

PLACE: Dobbs Building, Raleigh, North Carolina
DATE: Tuesday, November 29, 2022
DOCKET NO.: W-354, Sub 400
TIME: 9:00 a.m. - 11:30 a.m.
BEFORE: Commissioner Daniel G. Clodfelter, Presiding
Chair Charlotte A. Mitchell
Commissioner ToNola D. Brown-Bland
Commissioner Kimberly W. Duffley
Commissioner Jeffrey A. Hughes
Commissioner Floyd B. McKissick, Jr.
Commissioner Karen M. Kemerait.

IN THE MATTER OF:

Application by

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

for Authority to Adjust and Increase Rates
for Water and Sewer Utility Service

in All Its Service Areas in North Carolina
and for Approval of a Water and Sewer Investment Plan

Volume 7

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

2 COMMISSIONER CLODFELTER: Okay. Good
3 morning, everyone. Let's come back to order and
4 we'll reopen the record.

5 I'm gonna ask the parties' counsel if
6 there's any matters we need to take up before we
7 start the evidence again this morning.

8 But let me say first to you we've got a
9 lot of construction going on in the building right
10 now. They're rebuilding the Industrial Commission
11 room next to us, and so it's just -- it gets very
12 loud in here sometimes. So please stay as close to
13 the microphones as you possibly can. And if you're
14 gonna turn your head to look away at somebody,
15 bring the microphone. Drag it along with you.
16 It's got to go along with where your mouth is.

17 So if you're pointing in a different
18 direction than straight at the microphone, bring
19 the mic with you, and our court reporter will
20 greatly appreciate that.

21 So let me ask counsel, are there any
22 housekeeping items or other things we need to take
23 up before we start evidence this morning?

24 MS. SANFORD: We have a couple of

1 housekeeping matters --

2 COMMISSIONER CLODFELTER: Sure.

3 MS. SANFORD: -- with the Commission's
4 indulgence. And this is in the hopes of navigating
5 a little more clearly today than we did yesterday
6 with respect to who's on first and who goes next.

7 First up, of course, is Mr. D'Ascendis,
8 who is available for cross examination on rebuttal.
9 He hopes to have answered all of the questions that
10 everybody has for him by midmorning, because he
11 hopes to catch a plane.

12 But the first obligation is the first
13 part of that statement, to answer all of the
14 questions that you have. And we know the Public
15 Staff has some questions as well.

16 Next is Mr. DeStefano, who has a later
17 obligation today for a plane. I'm not really
18 worried about that, but I felt like I should say
19 that out loud. We've said it before.

20 They're both headed to Kentucky,
21 apparently along with a bad storm front, so they'd
22 probably rather stay here.

23 Mr. DeStefano's testimony is denominated
24 as rebuttal. He speaks for the Company with

1 respect to interpretation and implementation of the
2 statute of the rulemaking. He's been present in
3 this process for a number of things. Excuse me.

4 After Mr. DeStefano is Mr. Denton, the
5 state president, who filed direct and rebuttal and
6 speaks for the Company with respect to operation
7 and management, and he will be responsible for the
8 performance under the new plan, should it be
9 approved, as he is responsible for the Company's
10 performance in North Carolina at this point.

11 After Mr. Denton is Mr. Konsul, who is
12 the director -- I'm leaning over into this thing --
13 who's the director of operations in the state.
14 Speaks to projects, service, customer concerns.

15 And, finally, we have Mr. Schellinger,
16 who, as we say to him, is responsible for
17 everything else. So he goes last, and he is
18 particularly accountable, through his testimony and
19 with respect to the Company, for accounting matters
20 and financial matters and for many of the filings
21 that we see here and for much of the work done in
22 cooperation with the Public Staff as we process all
23 of the cases that we bring before the Commission.

24 So I just wanted to let you know who's

1 up, what they speak for, and, in the case of
2 Mr. D'Ascendis and Mr. DeStefano, the fact that, at
3 some point, with the Commission's agreement, they
4 leave us at some point today.

5 That's it for me. Thank you.

6 COMMISSIONER CLODFELTER: All right.

7 Let me ask this, Mr. Freeman, Ms. Holt, before I
8 see if you have any other matters we need to talk
9 about. According to the order of witnesses that I
10 have that was filed on November 23rd, I'm not
11 showing that the Public Staff had indicated any
12 cross examination for Mr. DeStefano, Mr. Denton,
13 Mr. Konsul, and Mr. Schellinger. Is that still the
14 case or --

15 MS. HOLT: That's correct.

16 COMMISSIONER CLODFELTER: I mean, of
17 course, you have your right of cross examination.
18 I just -- for purposes of planning today, I didn't
19 know if that had changed or.

20 So if that is still correct --

21 MS. HOLT: That is correct, with the
22 exception of we might want to ask Mr. Schellinger a
23 couple of questions just to authenticate Exhibit 6.

24 COMMISSIONER CLODFELTER: Okay. Well,

1 we'll --

2 MS. SANFORD: Yes.

3 COMMISSIONER CLODFELTER: That's great
4 to know. But I think, if that's the case,
5 except -- with that exception, then probably what
6 we'll do is just offer them up for Commissioner
7 questions, if there are any.

8 MS. SANFORD: Exactly.

9 COMMISSIONER CLODFELTER: If there are
10 any.

11 MS. SANFORD: Exactly. Yes, sir. And
12 that -- it is for that purpose. I mean, we know
13 there is no cross. And I may have referred to
14 cross because you automatically do that.

15 COMMISSIONER CLODFELTER: Right.

16 MS. SANFORD: But it's the expectation
17 that they -- well, it's with the commitment that
18 they would be available for any Commission
19 questions that you might have.

20 COMMISSIONER CLODFELTER: Okay. That
21 works.

22 MS. SANFORD: Okay.

23 COMMISSIONER CLODFELTER: So anything
24 else we need to take up before we start?

1 MS. HOLT: Nothing more.

2 COMMISSIONER CLODFELTER: Okay. Great.

3 Then, Mr. D'Ascendis, you're back up,
4 and you're still under oath. And, as we've
5 indicated, you're here for cross examination by
6 Public Staff on your rebuttal testimony.

7 Whereupon,

8 DYLAN D'ASCENDIS,
9 having been previously duly sworn, was examined
10 and testified as follows:

11 COMMISSIONER CLODFELTER: And,
12 Mr. Freeman, Ms. Holt, I'm not sure which of you is
13 going to be doing the cross.

14 MR. FREEMAN: Thank you. Thank you,
15 Commissioner.

16 COMMISSIONER CLODFELTER: Right.
17 (Dylan D'Ascendis' prefiled rebuttal
18 testimony was presented in Volume 6,
19 pages 160 through 254, and his prefiled
20 rebuttal summary was presented in Volume
21 6, pages 255 through 258.)

22 CROSS EXAMINATION BY MR. FREEMAN:

23 Q. Good morning, Mr. D'Ascendis. This is now
24 your rebuttal testimony. Yesterday, we discussed -- I

1 can't remember if it was on or off the record -- that
2 you'd like to leave here at 10:00, so I went through
3 and reduced a lot of my questions. So --

4 A. I appreciate that.

5 Q. I want to leave enough time for your counsel
6 and the Commissioners to ask questions as well.

7 Yesterday, we discussed Exhibits 3 and 13,
8 which are -- you don't need to turn to them unless
9 you'd like to -- which are the ones that talk about
10 current ROEs ranging from 9.5, 9.6 for the last many
11 years. And I think that you said, "Hey, some of these
12 cases that just came in a few months ago are relying on
13 old and historical data."

14 A. Yes, sir.

15 Q. In your rebuttal testimony, you talk about
16 speeches made in November of this year. You talk very
17 much about current market conditions, don't you?

18 A. That's right.

19 Q. Isn't it possible that the commissions in
20 other states did the same thing?

21 A. It depends when the record closes and it
22 depends on some of the procedural schedules. But I'm
23 sure that there was opposing witness testimonies that
24 came in after the filings of the direct testimonies of

1 the Company, and then they may or may not have updated
2 their testimonies and positions in rebuttal. There may
3 not be rebuttal based on some of the procedural
4 schedules.

5 Q. Thank you.

6 The decision of whether or not to file this
7 case was solely in the power of Carolina Water,
8 correct?

9 A. Absolutely.

10 Q. And it chose to file in the summer of this
11 year, correct?

12 A. Yes, sir.

13 Q. At the peak -- you know, I think inflation
14 peaked, now looking back, we can say in June of 2022?

15 A. No. I think it was September.

16 Q. Of this year?

17 A. Yes.

18 Q. And it's now coming down?

19 A. It's coming down but still significantly
20 higher than what it usually is.

21 Q. If the Company had waited six months and let
22 these volatile times calm down, they wouldn't have had
23 some of the risks that you address in your testimony,
24 right?

1 A. You don't know what's in the future. And if
2 you look at my direct results and my rebuttal results,
3 you'll see that every single one of the model results
4 have gone up since May to October. So those five
5 months, things have only gotten more risky for the
6 companies.

7 Q. But we think it's gonna get better. You
8 think it's gonna be 2 percent inflation in the future.
9 I know not tomorrow, but in the future, right?

10 A. It says over the next 30 years, so. All of
11 us will hopefully be retired then, and it will still be
12 2.50, which is, what, 50 percent higher than what it
13 usually is or the Fed target is.

14 So if you look at it that way, no. It may be
15 moderating, and that's my testimony, but it's still
16 high.

17 Q. We can agree, though, that, fortunately,
18 another moderator has come along, which is the new
19 multiyear law, which Fitch, Moody's, S&P all view as a,
20 sort of, credit positive, favorable to the Company,
21 right?

22 A. I've only -- so I don't agree with what you
23 just said, because I didn't see any evidence by anybody
24 that said specifically regarding multiyear rate plan in

1 this state, and I didn't see anything from S&P or
2 Moody's about it either.

3 Q. Do you remember the exhibit that we looked at
4 in some length yesterday?

5 A. That's a -- that's a Washington multiyear
6 rate plan.

7 Q. I understand. But we can agree that Fitch,
8 in the state of Washington, thought that was credit
9 positive.

10 A. Yes. But, like I said yesterday, it's a
11 relative risk. And I don't think I need to go into it
12 again, but several -- several states and all of -- all
13 of the proxy companies excepting Middlesex Water have
14 some sort of multiyear rate plan or forward future test
15 year in their market data.

16 Q. And do you remember Mr. Hinton testified
17 about the Janney's report, which we had misnumbered as
18 9 but was, in fact, Exhibit 8?

19 A. (Witness peruses document.)

20 Is Exhibit 8?

21 Q. There's something --

22 A. Or the Cross Exhibit 8?

23 Q. It is Mr. Hinton's Exhibit 8.

24 A. Okay.

1 (Witness peruses document.)

2 Q. We discussed it yesterday.

3 A. Not you and I.

4 Q. Correct. Do you remember from Exhibit 8 of
5 Mr. Hinton's direct testimony? Not the panel but just
6 his testimony?

7 A. Right. But we didn't discuss it.

8 Q. Okay. It was discussed. I apologize.

9 A. Okay.

10 Q. That's:

11 "Consistency of rate-making treatment, the
12 allowed ROE, and minimization of regulatory
13 lag are factors that Janney evaluates."

14 A. Yes. And, like I said, I agree with that.
15 It's more of a relative risk than looking at just
16 Carolina Water Service.

17 That's the -- I think that's the disconnect
18 between me and Mr. Hinton, is that he sees it straight
19 as Carolina Water's risk is reduced based on the MYRP,
20 but I see it as now they're just basically even with
21 the rest of the country or the rest of the proxy group.

22 So it's not that I don't see the MYRP being
23 helpful for the Company. I see it as being relatively
24 the same as what is going on in other parts of the

1 country.

2 Q. Can we agree that the Proxy Group includes
3 entities that are spanning many states?

4 A. Yes.

5 Q. Some of those states do not have multiyear?

6 A. If you look at my proxy group -- and I agree
7 that some don't. And I think I have it in -- I have it
8 in my rebuttal testimony, but I also have it in a data
9 request. I don't know which one I should bring up.
10 But I'll bring up my testimony. Let me find it.

11 (Witness peruses document.)

12 Okay. So you look at page 40 of my direct --
13 my rebuttal testimony, I talk about -- I talk about
14 identifying multiyear rate plans that are common in the
15 state of California, in which California Water,
16 obviously, is California. American States Water is
17 California. California American Water is in there
18 also.

19 And then you talk about fully forecasted
20 future test years, which are in Iowa, Tennessee,
21 Virginia, Pennsylvania, and New York. And that goes --
22 and that subsumes the market prices of Essential's
23 largest-by-far water utility, Aqua Pennsylvania. It
24 also subsumes York. Even though I don't have it in my

1 rebuttal testimony, it's in my direct testimony. And
2 also Essential Utilities and all of the other ones.

3 So while they do cover several states, the
4 majority of those states and the majority of the
5 customers underneath the service territories of the
6 proxy group have some sort of, if not fully forecasted
7 forward test years, multiyear rate plans. And then, to
8 a lesser extent, the distribution and improvement
9 charges.

10 Q. I think my point was a little more narrow
11 than that, which is, some component of the companies in
12 your proxy group, some component of their income comes
13 from states -- South Carolina -- where there is no
14 multiyear?

15 A. I don't think any water company represented
16 in this proxy group has operations in South Carolina.

17 Q. Is -- well -- yeah. Is Blue Granite? Is
18 Blue Granite in South Carolina?

19 A. That's Utilities, Inc., and they're not in my
20 proxy group.

21 Q. Okay. But we can agree that some parts of
22 your proxy groups are in states that don't have
23 multiyears and --

24 A. I mean -- go ahead.

1 Q. With your caveat.

2 The second thing is some of the companies in
3 your proxy group also have unregulated activities,
4 correct?

5 A. Yes, but it -- we have gone through the
6 selection criteria.

7 And if it helps the Commission, I could
8 provide the regulated net operating income and assets
9 attributable to regulated water service for the proxy
10 group companies that show that the average assets and
11 NOI are somewhere around -- in upwards and in excess of
12 80 percent regulated water.

13 Q. That means a fifth of their -- just using
14 your rough numbers, a fifth of their activity comes
15 from unregulated activities?

16 A. Rough numbers. But 80 percent is
17 substantially -- it's a substantial number. And both
18 me and Mr. Hinton use them as a gauge for a pure-play
19 water company.

20 Q. Carolina Water is entirely regulated,
21 correct?

22 A. That's absolutely right.

23 Q. There was some discussion yesterday of a
24 paper by -- I don't know if it's Mr. or Dr. Zepp.

1 A. Dr. Zepp.

2 Q. Dr. Zepp. Thank you.

3 You would agree with me that Dr. Zepp thought
4 that the inability to borrow money could be the cause
5 of the differences in the -- in Dr. Wong's study?

6 A. That is a part of it, yes.

7 Q. And we know, from yesterday's testimony
8 between you and I, that Mr. Drennan in this case had
9 said that having access to capital investment to meet
10 crucial funding needs was an advantage of Carolina
11 Water being part of Corix?

12 A. That may be true, but they're also not rated,
13 so they're not -- they don't have significant access to
14 capital compared to all of the other -- all of the
15 other companies in the proxy group, which is at least
16 rated by S&P or Moody's.

17 Q. So is Mr. Drennan incorrect that it doesn't
18 have access to capital?

19 A. It has access to capital, but it doesn't have
20 the access to capital that the publicly -- the rated
21 companies of the Proxy Group have.

22 Q. I would like to talk about the methods that
23 you used and Mr. Hinton used to evaluate and come to
24 the ROE figure. And we talked about DCF?

1 A. Yes, sir.

2 Q. Okay. And I think that you performed, on
3 page 20 of your testimony, you sort of fixed
4 Mr. Hinton's math and came up with 10 to 10.8 percent
5 as being the DCF range.

6 A. And you're looking at?

7 Q. Page 20.

8 A. (Witness peruses document.)

9 The illustration would be on DWD-2R, if
10 that's -- that would coincide with that page 20,
11 correct?

12 Q. I know one of them does. I've just forgotten
13 the number off the top of my head.

14 A. Okay. Yeah, I'll see if I can't point you to
15 it.

16 (Witness peruses document.)

17 Yes. It looks -- it looks like it's 2R. And
18 then let me turn to page 22 so then we're looking at
19 everything in context.

20 Q. Okay. So this is where you sort of said,
21 "Hey, if we did things the way I think they should be
22 done, it'd come in at 10 to 10.8."

23 That's on -- that's on -- this is rebuttal
24 testimony, page 20, that area. Also on D --

1 Schedule DWD-2R, correct?

2 A. Yes, sir.

3 Q. And that's what you're telling the Commission
4 is, "Okay, I've done Mr. Hinton's method and I've done
5 it the way I think it should be done."

6 A. Well, it's not I think -- well, the -- yes.
7 You and I went over for some length talking
8 about the appropriateness of historical growth rates
9 and their applicability in the DCF analysis.

10 I have provided significant evidence that
11 shows that EPS -- projected EPS growth rates is a
12 superior measure in the DCF, and I also discussed how
13 analysts use historical data to inform their analysis.
14 In this case -- so that was the -- I guess the first
15 three -- the first -- the second -- Columns 2, 3, and 4
16 are the EPS growth rates.

17 The next three columns are because the
18 indicated ROEs from those DCF models are less than the
19 marginal cost of debt. And that is a nonsensical
20 number, because equity being behind -- in the back of
21 the line for investors in a case of a liquidation, it
22 would automatically be more risky and require a higher
23 rate of return.

24 So if you look at -- if an investor looks at,

1 for instance, Middlesex Water, and they're A-rated
2 bonds, and you could get an A-rated bond in October at
3 5 1/4 percent, and you have a DCF that indicates
4 4 percent, it just doesn't make any sense. That debt
5 would be -- you would be getting more money for debt
6 investment than an equity investment at this time, or
7 ever.

8 Q. And I'm gonna use that Middlesex Water, if
9 you don't mind. If you'll look at 2R?

10 A. Yes, sir.

11 Q. Value Line -- the column that says "Value
12 Line" says 4.5 and then 2.7. Did I read those correct?

13 A. Those are the growth rates, yes.

14 Q. Yeah. And you're saying it's non- -- those
15 are nonsensical?

16 A. No. The fallout -- so the last two columns,
17 the 4.0 percent indicated rate of return and the
18 4.9 percent indicated rate of return, are both
19 nonsensical because they are under the marginal cost of
20 debt.

21 Q. I understand.

22 A. Okay.

23 Q. The last -- the Yahoo indicated ROE and
24 average indicated ROE, the far right columns of 2R --

1 A. Yes, sir.

2 Q. -- are 4.0.

3 So you used the EPS. And the E there stands
4 for "earnings," right?

5 A. Yes, sir.

6 Q. So when you applied your methodology using
7 earnings only, you came up with a nonsensical answer
8 for Middlesex Water Company?

9 A. Yes. And if you look at -- if you look at my
10 updated numbers, or if you look at my direct testimony,
11 if you look at the ROE indicated using the CAPM in the
12 risk premium model, you'll see, if you take a look at
13 Schedule DWD-1R, page 11, you'll see an 11.12 PRPM
14 result for Middlesex. And then if you look at --

15 (Witness peruses document.)

16 -- DWD Schedule 1R on page 26, with the CAPM
17 analysis, you see Middlesex Water indicated ROE of
18 11.26.

19 So you have risk premium and CAPM results
20 which are eerily similar, but a DCF result that is
21 nonsensical, in my opinion and the opinion of most
22 people.

23 Q. Your method focuses on earnings?

24 A. Yes.

1 Q. It doesn't focus on dividends per share, book
2 value per share, those sorts of mechanisms?

3 A. That's true. And I have explained that in
4 pages 16 through 19. Well, 16 through 20.

5 But I guess the key point would be, if it was
6 important to investors that DPS and EPS growth rates
7 were important in doing DCF analysis, they would be
8 published -- expected ones would be published in
9 investor journals or things like that, where you don't
10 see it anywhere other than Value Line.

11 You can look and you can see that there are
12 several long-term earnings growth rate -- earnings
13 growth rates from analysts across many different
14 platforms, including Yahoo and Zacks and S&P Global and
15 things like that. And you don't see expected DPS
16 growth rates. You don't see expected BVPS growth
17 rates. Which means that they're discounted in the eyes
18 of the investor.

19 Q. Does that not ignore that some investors very
20 much care about the dividends they receive from their
21 stocks?

22 A. Well, like I said, there's several academic
23 articles that I showed that EPS growth rates were the
24 superior measure. And Mr. Hinton provided no evidence

1 that investors rely on DPS or BVPS in his testimony.

2 Q. Well, he used it. And also he used Value
3 Line, which is a pretty common thing, isn't it?

4 A. I agree with that, but I -- I use Value Line
5 too. But he doesn't -- he doesn't -- he doesn't
6 justify or support his evidence that DPS and BVPS are
7 valid inputs to a DCF model.

8 Q. The -- that's the main difference in your
9 calculations, is you're ignoring the dividends being
10 paid --

11 A. No.

12 Q. -- and the historical nature?

13 A. No.

14 Q. Okay.

15 A. So -- so the difference is that I'm not --
16 I'm not ignoring dividends being paid, because you grow
17 the dividends and you use the dividend growth -- you
18 use the earnings growth rate to grow the dividends,
19 right? And earnings drive share price. Okay?

20 So the disconnect between me and
21 Mr. Hinton -- I think we apply the model the same. Him
22 and I just disagree to the extent that historical
23 and -- historical data and BVPS and DPS -- which are
24 Book Value Per Share and Dividends Per Share, and I'm

1 sorry I didn't define that earlier -- that he thinks
2 that they're appropriate. I do not. I provide
3 evidence that my measure is appropriate. He does not.

4 Q. I understand.

5 I'd now like to talk about the risk premium
6 methods. And I think both of you used a risk premium
7 method in this case.

8 A. That's right. And I generally agree with his
9 application of the model. And using the current
10 interest rates and then the full -- the case-by-case
11 basis as opposed to the year-by-year basis, we came up
12 with the same number, which is 9.88.

13 So I agree with the way he does his -- well,
14 the theory behind his model. And while I disagree with
15 some of his inputs, our results are comparable in this
16 instance.

17 Q. Not just comparable, but literally identical,
18 9.88.

19 A. With using -- using current measures, yes.
20 Using projected measures, I have 10.12. But yes,
21 you're right, exactly the same number. And that's what
22 I just said.

23 MR. FREEMAN: If you'll pause, if I
24 could have the Commission's indulgence for a

1 moment.

2 COMMISSIONER CLODFELTER: Yes, sir.

3 (Pause.)

4 MR. FREEMAN: Mr. D'Ascendis, I'd like
5 to end on that note of agreement between you and
6 Mr. Hinton.

7 THE WITNESS: Isn't that great?

8 MR. FREEMAN: Thank you.

9 COMMISSIONER CLODFELTER: Redirect?

10 MR. ALSON: The Company has no redirect.

11 Thank you.

12 COMMISSIONER CLODFELTER: All right.

13 With that, we'll see if Commissioners have
14 questions. Anyone?

15 (No response.)

16 COMMISSIONER CLODFELTER: Commissioner
17 Hughes?

18 Looks like you're gonna make your plane,
19 Mr. D'Ascendis.

20 THE WITNESS: Thank you, everybody.
21 I'll see you in January, I guess. Happy holidays
22 to everybody.

23 COMMISSIONER CLODFELTER: And to you.

24 You are excused. Thank you for testifying.

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THE WITNESS: Thank you.

COMMISSIONER CLODFELTER: Ms. Sanford?

Mr. Alson?

MS. SANFORD: One second.

COMMISSIONER CLODFELTER: Certainly.

(Pause.)

MS. SANFORD: Thank you, Commissioner Clodfelter. We call Company witness Dante DeStefano, please.

COMMISSIONER CLODFELTER: Left hand on the Bible, right hand up.

Whereupon,

DANTE DESTEFANO,

having first been duly sworn, was examined and testified as follows:

COMMISSIONER CLODFELTER: Thank you. Please be seated.

(Whereupon, the prefiled rebuttal testimony of Dante M. DeStefano was copied into the record as if given orally from the stand.)

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Dante M. DeStefano. My business address is 500 W. Monroe
3 Street, Suite 3600, Chicago, Illinois 60661-3779.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Director of Regulatory Affairs for the subsidiaries of Corix Infrastructure
6 Inc. ("CII").

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND?**

9 A. I have been employed by a subsidiary of CII since October 2018, starting in
10 the role of Financial Planning and Analysis Manager, then Director of FP&A.
11 In these roles, I was responsible for state and regional financial analysis
12 activities, budgeting, forecasting, and regulatory matters. I graduated from
13 Rutgers University with a Major in Accounting and am a Certified Public
14 Accountant in the State of New Jersey. Prior to joining CII, I was employed
15 by American Water for 10 years - first as a Senior Accountant in the
16 Accounting Department for two years, then in the Rates and Regulatory
17 Department for eight years. During my last eight years with American Water,
18 my duties consisted of preparing and assisting in regulatory filings and
19 related activities for the Eastern Division. My responsibilities included
20 preparing work papers and exhibits, providing testimony in support of rate
21 applications and other regulatory filings, and addressing rate and tariff

1 related matters. I also assisted with preparation of multi-year budgets and
2 other budget modeling responsibilities.

