carolina - I don't
10 mean you personally, I mean the Public Staff -
11 they would certainly have some concern you would
12 think about what the Commission does, wouldn't
13 they, that would seem to follow?

14 A Yes.

15 COMMISSIONER BROWN-BLAND: Mr. Allen, you're
16 getting ready to be told by Commissioner Gray to pull
17 up that mic.

18 MR. DWIGHT ALLEN: You can't hear me? I
19 wish you would call my wife and tell her that I can
20 whisper because she doesn't believe I am able to do
21 that.

22 COMMISSIONER GRAY: Pull it up closer,
23 Mr. Allen, if you don't mind.

24 MR. DWIGHT ALLEN: Okay. And I apologize.

1 BY MR. DWIGHT ALLEN:

2 Q Just talking briefly -- I'll get some smaller
3 things out of the way and then we'll go to
4 others. You do make an adjustment to salaries
5 and wages for the people located with -- that are
6 involved in the utility locating business; is
7 that correct?

8 A That is correct.

9 Q And you say that the Company's records or a data
10 request indicated that they spend a small amount
11 of time internally on doing that internally but
12 now they're going to contract it out?

13 A Correct. So we asked them to quantify the costs
14 or expenses tied to doing this work. The Company
15 was unable to quantify those costs. They
16 provided a planning document that they used when
17 evaluating how many employees would it take to
18 actually do all the work, because they were
19 materially deficient in doing these locates,
20 which potentially could have led to additional
21 repairs and replacements of their equipment, be
22 it water mains or sewer mains, and that's clear
23 by -- there's dockets within this Commission, Sub
24 W-218 that deal with that.

1 Q And those employees actually had other job
2 responsibilities. Is this -- this is something
3 they were kind of doing on the side to help out,
4 wasn't it?

5 A It is unclear because the Company did not
6 quantify it of what their actual expenses were,
7 so I took their two estimates - one for the
8 planning before they made the decision and then
9 the other responses from Mr. Pearce of what he
10 speculated it would take to do the work
11 completely at this point - and those were between
12 six and 10 employees to do all the work.

13 Q And how did you derive at the 50/50 split, just
14 allowing --

15 A So it --

16 Q -- 50 percent of those?

17 A What I determined was you would likely need a
18 supervisor to review these tickets as they come
19 in and then he would dispatch utility techs to
20 actually do the locates. So I said you would
21 need a partial amount of the supervisor's time to
22 do this work, and I said they have to do this
23 across all of their service areas, these locates
24 come in from every single county, well, Aqua

1 serves 51 counties. And so I took one utility
2 technician from each region of the three rate
3 regions and said half their time would be towards
4 this. But I'm sure the Company did not have --
5 or I would expect the Company would have had
6 numerous people intermittently doing this work,
7 not a designated three people or four people that
8 I make an adjustment against.

9 Q I think my question was how did you decide 50/50
10 was the right number?

11 A It's -- the basis is trying to get to an amount
12 of employee -- so that's functionally two full
13 employees. The Company had speculated between
14 six and 10 employees to do the work fully. They
15 were only doing, I think, approximately
16 10 percent of the work. And so that's how I got
17 down to two employees because you do have to
18 cover all the regions. So there's going to be
19 some inefficiencies even with doing 10 percent of
20 the work because it's spread over so many areas.

21 Q Now, three of these employees, the non-supervisor
22 employees are located --

23 (WHEREUPON, the Court Reporter
24 requested Mr. Allen to speak up.)

1 MR. DWIGHT ALLEN: Is this thing on?

2 COMMISSIONER GRAY: Pull it towards you,
3 Mr. Allen.

4 MR. DWIGHT ALLEN: My apologies.

5 BY MR. DWIGHT ALLEN:

6 Q Three of these employees, the non-supervisor
7 employees are located in different regions of the
8 Company's operating territory?

9 A That's correct.

10 Q All right. So we're going to reduce a half of an
11 employee in each of those regions?

12 A Yes, sir.

13 Q And how do you recommend the Company do that?

14 A I think this would have to be part of their
15 consideration of total staffing. So, if they're
16 going to save staffing and time for meter
17 reading, for example, then those people may be
18 shifted to other responsibilities. And then, if
19 you're going to save time by Aqua personnel not
20 doing these locates, those people are going to be
21 shifted around. And yet the Company has also
22 hired a number of new staff since the last rate
23 case that the Public Staff has agreed to. So was
24 this considered as part of their level of

1 staffing or now are they potentially overstaffed?
2 So that's why we make this adjustment.

3 Q Were you in the hearing room when the
4 Commissioners asked Mr. Becker whether or not he
5 had enough staffing to take care of the secondary
6 water quality issues that the Public Staff and
7 the Commission expressed so much concern about?