3 **Q. WHAT ARE YOUR DUTIES WITH CII?**

4 A. As Director of Regulatory Affairs, I am responsible for supporting CII's
5 regulatory activities by providing leadership and oversight of the regulatory
6 performance of the operating companies and managing standards,
7 strategies, and procedures across CII's subsidiaries.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. The purpose of my testimony is to respond to the positions of the Public
11 Staff in its direct testimony filed in this Docket, particularly as they relate to
12 Carolina Water Service, Inc. of North Carolina's ("CWSNC" or the
13 "Company") requested Water and Sewer Investment Plan ("WSIP").

14 **I. RESPONSES TO THE PUBLIC STAFF DIRECT TESTIMONY**

15 **Q. PLEASE DESCRIBE THE WSIP REQUESTED IN THIS DOCKET BY**
16 **CWSNC.**

17 A. After the enactment of N.C. Gen. Stat. § 62-133.1B (the "Statute"), and the
18 resulting Rule R1-17A adopted by the North Carolina Utilities Commission
19 ("Commission" or "NCUC"), the Company filed a general rate case on July
20 1, 2022. This Application includes a proposed WSIP covering three

1 forecasted Rate Years, with Rate Year 1 starting on April 1, 2023, and Rate
2 Year 3 ending on March 31, 2026.

3 **Q. WHAT IS THE STANDARD FOR APPROVAL BY THE COMMISSION**
4 **FOR A PROPOSED WSIP?**

5 A. Per N.C.G.S. § 62-133.1B(b), “the Commission may approve a Water and
6 Sewer Investment Plan proposed by a water or sewer utility only upon a
7 finding by the Commission that the plan results in rates that are just and
8 reasonable and are in the public interest.”

9 **Q. DOES THE PUBLIC STAFF AGREE THAT THE COMPANY’S**
10 **PROPOSED WSIP IS IN THE PUBLIC INTEREST?**

11 A. No. The Public Staff, through the joint testimony of John R. Hinton, Charles
12 M. Junis, Kuei Fen Sun, and Fenge Zhang (the “Joint Testifiers”) cite
13 several concerns related to the Company’s WSIP request, as well as other
14 factors, that result in their determination that the Company’s proposed
15 WSIP is not in the public interest. I will address these concerns in my
16 testimony.

17 **Q. THE JOINT TESTIFIERS CLAIM THE WSIP RESULTS IN SUDDEN**
18 **SUBSTANTIAL RATE INCREASES TO CUSTOMERS. DOES THE**
19 **COMPANY AGREE WITH THIS CHARACTERIZATION?**

20 A. No. The Joint Testifiers make this determination by comparing the historic
21 test year base rate case (“Base Case”) proposed increase to the Rate Year

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1 1 and then to the cumulative increases of the WSIP. This is not a
2 reasonable comparison. The Base Case is derived from a historic test year
3 ended March 31, 2022, with certain known and measurable adjustments.
4 Rate Year 1 was designed to be representative of the Company's
5 operations in that Rate Year (ending March 31, 2024), and likewise through
6 Rate Year 3 [See N.C.G.S. 62-133.1B(b)]. Simply put, the costs reflected
7 in the WSIP years capture significant capital investments and other
8 reasonable and prudent expense projections that are not within the scope
9 of the Base Case. For example, WSIP Rate Year 1 includes \$43.3 million
10 of capital investment beyond that included in the Base Case, and \$85.8
11 million of investment is included through the end of the WSIP in total. The
12 Company also notes that, as current rates were set on a historic test year
13 basis in its prior rate case in Docket W-354 Sub 384 ("Sub 384"), the
14 transition in this filing from a historic basis to a forward-looking basis will
15 naturally result in a broader capture of the Company's actual ongoing costs,
16 and therefore it is not unreasonable that the WSIP Rate Year 1 increase is
17 larger than the Base Case, let alone the cost of service reflected in Rate
18 Year 3 proposed revenues. The Joint Testifiers concede that the Rate
19 Years capture increases in costs and investments beyond the Base Case,
20 on page 10 of their testimony. These pro-forma forecasts are fully
21 consistent with the WSIP statute and associated rules, and should be
22 expected in any WSIP filing that reflects a transition from the historic test

1 year construct. Of course, determination of a "sudden substantial" rate
2 increase is subjective and within the NCUC's discretion, per the Statute.

3 **Q. THE JOINT TESTIFIERS NOTE THAT THE COMPANY'S UPDATE**
4 **FILING ON SEPTEMBER 19, 2022 ("UPDATE") SHOWS INCREASED**
5 **REVENUE REQUIREMENTS COMPARED TO THE ORIGINAL FILED**
6 **AMOUNTS. DOES THIS CREATE A CONCERN REGARDING THE**
7 **REVENUE INCREASE REQUESTED OR THE WSIP REQUEST**
8 **GENERALLY?**

9 A. No. The Company has provided notice to its customers of the original rate
10 request, and is limited to those thresholds for the final rate increases, as
11 well as the 5% cap on incremental increases for Rate Years 2 and 3 per the
12 Statute. In other words, the Company has not revised its requested revenue
13 increases in this proceeding. Therefore, the Update revenues being higher
14 than the original request does not "further exacerbate the sudden
15 substantial rate increases to customers" for the WSIP.

16 **Q. IN CLAIMING THE COMPANY'S WSIP IS NOT IN THE PUBLIC**
17 **INTEREST, THE JOINT TESTIFIERS CLAIM THAT THE COMPANY**
18 **FILED A WSIP APPLICATION THAT IS "ESSENTIALLY FOUR TIMES**
19 **LARGER THAN A TRADITIONAL RATE CASE". DOES THE COMPANY**
20 **AGREE WITH THIS CHARACTERIZATION?**

1 A. No. While the Company filed a Base Case and a WSIP with three Rate
2 Years, as required per the Statute and Rule R1-17A, as the Joint Testifiers
3 note, "CWSNC made adjustments to the Company's proposed Base Year
4 expense amounts to arrive at its proposed revenue requirements for each
5 of the three Rate Years. The adjustments included inflation and an annual
6 growth factor for many Operation and Maintenance Expense (O&M)
7 adjustments, and specific factors for select O&M adjustments. A few
8 expenses, such as purchased water and sewer, rate case expense, and
9 excess deferred income taxes (EDIT), were not subject to any increment
10 factors." In contrast, for a Base Case – traditionally, and in the current filing
11 - the fully historical test year is provided and numerous category-specific
12 analyses are completed, with resulting pro-forma adjustments that are
13 consistent with the nature of each category. Logically, reviewing four full
14 historical test years, as is implied by the Joint Testifiers' claim, would entail
15 a significantly higher level of effort and resourcing for all parties than the
16 WSIP case presented to the NCUC. Indeed, this is one of the many benefits
17 of the WSIP compared to the filing of more frequent general rate cases.
18 The use of broad adjustments such as inflation and growth factors and the
19 lack of adjustment from the Base Case for certain items points to a filing
20 that is not nearly four times larger in its level of detail and, therefore, in the
21 level of effort required for review.

1 **Q. THE JOINT TESTIFIERS DISCUSS THE ANNOUNCEMENT THAT**
2 **CORIX INFRASTRUCTURE INC. (CWSNC'S ULTIMATE PARENT) AND**
3 **SOUTHWEST WATER COMPANY ("SOUTHWEST") INTEND TO**
4 **COMBINE THEIR RESPECTIVE WATER AND WASTEWATER**
5 **BUSINESSES (THE "TRANSACTION"). PLEASE DESCRIBE THE**
6 **TRANSACTION.**

7 A. The Transaction will combine CII's water, wastewater, and related
8 businesses with SouthWest's water and wastewater businesses. When
9 completed, CII and an affiliate or affiliates of CII will own 50% of Corix
10 Infrastructure (US) Inc.'s ("Corix US") stock; and (b) an affiliate of
11 SouthWest's parent will own the remaining 50% of Corix US's stock. Corix
12 US indirectly owns Corix Regulated Utilities (US) Inc., which directly owns
13 CWSNC. In summary, the merger takes place well above CWSNC's
14 operating company level.

15 **Q. DOES CWSNC EXPECT IMMEDIATE CHANGES IN COSTS RELATED**
16 **TO THE MERGER?**

17 A. No. As noted by the Joint Testifiers, all of the parties to the Transaction
18 expect the closing of the Transaction to be at the end of 2023, with many
19 steps still to be cleared to reach final consummation of the transaction.
20 Additionally, as was communicated to Public Staff after the August 29, 2022
21 announcement, CII and SouthWest have committed that there will be no
22 involuntary reductions in force related to the transaction for 12 months after

1 the closing. As the Joint Testifiers state, "the integration of merged
2 companies does not occur overnight." CII expects the integration process
3 to unfold methodically and systematically over time. This process will
4 include in-depth analyses of integration benefits and costs and
5 development of plans for integrating systems, operations, processes, and
6 resources. These activities will be focused on the corporate and support
7 functions areas, as SouthWest does not have North Carolina operations
8 which could impact the current and future local operations of CWSNC. As
9 the Joint Testifiers note, integration costs tend to precede any achieved
10 financial benefits (See Joint Testimony, p. 16 lines 2-4). In summary, based
11 on 1) the estimated timeline for closing the Transaction, 2) the lack of
12 involuntary reductions in force for the following 12 months, 3) the
13 expectation that integration activities will generate costs before benefits are
14 achieved, and 4) the numerous protections afforded to customers with an
15 approved WSIP, the Company believes the Public Staff's concerns
16 regarding unaccounted for savings within the WSIP period are not
17 supported.

18 **Q. IS CWSNC REQUESTING RECOVERY OF ANY INTEGRATION OR**
19 **TRANSACTION-RELATED COSTS IN THE PROPOSED WSIP?**

20 A. No. Although the Transaction announcement occurred after the filing of the
21 WSIP but before the Company's Update, the Company has not identified
22 and is not seeking recovery of Transaction-related costs, nor any related

1 deferred accounting mechanism, as part of the WSIP. Therefore,
2 customers will not be subject to any integration cost impacts for the length
3 of the proposed WSIP, which is not a protection afforded to customers
4 without the WSIP in place.

5 **Q. CAN YOU COMMENT ON THE US WATER ALLIANCE AND**
6 **ENVIRONMENTAL FINANCE CENTER REPORT (“EFC REPORT”)**
7 **CITED BY THE JOINT TESTIFIERS, AND THE QUOTE EXCERPTED IN**
8 **THEIR TESTIMONY?**

9 A. Yes. The context of the excerpted quote more directly relates to the
10 consolidation of local, often struggling utilities with larger, more stable
11 utilities within the region or State. Struggling utilities are more likely to have
12 an "infrastructure investment backlog", and consolidation with a larger,
13 adjacent or interconnected utility increases the potential to identify and
14 attain "avoided future costs". An example of an avoided future cost in this
15 context is a struggling utility avoiding a rehab of an existing water treatment
16 plant by, after acquisition by an adjacent utility, interconnecting with the
17 acquirer's water supply, thereby avoiding the rehab cost. This was the case
18 in the NJ American Water-Haddonfield acquisition cited in the EFC Report.
19 SouthWest does not own subsidiaries operating in North Carolina;
20 therefore, the Transaction cannot, yield the “avoided future cost” savings or
21 releasing of infrastructure investment backlogs in North Carolina. Indeed,
22 it appears after review that every case study in the EFC Report relates to

1 utilities being combined for regionalization or other local operational
2 benefits - again, this is not relevant to CWSNC in the Transaction.

3 **Q. PLEASE DESCRIBE THE JOINT TESTIFIERS RATIONALE THAT**
4 **DENIAL OF THE COMPANY'S WSIP WILL ALLEVIATE CONCERNS**
5 **RELATED TO THE TRANSACTION.**

6 A. The Joint Testifiers allege that denial of the WSIP 1) ensures rates will not
7 be established using data and figures that are immediately obsolete, 2)
8 avoids misaligned cost allocations, overstated personnel costs and
9 foregone efficiencies, 3) allows the Company to avail itself of the
10 Consumption Adjustment Mechanism and WSIC/SSIC, and 4) promotes
11 judicial economy by avoiding a potential reopening of the WSIP.

12 **Q. WOULD THE WSIP RATES BE ESTABLISHED BASED ON DATA THAT**
13 **IS "IMMEDIATELY OBSOLETE"?**

14 A. No. As noted above, the Transaction is not expected to close until the end
15 of 2023, SouthWest and CII have stated that there will be no involuntary
16 reductions in force related to the Transaction for 12 months beyond closing,
17 the integration process will be a systematic and methodical process that will
18 occur over an extended period of time, and SouthWest has no North
19 Carolina operations that would impact CWSNC's local operations. Each of
20 these characteristics of the Transaction results in no identifiable impact to
21 CWSNC's costs for the foreseeable future.

1 **Q. WOULD THE WSIP "MISALIGN COST ALLOCATIONS" OR**
2 **"OVERSTATE PERSONNEL COSTS AND FOREGONE**
3 **EFFICIENCIES"?**

4 A. No. Based on the details enumerated above, the Company expects to
5 operate as it currently does for some time after the Transaction closes,
6 including decisions involving cost allocations and personnel.

7 **Q. DO THE CONSUMPTION ADJUSTMENT MECHANISM AND WSIC/SSIC**
8 **PROVIDE SUFFICIENT SUPPORT FOR THE COMPANY'S COST**
9 **RECOVERY?**

10 A. In comparison to the WSIP, and with regard to implications of the
11 Transaction, no, they do not. First, the Company has not requested the
12 establishment of a Consumption Adjustment Mechanism in the current
13 case, and Public Staff has maintained that the Company's consumption per
14 customer per month has been stable (See Darden testimony, page 22,
15 lines 9-12). Second, utilization of the Consumption Adjustment Mechanism
16 and WSIC/SSIC do not capture impacts that the Joint Testifiers believe may
17 arise from the merger. That is, these mechanisms focus on consumption
18 trends and certain capital investments, respectively. Thus, the areas of
19 potential impact cited by the Joint Testifiers - governance, IT, human
20 resources, customer service, financials systems, and personnel - would be
21 outside the scope of these mechanisms and therefore their availability
22 without a WSIP is immaterial to the implications of the Transaction.

1 **Q. ARE THE JOINT TESTIFIERS CORRECT THAT THE WSIP WOULD**
2 **REDUCE JUDICIAL ECONOMY?**

3 A. No. In fact, denial of the WSIP may increase filings and resources needed
4 by the Public Staff, the Commission, and the Company, and thereby
5 increase costs to customers. While the NCUC has the discretion to reopen
6 an approved WSIP, it may also provide guidance in that process to limit the
7 scope of review of the approved WSIP to focus on the impacts of a discrete
8 change in the business. This is also an option available to the Commission
9 in the traditional regulatory construct, as was recently done in NCUC
10 Dockets No. M-100 Sub 138 and Sub 148. However, the WSIP requires
11 the utility to produce periodic reports of financial condition, as well as be
12 subject to a detailed Annual Review process and Earnings Test. Both
13 provide significant protection to customers, and neither is mandated with
14 traditional rate cases. Therefore, on the one hand, if the WSIP is not
15 approved and the Company realized significant net savings from the
16 Transaction, the Commission would not have a timely and detailed view of
17 such savings materializing, nor a mechanism such as the Earnings Test to
18 potentially pass interim net benefits to customers. On the other hand, if the
19 WSIP is not approved and Company does not attain financial benefits -
20 which, again, would not be expected for some time after the final rates in
21 the current case are authorized - the Company may need to file more
22 frequent base rate cases to recover the costs forecast in the WSIP

1 application. This outcome would forego a significant benefit of the WSIP -
2 judicial economy, i.e., less frequent rate proceedings - and increases from
3 the associated filing and processing costs that would follow, as well as
4 foregoing the customer protection of the 5% cap on Rate Year 2 and 3
5 increases. Additionally, if the Company were to file more frequent traditional
6 rate cases in order to identify and return any net savings from the
7 Transaction to customers, such savings would inevitably be offset
8 (potentially completely so) by the costs of filing the traditional cases. In
9 summary, when comparing the risk of the NCUC desiring to reopen the
10 WSIP against the alternative of more frequent base rate cases, customer
11 protections are clearer and better defined for the former, and the costs to
12 customers would be higher with the latter.

13 **Q. DO YOU AGREE WITH THE JOINT TESTIFIERS' RECOMMENDATION**
14 **OF ESTABLISHING A REGULATORY LIABILITY TO CAPTURE**
15 **BENEFITS OF THE TRANSACTION DURING THE WSIP PERIOD?**

16 A. No. As noted above, the Company would be subject to periodic financial
17 reporting requirements and a detailed Annual Review and Earnings Test
18 under a WSIP, and no such reporting or earnings test would be required
19 without the WSIP in place. In addition, as the integration process is
20 expected to incur costs in order to effectuate potential future benefits, the
21 Company posits that if any savings are generated, the costs to achieve such

1 savings should likewise be considered to reasonably account for the full
2 impacts of the integration.

3 **Q. THE JOINT TESTIFIERS CLAIM "THE MERGER WILL MATERIALLY**
4 **ALTER FINANCIAL, OPERATIONAL, AND MANAGEMENT ASPECTS**
5 **OF THE COMPANY". DOES PUBLIC STAFF PROVIDE ANY SUPPORT**
6 **OR JUSTIFICATION FOR THIS CLAIM?**

7 A. No. As previously summarized, the Transaction is not expected to close
8 until the end of 2023, CII and SouthWest have stated that there will be no
9 involuntary reductions in force related to the Transaction during the first 12
10 months after closing, the integration process will be a systematic and
11 methodical process that will occur over an extended period of time, and
12 SouthWest has no North Carolina operations that would impact CWSNC's
13 local operations.

14 **Q. WITH REGARD TO INFLATIONARY PRESSURES, DO YOU AGREE**
15 **WITH THE JOINT TESTIFIERS THAT AN ADJUSTED HISTORIC TEST**
16 **YEAR AND ABILITY TO UPDATE EXPENSES THROUGH THE**
17 **EVIDENTIARY HEARING HELP INSULATE THE COMPANY FROM THE**
18 **HARM OF UNRECOVERABLE INCREASES IN COSTS?**

19 A. No, I do not. The Company's forecasts utilize a certain Inflation Factor
20 through Rate Year 1, and then modify this assumption to a lower
21 incremental inflation rate for Rate Years 2 and 3. Public Staff agrees with

1 the Company that certain inflationary adjustments are needed to account
2 for reasonable and prudent cost increases beyond the costs reflected in the
3 historical test year and the Company's Update to the Base Case. Utilizing
4 historic, actual activity does not likewise account for changes in costs in the
5 future, regardless of the rate of inflation currently in place or to be realized
6 in the future. The historic test year approach will consistently fail to account
7 for incremental inflationary increases, and, absent economic deflation, will
8 result in rates that lag behind the ongoing costs a utility will experience,
9 resulting in more frequent rate case filings to capture the increased costs.
10 This shortcoming of the historic test year model is precisely what the Statute
11 addresses in allowing for the utilization of a WSIP.

12 **Q. DO THE JOINT TESTIFIERS CONSIDER THE BALANCE OF**
13 **PROTECTION AFFORDED BY THE EARNINGS TEST AND ROE**
14 **BANDS?**

15 A. No. While customers would receive refunds on excess earnings above the
16 high-end band, the Company is not afforded a symmetrical protection
17 should earnings fall below the low-end band due to any number of factors,
18 such as higher inflation than forecasted, increased capital costs, and
19 increased interest rates for debt borrowing. Without a WSIP, customers
20 also have less protection against overearning, as no Annual Review
21 process, let alone an Earnings Test with refunds for overearning, exists in
22 a traditional rate case.

1 The Joint Testifiers' concerns regarding the variance between
2 forecasted and actual results are not uniquely applicable to the current
3 WSIP filing - any forecast comes with potential for variance. Despite this
4 fact, the North Carolina legislature supported the reasonableness of the
5 WSIP practice of setting rates based on forecasts, with numerous
6 protections codified by the Statute and NCUC rules to balance and reflect
7 public interest considerations. Indeed, the Joint Testifiers' claim that a
8 WSIP should not be approved "until economic conditions have stabilized"
9 renders the Statute ineffectual, and should not be a basis for denial of a
10 WSIP in the current case.

11 **Q. DID PUBLIC STAFF EXPAND ON THEIR POSITION THAT THE RETURN**
12 **ON EQUITY BANDS FURTHER PROTECT THE COMPANY'S REVENUE**
13 **SUFFICIENCY, IN THE CONTEXT OF CUSTOMER GROWTH AND**
14 **CONSUMPTION TRENDS?**

15 A. Yes. In response to Discovery Request #8 posed to the Public Staff from
16 the Company, Public Staff provided an example scenario: "if the Company's
17 earnings by rate division fall below the low-end of the banding approved by
18 the Commission, the Company is allowed to file a rate case for that rate
19 division prior to the end of the Water and Sewer Investment Plan (WSIP).
20 The Company is not locked into earnings below the low-end if its operations
21 and management result in lower than authorized banded earnings."

1 **Q. DOES THE COMPANY AGREE WITH THIS RATIONALE?**

2 A. No. While it is true that the Company can file a base rate case if its earnings
3 fall below the low-end band, this is also precisely the case in the traditional
4 rate case process, regardless of the availability of a WSIP. As the Company
5 experiences lower earnings after a change in rates, it is allowed to file a
6 new base rate case. In other words, that dynamic is not changed by
7 adopting a WSIP, except in one important way – the Company is required
8 to file Annual Reviews and Earnings Tests to provide a formal
9 demonstration of its earnings, in advance of filing a new base rate case.
10 [See R1-17A(g)(3)(b)]. This feature is yet another protection afforded the
11 Company’s customers under an approved WSIP. By virtue of this WSIP
12 provision, the Company’s “revenue sufficiency” is not “further protected” by
13 virtue of adopting a WSIP and related return on equity bands. In addition,
14 without a WSIP, the Company could utilize a Consumption Adjustment
15 Mechanism, which would provide revenue stability that is not afforded the
16 Company in a WSIP.

17 **Q. PUBLIC STAFF BELIEVES WSIP RATE YEAR 1 SHOULD BEGIN MAY**
18 **1, 2023. DO YOU AGREE?**

19 A. No. The Joint Testifiers cite the Company's proposed rules in Docket W-
20 100 Sub 63 as the basis for this determination. However, the NCUC, in its
21 final order establishing rules for the WSIP, adopted the following language:
22 “The first Rate Year shall begin no later than the first day of the month which

1 includes the end of the statutory suspension period under G.S. 62-134."
2 [See R1-17A(c)(1)]. The Public Staff confirmed in discovery that the end
3 of the statutory suspension period, based on the Company's filing date of
4 July 1, 2022, would be April 27, 2023. See Public Staff Response to DR 1-
5 39. Therefore, the "first day of the month which includes the end of the
6 statutory suspension period" would be April 1, 2023. This is the date
7 selected by the Company to start Rate Year 1 of the WSIP. Consequently,
8 the Public Staff's recommendation that the NCUC refrain from establishing
9 an EMF to account for a possible delay in the implementation of WSIP rates
10 beyond April 1, 2023, is moot.

11 **Q. THE JOINT PETITIONERS INTERPRET THE PROVISION FOR A 5%
12 CAP IN 62-133.1B(C) TO BE APPLICABLE TO RATE DIVISIONS,
13 RATHER THAN TO THE COMPANY'S TOTAL REVENUE
14 REQUIREMENT. IS THIS IS A REASONABLE INTERPRETATION?**

15 **A.** No. The Joint Testifiers state that the Statute does not specify what is
16 meant by the word "utility" in the context of the 5% cap's applicability to "the
17 utility's North Carolina retail jurisdictional gross revenues". However, other
18 North Carolina statutes are illuminating on this point. The phrase "utility's
19 North Carolina retail jurisdictional gross revenues" is used in multiple other
20 statutes, including N.C.G.S. §'s 62-133.2 and 62-110.8, which reference an
21 "electric public utility's total North Carolina jurisdictional gross revenues".
22 N.C.G.S. § 62-110.9 in turn relies on the definition of "electric public utility"

1 in N.C.G.S. § 62-3(23). In N.C.G.S. § 62-3(23), there are many examples
2 of a defined "public utility". None of these definitions are applied or
3 reconcilable to the level of a water or sewer Rate Division, but the most
4 instructive are N.C.G.S. § 62-3(23)(a) which references a "person, ...
5 organized under the laws of this State ...", and N.C.G.S. § 62-3(23)(b),
6 which speaks to "any person producing, generating or furnishing any of the
7 foregoing services to another person for distribution to or for the public for
8 compensation." The use of "person" would be directly applicable to
9 CWSNC in many other contexts per Chapter 62 and NCUC rules, but not
10 applicable for a Rate Division - a term which does not appear at all in
11 Chapter 62. Indeed, the paragraph following the above claim in the Joint
12 Testifier's testimony uses "utility" and "the "Company" interchangeably,
13 acknowledging this is the most practical interpretation.

14 **Q. ARE THERE OTHER REASONS TO ADOPT THE DEFINITION OF**
15 **"UTILITY" AS REFERRING TO THE COMPANY, INSTEAD OF A RATE**
16 **DIVISION?**

17 A. Yes. In Rule R1-17A(b)(4), the Commission states that "utility" shall mean
18 "a water, sewer, or water and sewer public utility". This correlates with the
19 definition cited above in Chapter 62. In addition, from a practical standpoint,
20 the Commission has indicated it is favorable to tariff consolidation, in
21 particular in the consolidation of various CWNSC predecessor entities and
22 companies into the current four Rate Divisions. Should the 5% cap be

1 applied to a Rate Division level, it would make future consolidation of Rate
2 Divisions practically impossible, as limits on the ability to increase one or all
3 Rate Divisions would undermine the ability to make progress in
4 consolidating rates.

5 **Q. ARE THE ABILITIES TO FILE RATE DIVISION-SPECIFIC RATE CASES**
6 **AND SHIELDING COST INCREASES ACROSS RATE DIVISIONS, AS**
7 **DESCRIBED BY THE JOINT TESTIFIERS, PRACTICAL CONCERNS**
8 **WITH THE COMPANY'S ABOVE INTERPRETATION?**

9 A. No. While Rate Division-specific rate cases can be filed in theory, doing so
10 would tend to be counterproductive and costly. It would be contra to the
11 main goal of the Company's rate consolidation under the CWSNC name,
12 which results in more efficient rate filings on a periodic basis and reduced
13 redundancy of information, limiting resource-intensive preparation and filing
14 costs. Additionally, the Joint Testifiers' concern about shielding each Rate
15 Division from the costs of another Rate Division is not relevant, as the
16 Company has separate revenue requirements set based on the stand-alone
17 cost of service for each Rate Division. The Company has not proposed or
18 reflected in its WSIP a sharing of costs across Rate Divisions that diverts
19 from the stand-alone cost of service.

20 **Q. THE JOINT TESTIFIERS CLAIM "WITH THE COMPANY'S PROPOSED**
21 **BANDS, RATEPAYERS BEAR ALL THE RISK OF GETTING IT WRONG.**

1 **THIS IS TRUE BECAUSE RATEPAYERS DO NOT HAVE A MECHANISM**
2 **TO REQUIRE THE COMMISSION TO RE-EVALUATE AN APPROVED**
3 **WSIP." IS THIS TRUE?**

4 A. No. As noted above and multiple times in Joint Testifiers' testimony, the
5 NCUC can reopen the WSIP for good cause. In any event, the Commission
6 has the authority to set bands and an authorized return on equity that it
7 believes to be in the public interest and fair to the utility.

8 **Q. THE JOINT TESTIFIERS CLAIM RULE R1-17A GIVES THE PUBLIC**
9 **STAFF 15 DAYS TO REVIEW AN ANNUAL REVIEW FILING**
10 **SUBMITTED BY THE COMPANY. IS THIS CORRECT?**

11 A. No. The Public Staff has up to 4 months after the Rate Year has ended to
12 submit its Annual Review report and recommendations. With the
13 Company's requirement to file the Annual Review within 45 days of the end
14 of the Rate Year (or May 15, 2024 for the proposed Rate Year 1), this
15 provides, at minimum, 77 days for the Public Staff to issue its findings – May
16 16 to July 31. [See Rule R1-17A(g)(1) and (2)].

17 **Q. DOES THE PUBLIC STAFF RECOMMEND OTHER CONTROLS ON THE**
18 **ANNUAL REVIEW PROCESS?**

19 A. Yes. The Public Staff recommends the Company "utilize the same
20 methodology to calculate rate base, revenues, and expenses as used to
21 calculate those items in a general rate case."

1 **Q. DOES THE COMPANY AGREE WITH THIS RECOMMENDATION?**

2 A. The Company agrees that the Annual Review, and the Earnings Test that
3 coincides with it, should align with the revenue requirement determination
4 method for the Rate Year. However, the Public Staff's methodology, as
5 described more fully in the rebuttal testimony of Mr. Schellinger, has not
6 been designed to be "representative of the utility's operations". [See
7 N.C.G.S. § 62-133.1B(b)]. The Company's actual results for Rate Year 1
8 will include 1) actual customer consumption and customer counts (billing
9 determinants) over the 12 month period, as they vary from time to time
10 within that period, 2) actual prudent expenses, inclusive of the ebbs and
11 flows of seasonal, one-time/non-recurring, and newly required activity, 3)
12 capital investments that occur intermittently yet incrementally over the
13 course of the 12 month period, and the resulting month-to-month changes
14 in accounts such as Depreciation Expense, Accumulated Depreciation,
15 Utility Plant In-Service, CIAC, and many others. Reviewing and measuring
16 the Company's earnings based on the actual income statement results and
17 13-month average of rate base balances, as is the required Annual Review
18 filing format per Rule R1-17A(g)(1), will be a fair and reasonable method for
19 assessing the Company's earned return. This is precisely why the
20 Company organized and prepared its WSIP revenue requirement inputs
21 with such a method, which best aligns with the expected actual results in a
22 particular Rate Year.

1 The Company acknowledges that pro-forma adjustments are
2 allowed. However, these adjustments should be limited to policy and
3 practice-driven adjustments to actual amounts (“North Carolina
4 ratemaking”), such as the removal of non-recoverable items (e.g., lobbying
5 costs) and CWSNC-specific adjustments such as the imputation of 25%
6 ERC weighting for availability customers, when applicable. The Earnings
7 Test should not include ratemaking adjustments used in the setting of rates
8 for a traditional historic test year rate case, such as normalization,
9 annualization, or trending. These adjustments would only result in adding
10 noise and variance to the Company's actual operating and financial
11 experience for the year, diluting the reasonability of any test of earnings. If
12 such broad, ratemaking-style adjustments are allowed, the resulting
13 earnings will not fairly represent the Company’s activity and could lead to
14 conclusions unfair to the Company and its customers. Therefore, the
15 method used for both setting WSIP Rate Year revenue requirements and
16 measuring the forecasts to actual results should be well aligned.

17 **Q. DOES THE COMPANY HAVE A POSITION ON THE REFUNDING OF**
18 **EXCESS EARNINGS IN THE ANNUAL REVIEW PROCESS?**

19 A. The Company will follow the statutory and Commission Rule R1-17A
20 requirements when making refunds to customers, when applicable.

1 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITION REGARDING THE**
 2 **BENEFITS THE PROPOSED WSIP GENERATES FOR CUSTOMERS,**
 3 **COMPARED TO A BASE RATE CASE.**

4 A. As enumerated above in my testimony, the below Table 1 summarizes the
 5 benefits the Statute, NCUC Rule R1-17A, and the Company's resulting
 6 proposed WSIP provide to customers, in comparison to a traditional base
 7 rate case.

TABLE 1

TOPIC	WSIP	TRADITIONAL BASE RATE CASE
Judicial Economy	Including rate recovery requests for multiple years in a single filing	Separate base rate recovery requests, with interim mechanism rate requests
Judicial Economy	Using inflation and other growth factors to forecast costs	Separate filings with fully historical test years, update filing, line-item-level pro-forma analyses
Judicial Economy	Streamlining filing and processing costs	Incremental costs for each base rate case and interim mechanism filings
Transaction Impacts	Provides protection from Transaction costs during plan term	Can file new base rate case during proposed plan term
Revenue/Cost Alignment	Best aligns Company costs with revenues	Bases rates on historical costs, increasing lag in inflationary and capital-intensive environment
Rate Certainty	Known, annual rate changes	Multiple potential, unknown rate changes from base rate cases and interim mechanisms
Rate Certainty	5% cap on revenue increases for Rate Years 2 and 3	No cap on revenue increases

Transparency and Monitoring	NCUC may reopen pre-defined WSIP to modify for discrete changes identified	Lack of mandated reporting provides more limited ability to track utility activities
Transparency and Monitoring	Periodic reporting and detailed Annual Review process	No follow-on reporting requirements by statute or rule
Transparency and Monitoring	Required Earnings Test with refunds for excess earnings	No follow-on earnings test or refund requirements
Transparency and Monitoring	Asymmetrical/customer-leaning earnings band implications	No earnings bands or related refund requirements
Transparency and Monitoring	Cannot file a base rate case without demonstrating lower-than band earnings	Can file a new base rate case without advance notice, review, or determination of low earnings
Transparency and Monitoring	Establishes multiple performance metrics to monitor and review the Company's performance on a going basis	No mandated performance monitoring

1
2 **Q. PLEASE SUMMARIZE THE SUPPORT FOR CWSNC'S ASSERTION**
3 **THAT THE PROPOSED WSIP IS IN THE PUBLIC INTEREST.**

4 A. The Company believes its proposed WSIP is in the public interest. The
5 proposed WSIP has conformed appropriately to all statutory rules and
6 requirements and makes reasonable and prudent forecasts of revenues,
7 expenses and capital investments. The proposed WSIP requests rates that
8 are both fair and reasonable to the customer and the Company, reasonably
9 ensure the continuation of safe and reliable service, will not result in sudden
10 substantial rate increases to customers, and are representative of the
11 Company's operations over the plan term. These customer protections

1 provide significant transparency, monitoring, controls, and limitations on the
2 Company that alleviate the concerns presented by the Public Staff related
3 to the Transaction. As importantly, they provide the Public Staff and NCUC
4 multiple avenues to monitor the Company's activity over the plan term.

5 The Company understands that the WSIP is a change in ratemaking
6 process from the traditional basis in North Carolina under the NCUC.
7 However, the Company's proposal best adheres to the Statute and Rules
8 established by the State Legislature and NCUC, respectively, and it aligns
9 the interests of the Company's customers, the Commission, and the
10 Company's stakeholders in setting rates in this proceeding.

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

13 A. Yes.

14 **II. CONCLUSION**

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

16 A. Yes, it does. However, I reserve the right to update or amend this testimony
17 upon receipt of additional relevant data or other information that may
18 become available.
19

1 DIRECT EXAMINATION BY MS. SANFORD:

2 Q. Would you state your name, business address,
3 and title for the record, please.

4 A. Yes. My name is Dante DeStefano. I am the
5 director of regulatory affairs for Corix
6 Infrastructure, Inc. My business address is 500 West
7 Monroe Street, Suite 3600, Chicago, Illinois.

8 MS. SANFORD: Thank you.

9 Mr. DeStefano is available for cross.

10 COMMISSIONER CLODFELTER: All right. I
11 don't have any cross reserved, but we'll see if
12 there is any cross.

13 (No response.)

14 COMMISSIONER CLODFELTER: No cross?

15 MS. HOLT: We have no cross.

16 COMMISSIONER CLODFELTER: Okay.

17 Questions from Commissioners for

18 Mr. DeStefano. Anyone?

19 (No response.)

20 COMMISSIONER CLODFELTER: Thank you for
21 taking the oath.

22 THE WITNESS: Thank you.

23 COMMISSIONER CLODFELTER: That was the
24 heavy lift for the day. And I think you'll make

1 your flight as well. You may be excused.

2 MS. SANFORD: He may make Dylan's
3 flight. Share a cab.

4 COMMISSIONER CLODFELTER: All right.

5 MS. SANFORD: Our next witness is
6 Don Denton.

7 COMMISSIONER CLODFELTER: All right.
8 Mr. Denton.

9 And if you'll ready yourself for the
10 oath as well.

11 Whereupon,

12 DONALD H. DENTON, III,
13 having first been duly sworn, was examined
14 and testified as follows:

15 COMMISSIONER CLODFELTER: Thank you.
16 (Exhibit DHD-1 was identified and
17 admitted into evidence.)

18 (Whereupon, the prefiled direct
19 testimony, prefiled rebuttal testimony
20 and prefiled settlement testimony of
21 Donald H. Denton, III were copied into
22 the record as if given orally from the
23 stand.)

24

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Donald H. Denton III, and my business address is 4944
4 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Senior Vice President, East Operations for Corix; I oversee the
7 operations of Carolina Water Service, Inc. of North Carolina (“CWSNC” or
8 “Company”), Blue Granite Water Company (“BGWC”) in South Carolina,
9 and Sunshine Water Services in Florida, all of which are subsidiaries of
10 Corix Regulated Utilities (“CRU”). In addition, I serve as President of
11 CWSNC and BGWC.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND.**

14 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of
15 Technology as well as an Executive Masters in Business Administration
16 from Queens University in Charlotte, North Carolina. I have worked in the
17 utility sector for over 24 years in multiple capacities ranging from
18 engineering to strategic planning and major project execution.

19 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF CAROLINA WATER**
20 **SERVICE, INC. OF NORTH CAROLINA?**

1 A. I am responsible for the Company's regulated water and sewer operations
2 in North Carolina, including facility operations, finance, business
3 development, safety, compliance, regulatory affairs, and customer service.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. My testimony provides a summary of the Company's overall case to the
7 North Carolina Utilities Commission ("NCUC" or "Commission). In this case,
8 CWSNC requests Commission approval of a three-year Water & Sewer
9 Investment Plan ("WSIP"). While much of the information we provide in this
10 application is similar to that which we have provided in previous traditional
11 rate requests, we are presenting an important policy decision for the
12 Commission in this case: whether it is in the public interest to implement a
13 WSIP (i.e., one in which all capital and O&M are recovered for a period of
14 time greater than one year) at this time. We believe it is, and we believe our
15 application provides the basis for the Commission to make the public
16 interest filing contained in the aggregate in N.C. Gen. Stat. ("N.C.G.S.") §
17 133.1B(b). The WSIP is a key tool that provides benefits for our customers,
18 policymakers, regulators, other stakeholders, and the Company as we
19 move into the future. These benefits are particularly important in light of the
20 persistent need for increasing investment in infrastructure, which drives
21 sequential rate cases on one-to-two year cycles.

1 To support our request and inform the Commission's decision in this
2 matter, my testimony outlines how the Company plans to respond to the
3 needs of our customers, our system, and policymakers over the next three
4 years. I discuss in some detail the industry landscape that is driving
5 changes in our business particularly with respect to the level of investment
6 required. We believe it is important for the Commission and stakeholders to
7 understand our plans and the strategies and considerations behind those
8 plans. We believe understanding our rate request from this perspective
9 confirms that a WSIP is the appropriate ratemaking construct going forward.

10 More specifically, my testimony addresses the following:

- 11 • the Company's plans to meet our customers' and
12 stakeholders' needs for the next three years;
- 13 • the evolving business landscape in which we operate;
- 14 • the Company's WSIP proposal; and
- 15 • the structure of our case.

16 My testimony also introduces the other witnesses testifying in support of the
17 Company's Application.

18 **Q. PLEASE DESCRIBE THE CWSNC SERVICE TERRITORY IN NORTH**
19 **CAROLINA.**

20 **A.** CWSNC is a public utility subject to the jurisdiction of the Commission,
21 providing water and sewer utility service to 34,565 water customers and

1 21,469 wastewater customers, located in 38 counties across
2 North Carolina.

3 **Q. WHY DOES CWSNC NEED A RATE INCREASE AT THIS TIME?**

4 A. Our need for rate relief stems primarily from the significant capital
5 investments since the Company's last rate case, which were made to
6 provide reliable and compliant water and sewer services to our customers.
7 Since the last rate case, the Company will have made over \$17.3 million in
8 capital investment in North Carolina that is not yet reflected in rates. These
9 investments were needed to replace and rehabilitate aging infrastructure
10 and to modernize and increase efficiencies in the Company's systems. They
11 are discussed in more detail in Mr. Hill's testimony. The investments
12 include, but are not limited to: various wastewater collection system
13 improvements, lift station replacements in Sapphire Valley, water supply
14 improvements in Stewarts Ridge, Mount Mitchell, and Whispering Pines, as
15 well as leak detection and repair in Fairfield Harbour, Sherwood Forest, and
16 Connestee Falls.

17 Without adequate rate relief, CWSNC's ability to continue to provide
18 safe, reliable, and efficient water and sewer utility services to its customers
19 and to meet its financial obligations will be impaired, which would inevitably
20 adversely affect our service and our customers. In addition, the Company's

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1 access to needed capital on reasonable terms could be constrained, which
2 would also redound to the detriment of our customers.

3 More specifically, under present rates, despite recent rate
4 adjustments and with good management, CWSNC is not able to cover its
5 operating costs and earn a reasonable return on its investments in the
6 Company's systems. During the Test Year (the 12 months ended March 31,
7 2022, also referred to sometimes as the "Base Year), CWSNC experienced
8 an overall rate of return per its books for its combined water and sewer
9 operations of 5.59%. The Company's pro forma Test Year overall returns
10 are 5.68% for water operations and 5.50% for wastewater operations.
11 These rates of return are well below CWSNC's currently-authorized overall
12 rate of return on rate base of 7.14%, which is based on an authorized rate
13 of return on common equity of 9.40%, established by the Commission in its
14 2021 Rate Case Order in Docket No. W-354, Sub 384.

15 CWSNC's current balance sheet and income statement are
16 contained in the Company's NCUC Form Application. CWSNC's balance
17 sheet is attached to the NCUC Form Application as Schedule C, and the
18 Company's income statement is attached to the NCUC Form Application as
19 Schedule B. The Company's current rate base and rate of return are shown
20 on Schedule A of the NCUC Form Application.

21 **Q. PLEASE SUMMARIZE THE COMPANY'S RATE REQUEST.**

1 A. CWSNC is proposing a three-year WSIP requesting an average retail rate
2 increase of 19.71% in 2023 (Plan Year 1, assuming rates are suspended),
3 4.99% in 2024 (Plan Year 2), and 4.64% in 2025 (Plan Year 3), when
4 compared to current rates. We base this increase on a revenue deficiency
5 of approximately \$4,069,409 million in the Test Year, a revenue deficiency
6 of approximately \$8,847,255 in Plan Year 1, a revenue deficiency of
7 approximately \$2,682,335 in Plan Year 2, and a revenue deficiency of
8 approximately \$2,620,032 in Plan Year 3. The revenue deficiencies are
9 based on a 10.45% return on equity (“ROE”) during the Base Year and
10 10.70% ROE during the WSIP periods.

11 **Q. WHY IS THE COMPANY PROPOSING A WSIP?**

12 A. CWSNC recognizes that in response to customer demands, aging systems,
13 and environmental requirements, the business environment for water and
14 wastewater utilities is changing. We believe that utilities need to be even
15 more responsive to the changing needs of customers as well as meet all
16 regulatory requirements. We believe a multi-year rate plan such as the
17 WSIP is a key tool that allows us to be more efficient and thus more
18 successful in the evolving water and wastewater industry landscape. While
19 some changes in our industry present challenges and require that we adapt,
20 other changes, such as technology advancements, provide the opportunity
21 to make some significant progress – in cleaner water, more resilient

1 systems, and expanded options for our customers. In my testimony, I outline
2 the Company's business plan and goals, discuss the changes in our
3 industry that are informing our plans, and explain the need for an adequate
4 runway to execute our plans, which we believe a multi-year rate plan such
5 as the proposed WSIP affords.

6 I then discuss our three-year WSIP proposal. I outline the key
7 aspects of our request, including the drivers for our proposed rate
8 increases, and explain the ways in which our request complies with the
9 North Carolina WSIP statute and rules and results in just and reasonable
10 rates.

11 **Q. HAS THE COMPANY PROPOSED AN ALTERNATIVE TO ITS THREE-**
12 **YEAR RATE REQUEST?**

13 A. Yes. While we believe a WSIP is the best option for the Company and its
14 customers, CWSNC also proposes an alternative – a traditional base rate
15 case based on the Test Year results.

16 **Q. HAS THE COMPANY TAKEN ANY STEPS TO NARROW THE ISSUES**
17 **IN THIS CASE?**

18 A. Yes. The underlying philosophy we took with structuring our rate request
19 was to avoid litigating issues that have been previously resolved by the
20 Commission in a consistent manner. An example of this includes proposing
21 substantially the same rate design that was agreed to by the Public Staff

1 and approved by the Commission in our last rate case. We are hopeful this
2 approach will allow parties to avoid re-litigating issues.

3 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

4 A. The remainder of my testimony discusses:

- 5 • how the Company plans to meet customer and stakeholder
6 needs for the next three years;
- 7 • the evolving industry landscape in which all of us are
8 operating, which not only provides challenges but also
9 opportunities for improvements;
- 10 • our proposed WSIP, highlighting the aspects that provide
11 benefits to our customers, other stakeholders, and the
12 Company as we move into the future; and
- 13 • the structure of the case and an introduction of the Company's
14 witnesses.

15 **II. RESPONDING TO CUSTOMER NEEDS AND ENVIRONMENTAL**
16 **REQUIREMENTS**

17 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

18 A. In this section of my testimony, I provide background information about the
19 Company, describe the primary business strategies and decisions that
20 informed the Company's actions over the last several years, and explain
21 our plan to meet our customers' and other stakeholders' needs and
22 expectations going forward.

1 **Q. WHAT IS THE COMPANY'S PLANNED FOCUS FOR THE NEXT THREE**
2 **YEARS?**

3 A. CWSNC needs to continue to focus on capital investments that address the
4 health of our water and wastewater system assets. However, our customers
5 and policymakers are also focused on important issues that the Company
6 will need to assess. For example, we are closely following the ongoing
7 dialog around per- and polyfluoroalkyl substances ("PFAS") and
8 perfluorooctanoic acid ("PFOA") and new federal and/or state thresholds.
9 We are also looking at investments that will enhance customers'
10 experience. Taken together, continued investment in our systems to
11 maintain reliability and environmental compliance and investing to enhance
12 our customers' experience provide broad benefits to our customers and the
13 state.

14 **Q. CAN YOU PLEASE SUMMARIZE CWSNC'S CORPORATE PURPOSE**
15 **AND VISION?**

16 A. CWSNC's purpose is to "help people enjoy a better life and communities
17 thrive." Our vision is to "be the preferred utility delivering solutions our
18 customers want."

19 **Q. HOW DOES CWSNC PLAN TO ACHIEVE THIS PURPOSE AND**
20 **VISION?**

- 1 A. We plan to achieve our purpose and vision by accomplishing the following
2 strategic goals:
- 3 • Operational and Service Excellence: Develop our people,
4 strengthen our processes, and invest in our technology to
5 support a high-performance organization and a culture of
6 continuous improvement.
 - 7 • Connected Customers and Stakeholders: Communicate and
8 engage with our team members, customers, and communities
9 with relevant and timely billing, service, and operational
10 information to improve stakeholder awareness and
11 collaboration.
 - 12 • Strong Financial Performance: Manage and plan business
13 costs, pursue growth, and mitigate enterprise risks in a
14 prudent manner to engender trust and confidence in our
15 financial responsibility and ensure access to needed capital.
 - 16 • Engaged People and Culture: Attract and retain top talent to
17 deliver dependable, timely, courteous, and quality services to
18 meet the needs of our customers and communities.

19 **Q. WHAT IS THE BENEFIT OF THESE GOALS?**

- 20 A. For our customers, these goals help assure safe, reliable, compliant, and
21 affordable utility service while at the same time offering new options. For

1 the Company, our plan charts a path for the near future while maintaining
2 our flexibility to adapt to emerging circumstances. Our plan is intended to
3 position all stakeholders well for the near and long-term changes expected
4 in the water and wastewater industry.

5 **III. THE CHANGING INDUSTRY LANDSCAPE**

6 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

7 A. In this section of my testimony, I explain the changes that are occurring in
8 the industry and the value of our WSIP in this context.

9 **Q. WHAT IS DRIVING THE INDUSTRY LANDSCAPE TO CHANGE?**

10 A. There are several factors that I will highlight:

- 11 • the need to invest, by replacing aging infrastructure and doing
12 so in a way that meets customer needs and protects against
13 physical and cyber-based threats;
- 14 • changing customer expectations, including expectations of
15 new services, new choices, and greater efficiency in their own
16 water use;
- 17 • the need for industry consolidation; and
- 18 • emerging environmental and health-related policy changes.

19 **Q. HOW IS AGING INFRASTRUCTURE IMPACTING THE WATER AND**
20 **WASTEWATER INDUSTRY?**

1 A. The industry continues to face the consequences of aging infrastructure.
 2 According to the American Society of Civil Engineers 2021 Infrastructure
 3 Report Card, "Nationwide, the drinking water and wastewater pipes in the
 4 ground are on average 45 years old, while some systems have components
 5 more than a century old."¹ As the nation's water and wastewater
 6 infrastructure ages, utilities are faced with a need to invest in either
 7 extending the lives of the existing assets or retiring and replacing aging
 8 assets. Additionally, as technology becomes more sophisticated and cyber
 9 security continues to be of paramount concern within the industry, ensuring
 10 that digital technology is up to date is a focus nationwide, across all utilities
 11 sectors.

12 **Q. IS THE COMPANY'S EXPERIENCE SIMILAR?**

13 A. Yes. While not as old as the national average, CWSNC's systems are
 14 experiencing the impacts of age. Table 1 illustrates this, as shown below.

15 **Table 1**

Asset Type	Average Age (Yrs)
Gravity Mains	37.5
Pressure Mains	31
Manholes	38
Lift Stations	30
Water Main	32
Water Tanks	31.5
Water Hydrants	32.5
Water System Valves	37.5
Water Specialty Valves	38

¹ <https://infrastructurereportcard.org/wp-content/uploads/2020/12/Wastewater-2021.pdf>.