8 A I believe that he said at this time he has enough
9 staffing.

10 Q And he didn't say that that would mean an
11 adjustment of four employees that were cut in
12 half, did he?

13 A He didn't detail what assumptions he was making
14 based on that. Was he making that based on the
15 current level that the Public Staff has
16 recommended or was that based on the day he sat
17 in this chair?

18 Q So those employees could be assigned to
19 additional responsibilities within the Company?

20 A I believe the Company lingo is they will be
21 reutilized.

22 Q And that is fairly typical for companies to
23 reutilize employees, isn't it?

24 A Correct, but you also have to make that decision

1 based on your employee need or workforce needs,
2 and I don't think there's any consideration of
3 that in these responses. The Public Staff was
4 very clear in what we were looking for and the
5 Company didn't provide it. They could not
6 quantify the expense, costs associated with doing
7 this work.

8 Q Well, Mr. Becker's testimony says that those
9 employees are being utilized for other job
10 duties, does he not?

11 A Are you referring to his rebuttal testimony?

12 Q Well --

13 A I believe so.

14 Q And you dispute that?

15 A I didn't say I disputed that.

16 Q Well, if he is correct he ought to be able to
17 fund those employees, shouldn't he?

18 A That will be for this Commission to decide.

19 Q But if they should find that what he says is true
20 and those employees are being re-deployed the use
21 of work functions, the Public Staff wouldn't
22 continue to recommend that half of those salaries
23 be denied, would they?

24 A If the Commission finds that it's appropriate.

1 then this case is done and we lost.

2 Q Okay. Now, let's move --

3 MR. DWIGHT ALLEN: Are we going to go -- I'm
4 getting into a new line now that will probably take a
5 while. I can --

6 COMMISSIONER BROWN-BLAND: Go ahead and
7 start, and you've got 10 to 15 minutes here.

8 MR. DWIGHT ALLEN: Okay. I'll see if I can
9 skip around a little bit.

10 BY MR. DWIGHT ALLEN:

11 Q Mr. Junis, you are familiar with the Carolina
12 Meadows system, are you not?

13 A That's correct. I made one of my site visits
14 there.

15 Q And that system was built in 1989; is that
16 correct?

17 A I would accept that subject to check. I don't
18 know that off the top of my head.

19 Q Do you know when the Company bought the system?

20 A I don't recall off the top of my head.

21 Q Would you accept that they purchased it in 2005?

22 A I would accept that subject to check.

23 Q And so the original system is 28 years old, if my
24 math is right, 1989 to -- 28 and 29 years old,

1 something like that.

2 A There may be components that old. Obviously,
3 there's going to be repairs and replacements as
4 as time goes on.

5 Q Right. I agree with you on that. Now, the
6 Company entered into a program to modernize the
7 Carolina Meadows system, did they not?

8 A Correct.

9 Q What is a clarifier?

10 A So that's part of the treatment process. And I
11 will add -- I think I can predict where this line
12 of questioning is going.

13 Q Well, let's just answer the question --

14 A Okay.

15 Q -- and not worry about where it's going because
16 I'm not even sure I know that so.

17 (Laughter)

18 A It's part of the treatment process of a
19 wastewater treatment plant.

20 Q Well, how does it treat? How does it treat? I
21 know it's part of the treatment.

22 A So there are multiple stages within a wastewater
23 treatment plant. The clarifier is one component
24 and it towards the end of that process.

1 Q What does the clarifier do?

2 A So the clarifier, you may have settling, you're
3 going to have -- your bugs continue to interact,
4 and that's where you're getting towards the end
5 of the process with clear water so it clears --

6 Q Essentially --

7 A Sorry.

8 Q Finished? I'm sorry.

9 A Yes.

10 Q Essentially what it does is it it clears out the
11 water and let's the solids go to the bottom,
12 doesn't it?

13 A Yes, as I said.

14 Q That's essentially what a clarifier does. What
15 does a screen bar do?

16 A So you're referring to a bar screen which is
17 going to remove --

18 Q Yes.

19 A -- rags and front-end materials from going into
20 the plant and potentially causing pumps to break.
21 It could get caught up in other mechanical
22 equipment and cause issues.

23 Q And there are manual screens and there are
24 automatic bar screens --

- 1 A Correct.
- 2 Q -- is that correct? What is the difference in
3 maintaining a manual bar screen and an automatic
4 bar screen?
- 5 A So a manual bar screen will -- an operator
6 basically has to go and clear that. So think
7 about raking your lawn. Functionally they're
8 going to rake that bar screen and clear it.
9 While a mechanical bar screen - I think you
10 referred to as an automatic bar screen - it's
11 going to be a machine, like a conveyor belt
12 almost, that clears that screen.
- 13 Q And the screen will collect things like hygiene
14 projects (sic), towelettes; if somebody -- a kid
15 wants to get rid of their marijuana bag, it might
16 screen that out and anything that we don't want
17 to go into the system?
- 18 A Anything that gets flushed or put into a manhole
19 is going to potentially be caught by a bar screen
20 or go into the plant.
- 21 Q Now, you did an inspection at the Carolina
22 Meadows system, did you not?
- 23 A Yes, I made a site visit.
- 24 Q And what did you find when you inspected that

1 system?