1
2 In addition, as part of a modernization strategy, the Company is
3 digitizing many of its systems to achieve operational improvements and gain
4 efficiencies. New Supervisory Control and Data Acquisition (“SCADA”)
5 technologies are being deployed across our systems as well as new
6 Advanced Metering Infrastructure (“AMI”). These technologies will increase
7 safety, provide for more efficient and reliable operations, and provide
8 customers with more options such as alerts and more information about
9 their consumption.

10 **Q. THE NEXT FACTOR YOU IDENTIFIED IS CHANGING CUSTOMER**
11 **EXPECTATIONS. WHAT IS HAPPENING AT AN INDUSTRY LEVEL?**

12 **A.** Customer expectations are evolving rapidly in all areas involving utility
13 services and products. The following are becoming important
14 considerations for our customers:

- 15 • Emerging technologies – rapidly evolving technologies such
16 as AMI are drawing customer interest.
- 17 • Efficiency – customer interest in more efficient water and
18 wastewater appliances and equipment continues to grow.
- 19 • Improved communications – as other service provider-
20 oriented industries present enhanced customer service
21 experiences, consumers expect improved virtual services and
22 tools from utilities.

1 Customer sentiments towards their water and wastewater utilities are
2 changing and utilities must evolve to meet these expectations. Customer
3 feedback indicates a desire for more personalized service with multiple
4 options. Customer engagement efforts have been enhanced through the
5 development and implementation of very intentional community outreach
6 efforts. To enrich our customers' experiences, we implemented multiple
7 communication channels including Facebook, Twitter, Instagram, and
8 LinkedIn social platforms as well as bill inserts, phone calls, and face-to-
9 face meetings. The Company designed and now maintains 14 community-
10 specific WordPress sites (i.e., free web pages) that provide our customers
11 updates on projects, water saving tips, storm preparedness, frozen pipes
12 prevention tips, and drought information. In addition, the Company
13 maintains our customer portal application called MyUtilityConnect for our
14 customers. Using this online tool, customers can: (1) pay their bills on the
15 go; (2) elect to receive service notifications through the application via text,
16 phone, and/or email; (3) monitor their water usage through the application:
17 and (4) stop and start service. The Company uses social media outlets to
18 inform customers and Homeowner Associations ("HOAs") about this tool
19 and provides information via bill inserts. To initially access the application,
20 customers can visit our website or search for MyUtilityConnect in the Apple
21 App Store or Google Play.

1 **Q. HOW IS THE COMPANY RESPONDING TO CHANGING CUSTOMER**
2 **EXPECTATIONS?**

3 A. CWSNC continues to evaluate and expand our products and services to
4 meet growing customer expectations. For example, in our last case, we
5 introduced the concept of a rebate program to incentivize conservation. We
6 seek to continue that program in this case.

7 **Q. HOW WOULD CONSOLIDATION IN THE INDUSTRY BE BENEFICIAL?**

8 A. According to the North Carolina Department of Environmental Quality
9 (“NCDEQ”) there are more than 5,200 regulated public water systems in
10 North Carolina². Rising cost of regulatory compliance, aging infrastructure,
11 unequal allocation of federal and state resources between private and
12 municipal systems, along with the need for economies of scale, has left
13 many water and wastewater system owners unable to efficiently operate
14 and maintain their systems. Consolidation provides multiple benefits,
15 including:

- 16 • Lower overheads/greater economies of scale
- 17 • Access to a broader talent pool
- 18 • Greater financial stability
- 19 • Increased operational efficiencies
- 20 • Greater collective expertise across the Company.
- 21

² <https://deq.nc.gov/about/divisions/water-resources/about-water-resources>.

1 **Q. YOU SPEAK OF CHANGING ENVIRONMENTAL POLICIES. WHAT**
2 **SPECIFIC ENVIRONMENTAL POLICIES ARE IMPACTING THE**
3 **INDUSTRY?**

4 A. The industry faces multiple emerging policies in the health and
5 environmental areas. The two most recent and impactful policy shifts
6 include the Revised Lead and Copper Rule and PFAS standards.

7 **Q. HOW DO THESE POLICY SHIFTS IMPACT CWSNC?**

8 A. Lead and Copper Rule

9 The Company has focused much attention on the new Lead and
10 Copper requirements. The new requirements will impact all facets of the
11 Company from communications and finance to operations and compliance.

12 The Company is currently utilizing its asset management system to
13 maintain and build out the existing service line inventory to include the
14 customer owned portion of the line. The Company has also developed a
15 plan to inventory the customer service lines in compliance with the Lead
16 and Copper Rule Revisions and in preparation for the October 2024
17 Compliance date. This includes a newly developed customer survey, input
18 from operations team members, and review of available data, both internal
19 and external to the Company, to aid in updating the database. The
20 Company is also in the process of developing Lead Service Line
21 replacement communication plans to customers and stakeholders.

1 PFAS Standards

2 The most recent development for per- and polyfluoroalkyl
3 substances (PFAS) per the U.S. Environmental Protection Agency's
4 ("EPA") reduction of the Health Advisory Limit ("HAL") will require the
5 Company to review its current process. Starting more than a year ago, the
6 Company voluntarily sampled every entry point for two specific PFAS
7 compounds, benchmarking the results of those tests against EPA's
8 established 70 ppt HAL. Using that HAL, CWSNC encountered only one
9 entry point that had detections above the 70 ppt threshold. The Company
10 was able to shut off the entry point and run the system with a secondary
11 supply source that met the 70 ppt HAL.

12 CWSNC will continue to closely monitor new developments and
13 guidance from state regulators and EPA on this issue.

14 **IV. THE VALUE OF A MULTI-YEAR RATE PLAN/WSIP**

15 **Q. HOW IS YOUR PRIOR DISCUSSION RELATED TO THE COMPANY'S**
16 **RATE REQUEST?**

17 **A.** As the industry changes, cost recovery requirements and opportunities
18 change, and ratemaking should change with it. Over the past decades,
19 North Carolina has made numerous modifications to our regulated utilities'
20 cost recovery mechanisms and methodologies. These have come in
21 recognition of changes in technologies, environmental and health

1 considerations, markets, and usage patterns. We believe that our proposed
2 three-year WSIP is the appropriate ratemaking construct in this
3 environment.

4 **Q. WHY IS A WSIP A BETTER NEXT STEP FOR RATEMAKING IN NORTH**
5 **CAROLINA THAN FILING FOR MORE FREQUENT RATE INCREASES?**

6 A. The Company appreciates that filing for a rate increase on an annual or
7 every other year basis is a model that can work. However, annual rate cases
8 are time-consuming and expensive for all involved and are an inefficient and
9 disruptive way to address sharp increases in infrastructure investment that
10 are known with a high degree of certainty and that are occurring year over
11 year, without cessation. More importantly, the Company believes a WSIP
12 provides the rate certainty to implement our business plan in a way that
13 benefits customers.

14 **Q. DOES A WSIP PROVIDE FOR SUFFICIENT REGULATION AND**
15 **OVERSIGHT OF THE COMPANY?**

16 A. Yes. A WSIP provides regulators and stakeholders with more insight into
17 our business planning and thus a different but arguably more in-depth and
18 engaged type of regulation and oversight than standard rate cases do, with
19 their line-item reviews of historical investments.

20 We note the Commission also always has the ability to monitor the
21 impacts of a WSIP on all stakeholders and to judge whether the utility

1 continues to meet key goals and is earning a reasonable, but not excessive,
2 return. Notably, the WSIP statute and rules contain important safeguards
3 for customers, such as the 5% annual limit on rate increases, the earnings
4 review process, and potential refunds resulting from the earnings review
5 process.

6 **Q. HOW CAN CUSTOMERS AND OTHER STAKEHOLDERS BENEFIT**
7 **FROM THIS APPROACH?**

8 A. A multi-year rate plan can:

- 9
- 10 • Provide predictability and moderate the pace of rate
11 increases. A WSIP provides customers with predictable rate
12 increases during the plan period while providing the utility with
13 a strong incentive to manage its business within the level of
14 revenues provided.
 - 15 • Provide a longer-term view of costs and investments for
16 customers, regulators, and stakeholders. A WSIP allows
17 customers and regulators a longer-term view of a utility's
18 investment and management plans and therefore encourages
19 a discussion about the utility's investment plans. We believe
20 this is of value when significant investments are on the short
21 and long-term horizon, as is the case with our aging
infrastructure. By comparison, a single test year model sets

1 rates for only the test year; the focus is on representative
2 expenditures and costs which limits insight into investment
3 cycles that span several years.

- 4 • Facilitate investments that support state policy goals. A WSIP
5 encourages investments consistent with the priorities of
6 regulators, policymakers, and customers. When a utility
7 outlines an investment plan consistent with the expectations
8 of regulators, policymakers, and customers, the utility should
9 receive stable and predictable rate recovery and earn its
10 authorized return so that it can execute the plan.
- 11 • Preserve the basic regulatory bargain between utilities,
12 regulators, and customers. A WSIP still allows for a full review
13 of the reasonableness of the utility's proposed rates, with
14 safeguards such as those I previously mentioned.

15 **V. THE COMPANY'S PROPOSED THREE-YEAR WSIP**

16 **A. Overview**

17 **Q. PLEASE SUMMARIZE THE COMPANY'S THREE-YEAR WSIP**
18 **REQUEST IN THIS PROCEEDING.**

19 A. The Company requests approval of a three-year WSIP, with a test year
20 consisting of the 12 months ended March 31, 2022 (the "Test Year" or "Base

1 Year”) and plan years of the 12 months ending March 31 of 2024, 2025,
2 and 2026 (“Plan Year 1,” “Plan Year 2,” and “Plan Year 3,” respectively).

3 **Q. WHAT IS THE FINANCIAL IMPACT OF THE COMPANY’S THREE-YEAR**
4 **REQUEST?**

5 A. The Company is requesting rate increases of \$8,847,255 million in 2023,
6 \$2,682,335 million in 2024, and \$2,620,032 million in 2025. Mr. Drennan
7 provides the revenue requirement schedules supporting this request.

8 **Q. CAN YOU SUMMARIZE THE TEST YEAR FINANCIAL DRIVERS?**

9 A. Yes. Mr. Drennan discusses the key drivers behind the Test Year revenue
10 deficiency and, collectively, they are represented in Figure 4 below. Capital
11 investment needs and increased operating costs are the primary drivers
12 contributing to the Company’s revenue deficiency. CWSNC plans to invest
13 over \$95 million through the WSIP period to replace and upgrade capital
14 infrastructure, which will increase the rate base by \$63.5 million (44.2%).
15 During this same period, Maintenance and General expenses are expected
16 to increase over \$5.5 million which is a 22% increase from the levels
17 recovered in Sub 384.

Figure 4
Test Year Revenue Deficiency Drivers

Rate Base	Base Case	WISP Year 1	WISP Year 2	WISP Year 3
Rate Base, Sub 400	153,516,370	175,956,742	192,830,044	207,218,331
Rate Base Approved in Sub 384	143,656,896	143,656,896	143,656,896	143,656,896
Recovery Deficit	(9,859,474)	(32,299,846)	(49,173,148)	(63,561,435)
%	-6.9%	-22.5%	-34.2%	-44.2%

Maintenance & General Expenses	Base Case	WISP Year 1	WISP Year 2	WISP Year 3
Maintenance & General Expenses, Sub 400	27,425,023	29,187,990	29,974,920	30,579,011
Maint. & Gen. Exp. Approved in Sub 384	25,070,999	25,070,999	25,070,999	25,070,999
Recovery Deficit	(2,354,024)	(4,116,991)	(4,903,921)	(5,508,012)
%	-9.4%	-16.4%	-19.6%	-22.0%

Q. WHAT ARE THE KEY FINANCIAL DRIVERS OF THE TEST YEAR DEFICIENCY?

A. While Mr. Drennan presents a detailed discussion of the Test Year revenue deficiency drivers, the primary significant drivers include:

- Investments to keep our systems operating reliably and in compliance with environmental requirements. Mr. Hill discusses our need to address certain aging infrastructure and to do so in a way that not only ensures reliable and compliant service for our customers but does so in a manner that meets customers' and policymakers' needs and expectations going forward.

- 1 • Investments in our information technology systems. We have
2 a need for increased investment in our information technology
3 infrastructure and assets to address the security, data, and
4 technology needs of the organization and our customers.
- 5 • Increased costs of business. We continue to experience
6 increased costs across our business. Some of those costs
7 relate in part to investments, such as property tax increases.
8 Others are for providing the compensation and benefits
9 needed to attract and retain the employees that provide our
10 customers with safe and reliable service; and, others relate to
11 inflation generally.

12 **Q. DO THE PLAN YEARS HAVE THE SAME REVENUE DEFICIENCY**
13 **DRIVERS AS THE TEST YEAR?**

14 A. Yes. Plan Years 1, 2, and 3 revenue deficiencies are heavily driven by
15 capital investments, replacing aging infrastructure, and addressing our
16 information technology needs. Mr. Drennan provides a schedule showing
17 the drivers for these years.

18 **Q. IS THE COMPANY PROPOSING ANY SIGNIFICANT RATE DESIGN**
19 **CHANGES AS PART OF ITS REQUEST?**

20 A. No.

1 **B. Basic Structure of the WSIP Request**

2 **Q. BEFORE EXPLAINING THE STRUCTURE OF THE COMPANY'S WSIP,**
3 **PLEASE DESCRIBE YOUR UNDERSTANDING OF THE NORTH**
4 **CAROLINA WSIP STATUTE AND RULES.**

5 A. The WSIP Statute, N.C.G.S. § 62-133.1B, authorizes the Commission to
6 approve three-year WSIPs, with annual rate changes, based on reasonably
7 known and measurable capital investments and anticipated reasonable and
8 prudent expenses, provided the Commission finds the WSIP results in rates
9 that are just and reasonable and in the public interest. In reviewing a WSIP
10 application under N.C.G.S. § 62-133.1(B), the Commission must consider
11 whether the water or sewer utility's application, as proposed: (1) establishes
12 rates that are fair both to the customer and to the water or sewer utility; (2)
13 reasonably ensures the continuation of safe and reliable utility services; (3)
14 will not result in sudden substantial rate increases to customers annually or
15 over the term of the plan; (4) is representative of the utility's operations over
16 the plan term; and (5) is otherwise in the public interest. Rate adjustments
17 under a WSIP may not exceed 5% of the preceding year's retail
18 jurisdictional gross revenues in plan years two and three. Rate adjustment
19 mechanisms authorized under N.C.G.S. §§ 62-133.12 or 62-133.12A³ must
20 be discontinued during the term of the WSIP. The Commission must

³ Water and Sewer System Improvement Charges and customer usage tracking rate adjustments, respectively.

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1 implement banding of authorized ROEs, any “overearnings” above the top
2 end of the ROE band must be returned to customers via bill credits, and the
3 utility must submit annual earnings filings to the Commission.

4 After the WSIP statute was passed into law, the Commission
5 undertook an investigation to develop the terms, conditions, and procedures
6 for multi-year rate plans (Docket No. W-100, Sub 63). At the conclusion of
7 that investigation, the Commission issued its January 7, 2022 WSIP Order,
8 which set out detailed filing requirements – specifically in new Rule R1-
9 17A(c) – and found, among other things:

- 10 • The utility must propose at least one performance metric in
11 each of the following areas: (1) operational compliance, (2)
12 customer service, (3) service reliability, and (4) workplace
13 health and safety.
- 14 • The utility must file quarterly earnings reports.
- 15 • The utility must file quarterly capital investment project status
16 reports.
- 17 • The utility must file quarterly reports on the number of
18 customers disconnected for nonpayment.
- 19 • The utility must file annual reports addressing earnings,
20 refunds/credits, performance metrics, rate base, etc.

1 **Q. WHEN THE COMPANY DEVELOPED ITS CURRENT REQUEST, DID IT**
2 **CONSIDER BOTH THE NC WSIP STATUTE AND THE COMMISSION'S**
3 **1/7/2022 WSIP ORDER, INCLUDING THE RULE CHANGES?**

4 A. Yes. Our rate request incorporates direction from both the WSIP statute and
5 the Commission's January 7, 2022 Order.

6 **Q. PLEASE DESCRIBE THE COMPANY'S OVERALL APPROACH AND**
7 **THE STRUCTURE OF ITS WSIP REQUEST.**

8 A. Our WSIP request utilizes a traditional test year format for the Test Year
9 and then incorporates planned capital investments for the Plan Years and
10 uses escalation factors (or forecasted costs) to project Operation &
11 Maintenance ("O&M") expenses for the Test Year Plan Years. Mr. Hill's
12 testimony discusses our capital plans for the Test Year and the Plan Years
13 in greater detail, and Mr. Drennan's testimony discusses our Test Year and
14 projected Plan Years O&M costs in greater detail.

15 **C. Walk Through of WSIP Request**

16 1. Test Year

17 **Q. HOW HAS THE COMPANY STRUCTURED THE TEST YEAR PORTION**
18 **OF ITS WSIP REQUEST?**

19 A. As Mr. Drennan discusses in detail, for the Test Year (the 12 months ended
20 March 31, 2022), we are using a traditional test year approach to rate
21 setting. This means we are relying on our actual test period results, adjusted

1 for known and measurable changes, to achieve representative Test Year
2 operations. This portion of our case is similar to past cases we have filed.

3 Additionally, as I previously noted, the Company is trying to avoid re-
4 litigating issues recently decided by the Commission or consistently decided
5 in the same manner by the Commission. Our intent with taking this
6 approach was to create an opportunity to have a focused constructive
7 dialogue regarding our WSIP proposal.

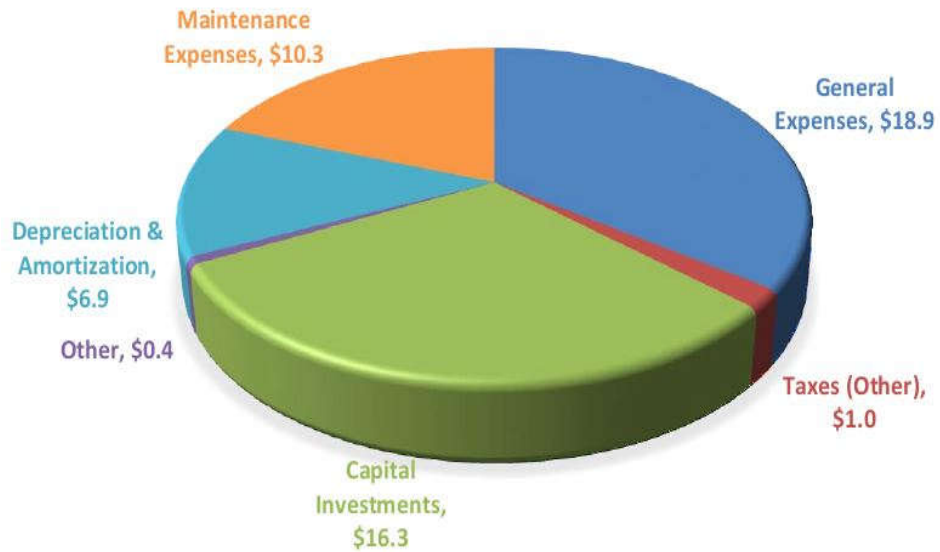
8 **Q. TURNING TO PLAN YEARS 1, 2, AND 3 (12 MONTHS ENDING MARCH**
9 **31 OF 2024, 2025, AND 2026), WHAT ARE THE MAIN DRIVERS FOR**
10 **REVENUE REQUIREMENTS IN THOSE YEARS?**

11 A. The key drivers for Plan Years 1, 2, and 3 are discussed by Mr. Drennan
12 and, collectively, are represented below in Figure 5.

1
2

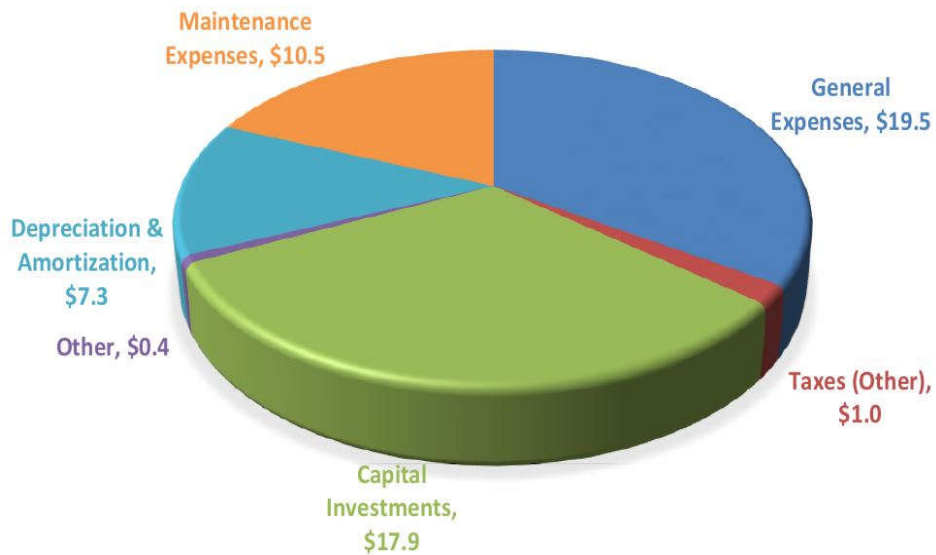
Figure 5
Plan Year 1, 2, and 3 Revenue Requirement Drivers

WSIP YEAR 1 REVENUE (\$53.7 MM)



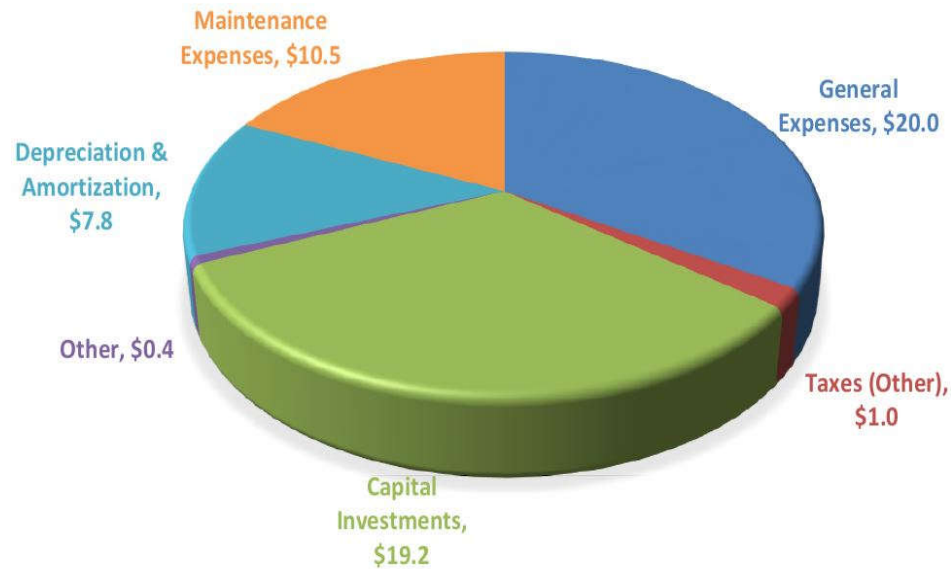
3

WSIP YEAR 2 REVENUE (\$56.6 MM)



4

WSIP YEAR 3 REVENUE (\$59.0 MM)



1

2 **Q. HOW HAS THE COMPANY STRUCTURED ITS REQUESTS FOR PLAN**
 3 **YEARS 1, 2, AND 3?**

4 A. For Plan Years 1, 2, and 3, the Company considered the revenue
 5 requirements associated with its full cost of service, including capital
 6 expenditures and O&M expense. Mr. Drennan further discusses the
 7 Company's approach, including the mechanics for constructing the revenue
 8 requirements of the three Plan Years. In my testimony below, I support the
 9 structure of the Plan Years from a policy perspective and further explain that
 10 the Company has met its burden to demonstrate that our WSIP proposal
 11 results in just and reasonable rates.

1 a. Capital Investments

2 **Q. HOW HAS THE COMPANY REFLECTED ITS EXPECTED CAPITAL**
3 **INVESTMENTS IN THE THREE-YEAR WSIP PLAN YEARS?**

4 A. We used our capital forecasts for the Plan Years to develop the capital cost
5 of service for the Plan Years. CWSNC has included its Capital Investment
6 Plan in Appendix 11 of rate filing application. CWSNC expects to place over
7 \$95 million of capital projects into service through the end of the WSIP plan
8 years.

9 **Q. WHY IS THIS A REASONABLE APPROACH?**

10 A. We believe it is a reasonable approach for several reasons. First, the WSIP
11 statute contemplates recovery in rates of reasonably known and
12 measurable capital investments. A capital project plan, such as that
13 included in this case, identifies reasonably known and measurable capital
14 investments.

15 Second, the Company's capital project planning process is iterative,
16 rigorous, and leads to capital plans that reasonably represent the
17 Company's investments during the forecasted period.

18 Third, while the Company acknowledges that not every forecasted
19 capital project will play out exactly as we currently envision, CWSNC will
20 pursue projects to accomplish the goals of the plan during the WSIP period.

1 **Q. HOW CAN THE COMMISSION BE ASSURED THAT THE COMPANY**
2 **WILL NOT OVER-COLLECT FOR ITS CAPITAL INVESTMENTS DURING**
3 **THE WSIP?**

4 A. The safeguards contained in the WSIP Rules – specifically the rate base
5 and earnings reporting, the refunds for “overearnings,” the 5% limit on
6 revenue increases for Plan Years 2 and 3, and the Commission’s ability to
7 modify the WSIP if necessary – will ensure that the Company will not over-
8 collect or over-earn during the WSIP. At the same time, the WSIP will
9 provide the Company with flexibility to manage its business and its capital
10 plans.

11 *b. Passage of Time*

12 **Q. DOES THE COMPANY’S THREE-YEAR WSIP PROPOSAL**
13 **INCORPORATE THE IMPACTS OF THE PASSAGE OF TIME?**

14 A. Yes. We developed our three-year WSIP request by using a full cost of
15 service model for the Plan Years. By using a full cost of service for the Plan
16 Years, we have captured all changes in plant balances, depreciation
17 expense, and accumulated depreciation during the Plan Years, and as a
18 result, the revenue requirement impacts of the passage of time.

19 *c. Operations and Maintenance*

20 **Q. HOW HAS THE COMPANY ADDRESSED O&M EXPENSES IN THE**
21 **PLAN YEARS?**

1 A. Our request to recover Plan Year O&M expenses was developed primarily
2 from price index factors provided by the Bureau of Labor Statistics. For
3 certain expense types, we have used our budgeted O&M expenses when
4 that is a more appropriate methodology. Mr. Drennan's testimony discusses
5 this in greater detail.

6 *d. Revenues and Margins*

7 **Q. DID THE COMPANY INCORPORATE ANY OFFSETTING REVENUES**
8 **THAT LOWER THE PLAN YEAR REVENUE REQUIREMENTS?**

9 A. Yes. By developing our Plan Year revenue requirements using a full cost of
10 service approach, we attempted to capture the full array of issues that
11 impact those revenue requirements – both items that increase and
12 decrease revenue requirements. Mr. Drennan discusses this further in his
13 testimony.

14 *e. Rate of Return*

15 **Q. DOES THE WSIP STATUTE ADDRESS TREATMENT OF A UTILITY'S**
16 **COST OF CAPITAL DURING THE TERM OF ITS PLAN?**

17 A. Yes. The WSIP statute specifically provides that the Commission must
18 establish a banding of authorized ROEs, with rates set at a midpoint within
19 that band. CWSNC is proposing a banding of 100 basis points above and
20 100 basis points below the authorized ROE.

1 **Q. IS THE COMPANY PROPOSING AN ADJUSTMENT TO ITS**
2 **REQUESTED 10.70 PERCENT ROE FOR THE PLAN YEARS?**

3 A. No. We are not proposing any adjustments to the requested 10.70% ROE
4 for each Plan Year. Our intent by proposing a fixed ROE for each Plan Year
5 is to limit the number of potentially contested issues in this proceeding.

6 *f. Rate Design*

7 **Q. DOES THE COMPANY PROPOSE ANY SIGNIFICANT RATE DESIGN**
8 **CHANGES FOR THE PLAN YEARS?**

9 A. No. Mr. Drennan discusses the Company's overall approach to rate design,
10 including our approach to the Plan Years, in his testimony.

11 **D. Other WSIP Request Features**

12 1. Performance Metrics

13 **Q. IS THE COMPANY PROPOSING PERFORMANCE MEASURES TO BE**
14 **PUT IN PLACE DURING THE TERM OF THE WSIP?**

15 A. Yes. The WSIP rules call for the utility to propose at least one performance
16 metric in each of the following areas: (1) operational compliance, (2)
17 customer service, (3) service reliability, and (4) workplace health and safety.
18 Consistent with this direction, we are proposing performance measures
19 addressing each of these areas, as follows:

- 20 • Operational Compliance
 - 21 ○ Wastewater Compliance Rate %
 - 22 ○ Water Compliance Rate %

- 1 • Customer Service
- 2 ○ Telephone Service Factor (TSF) % by quarter
- 3 ○ Customer Service Complaints (non-bill related
- 4 complaints / 1000 accounts)
- 5 • Service Reliability
- 6 ○ Unplanned Water Service Disruptions (unplanned
- 7 outages/1000 accounts)
- 8 ○ # Sanitary Sewer Overflows / 100 Miles of gravity line
- 9 • Workforce Health and Safety
- 10 ○ OSHA Incident Rate = (Number of injuries and
- 11 illnesses x 200,000)/ Employee hours worked
- 12 ○ Hours of Employee Training / employee

13 Exhibit DHD-1 defines these proposed metrics and explains how they are

14 calculated. Exhibit DHD-1 also shows how CWSNC is currently performing

15 on these metrics.

16 **Q. WHY DO YOU BELIEVE THESE PERFORMANCE METRICS ARE**

17 **APPROPRIATE?**

18 A. Gen. Stat. § 62-133.1B(a) requires as a core component of a WSIP the

19 inclusion of "...performance-based metrics that benefit customers and

20 ensure the provision of safe, reliable and cost-effective service by the water

21 or sewer utility." CWSNC proposes, in this filing, performance metrics that

1 are consistent with the statutory and rule-based WSIP requirements and
2 that focus on the most important issues for our stakeholders, including safe,
3 reliable, environmentally compliant, high quality customer service. We also
4 include measures focused on ensuring a safe workplace environment for
5 our employees.

6 **Q. DOES THE COMPANY PROPOSE TO TIE ANY FINANCIAL**
7 **INCENTIVES OR PENALTIES TO THESE MEASURES?**

8 A. Not at this time. This is one of the first three-year WSIPs the Commission
9 will consider. The Company proposes putting these performance measures
10 in place, monitoring our performance under them, and learning from this
11 experience. Future WSIPs can then learn from this case to better design
12 and implement financial incentives or penalties, if such measures are
13 desired.

14 2. Compliance Filings/Status Reports

15 **Q. WHAT DOES THE WSIP STATUTE AND ORDER CONTEMPLATE**
16 **REGARDING COMMISSION REVIEW DURING THE TERM OF AN WSIP**
17 **AND WHAT DOES THE COMPANY PROPOSE IN THIS REGARD?**

18 A. The WSIP rules provide for various quarterly and annual reports –
19 specifically: quarterly earnings reports; quarterly capital investment project
20 status reports; quarterly reports on the number of customers disconnected
21 for nonpayment; and annual reports addressing earnings, refunds/credits,
22 performance metrics, rate base, etc. Mr. Drennan’s testimony describes the

1 compliance filings the Company proposes to make and a proposed
2 schedule for review of those filings. These filings will provide the
3 Commission and parties a substantial amount of information on which to
4 assess how the WSIP is working.

5 3. Refund Commitments

6 **Q. WHAT DO THE WSIP STATUTE AND RULES STATE WITH RESPECT**
7 **TO POTENTIAL REFUNDS TO CUSTOMERS DURING THE TERM OF A**
8 **WSIP?**

9 A. The WSIP statute and rules require refunds to customers if, in a plan year,
10 the utility earns above the top of its banded ROE range.

11 4. Commitment to Not File During Term of Plan

12 **Q. THE WSIP STATUTE AND RULES ALSO STATE THAT A UTILITY MAY**
13 **NOT FILE A NEW RATE CASE DURING THE TERM OF AN APPROVED**
14 **WSIP, UNLESS THE UTILITY IS EARNING BELOW THE BOTTOM OF**
15 **THE ROE RANGE. DOES THE COMPANY AGREE?**

16 A. Yes, with the caveat that a utility can petition the Commission for unplanned
17 emergency capital investments in certain limited circumstances. One of the
18 benefits of a just and reasonable WSIP is that it can provide stable and
19 predictable rates for a period of time and avoid the need for serial rate case
20 filings.

5. Rates at the Conclusion of the Plan

1
2 **Q. THE WSIP RULES REQUIRE A UTILITY'S PLAN YEAR 3 RATES TO**
3 **REMAIN IN EFFECT BEYOND THE TERM OF THE WSIP UNTIL A NEW**
4 **RATE CASE ORDER IS IN EFFECT. WHAT DOES THE COMPANY**
5 **PROPOSE IN THIS REGARD?**

6 A. Rates during the final year of the WSIP would remain in effect at the
7 conclusion of the term of the WSIP, unless and until the Company has a
8 new base rate order in effect. However, we would plan to restart our WSIC
9 and SSIC mechanisms at the end of the three-year WSIP period.

E. Final Summary

10
11 **Q. HOW CAN THE COMMISSION HAVE CONFIDENCE THAT THE**
12 **COMPANY'S RATES WILL BE JUST AND REASONABLE UNDER THE**
13 **WSIP PROPOSAL?**

14 A. The Commission may approve a Water and Sewer Investment Plan
15 proposed by a water or sewer utility **only** upon a finding that the plan results
16 in rates that are just and reasonable and are in the public interest. See G.S.
17 62-133.1B(b). CWSNC's Application demonstrates a heightened level of
18 planning integrity, efficiency, expertise, and understanding of the WSIP and
19 other aspects of the ratemaking rules and our obligations. We show our
20 commitment to and a plan for continuing to provide safe and reliable service,
21 along with an understanding of the imperative of maintaining just and
22 reasonable rates. Our three-year WSIP is built on a full cost of service

1 approach. For the capital-related portions of this request, the WSIP relies
2 on our capital project plans, which are established through a rigorous
3 process. Our witnesses and supporting documentation also provide
4 significant discussion of the main capital drivers over the three-year term of
5 the Plan. By utilizing the full cost of service approach, we have also fully
6 captured the impact of the passage of time throughout the WSIP period.

7 For expense items, we have employed a hybrid approach that utilizes
8 well-accepted index factors, where applicable. For items where such factors
9 were not available or appropriate, we have utilized our budgets and
10 forecast, as appropriate.

11 Given our full cost of service approach, we also have incorporated
12 revenue or other offsets that reduce our revenue requirements in the Plan
13 Years. This approach has resulted in modest and stable rate requests for
14 the Plan Years that should assure the affordability of our utility services over
15 the term of the plan. Finally, the Commission will receive a wealth of
16 information, in the form of compliance filings, by which it can review the
17 impact on customers as well as our performance and our financial results.
18 Collectively, this package provides assurance that our rates will be just and
19 reasonable throughout the term of our plan and that our customers can
20 continue to be provided safe and reliable service. Additionally, the
21 Company's proposal establishes rates that are fair to both the customer and

1 the utility, will not result in sudden substantial rate increases to customers
2 annually or over the term of the plan, and is representative of the utility's
3 operations over the plan term.

4 **VI. FRAMEWORK OF FILING AND INTRODUCTION OF WITNESSES**

5 **Q. PLEASE IDENTIFY THE COMPANY'S CASE-IN-CHIEF WITNESSES**
6 **AND THE TOPICS ADDRESSED IN THEIR TESTIMONY.**

7 A. In addition to my policy testimony, the following witnesses support the
8 Company's Application:

- 9 • Phil Drennan, provides testimony to support the overall Test
10 Year and Plan Year revenue requirements for the WSIP. Mr.
11 Drennan also addresses the schedules supporting our income
12 statement, rate base, revenue deficiency, and jurisdictional
13 allocations. These schedules incorporate and reflect the
14 recommendations of a number of our witnesses, including the
15 cost of capital.
- 16 • Matt Schellinger, provides testimony to address the
17 Company's pro forma revenues and billing analysis; the
18 Company's revenue requirements for the Water Sewer
19 Investment Plan years; Growth and Consumption
20 assumptions through the WSIP period; and the Company's
21 proposed rate design for water and sewer.

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- Dana Hill provides an overview of the operations of CWSNC, the significant capital investments made since the Company's last rate case, as well as the capital investment plan element of the Water and Sewer Investment Plan ("WSIP"). Mr. Hill will also discuss new technology, the continued efforts to address non-revenue water, and will introduce a proposed pretreatment, or "sewer use" tariff.
 - Dylan D'Ascendis of ScottMadden, who testifies on the ROE and rate of return, including capital structure and the cost of debt.

11 **VII. CONCLUSION**

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

13 **A.** Yes, it does.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald H. Denton III. My business address is 5821 Fairview
3 Road, Suite 401, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Senior Vice President, East Operations for Corix Group of Companies
6 (“Corix”). In this capacity, I oversee the operations of Carolina Water
7 Service, Inc. of North Carolina [“CWSNC” or the “Company”, Blue Granite
8 Water Company (“BGWC”) in South Carolina, and Sunshine Water Services
9 in Florida, all of which are subsidiaries of Corix Regulated Utilities (“CRU”)].
10 In addition, I serve as President of CWSNC and BGWC.

11 **Q. ARE YOU THE SAME DONALD H. DENTON WHO SUBMITTED CASE-**
12 **IN-CHIEF TESTIMONY ON BEHALF OF CWSNC IN THIS**
13 **PROCEEDING?**

14 A. Yes, I am.

15 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

16 A. The purpose of my testimony is to respond to positions of the Public Staff
17 in its direct testimony filed in this Docket, particularly as they relate to: the
18 Danby sewer system; project management and contingencies in CWSNC’s
19 capital improvement project cost estimates; performance metrics; use of
20 state revolving funds; and Staff’s proposed change to rate design.

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I. DANBY SEWER SYSTEM

Q. PUBLIC STAFF WITNESS DARDEN TESTIFIES THAT STAFF DISCOVERED THAT SOME DANBY CUSTOMERS ARE ACTUALLY LOCATED IN SOUTH CAROLINA. AS A RESULT, WITNESS DARDEN RECOMMENDS THAT SUCH CUSTOMERS BE REMOVED FROM THE SERVICE REVENUES BECAUSE THOSE CUSTOMERS SHOULD BE SERVED BY CWSNC'S SOUTH CAROLINA AFFILIATE (BGWC) RATHER THAN CWSNC. IN ADDITION, STAFF RECOMMENDS ADJUSTING CERTAIN EXPENSES TO REFLECT THE REMOVAL OF THOSE CUSTOMERS FROM CWSNC'S FILING. DOES THE COMPANY AGREE WITH THIS TREATMENT?

A. The Company acknowledges that this situation is complicated, it has an orderly plan for resolution, and—in the meantime---it does not agree with the Public Staff approach. These customers have been served by CWSNC for over 30 years, so the situation is long-standing. CWSNC is gathering data currently and plans to engage with the Office of Regulatory Staff in South Carolina and with the Public Staff on a sensible path to resolution. By immediately moving these customers to the BGWC tariff, their monthly bills will increase. It should also be noted that these customers have been paying rates under the Company's North Carolina tariff and contributing to the revenue requirement in NC for years. They represent 27 customers in

1 a community of over 1,600 served by a CWSNC-owned wastewater
2 treatment plant – which is located in South Carolina.

3 **II. PROJECT MANAGEMENT; CONTINGENCIES IN PROJECT COST**
4 **ESTIMATES**

5
6 **Q. PUBLIC STAFF CONTENDS THAT CWSNC’S PROPOSED CAPITAL**
7 **IMPROVEMENT PLAN CONTAINS “OVERLY BURDENSOME COST**
8 **CONTINGENCIES, WHICH MAY OR MAY NOT BE INCURRED.” PUBLIC**
9 **STAFF RECOMMENDS A FLAT 10% REDUCTION TO THE ESTIMATED**
10 **COSTS AT COMPLETION OF THE PROJECTS IN THE CAPITAL**
11 **IMPROVEMENT PLAN. (SEE PUBLIC STAFF JOINT TESTIMONY OF**
12 **JUNIS, HINTON, SUN, ZHANG, AT PAGES 43-49.) IS THIS**
13 **RECOMMENDATION REASONABLE?**

14 **A.** No, it reflects a fundamental misunderstanding of the purpose and use of
15 contingency in capital project planning and execution.

16 **Q. PLEASE ELABORATE.**

17 **A.** Contingency is typically broken down into two categories – Estimate
18 Uncertainty and Project Risk. Estimate uncertainty is based on cost
19 variances due to change in quantities, productivity, wages, product pricing,
20 and many other factors.

21 When building a detailed “bottoms up” contingency, the main inputs
22 in developing the contingency are the quantification of a risk register and a
23 quantitative analysis technique used to calculate the cost of estimate line-

1 item uncertainty. Expected Monetary Value (“EMV”) is one quantitative
2 analysis technique used to develop risk-based contingency values. Despite
3 its name, EMV doesn't have to be just a monetary cost; it can also measure
4 the expected time delay in terms of person-hours or person-days. The two
5 inputs to EMV are the probability of a risk occurring (expressed as a
6 percentage) and the impact of the risk occurring (expressed in some time
7 or monetary measure). Obtaining this data through meetings with the
8 project team and key stakeholders makes it more accurate. The formula for
9 EMV is:

$$\text{EMV} = \text{probability} \times \text{impact}$$

10
11 For example, assume a risk has a 60 percent probability of occurring
12 and a cost impact of \$10,000. The EMV for this risk event is $(0.6 * \$10,000)$,
13 or \$6,000. To compensate for this risk, the contingency reserve needs
14 \$6,000. Totaling the EMV for each risk results in the total risk based
15 contingency reserve for the project.

16 Once the line-item uncertainty and Risk Register EMV's are
17 developed, they are added together to create the project level
18 contingency. During a project's execution, contingency is used when a risk
19 occurs as part of the risk response strategy, or a line item within the original
20 estimate is verified. The actual impact of the variance is added to the cost
21 or schedule, the estimates are updated, and contingency reserve
22 decreases or increases accordingly. If identified risks do not occur, the

1 contingency reserve associated with those risks is not spent, and the project
2 comes in ahead of time and/or under budget. It is up to the Project Manager
3 to stay on top of risks and line-item estimates and manage contingency
4 reserve as the project progresses, and to adjust the Estimate at Completion
5 (“EAC”) accordingly.

6 The contingency reserve tends to be higher near the beginning of the
7 project and lower near the end. This effect is typically consistent with project
8 risk and uncertainty, which tends to be greater at the beginning of the
9 project due to more unknowns and will diminish near the end of the project.
10 Also, as the project proceeds and risks either happen or do not happen, the
11 reserves associated with those risks are either spent or not spent, lowering
12 the overall reserve. As risk reserves are reassessed, reserve analysis can
13 be performed to reallocate reserve to a risk or take some away, depending
14 on the new risk probability and impact. It should be noted that contingency
15 is planned to be spent as part of the project and is not to be considered as
16 a “cushion.”

17 Another approach for contingency planning utilizes industry best
18 practices for ranges of contingency, in-lieu of a bottom-up calculation for
19 contingency that meets a typical contingency, based on the maturity and
20 level of project definition. An example of this can be seen in the table below:

AACE Class ¹	Typical Use	Project Definition	Low Expected Actual Cost	High Expected Actual Cost	Other Nomenclature
Class 5	Strategic Planning; Concept Screening	0%-2%	-50% to -20%	+30% to +100%	Rough Order of Magnitude
Class 4	Feasibility Study	1%-15%	-30% to 15%	+20% to +50%	Feasibility; Pre-Design
Class 3	Budgeting	10%-40%	-20% to -10%	+10% to +30%	Budget; Prelim Engineering Phase
Class 2	Bidding; Project Controls; Change Management	30%-75%	-15% to -5%	+5% to +20%	Engineering; Bid; Forced Detail
Class 1		65%-100%	-10% to -3%	+3% to +15%	Bottoms Up; Firm Price; Full Detail

1 In either case for project-level contingency development, CWSNC plans for
2 uncertainty and risks on all of its projects, and the proposed default
3 reduction of 10% contingency by the Public Staff has no basis in industry
4 standard for contingency development or management.

5 **III. PERFORMANCE METRICS**

6 **Q. PLEASE DESCRIBE THE PUBLIC STAFF'S POSITION ON**
7 **PERFORMANCE METRICS.**

8 A. The Public Staff disagrees with the Company's proposed performance
9 metrics in three ways. (See Joint Testimony of Hinton, Junis, Sun, and
10 Zhang, at pages 56-61.) First, Staff recommends additional performance
11 metrics be included. Second, Staff recommends that benchmarks be
12 included for many of the performance metrics. Third, Staff recommends that
13 financial incentives and/or penalties be attached to certain performance
14 metrics.

¹ AACE – Association for the Advancement of Cost Engineering

1 **Q. DO YOU HAVE ANY GENERAL COMMENTS ABOUT THE PUBLIC**
2 **STAFF’S APPROACH TO PERFORMANCE METRICS?**

3 A. Yes. We do not agree that the intent of performance metrics in N.C. Gen.
4 Stat. § 62.133B (“Statute”) was to compare CWSNC to other water and
5 sewer companies. Rather, CWSNC believes the metrics were added to
6 enhance transparency and monitoring of utility performance over time. As
7 a general matter, benchmarking is appropriate when trying to determine
8 how one company is performing against a similar set of peers, and often
9 benchmarking is fraught with issues simply because of the lack of
10 standardization of utility data, as well as the fact that each utility faces
11 uniquely different circumstances. For example, utilities differ as to service
12 territory density, which can make benchmarking – which necessarily
13 assumes an “apples to apples” comparison -- inappropriate. Instead,
14 performance metrics are usually better assessed through a comparison of
15 a company’s current performance to its recent historical performance.

16 The WSIP Statute itself includes a comprehensive financial incentive
17 and penalty mechanism through the earnings band and excess earnings
18 test. A second set of individual incentives/penalties is unnecessary,
19 especially given this is the first WSIP plan. We request that the Commission
20 not leap into incorporating financial incentives and penalties with the use of
21 performance metrics in this case. Financial incentives can often
22 inadvertently create perverse incentives and unintended consequences, or

1 may not be set appropriately to have the desired effect. Given that the
2 Commission's monitoring through performance metrics for water and sewer
3 utilities is newly available through the Statute, I strongly believe that in the
4 initial WSIP filing the Commission should (a) focus on implementing a broad
5 and robust group of performance metrics, and (b) monitor the Company's
6 performance for the WSIP term, in conjunction with historical data for the
7 pre-WSIP period. We do not recommend financial incentives or penalties in
8 the initial case, as a baseline of Company performance must be established
9 upon which to make assessments and align goals related to the provision
10 of quality service to customers.

11 In addition, the Public Staff implies that the Company's data
12 collection processes are inadequate. CWSNC has a significant amount of
13 data available in a number of operational areas. While, like any company,
14 not all data is collected and formatted in a metric format for ongoing
15 analysis, this does not mean that the data cannot be utilized for metrics in
16 the future.

17 **Q. DOES THE PUBLIC STAFF OPPOSE ANY OF THE COMPANY'S**
18 **RECOMMENDED PERFORMANCE METRICS?**

19 A. Not as I understand their testimony. The Public Staff accepted all of the
20 Company's proposed performance metrics, although they modified the
21 Water Service Quality Customer Complaints metric to require inclusion of
22 subdivision and system names, which is acceptable to the Company. The

1 Public Staff modified several of the proposed metrics to include
2 incentives/penalties, which we do not agree with, for the reasons stated
3 above. (See Public Staff WSIP Exhibit 5). Note that we have interpreted
4 their "Clean Water Compliance" metric to be a "Wastewater Compliance"
5 metric, as was proposed by the Company.

6 **Q. DOES THE PUBLIC STAFF PROPOSE ANY ADDITIONAL**
7 **PERFORMANCE METRICS?**

8 A. Yes. The Public Staff proposes the following additional performance
9 metrics:

- 10 ▪ Timely Completion of Capital Improvement Plan ("CIP") Projects
- 11 ▪ Completion of CIP Projects on Budget
- 12 ▪ Expense Efficiency
- 13 ▪ Utilization of the SRF Program

14 In addition, the Public Staff proposes two additional metrics for
15 tracking and future benchmarking: (1) Water Loss; and (2) Employee
16 Turnover. See Public Staff WSIP Exhibit 5.

17 **Q. DO YOU ACCEPT THE PUBLIC STAFF'S RECOMMENDED**
18 **ADDITIONAL PERFORMANCE METRICS, FOR TRACKING AND**
19 **BENCHMARKING?**

20 A. The Company is agreeable to tracking the latter two additional metrics, but
21 for the reasons I previously stated, we do not believe benchmarking would
22 be appropriate or useful at this time.

1 **Q. ARE ANY OF THE PUBLIC STAFF'S OTHER RECOMMENDED**
2 **ADDITIONAL PERFORMANCE METRICS ACCEPTABLE TO THE**
3 **COMPANY?**

4 A. The following four additional performance metrics proposed by Staff are
5 problematic and as proposed are not acceptable to the Company:

- 6 ▪ Timely Completion of CIP Projects
- 7 ▪ Completion of CIP Projects on Budget
- 8 ▪ Expense Efficiency
- 9 ▪ Utilization of the SRF Program

10 **Q. PLEASE EXPLAIN YOUR CONCERNS WITH THE PROPOSED METRIC**
11 **REGARDING TIMELY COMPLETION OF CIP PROJECTS.**

12 A. CWSNC focuses on effective project execution fundamentals, including
13 schedule management. Schedules inherently are uncertain due to external
14 influencing factors in most projects such as requests by key stakeholders
15 (including customer groups) to delay/move projects, environmental permit
16 approval timelines, DOT approvals, and various project risks being realized.
17 Any or all of these factors which are outside the company's control can
18 result in a change in timing and cost to a given project. Schedule
19 contingencies based on these uncertainties are typically evaluated in the
20 project planning phase and updated as the project progresses – however
21 not all can be foreseen. If the goal is to come in ahead of schedule, then
22 enough contingency will be added to achieve that goal or other sacrifices

1 would be made (such as not accommodating a request by a key
2 stakeholder, such as a Homeowners' Association, to delay the construction
3 – which has occurred). In addition, CWSNC has recently seen significant
4 delays in project schedules due to supply chain issues in addition to labor
5 shortages. As a result, many projects have required adjusted schedules to
6 accommodate various risk factors. Finally, when looking at the portfolio
7 level of project management, it is not uncommon to shift projects due to
8 critical need, resource availability, or operational requirements. In the
9 context of the WSIP, the Company has added incentive to complete projects
10 on time, due to the various periodic filing requirements and reviews, and
11 without the need for performance metrics. The imposition of performance
12 metrics that do not allow for a portfolio perspective management of capital
13 needs restricts the Company's management decisions related to specific
14 projects and creates an inverse incentive to actively managing capital
15 outlays.