2 A I mean, this is detailed in my testimony. Do you
3 have a specific question?

4 Q No. I just think, for the Commission's benefit,
5 just describe it briefly. I mean, it is on page
6 39 of your testimony but not a whole lot of
7 testimony about it.

8 A I mean -- so there was considerable rehab
9 projects. If I remember, and you said -- so
10 that's actually I think laid out earlier in my
11 testimony when I detail my site visits, not on
12 page 39; 39 is the excess capacity which it
13 anticipated where you were going with this --

14 Q Well, the -- that's one of the systems you cite
15 for excess capacity.

16 A That's correct. So there was considerable rehab,
17 including the building where office staff may go
18 into to do some of their lab testing. Also,
19 they're going to do paperwork there and keep
20 records. And so -- but there were substantial
21 structural changes to that site.

22 Q And in making those structural changes, did the
23 Company downsize the size of that treatment
24 facility?

- 1 A I don't -- I believe the wastewater treatment
2 capacity stayed the same, if I remember right.
- 3 Q Well, what about the equalizer basin and those
4 facilities? Did they downsize those?
- 5 A Well, they reutilized tankage, from my
6 understanding, is different purposes in that
7 treatment process.
- 8 Q And they basically reduced the size of the
9 overall operation in order to make sure the
10 capacity was closer to what the current flow was,
11 didn't they?
- 12 A So do you have a value that you're suggesting
13 that the capacity went from one to another?
- 14 Q Well, do you know whether it went down or not?
- 15 A My understanding was that it had not, that the
16 capacity had remained the same. And I believe I
17 asked that question on the site visit.
- 18 Q If testimony should be established in this case
19 that, in fact, the capacity was reduced to
20 accommodate current flows rather than what it was
21 before, that might have some impact on whether an
22 excess capacity adjustment would be appropriate
23 for Carolina Meadows, might it not?
- 24 A So I'm just flipping to page 39 where I list

1 those capacities. So are you saying that the
2 installed capacity is not three fifty, because
3 that's what we were told on numerous data
4 requests?

5 Q But if the evidence should show that it was in
6 fact downsized; and maybe those numbers are
7 inaccurate.

8 A So that would mean the Company provided
9 inaccurate information to the Public Staff for
10 utilization in their evaluation.

11 Q Well, either that or perhaps what they provided
12 was misunderstood. That could be possible, too?

13 A Certainly could be possible.

14 Q Okay. Now, as to the equalizer basin, did you
15 discuss with them whether the equalizer -- size
16 of the equalizer basin was decreased?

17 A Like I said, there was reutilization of tankage,
18 I don't recall exactly the EQ basin but it's my
19 understanding that that plant still can treat the
20 350,000 gallons that it was approved for.

21 Q Okay. So then you don't know specifically
22 whether the equalizer basin - and this is the
23 last on this - or the system itself was downsized
24 to meet current flows --

1 A It's my --

2 Q -- based on the information you have?

3 A It's my understanding that the plant still has
4 the capacity to treat 350,000 gallons. I am
5 unsure if the EQ basin was decreased in size or
6 has less ability to handle flow.

7 Q Would that have any impact on whether or not you
8 would choose to make an excess capacity
9 adjustment?

10 A The EQ basin is one component of that system and
11 the costs to modify that system are impacted
12 incrementally due to the size and capacity of
13 that plant. That's why it's part of this excess
14 capacity adjustment.

15 Q Now moving on now to service. On page --

16 COMMISSIONER BROWN-BLAND: It looks like,
17 Mr. Allen, you might have been at a stopping point,
18 were you?

19 MR. DWIGHT ALLEN: I am at a stopping point.

20 COMMISSIONER BROWN-BLAND: You don't have to
21 be. I'll give you five more minutes.

22 MR. DWIGHT ALLEN: No, I am. No, I'm good.

23 COMMISSIONER BROWN-BLAND: All right. Then
24 we're going to take a recess and we'll start back at

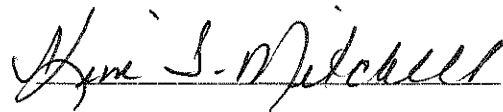
1 9:00 a.m. in the morning, assuming I can get past all
2 the electric convoys headed down to take care of our
3 less fortunate citizens. So I'll see you in the
4 morning. Thank you.

5 (Whereupon, the hearing was recessed at 5:30 p.m.)
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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
Court Reporter II