16 **Q. PLEASE EXPLAIN YOUR CONCERNS WITH THE PROPOSED METRIC**
17 **REGARDING COMPLETION OF CIP PROJECTS ON BUDGET.**

18 A. CWSNC focuses on additional project execution fundamentals such as cost
19 management. Budgets for projects may need to be adjusted based on
20 multiple criteria once a project is underway. Influencers include contract
21 level change orders, actual line-item cost coming in different than estimated,
22 and project-level changes which can vary in many ways, including scope

1 changes. The goal of CWSNC is to plan for uncertainties using effective
2 project management practices and include those costs in our estimates.
3 Variances will occur, but the goal of any project manager within CWSNC is
4 to target the budgeted project cost as closely as possible by managing risks,
5 and not to aim below target as proposed by the Public Staff.

6 While an estimate and final cost of a project may go up, it is possible
7 that the overall impact of the project may have a higher beneficial impact
8 for customers over time. This can be seen when value added to a project
9 has a life cycle cost lower than the original project by reducing operating
10 cost over time. We would not want to undermine this type of benefit by
11 having a metric that would preclude this type of thinking and change
12 management during a project.

13 For purposes of the WSIP, CWSNC believes the best approach for
14 looking at the cost impact is to look at the portfolio-level of planned
15 expenditures, not at the individual project level. By using reports and
16 reviews that focus at the portfolio-level, there are clear lines of sight to what
17 has been filed in the WSIP and is included in the resulting rate recovery, as
18 well as of the overall impacts of the WSIP. Notwithstanding the Public Staff's
19 recommended performance metrics, the Company further affirms that the
20 customers are adequately protected from any potential excess earnings as
21 a result of not executing to the capital investment levels approved, and
22 because the Public Staff and Commission are provided regular and novel

1 insight and transparency by virtue of the Company's periodic reporting and
2 Annual Review filing requirements.

3 Additionally, by using the portfolio-level view and acknowledging the
4 above-noted inherent variability in capital project execution, projects that
5 experience lengthy delays can be swapped with other necessary projects.
6 This allows CWSNC to be nimble in project planning and scheduling, and
7 allows the yearly project investments to remain consistent with authorized
8 levels, thus meeting the spirit of the WSIP, including having fair and
9 consistent rate increases that recover investments in infrastructure that
10 benefits customers.

11 **Q. PLEASE DISCUSS YOUR CONCERNS WITH THE PROPOSED METRIC**
12 **REGARDING EXPENSE EFFICIENCY.**

13 A. CWSNC does not have a concern in principle with an O&M expense metric,
14 but the one proposed (cost per customer by Rate Division) lends itself to
15 comparisons among Rate Divisions, which is not advisable or valuable. A
16 more reasonable metric may be O&M/ERC that is inflation-adjusted and
17 includes only the O&M that is largely within the control of CWSNC (e.g. does
18 not include purchased water/sewer services, purchased power, rate case
19 expense) and compares to historical performance. However, as noted
20 above, the WSIP's extensive and regular reporting requirements allow for
21 access to such data without the need for a defined performance metric.

1 **Q. PLEASE DISCUSS YOUR CONCERNS WITH THE PROPOSED METRIC**
2 **REGARDING UTILIZATION OF THE STATE REVOLVING FUND (“SRF”)**
3 **PROGRAM.**

4 A. CWSNC fully supports the idea of obtaining funds within the Drinking Water
5 SRF program. However, to have a metric that would require every “eligible”
6 project to seek those funds as proposed by the Public Staff ignores the fact
7 that there are incremental costs (sometimes significant) to apply for and, if
8 successful, administer those grants and loans. Examples of such costs
9 include: additional headcount, legal costs, engineering costs, and other
10 professional service costs. Those potential O&M costs are not budgeted
11 currently and have not been calculated in the current proceeding by the
12 Company or the Public Staff. In addition, there are certain projects where
13 the benefit of a grant or loan may be outweighed by these incremental costs.
14 Indeed, in the Spring 2022 semi-annual cycle of Drinking Water SRF
15 approvals in the State, only 83 out of 222 complete and eligible applications
16 were approved for funding, and only 3 of them were not related to the Viable
17 Utility and State Reserves.² CWSNC believes this metric should be
18 removed from the recommended metrics, but agrees to continue to evaluate
19 and look for opportunities to apply for these funds, as CWSNC sees

² See <https://deq.nc.gov/media/30648/download?attachment?attachment>. The Company would generally not be eligible for or be prioritized for Viable Utility or State Reserve Funds, as they target Local Government Units or financial distressed systems.

1 potential benefits to the customer base to obtain SRF funds when possible
2 and feasible.

3 **Q. IS THE COMPANY AGREEABLE TO INCORPORATING**
4 **BENCHMARKING INTO ANY OF THE PROPOSED PERFORMANCE**
5 **METRICS?**

6 A. No. The terms “benchmarking” and “KPIs” do not mean the same thing. As
7 stated above, benchmarks are metrics used to compare a company’s
8 performance against other peer companies. These are used widely in
9 competitive markets to evaluate where companies stand relative to peers,
10 and are often used in strategic planning and initiative setting. However, it
11 is very difficult to define a benchmarking metric such that it can be used in
12 an “apples to apples” comparison and have useful function. As Public Staff
13 did not provide any available benchmarks for their proposed metrics,
14 CWSNC does not believe the best use of metrics under the WSIP would be
15 for benchmarking. Instead, the metrics used should be KPI’s, which are
16 used to compile data over time to analyze performance against strategies
17 and goals, and analyze trends in various business categories of
18 performance, such as the operational categories noted in Rule R1-
19 17A(c)(10).

20 **Q. IS THE COMPANY AGREEABLE TO INCORPORATING ANY**
21 **FINANCIAL INCENTIVES AND/OR PENALTIES INTO THE**
22 **PERFORMANCE METRICS APPLICABLE TO CWSNC?**

1 A. No, for the reasons stated previously. The WSIP Statute already contains a
2 comprehensive incentive/penalty structure through the earnings band and
3 excess earnings test. Moreover, the Company believes it is premature to
4 incorporate incentives and/or penalties into any of the metrics an approved
5 WSIP.

6 **IV. RATE DESIGN**

7 **Q. WHAT DOES THE COMPANY PROPOSE WITH RESPECT TO RATE**
8 **DESIGN?**

9 A. As Mr. Schellinger's testimony discusses, the Company proposes to
10 maintain the fixed and volumetric rate recovery proportions approved in Sub
11 384 by the Commission on April 8, 2022. These were a 40%/60%
12 fixed/volume ratio for the Water Rate Divisions, and a 60%/40%
13 fixed/volume ratio for the Uniform Sewer Rate Division, as well as
14 maintaining the existing ratios for the BF/FH sewer rate division.

15 **Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO RATE**
16 **DESIGN?**

17 A. The Public Staff has proposed a shift to 30%/70% fixed/volume ratio for the
18 Water Rate Divisions, and a shift to 40%/60% fixed/volume ratio for Uniform
19 Sewer.

1 **Q. MR. SCHELLINGER DISCUSSES THIS ISSUE IN HIS REBUTTAL**
2 **TESTIMONY, BUT DO YOU HAVE ANY COMMENT ON THIS TOPIC?**

3 A. Yes. As Mr. Schellinger's rebuttal testimony indicates, the Company does
4 not agree with the Public Staff's position on changing rate design –
5 especially so soon after a sharp rate design change that was only adopted
6 in April of this year. Mr. Schellinger notes that another rate design shift as
7 proposed by Public Staff could have significant customer impacts, such as
8 customer bill volatility and resulting customer dissatisfaction. In sum, I
9 believe Mr. Schellinger is accurate to conclude that there has not been
10 sufficient time for customers, the Company, or the Commission to
11 understand the full implications of such significant changes in rate design.
12 Accordingly, we strongly recommend that the Commission reject the Public
13 Staff's proposed rate design ratio changes in this case.

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

16 A. Yes, it is.

17 **V. CONCLUSION**

18 **Q. DOES THIS CONCLUDE YOUR PREPARED REBUTTAL TESTIMONY?**

19 A. Yes, it does. However, I reserve the right to update for or amend this
20 testimony upon receipt of additional relevant data or other information that
21 may become available.

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald H. Denton III. My business address is 5821 Fairview
3 Road, Suite 401, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Senior Vice President, East Operations for Corix Group of Companies
6 (“Corix”). In this capacity, I oversee the operations of Carolina Water
7 Service, Inc. of North Carolina (“CWSNC” or the “Company”), Blue Granite
8 Water Company (“BGWC”) in South Carolina, and Sunshine Water Services
9 in Florida, all of which are subsidiaries of Corix Regulated Utilities (“CRU”).
10 In addition, I serve as President of CWSNC and BGWC.

11 **Q. ARE YOU THE SAME DONALD H. DENTON WHO SUBMITTED CASE-**
12 **IN-CHIEF AND REBUTTAL TESTIMONY ON BEHALF OF CWSNC IN**
13 **THIS PROCEEDING?**

14 A. Yes, I am.

15 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

16 A. The purpose of my settlement testimony is to provide an overview of, and
17 explain and support, the Joint Partial Settlement Agreement (or
18 “Agreement”) reached with the Public Staff in this proceeding. Matthew P.
19 Schellinger II also testifies in support of the Agreement, focusing on the
20 ratemaking details associated with the multi-year rate plan.

1 **I. OVERVIEW OF PARTIAL SETTLEMENT AGREEMENT**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PARTIAL SETTLEMENT**
3 **AGREEMENT.**

4 A. The Agreement provides for a 3-year multi-year rate plan or “WSIP” (Water
5 and Sewer Investment Plan). Rate Year 1 begins April 1, 2023; Rate Year
6 2 begins April 1, 2024; and Rate Year 3 begins April 1, 2025. As Mr.
7 Schellinger’s settlement testimony explains, the rates agreed to are based
8 on an historical Base Case of the 12 months ending March 31, 2022,
9 escalated for Rate Years 1, 2, and 3. Included in agreed upon Rate Year
10 revenue requirements are the Company’s projected capital project plans,
11 with a significant modification to the project contingencies to be reflected in
12 revenue requirements. Pursuant to N.C. Gen. Stat. § 62.133.1B(f), (g), and
13 Rule R1-17A(f), (k), the WSIP may be terminated prior to the end of the 3-
14 year period in certain circumstances, and the WSIP will continue at Rate
15 Year 3 rates until replaced by new authorized rates for the Company.

16 The Agreement provides for an agreed upon set of performance
17 metrics. The agreed upon performance metrics represent a combination of
18 those proposed by the Company and those proposed by Public Staff.
19 Rather than rushing to agreement on financial incentives and/or penalties
20 to attach to these performance metrics, the parties have agreed to continue
21 to discuss how incentives and/or penalties should be applied to some or all

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1 of these performance metrics. More specifically, the parties have agreed to
2 file any agreement with respect to such – or alternatively, if agreement is
3 not reached, to file their respective positions on such, with the Commission
4 no later than 180 days after the date of the Commission’s order in this
5 proceeding. If agreement is reached, the parties will request Commission
6 approval of the agreed upon incentives and/or penalties. If agreement is
7 not reached, the parties will request that the Commission consider the
8 parties’ respective positions and decide the issue. Any performance metric
9 incentives and/or penalties ultimately approved by the Commission shall
10 be retroactive to the beginning of Rate Year 1. In addition, the Company
11 will report its performance under these metrics as provided in the WSIP
12 Statute and Rules.

13 Note that one of the performance metrics agreed upon by CWSNC
14 and the Public Staff is an agreement that the Company will apply for State
15 Revolving Fund grants for several of its capital projects.

16 The Settlement Agreement also addresses the return on equity
17 (ROE) banding contemplated by the WSIP Statute: for Rate Year 1, the
18 ROE banding -- within which the Company may earn returns without being
19 deemed to be either overearning or underearning – is plus/minus 50 basis
20 points from the authorized ROE. For Rate Years 2 and 3, the ROE banding
21 is minus 50 basis points, with 0 basis points of “upside”. The Company will
22 quarterly report its earnings (along with the status of its capital improvement

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1 plan and disconnections). The Company will also file annual reports
2 consistent with the WSIP Statute and Rules and the annual review process,
3 and will credit customers for any annual overearnings determined by the
4 Commission. Consistent with the WSIP Statute and Rules, in an
5 underearning situation, the Company may file a new general base rate case
6 before the end of the WSIP period.

7 The rate design for CWSNC will remain the same as that approved
8 in the Company's most recent rate order, Docket No. W-354, Sub 384. In
9 addition, the Company's water efficiency program and fee-free billing
10 program will continue, with the same reporting requirements as contained
11 in Docket No. W-354, Sub 384. Finally, the sewer tariff will be modified to
12 include a new sewer use rule designed to protect the Company's
13 wastewater systems from damaging industrial and non-domestic
14 contaminants.

15 Finally, the Settlement Agreement provides that the Echota and
16 Seven Devils systems in Watauga County will not be reflected in WSIP
17 revenue requirements in this proceeding, and CWSNC and the Public Staff
18 will work toward resolution of certain South Carolina customers and plant
19 that have historically been included in the Company's revenue
20 requirements.

1 **Q. DOES THE SETTLEMENT CONTEMPLATE OR REQUEST ANY**
2 **WAIVER OF THE PROVISIONS OF THE WSIP STATUTE OR WSIP**
3 **RULES?**

4 A. No, it does not.

5 **Q. WHAT ISSUES WERE NOT AGREED TO BY THE COMPANY AND THE**
6 **PUBLIC STAFF?**

7 A. The parties did not reach agreement as to the ROE that should be
8 authorized during the term of the WSIP, nor did the parties agree as to how
9 the 5% annual revenue increase cap should be applied – i.e., on a company
10 basis versus a rate division basis. The parties have agreed to litigate these
11 two issues and abide by the Commission’s decision on these two issues
12 (subject to either party’s rights to appeal such decision). As Mr.
13 Schellinger’s settlement testimony notes, the parties did agree to the capital
14 structure and cost of debt to be used to calculate an authorized return for
15 the Company.

16 **II. PUBLIC INTEREST**

17 **Q. IN YOUR OPINION, IS THE PARTIAL SETTLEMENT AGREEMENT**
18 **REASONABLE AND IN THE PUBLIC INTEREST?**

19 A. Yes, it is. The Agreement will provide the benefits of a multi-year rate plan
20 to customers and the Company – specifically, rate predictability and
21 certainty during the term of the WSIP, an additional incentive for the

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1 Company to manage its business within the level of revenues authorized,
2 administrative efficiency as a result of fewer rate cases, regulatory
3 monitoring and additional insight into the Company's longer term
4 investments and costs, and maintenance of regulatory oversight. The
5 Partial Settlement Agreement is a product of serious, arms-length
6 negotiation between the Company and the Public Staff, represents
7 numerous compromises by both parties, and results in a reasonable multi-
8 year rate plan.

9 More specifically, the Partial Settlement Agreement: establishes
10 rates that are fair both to the customer and to CWSNC, reasonably ensures
11 the continuation of safe and reliable utility services by CWSNC, will not
12 result in sudden substantial rate increases to customers annually or over
13 the term of the plan, is representative of CWSNC's operations over the plan
14 term, and is otherwise consistent with the public interest.

15 **Q. PLEASE IDENTIFY SOME OF THE COMPROMISES MADE BY THE**
16 **COMPANY.**

17 A. The compromises made by the Company include: compromises in overall
18 revenue requirements to be authorized through reductions in capital project
19 costs and project contingencies; inclusion in revenue requirements of
20 various plant retirements; reduction in the estimates of chemicals expense,
21 sludge hauling expense, and uncollectibles expense; reduction in the Rate

1 Year 1 escalation rate; exclusion of Echota and Seven Devils systems; and
2 additional performance metrics.

3 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH**
4 **RESPECT TO THE SETTLEMENT AGREEMENT?**

5 A. I respectfully recommend that the Commission approve the Partial
6 Settlement Agreement in its entirety.

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

9 A. Yes, it is.

10 **Q. DOES THIS CONCLUDE YOUR PREPARED SETTLEMENT**
11 **TESTIMONY?**

12 A. Yes, it does.

1 DIRECT EXAMINATION BY MS. SANFORD:

2 Q. Good morning, Mr. Denton. Would you state
3 your name, business address, and title for the record,
4 please.

5 A. Donald H. Denton, III. 5821 Fairview Road,
6 Charlotte, North Carolina 28209. I'm the president of
7 Carolina Water Services.

8 MS. SANFORD: Thank you. Mr. Denton is
9 available for examination.

10 COMMISSIONER CLODFELTER: Any cross
11 examination?

12 MS. HOLT: No questions.

13 COMMISSIONER CLODFELTER: Okay.

14 With that, then, questions from
15 Commissioners?

16 All right. Mr. Denton, you're not gonna
17 get off as easily as Mr. DeStefano.

18 EXAMINATION BY COMMISSIONER CLODFELTER:

19 Q. Do have you the joint partial stipulation
20 settlement available to you?

21 A. I do.

22 Q. I want to ask you a couple of questions about
23 that, if I can.

24 On page 14 of the stipulation -- if you can

1 get that up in front of you. And I'll ask my question,
2 and I think I can get you there while you're calling it
3 up.

4 The parties agree that one of the metrics
5 they'll use is -- involves the utilization of the state
6 revolving fund program. And I've got a couple of
7 questions about that stipulation.

8 The first is is -- is the -- does the
9 stipulation contemplate that the Company will pursue
10 only grant funding for the identified projects, or will
11 it also be pursuing low-interest loan funding from the
12 revolving fund?

13 A. We would look to both for whatever possible.
14 Right now, we've looked at a number of projects that
15 we've identified that we would like to apply for and
16 whether or not it is either the loan or the grant
17 funding where it's applicable.

18 Q. Okay.

19 A. Right.

20 Q. So you -- you're -- we can understand the
21 stipulation to be you're gonna go for whichever or both
22 you might be able to be eligible for?

23 A. Eligible for and make sense for the
24 individual projects, yes.

1 Q. Got it.

2 The second question really relates to the
3 specific list of projects, and that's on page 18 of the
4 stipulation.

5 Just in a general term, educate us on how you
6 arrived at that specific list of projects. Was there
7 some determination by the Company and the Public Staff
8 that those might potentially be eligible for either
9 grant funding or loan funding?

10 A. That's actually how we went through it. It
11 was based on the very limited and focused area within
12 the SRF that we can apply for the particular projects.

13 We went through a list of projects and said,
14 "These are the larger ones that actually, we think,
15 would fall into that bucket."

16 Q. Were there any projects that you have in your
17 capital improvement program that might have been
18 eligible or you thought might have been eligible that
19 didn't make the list on page 18 of the stipulation?

20 A. I don't believe there were. There might be
21 some that are smaller projects that would be eligible
22 that, quite frankly -- but I'd have to go back and
23 verify that. But we could --

24 Q. The cost of the application process and the

1 delay in getting the state funds might be greater than
2 the value of the project?

3 A. Yes, sir.

4 Q. Yeah. All right. On page 19 of the
5 stipulation, it's in paragraph 4B, there is a -- an
6 agreement with the Public Staff that the Company and
7 the Public Staff will work together to solve the
8 problem with the South Carolina customers who are part
9 of the Danby utility system.

10 And I guess the question I -- first, how long
11 do you think that it's gonna take? Can we -- have we
12 got any sort of predictors about when you'll report
13 back on that?

14 A. We don't have a timeline established yet.
15 But we have started the conversation with the office of
16 regulatory staff in South Carolina. We've updated
17 Public Staff. And we're trying to get a meeting
18 scheduled between all three parties to have that
19 conversation.

20 Q. Great. The question I'm interested in
21 today -- I understand you don't have a solution -- is
22 is that going to be something that just involves
23 accounting issues, or will that also involve
24 operational issues?

1 A. It wouldn't necessarily involve operational
2 issues, to my knowledge. Right now, it's logistically
3 looking at those 27 customers that actually sit in
4 South Carolina that are serviced by this facility.
5 So -- and how they're addressed between North Carolina
6 and South Carolina.

7 Q. But so far as you can currently see, that's
8 not going to -- the solution to that issue for those
9 27 customers is probably not going to involve any
10 operational changes in the way you operate the Danby
11 system?

12 A. None whatsoever, as far as I know.

13 COMMISSIONER CLODFELTER: Okay. That's
14 what I had for you.

15 THE WITNESS: Okay.

16 COMMISSIONER CLODFELTER: Let's see if
17 there are questions on -- any other questions --
18 Commissioners have questions?

19 Commissioner McKissick.

20 EXAMINATION BY COMMISSIONER McKISSICK:

21 Q. And this is in follow-up to Commissioner
22 Clodfelter's questions about the projects which you'll
23 be seeking, you know, assistance or funding through the
24 state revolving fund.

1 How long do you anticipate, based upon
2 information that's available to you today, that it will
3 take to determine whether these particular projects
4 might likely be eligible and likewise be funded?

5 A. Well, one of the things we're actually doing,
6 Commissioner, is we're going to be standing up at the
7 very beginning of the year -- I won't call it an office
8 of grants and funding, but within the organization,
9 we're putting together a team that's going to be
10 focused on applying for these grants and then --
11 obviously, assuming we're successful, hopefully
12 successful -- administering these grants.

13 There's a lot of process and additional
14 process that we have to put in place in order to
15 administer these grants.

16 I saw this happen when I was with Duke in the
17 ARRA funding round. We were successful and achieved a
18 grant under the Obama administration. And there is
19 Davis-Bacon compliance and other things that has to be
20 addressed as part of the grant possess.

21 So we're gonna set up an office that's going
22 to help us administer -- again, hopefully that we're
23 successful in doing so. But that'll start in January
24 for us.

1 Q. That would start in January?

2 A. Yes, sir. We'll start --

3 Q. And then you reasonably anticipate -- I mean,
4 I'm just wondering how long you might wait in the
5 pipeline to later find out that you will not receive
6 funding before you might otherwise pursue more
7 traditional means of --

8 A. Oh.

9 Q. -- moving these projects forward.

10 A. Yeah. We won't wait. The projects will
11 continue to proceed, but we will also apply parallel
12 for the grants and funding.

13 Q. Parallel?

14 A. In parallel.

15 Q. Got it.

16 A. Yes, sir.

17 Q. And you mentioned Davis-Bacon compliance?

18 A. Yes, sir.

19 Q. Those are wage determinations that are going
20 to be decided, in terms of what you pay for specific
21 categories of labor --

22 A. Right.

23 Q. -- for the jobs that you would be pursuing.

24 Have there been any preliminary analysis done

1 to see how Davis-Bacon wages might compare to what we
2 might --

3 A. We have --

4 Q. -- you might pay for, rather, you know,
5 private sector-type projects?

6 A. We have not done that yet.

7 Q. And thank you.

8 And there was one other question I had
9 relating to the performance metrics that are
10 identified --

11 A. Yes, sir.

12 Q. -- in this particular stipulation.

13 Now, it says that you're gonna go back and
14 within 180 days determine what incentives might be
15 created and what penalties might be created.

16 Have there been any preliminary determination
17 made as to what those standards might look like, those
18 criteria might look like?

19 A. Public Staff offered some as part of the
20 original negotiations. We, in talking and discussing
21 with the Public Staff, said that there are -- we wanted
22 to make sure that the incentives and penalties were
23 applicable and weren't incentivizing or causing what I
24 would consider adverse types of reactions.

1 And so we wanted to have thoughtful
2 discussions with regards to the incentives and
3 penalties such that we would bring something back to
4 the Commission where both parties were able to provide
5 those and that they would be reasonable and actionable.

6 Q. Very good. I was just curious as to how
7 those discussions had occurred. I look forward to
8 observing those and seeing them. I'm sure the other
9 Commissioners do as well and hope that they are
10 standards that are clearly articulable but, more
11 importantly, do appropriately incentivize and,
12 likewise, impose appropriate penalties based upon
13 inability to obtain certain performance metrics.

14 A. There's a great example. And if you'll
15 allow, we had -- one of the metricses deals with
16 schedule -- project --

17 Q. Yes.

18 A. -- schedules, right?

19 We did have one project in particular wherein
20 we delayed the project -- it was actually in Mountain
21 County -- because the HOA specifically asked us to
22 delay the project, because they actually had a series
23 of weddings that they were going to be hosting during
24 the period of the project and didn't want the roads and

1 all the equipment sitting there during the wedding
2 season.

3 So we actually had to delay that project and
4 actually -- because it was in the mountains and it got
5 into the winter, and so we actually delayed it almost a
6 year. But that was at the request of the HOA.

7 And it was without -- and that was, I
8 believe, the right call to make, right --

9 Q. Sure.

10 A. -- working with the customer base. But we
11 would have been penalized, potentially, if it was
12 strictly on a scheduled basis for that one particular
13 project.

14 And so we want to make sure, as we're
15 thinking about this, that we're allowing for and making
16 sure we've got the right incentives and penalties in
17 place that we're not -- we don't want to preclude that
18 type of decision-making. Let's put it that way.

19 Q. Yeah. That's one of the criterias, timely
20 completion of CPI projects, as well as completion of
21 the projects on budget?

22 A. Correct.

23 Q. And as I recall, in the stipulation, there
24 was an agreement to reduce the estimated cost of

1 projects -- I've forgotten the exact percentage -- is
2 that correct?

3 A. It was a 10 percent cut with regards to --

4 Q. 10 percent across the board?

5 A. Yes.

6 Q. And based upon information available to you
7 today, notwithstanding the inflationary period that
8 we're going through, I take it that you-all feel as if
9 that 10 percent across-the-board reduction is
10 reasonable and appropriate at this time?

11 A. Well, we actually have a difference of
12 opinion in what "contingency" means with regards to the
13 Public Staff.

14 However, the 10 percent was taken in context
15 with the entire stipulation and settlement, not as a
16 single component of the stipulation and settlement.
17 Therefore, we look forward to having further
18 conversations with the Public Staff with regards to
19 what we believe "contingency" is and how it's utilized
20 in project management.

21 Q. And there was a question about contingencies
22 being excessive, as I recall?

23 A. Yes, sir.

24 Q. But there weren't any agreements reached in

1 this stipulation dealing with the contingencies that
2 would be appropriate moving forward at this time; is
3 that correct?

4 A. Well, contingencies vary based on the
5 uncertainty of the project. And how we look at
6 contingency is what I would consider Project Management
7 Institute and other groups that specialize in project
8 execution. We try and adopt those policies.

9 But contingency is meant as a way of
10 addressing uncertainty and risk, but is meant as a way
11 of achieving an estimate at completion for a project,
12 and the intent is that that project will spend those
13 monies.

14 It's not meant to be as a cushion, but it's
15 meant to address the uncertainty associated with an
16 estimate, and that when you have reached the end of the
17 project, you have consumed that contingency as a part
18 of the addressing the uncertainty.

19 Q. And I guess the contingency might also be
20 based upon the stage the project might be when
21 you're --

22 A. Absolutely.

23 Q. -- doing your initial analysis?

24 A. Yes, sir. The earlier in the process, the

1 higher the uncertainty. Therefore, the larger the
2 contingency. As you proceed through the process
3 process, get to, let's say, three-quarters of a design
4 of a facility, right, the anticipation is your
5 uncertainty is much, much less. Your contingency would
6 be much less.

7 Q. And I recall there being some discussion
8 about a project down in Mooresville where a contingency
9 was projected at a fairly substantial level and where
10 it came also within budget. Could you speak to that a
11 little bit?

12 A. Well --

13 Q. As I recall, there was some clarity provided
14 about there being dual lines being installed as opposed
15 to replacement of the line.

16 A. Right. There was, I think, some confusion
17 with regards to the fact that we were not necessarily
18 taking a line out of service. We were adding another
19 line in addition to the existing line in Mooresville
20 and increasing capacity coming through down that very
21 busy highway.

22 So that, I think, was a little bit of
23 confusion early on with regards to what the intent was
24 with that project.

1 COMMISSIONER MCKISSICK: Thank you. I
2 think you provided some clarity about issues that
3 were in the back of my mind in reading through the
4 stipulation.

5 COMMISSIONER CLODFELTER: Commissioner
6 Kemerait?

7 EXAMINATION BY COMMISSIONER KEMERAIT:

8 Q. Mr. Denton, just to follow up briefly on
9 questions by Commissioners Clodfelter and McKissick.

10 In regards to the state revolving fund
11 grants, the stipulation has seven projects that you
12 would be committed to and required to apply for those
13 grants.

14 But outside of this settlement agreement, if
15 the Company identifies additional projects that might
16 be able to apply or applicable for those grants, I
17 assume that, outside of the settlement agreement, the
18 Company would pursue applying for those grants if you
19 did identify those additional projects.

20 Could you just confirm that that is something
21 that you would do outside of the settlement
22 agreement --

23 A. We would.

24 Q. -- if it's applicable?

1 A. We would evaluate each and every project that
2 we believe is applicable, right, and that it is
3 cost-effective, right, as we move forward in this, yes.
4 That's part of our vision, that we move forward and do
5 that.

6 COMMISSIONER KEMERAIT: Okay. Thank you
7 for that confirmation.

8 THE WITNESS: Absolutely.

9 EXAMINATION BY COMMISSIONER CLODFELTER:

10 Q. All right. Mr. Denton, I have a question I
11 was going to spring on Mr. Junis, but, in fairness, I
12 ought to ask it of you as well. In other words, I'll
13 spring it on you too.

14 So the statute here we're looking at says
15 that the performance-based metrics shall be part of the
16 plan. It's a pretty strong signal that the legislature
17 considers that a fairly significant element of the
18 plan.

19 And so what we've got in the stipulation is
20 an agreement between the Company and the Public Staff
21 that you'll bring us the meat on the bones for that
22 essential element within six months of the date we
23 issue an order in the rate case. That's a key piece of
24 the rate case, and so it's still hanging out there as a

1 loose end six months after we issue an order.

2 If we give you -- if we finish the hearing
3 today, we'll give you some time to file proposed orders
4 and get a transcript in, and then we'll go to work on
5 the Commission's order. And we may not have an order
6 out before sometime in January or February, and you're
7 going to be well into the first rate year before we
8 even take a look at what the flesh on the bones, as I
9 say, looks like.

10 And I understand the stipulation says that
11 whatever happens at that point gets retroactive to the
12 beginning of rate year one, but I will say to you, and
13 I'll use a fairly neutral word, that it just causes me
14 a little discomfort to be -- leave that hanging out
15 there that long.

16 So suppose the Commission were to say to you
17 and the Public Staff, "That's too long. You guys have
18 been talking. Keep talking"? You know? I'm sure none
19 of you have anything booked for Christmas Eve or New
20 Year's Eve, so you could talk then.

21 What if we were to tell you we want something
22 back in 60 days from the conclusion of this hearing?
23 What would your reaction be?

24 A. Well, first I would say that we do have

1 metrics, so we've submitted the metrics. I think what
2 we're talking about is the incentives and penalties,
3 really, and also whether or not there are any either
4 additional or adjustments to these metrics. But we do
5 have metrics that we put forth, just from that
6 standpoint.

7 But if the Commission were to come back and
8 say 60 days, we would move to do our best to be back in
9 60 days.

10 Q. Enough said. It was just a shot across the
11 bow.

12 A. Okay.

13 Q. I don't know what we'll decide to do
14 collectively, but I just wanted to ask the question.

15 A. Okay.

16 Q. Okay?

17 COMMISSIONER CLODFELTER: That's all I
18 have. Thank you.

19 Any questions on the Commissioners'
20 questions?

21 MS. HOLT: No questions.

22 COMMISSIONER CLODFELTER: Okay.

23 MS. SANFORD: No questions.

24 COMMISSIONER CLODFELTER: All right.

1 Thank you, Mr. Denton. We appreciate
2 it.

3 MS. SANFORD: Our next witness is
4 Tony Konsul.

5 COMMISSIONER CLODFELTER: Thank you.

6 Whereupon,

7 TONY J. KONSUL,
8 having first been duly sworn, was examined
9 and testified as follows:

10 COMMISSIONER CLODFELTER: Okay. Thank
11 you, sir.

12 (Rebuttal Exhibit TJK-1 was identified
13 and admitted into evidence.)

14 (Whereupon, the prefiled rebuttal
15 testimony of Tony J. Konsul was copied
16 into the record as if given orally from
17 the stand.)

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Tony J. Konsul and my business address is 5821 Fairview
3 Road, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Director, State Operations for Carolina Water Service, Inc. of North
6 Carolina ("CWSNC" or "Company").

7 **Q. ARE YOU THE SAME TONY J. KONSUL WHO ADOPTED CASE-IN-
8 CHIEF TESTIMONY FILED BY DANA HILL ON BEHALF OF CWSNC IN
9 THIS PROCEEDING?**

10 A. Yes, I am.

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. The purpose of my testimony is to respond to positions of the Public Staff
13 in its direct testimony filed in this Docket, particularly as they relate to the
14 customer benefits of AMI meters, the Pinnacle Shores water main relocation
15 project, The Point secondary interconnect project, and the tariff revision
16 associated with the proposed Sewer Use Rule.

17 **Q. WHAT IS PUBLIC STAFF'S RECOMMENDATION WITH RESPECT TO
18 AMR AND AMI METERS?**

19 A. Public Staff witness Lindsay Darden asserts that CWSNC's plan to invest
20 approximately \$2.57 million in AMI replacement projects within WSIP Years

1 1 and 2 would be an unreasonable cost because the current AMR and AMI
2 meters provide little to no realized benefit to customers. Public Staff
3 recommends CWSNC first implement the process to allow customers to
4 directly access their AMI data, without having to contact a Company
5 employee. The Public Staff also recommends CWSNC modify its
6 notification letter to communicate the ability for customers to access their
7 personal data and otherwise make them aware of the technology and
8 benefits that could be available to them.

9 **Q. HOW DO YOU RESPOND TO THE ASSERTION THAT THE COMPANY'S**
10 **CURRENT AMR OR AMI METERS DO NOT PROVIDE BENEFITS TO**
11 **CUSTOMERS?**

12 A. I disagree. The Company believes advanced technologies such as AMR
13 and AMI do provide numerous benefits to customers, and that these
14 benefits will be amplified when AMI meters are rolled out and installed
15 across the state. While it is accurate that CWSNC does not currently provide
16 customers with immediate access to their AMR or AMI data, CWSNC does
17 provide AMR or AMI data directly to customers upon their request. CWSNC
18 is working to allow customers to more directly access their AMI data. It
19 should be noted that only one initial system in North Carolina (Mountain Air)
20 has AMI meters partially installed, but the plans are for many more systems
21 to have AMI meters installed over the coming years. Once all meters are
22 installed in Mountain Air, customers will be able to access their data through

1 the company's interfaced module called My Utility Connect, and will be able
2 to view many customer benefits. For example, customers will be able to
3 view their hourly, daily, and monthly consumption. In addition, customers
4 will have an opt-in choice to sign up for leak detection alerts which would
5 allow them to take nearly immediate action if needed in the case of a water
6 service line rupture or broken pipe inside the home. This leak detection
7 feature will benefit all customers but especially those seasonal customers.
8 Customers will also be able to view a weather overlay which would include
9 the ambient air temperature; this may be useful in colder climates and used
10 in conjunction with leak detection alerts. Customers will also be able to see
11 their billing period average usage, projected usage, and highest usage of
12 the year.

13 My Utility Connect currently has built in integration for AMI meters,
14 specifically in two of its Georgia systems. As AMI meters are rolled out
15 through North Carolina, CWSNC anticipates minimal integration time prior
16 to customers being able to receive their AMI data.

17 **Q. HOW DOES THE COMPANY RESPOND TO PUBLIC STAFF'S**
18 **RECOMMENDATION AS TO NOTIFYING AND EDUCATING**
19 **CUSTOMERS ABOUT THE BENEFITS OF AMI METERS?**

20 **A.** CWSNC plans to provide better customer noticing going forward, listing
21 customer benefits of AMI technology in a more comprehensive manner.

1 **Q. DO YOU AGREE WITH PUBLIC STAFF'S RECOMENDATIONS**
2 **RELATED TO COST ESTIMATES RECEIVED FROM ENGINEERS?**

3 A. No. Public Staff witness Lucas recommends that CWSNC require more
4 detailed cost estimates from its engineering consultants. In support of its
5 recommendation, witness Lucas pointed to an engineering consultant's
6 estimate for relocating a water line for the Pinnacle Shores system. That
7 particular cost estimate did not provide separate estimates for each line item
8 but instead reflected a total lump-sum estimate for the project.

9 On the Pinnacle Shores project, the engineering is being conducted
10 by the North Carolina Department of Transportation ("NCDOT") engineers,
11 and not CWSNC. As such, the cost estimate that was provided is the cost
12 estimate that NCDOT engineers provided to CWSNC. Typically, cost
13 estimates obtained by CWSNC do include additional detail. The Pinnacle
14 Shores cost estimate is fairly characterized as a one-off and not
15 representative of cost estimates received by CWSNC. Therefore, basing
16 recommendations on the Pinnacle Shores cost estimate would be
17 inappropriate.

18 **Q. HAS THE PUBLIC STAFF MADE AN ADJUSTMENT TO REFLECT**
19 **RETIREMENT RELATED TO THE INTERCONNECT PROJECT AT THE**
20 **POINT?**

21 A. Yes. In its Joint Testimony, Public Staff calculated and incorporated a
22 retirement estimate of \$424,515 due to its understanding that The Pointe's

1 interconnection with Town of Mooresville project resulted in the
2 replacement and retirement of the existing 8-inch water main. Because the
3 existing 8-inch water main interconnection with the Town of Mooresville was
4 placed in service in 2013 and the \$471,683 capital cost was incorporated
5 into rates as part of the Sub 336 rate case, Public Staff recommended an
6 associated retirement amount.

7 **Q. DOES THE COMPANY AGREE WITH THIS RETIREMENT**
8 **ADJUSTMENT?**

9 A. No, because the existing 8-inch water main is still and will remain in use –
10 it is not being retired or replaced. This ongoing project consists of
11 constructing a 12” water main as an additional interconnect, as shown on
12 Rebuttal Exhibit TJK-1. The new extension will connect to the 12” water
13 main located within the Brawley School Road right-of-way, which is under
14 construction as part of the Forest Lake Townhome project. The new 12-inch
15 main, working in tandem with the 8-inch main, will allow CWSNC to
16 purchase additional water supply from the Town of Mooresville.

17 **Q. WHAT IS PUBLIC STAFF’S POSITION ON THE PROPOSED SEWER**
18 **USE RULE?**

19 A. Public Staff witness Darden states the Public Staff’s agreement with
20 implementation of CWSNC’s proposed Sewer Use Rule, but recommends
21 additional detail and clarification be added to the Uniform and BF/FH/TC

1 sewer tariffs as to customers subject to the terms of the Sewer Use Tariff.
2 This language is found on page 38, lines 11-29 of the Direct Testimony of
3 Lindsay Q. Darden, filed on October 26, 2022.

4 **Q. DOES THE COMPANY AGREE WITH THIS PROPOSED LANGAUGE?**

5 A. For the most part, yes. The sole modification the Company would propose
6 is to clarify that the Company may require installation and/or proper
7 operation of grease traps or other pre-treatment devices on commercial
8 facilities. The phrase "or other pre-treatment devices" is not included in
9 Public Staff's recommended language, but it would provide the Company
10 with additional flexibility to ensure the appropriate device would be required,
11 depending on the commercial facility at issue.

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

14 A. Yes.

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

16 A. Yes, it does. However, I reserve the right to update or amend this testimony
17 upon receipt of additional relevant data or other information that may
18 become available.

1 DIRECT EXAMINATION BY MR. ALSON:

2 Q. Good morning, Mr. Konsul.

3 A. Good morning.

4 Q. Could you please state and spell your name
5 for the record.

6 A. Tony Konsul, K-O-N-S-U-L, director of state
7 operations, 5821 Fairview Road, Charlotte,
8 North Carolina 28209.

9 MR. ALSON: Thank you very much, sir.

10 The witness is available for cross.

11 COMMISSIONER CLODFELTER: Any cross?

12 MS. HOLT: No questions.

13 COMMISSIONER CLODFELTER: Okay.

14 Any questions, then, from Commissioners?

15 (No response.)

16 COMMISSIONER CLODFELTER: Okay. You're
17 done.

18 THE WITNESS: Thank you.

19 COMMISSIONER CLODFELTER: You bet.

20 Thank you.

21 MS. SANFORD: Our next witness is
22 Matt Schellinger.

23 COMMISSIONER CLODFELTER: Good morning,
24 sir.

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THE WITNESS: Good morning.

Whereupon,

MATTHEW P. SCHELLINGER II,

having first been duly sworn, was examined

and testified as follows:

COMMISSIONER CLODFELTER: Great. Please

be seated.

(Rebuttal Exhibits MPS-1 through MPS-5

were admitted into evidence.)

(Whereupon, the prefiled direct

testimony, prefiled rebuttal testimony,

and prefiled settlement testimony of

Matthew P. Schellinger, II were copied

into the record as if given orally from

the stand.)

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Matthew P. Schellinger II. My business address is 4944
3 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Manager of Financial Planning and Analysis for Carolina Water
6 Service, Inc. of North Carolina (“CWSNC” or “Company”).

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND?**

9 A. I have been employed by CWSNC since October 2019. I received a
10 Bachelor of Science Degree with a major in Accounting from the University
11 of South Florida in 2012. I received a Master of Business Administration
12 with a focus in Management and Strategy from Western Governors
13 University in 2016. Prior to joining CWSNC, I was employed as a controller
14 for an insurance agency from 2007 to 2013. In that capacity, I performed
15 general corporate accounting functions on a daily and monthly basis. From
16 2013 to 2019, I was employed by the South Carolina Office of Regulatory
17 Staff, first as an Auditor and starting in 2016 as a Regulatory Analyst. In that
18 capacity I performed regular reviews of water, sewer, natural gas, and
19 electric regulatory filings.

20 **Q. WHAT ARE YOUR DUTIES WITH CWSNC?**

21 A. My primary responsibilities include forecasting, budgeting, and financial
22 analysis for the Company.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to address certain financial and regulatory
4 aspects of the case including, but not limited to: (1) the Company's pro
5 forma revenues and billing analysis; (2) the Company's revenue
6 requirements for the Water & Sewer Investment Plan ("WSIP") years; (3)
7 Growth and Consumption assumptions through the WSIP rate years; and
8 (4) the Company's proposed rate design for water and sewer.

9 **PRO FORMA REVENUES**

10 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THE COMPANY HAS MADE**
11 **TO TEST YEAR ACTUAL REVENUES IN COMPUTING PRO FORMA**
12 **PRESENT RATE REVENUES.**

13 A. The Company completed a bill analysis to compile the base rate billing
14 activity for the Test Year. The active customer count as of the end of the
15 Test Year, March 31, 2022, was identified to determine total active
16 customers. The Test Year's actual customer consumption was utilized for
17 the Test Year total consumption. The Company applied the rates for the
18 applicable tariff Rate Divisions as approved in Docket No. W-354, Sub 384¹
19 to the billing determinants to price out pro forma present rate revenues at
20 base rates.

¹ The Commission's Order in the Company's last rate case was issued on April 8, 2022, in Docket No. W-354, Sub 384.

1 The Company further added pro forma revenues associated with the
2 acquisition of Echota and Seven Devils, which the Company has requested
3 inclusion of Uniform Rates for in Docket No. W-354, Sub 396. In the event
4 that this acquisition is not included at the Uniform Rate level, the Company
5 respectfully requests that the associated revenues and expenses be
6 modified to the appropriate levels.

7 **Q. WHAT ARE THE PRESENT RATE SERVICE REVENUES FOR EACH**
8 **RATE DIVISION?**

9 A. As a result of the calculation described above, the present rate service
10 revenues in this proceeding are as follows for the Company's Rate
11 Divisions: \$22,829,960 for Uniform Water, \$17,545,162 for Uniform Sewer,
12 \$1,881,112 for Bradfield Farms / Fairfield Harbour / Treasure Cove
13 ("BF/FH/TC") Water, and \$2,633,654 for BF/FH/TC Sewer. Please see
14 Appendix 3 to the NCUC Form Application, Schedule B-1a and B-1b,
15 Column C.

16 **Q. HOW DID YOU CALCULATE SERVICE REVENUE INCREASES FOR**
17 **EACH RATE DIVISION FOR THE THREE YEARS OF THE PROPOSED**
18 **WSIP?**

19 A. The Company developed revenue requirements in each of the three years
20 of the proposed WSIP period, including capital plan assumptions and
21 expense assumptions. These assumptions and revenue requirement builds
22 are provided in detail in Appendix 2, 3, and 5 - Schedules A, B, and D

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1 provided in support of the NCUC Form Application. Further detail on the
2 expense assumptions is provided in CWSNC witness Drennan's testimony.

3 The full revenue requirement generated as a result of the Company's
4 capital improvement plan and expense increase assumptions would result
5 in a greater than 5% revenue increase in WSIP Rate Year 2; as a result of
6 this, the Company has reduced the requested revenue requirement in WSIP
7 Rate Year 2.

8 **Q. WHAT WOULD THE SERVICE REVENUE INCREASE BE FOR EACH**
9 **RATE DIVISION FOR RATE YEARS 1, 2, AND 3 OF THE WSIP?**

10 A. Based on the Test Year revenues, as adjusted, the resulting increases to
11 present rate service revenues for WSIP Year 1 would be as follows:
12 \$3,672,513 for Uniform Water, \$3,920,924 for Uniform Sewer, \$613,607 for
13 BF/FH/TC Water, \$640,211 for BF/FH/TC Sewer; and \$8,847,255 or
14 19.709% for the Company in total.

15 Based on the WSIP Year 1 revenues, as adjusted, the resulting
16 increases to WSIP Year 1 revenues for WSIP Year 2 would be as follows:
17 \$1,056,012 for Uniform Water, \$1,230,833 for Uniform Sewer, \$142,391 for
18 BF/FH/TC Water, \$253,099 for BF/FH/TC Sewer, and \$2,682,335 or
19 4.992% for the Company in total.

20 Based on the WSIP Year 2 revenues, as adjusted, the resulting
21 increases to WSIP Year 2 revenues for WSIP Year 3 would be as follows:
22 \$1,052,076 for Uniform Water, \$1,329,317 for Uniform Sewer, \$103,315 for

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BF/FH/TC Water, \$135,324 for BF/FH/TC Sewer, and \$2,620,032 or 4.644% for the Company in total.

A summary of these numbers and requested increases is provided below; detailed revenue and rate builds are provided in Appendix 6 – Schedule E provided as an attachment to the NCUC Form Application.

Total CWSNC		Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
Service Revenue Requirement				48,955,635	53,734,457	56,602,428	59,035,791
Service Revenue Request Increase		43,584,248	44,889,887	48,959,296	53,737,142	56,419,477	59,039,509
% Increase				4,069,409	8,847,255	2,682,335	2,620,032
				9.065%	19.709%	4.992%	4.644%

CWSNC Revenue - Water	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
CWSNC Water - Fixed	40%	8,714,065	9,009,368	9,797,875	10,598,911	11,025,291	11,449,256
CWSNC Water - Volumetric	60%	13,071,670	13,820,592	14,700,941	15,903,563	16,533,194	17,161,305
Service Revenue Request Increase	100%	21,785,735	22,829,960	24,498,816	26,502,473	27,558,485	28,610,561
				1,668,856	3,672,513	1,056,012	1,052,076

CWSNC Revenue - Sewer	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
CWSNC Sewer - Fixed	60%	10,409,637	10,762,555	11,588,952	12,879,692	13,619,037	14,416,804
CWSNC Sewer - Volumetric	40%	6,941,692	6,782,607	7,722,701	8,586,393	9,077,881	9,609,432
Service Revenue Request Increase	100%	17,351,329	17,545,162	19,311,653	21,466,085	22,696,918	24,026,236
				1,766,491	3,920,924	1,230,833	1,329,317

BFFHTC Revenue - Water	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
BFFHTC Water - Fixed	40%	737,512	745,057	847,454	997,087	1,054,845	1,096,535
BFFHTC Water - Volumetric	60%	1,105,110	1,136,055	1,270,409	1,497,632	1,582,265	1,643,889
Service Revenue Request Increase	100%	1,842,622	1,881,112	2,117,863	2,494,719	2,637,110	2,740,424
				236,751	613,607	142,391	103,315

BFFHTC Revenue - Sewer	Ratio	Sub 384 Approved	Current Revenue at Present Rates	Base Case Proposed Revenue	WSIP Year 1 Proposed Revenue	WSIP Year 2 Proposed Revenue	WSIP Year 3 Proposed Revenue
BFFHTC Sewer - Fixed	99.847%	2,601,186	2,629,629	3,026,333	3,268,823	3,521,588	3,656,684
BFFHTC Sewer - Volumetric	0.153%	3,376	4,024	4,632	5,042	5,376	5,604
Service Revenue Request Increase	100.000%	2,604,562	2,633,654	3,030,965	3,273,865	3,526,964	3,662,288
				397,311	640,211	253,099	135,324

Q. IN THE EVENT THE WSIP PLAN IS NOT APPROVED, WHAT ARE THE REVENUES THE COMPANY REQUESTS AS PART OF A BASE CASE INCREASE?

1 A. Based on the Test Year revenues, as adjusted, the resulting increases to
2 present rate service revenues would be as follows: \$1,668,856 or 7.31% for
3 Uniform Water, \$1,766,491 or 10.068% for Uniform Sewer, \$236,751 or
4 12.586% for BF/FH/TC Water, and \$397,311 or 15.086% for BF/FH/TC
5 Sewer. Please see Appendix 3 to the NCUC Form Application, Schedule B-
6 1a and B-1b, Column D.

7 **Q. HOW DOES THE COMPANY PROPOSE TO APPLY THE**
8 **RECOMMENDED RATE INCREASES TO EACH RATE DIVISION?**

9 A. CWSNC proposes to maintain the 40/60 ratio of fixed/volumetric revenues
10 for its water rate divisions as approved by the NCUC in Docket No. W-354,
11 Sub 384, the Company's most recent general rate case. The Company also
12 proposes to maintain the existing fixed/volume ratios for its sewer tariffs
13 (60/40 ratio fixed/volumetric). As reflected on W1-10, Schedule 18, the
14 Company has included adjustments to its purchased water and purchased
15 sewer treatment-driven volumetric rates to flow through recent rate changes
16 from its vendors.

17 **Q. HAVE YOU PREPARED A PROOF OF REVENUES FOR THIS CASE?**

18 A. Yes. Please see Appendix 6 to the NCUC Form Application, Schedule E,
19 for the detailed proof of revenues for both present and proposed rate service
20 revenues – WSIP Rate Years 1, 2, and 3 as well as the alternative base
21 case based on the Test Year results.

1 **Q. WHAT FURTHER RATE DESIGN CONSIDERATIONS HAS THE**
2 **COMPANY INCLUDED IN ITS APPLICATION?**

3 A. The Company made growth assumptions for all rate divisions based on the
4 equivalent residential connection (“ERC”) changes realized from the Docket
5 No. W-354, Sub 364, Sub 384, and the current Sub 400 residential
6 connections. These data points provide a reasonable trend in ERC growth
7 as well as availability customer reductions over a four-year period.

8 These growth trends were projected out over the three WSIP periods
9 in order to account for base line growth. The Company assumed a mid-point
10 average of end of period and beginning of period customers in order to
11 determine rates based on the previously calculated revenue requirements.

12 A table providing detailed growth assumptions is provided in
13 response to W1-28(a).

14 As discussed previously, the Company further added ERCs
15 associated with the acquisition of Echota and Seven Devils systems at the
16 Uniform Rate.

17 The Company did not make any consumption adjustments through
18 the WSIP periods in this case. As a result of the Docket No. W-354, Sub
19 384 testimony, settlement, and resulting order, there will likely be average
20 consumption reductions through the WSIP rate years.

21 Through the WSIP plan periods, the Company is not proposing or
22 estimating purchased water or sewer treatment adjustments. The Company

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1 intends to continue to utilize the purchased water and sewer pass through
2 adjustment mechanisms through the WSIP which will allow adjustments to
3 revenue and expenses that match through those periods.

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

6 A. Yes.

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

8 A. Yes, it does. However, I reserve the right to update or amend this testimony
9 upon receipt of additional relevant data or other information that may
10 become available.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Matthew P. Schellinger II. My business address is 5821
3 Fairview Road, Suite 401, Charlotte, North Carolina 28209.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am Regional Director of Financial Planning and Analysis, East Region for
6 the Corix Group of Companies (“Corix”). In this capacity, I oversee financial
7 planning and analysis for Carolina Water Service, Inc. of North Carolina
8 (“CWSNC” or “Company”).

9 **Q. ARE YOU THE SAME MATTHEW SCHELLINGER WHO SUBMITTED**
10 **CASE-IN-CHIEF TESTIMONY ON BEHALF OF CWSNC IN THIS**
11 **PROCEEDING?**

12 A. Yes, I am.

13 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

14 A. The purpose of my testimony is to respond to positions of the Public Staff
15 in its direct testimony filed in this Docket, particularly as they relate to
16 CWSNC’s revenue requirement, pro-forma adjustments, rate design,
17 inflationary adjustments, and rate base through the Water and Sewer
18 Investment Plan (“WSIP” or “MYRP”) period.

1 **Q. DOES THE COMPANY AGREE WITH ANY OF PUBLIC STAFF'S**
2 **ADJUSTMENTS TO THE COMPANY'S REQUESTED REVENUE**
3 **REQUIREMENT?**

4 A. Yes. The Company believes it is in agreement with the Public Staff on a
5 number of adjustments to the filing, as a result of the ordinary negotiated
6 process of mutual correction of errors, explanations, and provision of
7 additional information.

8 This includes updates to miscellaneous revenues, reclassification of
9 certain utility accounts, application of insurance proceeds from Hurricane
10 Florence, rate base roll forward through August 31, 2022, reclassification of
11 excess deferred income taxes from miscellaneous expenses, transportation
12 expense, and adjustments for the regulatory rate change. Further, CWSNC
13 agrees with the general calculation and application of certain fallout
14 adjustments such as average tax accruals, cash working capital, and ADIT.

15 Please note: my failure to rebut any specific positions of the Public
16 Staff is not a tacit acceptance of the Public Staff's position or method of
17 calculation on those issues.

18

1 **I. UNCOLLECTIBLES**

2 **Q. PLEASE DESCRIBE PUBLIC STAFF'S POSITION ON**
3 **UNCOLLECTIBLES AND ITS CALCULATED UNCOLLECTIBLES RATE.**

4 A. The Public Staff states on Page 14 of the Joint Testimony of Darrell Brown
5 and Lynn Feasel that it is utilizing a previously approved methodology of
6 calculating uncollectibles for each Company Division; it then further takes a
7 five-year normalized average to account for anomalies.

8 **Q. DOES PUBLIC STAFF'S TESTIMONY ACCURATELY REPRESENT**
9 **PUBLIC STAFF'S ADJUSTMENT TO UNCOLLECTIBLES RATE?**

10 A. No. First, the Public Staff's position on uncollectibles has not been a
11 previously approved methodology for calculating uncollectibles in
12 CWSNC's prior rate cases. Second, the number put forth by Public Staff is
13 not representative of a five-year calculation of uncollectible expenses.
14 Public Staff has used a variety of inconsistent sources of prior Rate Division
15 uncollectible rates in its averaging of uncollectibles expense.

16 For the twelve months ended March 31, 2021, Public Staff used the
17 uncollectible rates as approved in W-354, Sub 384, a settled case. For the
18 twelve months ended March 31, 2020, Public Staff used the uncollectible
19 rates as calculated from CWSNC's trial balance. For the twelve months
20 ended March 31, 2019, Public Staff used the rates as approved in W-354,

1 Sub 364. For the twelve months ended March 31, 2018, Public Staff used
2 the uncollectible rates as calculated in CWSNC's trial balance. For the
3 twelve months ended March 31, 2017, Public Staff used the uncollectible
4 rates as calculated from CWSNC's trial balance.

5 Significantly, in calculating this five-year average, Public Staff did not
6 include recent data after March 31, 2021, as provided for and representative
7 of the test year in this current rate case. ¹

8 **Q. PLEASE DESCRIBE CWSNC'S POSITION ON ITS UNCOLLECTIBLES**
9 **RATE.**

10 A. The Company has calculated the uncollectibles rate for the base case, and
11 future rate years based on the test year service revenues, bad debt, and
12 uncollectibles expense levels. As shown on Rebuttal Exhibit MPS-1, and in
13 the September 19, 2022 update filing, CWSNC affirms the most reasonable
14 and accurate level of uncollectibles is the twelve months ended 03/31/22,
15 or the test year. The twelve months ended 03/31/22 is representative of the
16 Company's current uncollectibles rate due to the changes in economic
17 pressures as compared to prior periods. An uncollectibles rate for Uniform
18 Rate Division and Bradfield Farms, Fairfield Harbour, Treasure Cove

¹ CWSNC, in discussions with Public Staff, understands that the Public Staff has reviewed and revised its calculation of five-year average uncollectibles expense.

1 (“BF/FH/TC”) Rate Division should be set and applied consistently to water
2 and sewer.

	12 Months Ended	Uniform	BFFHTC
3 Bad Debt / Uncollectibles Rate	3/31/2022	0.98%	1.57%

4 In the event the Commission determines a five-year average for
5 uncollectibles expense is more representative of future operations, CWSNC
6 believes the following rates, as provided in Rebuttal Exhibit MPS-1, are
7 more accurate, as they reflect the Company’s actual experience for each
8 annual period.

	12 Months Ended	Uniform	BFFHTC
Bad Debt / Uncollectibles Rate	3/31/2022	0.98%	1.57%
Bad Debt / Uncollectibles Rate	3/31/2021	0.84%	1.34%
Bad Debt / Uncollectibles Rate	3/31/2020	0.49%	0.99%
Bad Debt / Uncollectibles Rate	3/31/2019	0.76%	1.16%
Bad Debt / Uncollectibles Rate	3/31/2018	0.63%	1.96%
9 2018-2022 Average (5 Year)		0.75%	1.38%

10 **II. CHEMICAL EXPENSES**

11 **Q. PLEASE DESCRIBE PUBLIC STAFF’S POSITION ON CHEMICAL**
12 **EXPENSES.**

13 A. The Public Staff has stated on Page 10 of the Direct Testimony of Shashi
14 M. Bhatta that it does not agree with the Company’s proposed pro-forma
15 adjustment. Public Staff has taken the position that if the pro-forma

1 adjustment is added to the Company's chemical price, the cost of chemicals
2 would be double counted.

3 **Q. DOES PUBLIC STAFF'S TESTIMONY ACCURATELY DESCRIBE THE**
4 **COMPANY'S ADJUSTMENT, OR ACCURATELY REFLECT TOTAL**
5 **CHEMICAL EXPENSES EXPECTED TO BE INCURRED?**

6 A. No. As shown on Rebuttal Exhibit MPS-2, Public Staff's position in
7 testimony and the adjustment as presented are not consistent. As is
8 reflected in CWSNC's pro-forma Chemicals adjustment (Schedule 19):

9 The Company received correspondence from Waterguard
10 that identified certain chemical price changes to be effective
11 7/1/2022. The Company identified WaterGuard invoices in the
12 Test Year. CWSNC analyzed the detailed Test Year chemical
13 purchasing report provided by the vendor, and used the actual
14 quantities purchased, multiplied by the current effective prices
15 to restate test year purchases to reflect the various price
16 increases.

17 The Company only made adjustments to its Waterguard expenses
18 for known and measurable increases, and layered those increases on the
19 remainder of the Company's booked chemical expenses. Rebuttal Exhibit
20 MPS-2 is a side-by-side comparison of the total Waterguard expenses
21 proposed by Public Staff witness Bhatta and the Company's Schedule 19
22 expenses, plus the non-Waterguard expenses. As can be seen in the side-
23 by-side, Public Staff is in agreement with CWSNC's chemical costs for

1 Waterguard, and is actually higher in certain cases, but the Public Staff has
2 not accounted for the known and measurable expenses in the test year that
3 were from other vendors, or for transfers from inventory.

4 **Q. PLEASE DESCRIBE CWSNC'S POSITION ON ITS CHEMICAL**
5 **EXPENSES.**

6 A. The Company reaffirms its position that the adjustment as represented in
7 Schedule 19 is the most accurate way to account for expense increases
8 from the end of the test year. Public Staff agrees with these expense
9 changes as represented in Rebuttal Exhibit MPS-2, but Public Staff failed
10 to account for expenses from other vendors, or for transfers from inventory.
11 CWSNC has demonstrated that there was no double counting in the
12 Company's pro-forma adjustment, as claimed in witness Bhatta's testimony.

13 **III. SLUDGE HAULING EXPENSE**

14 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO SLUDGE**
15 **HAULING EXPENSE?**

16 A. The Company proposes to use the current test year sludge hauling
17 expense, unadjusted, as a reasonable basis for sludge hauling expenses
18 going forward.

1 **Q. WHAT IS THE PUBLIC STAFF'S POSITION WITH RESPECT TO**
2 **SLUDGE HAULING EXPENSE?**

3 A. The Public Staff has used an updated sludge hauling expense
4 representative of the period of September 1, 2021 through August 31, 2022,
5 adjusted for items the Public Staff determined were infrequent events and
6 not representative of operations on a go-forward basis.

7 **Q. DOES THE COMPANY AGREE WITH PUBLIC STAFF'S POSITION WITH**
8 **RESPECT TO SLUDGE HAULING EXPENSE?**

9 A. No. Witness Franklin's position on sludge hauling expenses is a stark
10 departure from Public Staff's position on sludge hauling expenses in prior
11 rate cases. The testimony of Public Staff Witness Gina Y. Casselberry on
12 page 7 of Docket No. W-354, Sub 384 states the Public Staff's position as
13 the following:

14 Sludge removal can vary from year to year, depending on
15 operational changes or system maintenance requirements, in
16 addition to routine sludge removal. For example, system
17 maintenance requirements could include cleaning a digester,
18 clarifier, or equalization tank, or pumping out a retention pond.
19 To determine a representative level for sludge hauling, I
20 reviewed the historical sludge removal expenses from the last
21 two rate cases and the expenses provided by CWSNC in this
22 case to determine the average expense, adjusted for
23 operational changes.

1 Public Staff has taken this same position in testimony filed in the
2 following dockets, which may not be fully inclusive: Testimony of Witness
3 Darden, W-218 Sub 526; Testimony of Witness Darden W-354 Sub 364;
4 Testimony of Witness Casselberry, W-354 Sub 360; and Testimony of
5 Witness Casselberry, W-354 Sub 356.

6 Witness Franklin has utilized an inconsistent mix of adjustments for
7 the Public Staff's current position on sludge hauling expenses. The decision
8 to use the twelve months ending August 31, 2022 is no longer
9 representative of the Company's test year expenses. Additionally, on page
10 8, line 1 through 4, Witness Franklin states, "For Bradfield Farms, I reduced
11 the sludge hauling expense by \$16,856 to match the sludge hauling
12 expense more closely for the test year of CWSNC's previous rate case
13 (Docket No. W-354, Sub 384)." In light of the above, CWSNC requests that
14 the Commission approve a three-year average of sludge hauling expenses
15 as has been previously recommended by the Public Staff, and
16 acknowledging the inherent variability in sludge hauling needs. CWSNC's
17 recommended sludge hauling expenses representative of operations going
18 forward are provided in Rebuttal Exhibit MPS-3.

19 Further, to the extent that Public Staff has made the determination
20 that sludge hauling expenses should not be included in the cost to serve

1 customers due to an underlying capital need, those costs should be
2 included as a Utility Plant In-Service adjustment to the underlying projects
3 for which the sludge removal is attributed.

4 **IV. REGULATORY COMMISSION EXPENSE**

5 **Q. PLEASE DESCRIBE PUBLIC STAFF'S POSITION ON REGULATORY**
6 **COMMISSION EXPENSE.**

7 A. The Public Staff has stated on Page 18 of the Joint Testimony of Darrell
8 Brown and Lynn Feasel that they have made several adjustments to
9 Regulatory Commission Expense, namely that they are using the actual rate
10 case expenses incurred through the Company's update filing provided on
11 September 19, 2022, and they are proposing a rate case expense
12 amortization over five years for the current and prior unamortized balances
13 of rate case expenses. Additionally, certain Fusion implementation costs
14 have been moved to deferred maintenance expense accounts.

15 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
16 **REGULATORY COMMISSION EXPENSE?**

17 A. CWSNC agrees with reclassifying certain Fusion implementation costs to
18 deferred maintenance expense. CWSNC disagrees with the rate case
19 expense amortization period as well as the total of 'Miscellaneous

1 Regulatory Matters per Application' as represented in Brown and Feasel
2 Exhibit I Schedule 3-10.

3 As shown on Brown and Feasel Exhibit I Schedule 3-10, Public Staff
4 has included \$4,726 in 'Miscellaneous Regulatory Matters per Application'.
5 This is not representative of the amounts requested in the Application and
6 supported through data request responses to the Public Staff. \$4,726 is the
7 amount presented in account 612100 – Regulatory Fees, on CWSNC
8 Schedules B-15 a and b. Public Staff did not include account 612900 –
9 Other Regulatory Expenses in the total Company amount of \$140,542.52.
10 These expenses, which largely consist of legal fees directly attributable to
11 regulatory work (regular meetings, report filings, miscellaneous matters and
12 dockets through the normal course of business), are reasonable, prudent,
13 expected to recur, and were not contested by the Public Staff. These
14 expenses should be included in the revenue requirement as an ongoing
15 cost to serve in both the base case and rate years².

16 CWSNC also disagrees with the Public Staff's proposed amortization
17 period for rate case expenses. CWSNC has not finished amortizing prior
18 rate case expenses prior to filing a new rate case, and Public Staff

² CWSNC, in discussions with Public Staff, understands that the Public Staff agrees that these amounts were inadvertently not included in the Public Staff's testimony and exhibits.

1 responded through discovery issued by CWSNC that it is also unaware of
2 a time in which rate case expenses were fully amortized by the time a new
3 rate order was in effect. This has resulted in large unamortized rate case
4 expense balances that continue to accumulate and drive the revenue
5 requirement in future rate proceedings. Currently, the balance of the
6 Company's unamortized prior rate case expenses (\$955,284) is larger than
7 CWSNC's estimated rate case expenses in the current MYRP proceeding
8 (\$750,000). Additionally, Public Staff has taken the position that five years
9 is the approximate amount of time between consecutive Multi-Year Rate
10 Plan ("MYRP" or "WSIP") filings, which is problematic for two reasons. First,
11 Public Staff is using the WSIP plan approval as justification for their position
12 on amortization of rate case expenses while simultaneously proposing the
13 WSIP be denied. Second, five years between MYRP filings is
14 unsubstantiated and is not well supported by the timelines associated with
15 a MYRP filing. Below, a hypothetical example is provided outlining that if a
16 five-year amortization were to continue to occur, unamortized rate case
17 expenses are likely to continue compounding in the future, even assuming
18 a bridge year with no filing before a future MYRP takes effect. In Year 5, 1
19 year of unamortized prior rate case expenses would remain, compounding
20 with the new rate case expenses.

	Start	End	Years Amortized
MYRP Year 1	4/1/2023	3/31/2024	1
MYRP Year 2	4/1/2024	3/31/2025	2
MYRP Year 3	4/1/2025	3/31/2026	3
No Filing	4/1/2026	3/31/2027	4
New MYRP Year 1	4/1/2027	3/31/2028	5

In light of the above example, and recognizing Public Staff's concern on rate case expense amortization, CWSNC proposes a four-year amortization period to ensure that prior rate case expenses can be fully amortized at a reasonable level and compounding will be limited for future customers.

Q. IS THE PERIOD IN WHICH RATE CASE EXPENSES ARE AMORTIZED REFLECTED IN OTHER ADJUSTMENTS?

A. Yes, as reflected in Joint Testimony of Darrell Brown and Lynn Feasel on page 15, there is a capitalized salaries adjustment that is aligned with the amortization period of rate case expenses. CWSNC recommends that the capitalized salaries adjustment align with the rate case expense amortization period, and that it be 4 years.

1 **V. SALARIES AND WAGES**

2 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
3 **SALARIES AND WAGES AND ASSOCIATED PAYROLL TAXES AND**
4 **BENEFITS?**

5 A. Not entirely. Public Staff has taken the position that the salaries and wages
6 should be adjusted for currently vacant positions at the time of the
7 Company's update filing. At the time of the Company's update filing, two
8 positions were vacant. The two vacant positions were for a Lead Water-
9 Wastewater Operator and a Financial Analyst. These positions were not
10 vacated due to turnover at the Company but instead were the result of
11 movement and promotions throughout Corix.

12 The Company does not agree that whether a position is vacant as of
13 the specific date of its update filing is sufficient justification for the
14 determination that those salaries and wages should not be included in the
15 Company's revenue requirement. Further, the Public Staff's position results
16 in salaries and wage disallowances throughout the Rate Years as requested
17 in the Company's WSIP application. The Company would note that it
18 intends to fill the vacant positions out of necessity, that the positions are not
19 new, and they have not been vacant for an extended period of time. For
20 these reasons, the Company believes that the Public Staff's adjustment to

1 Salaries and Wages and subsequent fallout adjustments to Payroll Taxes
2 and Pension and Benefits Expense should be rejected as not representative
3 of the Company's operations over the WSIP term.

4 **VI. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)**

5 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
6 **AFUDC?**

7 A. No, the Company does not agree with the Public Staff's position on over-
8 calculated interest costs associated with projects closed after March 31,
9 2019 through August 31, 2021 as identified in the Joint Testimony of Darrell
10 Brown and Lynn Feasel on page 8. The Company agreed to the removal of
11 those amounts as part of a comprehensive settlement in the Sub 384 docket
12 and those amounts should not be removed and deemed approved in
13 CWSNC's last general rate case. In the current rate case, Public Staff has
14 issued a number of data requests related to the Company's AFUDC policy
15 and subsequent AFUDC calculations. In Data Requests #6 and #35, the
16 Company included schedules showing that some of its AFUDC costs had
17 been under-calculated for projects included in Utility Plant-In-Service for the
18 current rate proceeding. CWSNC believes that the miscalculations should
19 generally be noted as rounding errors and immaterial; further, on the whole
20 the miscalculations are in the customer's favor, and the Public Staff's

1 position has not been consistently applied based on the information
2 available.

3 **VII. DEPRECIATION EXPENSE**

4 **Q. DOES CWSNC AGREE WITH THE PUBLIC STAFF'S POSITION ON**
5 **DEPRECIATION EXPENSE?**

6 A. In large part, CWSNC is in agreement with the methodology used for
7 Depreciation Expense by the Public Staff. To the extent that Utility Plant In-
8 Service amounts change through other adjustments, CWSNC believes that
9 Depreciation Expense will need to be further adjusted.

10 There are two specific areas in which CWSNC believes Depreciation
11 Expense is understated in the Public Staff's exhibits.

12 First, on Brown and Feasel Exhibit 1, Schedule 3-14-1(d), line 10,
13 \$944,752 in Utility Plant In-Service utilizes a 0% depreciation rate. This
14 plant is the Bradfield Farms WWTP electrical rehab work. The project was
15 incorrectly closed out to account 141230 and should have been closed out
16 to account 141209 and received a 2.5% depreciation rate.³

³ CWSNC, in discussions with Public Staff, understands that the Public Staff agrees that the account for this project should be changed in order to calculate Depreciation Expense.

1 Second, CWSNC believes that the Depreciation Expense associated
 2 with plant from the CWSNC Cost Center (primarily Vehicles) is understated
 3 on Brown and Feasel Exhibit 1, Schedule 3-14. Traditionally, Depreciation
 4 Expense on plant that is allocated from the CWSNC Cost Center is
 5 presented on line 2, Depreciation on Allocated Plant. As seen on Schedule
 6 3-14, this current level of Depreciation on Allocated Plant is \$0. On
 7 Schedules 3-14-1 (a through d), some Depreciation Expense on Vehicles is
 8 accounted for, but is not representative of the actively depreciating vehicles
 9 on the Company’s books. Below is a table from 3-14-1(a) line 40, 3-14-1(b)
 10 line 50, 3-14-1(c) line 39, and 3-14-1(d) line 41 showing total Depreciation
 11 Expense on Vehicles per Public Staff’s exhibits of \$98,022.

Line	New Account No.	Item	Plant In Service	Depreciation Rate	Annual Depreciation
40	141401	Transportation equip.	\$306,968	20.00%	61,394
50	141401	Transportation equip.	\$183,139	20.00%	36,628
39	141401	Transportation equip.	(\$26)	20.00%	(5)
41	141401	Vehicles	(\$26)	0.00%	0

13 Public Staff should incorporate the below highlighted corrections to
 14 Schedule 3-14 in order to properly account for depreciation expense from
 15 the Atlantic Region Cost Center and the CWSNC Cost Center. ⁴

⁴ CWSNC, in discussions with Public Staff, understands that the Public Staff agrees that these amounts were inadvertently not included in the Public Staff’s testimony and exhibits.

Line No.		CWSNC		CWSNC		BF/FH/TC		BF/FH	
		Water		Sewer		Water		Sewer	
		(a)		(b)		(c)		(d)	
1	Depreciation on direct plant	\$3,378,788	[1]	\$3,065,342	[6]	\$149,231	[9]	\$422,108	[12]
2	Depreciation on allocated plant	202,699	[2]	113,577	[2]	27,377	[2]	27,914	[2]
3	Gain on sale	0	[3]	0	[3]	0	[3]	0	[3]
4	Excess book value	0	[3]	0	[3]	0	[3]	0	[3]
5	Total depreciation expense (Sum of L1 thru L4)	\$3,581,487		\$3,178,919		\$176,608		\$450,022	

VIII. RATE DESIGN

Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO RATE DESIGN?

A. The Company proposes to maintain the fixed and volumetric rate recovery proportions agreed to in settlement and approved in Sub 384 by the Commission on April 8, 2022 – that is, a 40%/60% fixed/volume ratio for the Uniform Water Rate Division and BF/FH/TC Water Rate Division, and a 60%/40% fixed/volume ratio for the Uniform Sewer Rate Division, as well as maintain the existing ratios for the BF/FH Sewer Rate Division.

Q. WHAT DOES PUBLIC STAFF PROPOSE WITH RESPECT TO RATE DESIGN?

A. The Public Staff has proposed a shift to 30%/70% fixed/volume ratio for the Water Rate Divisions, and a shift to 40%/60% fixed/volume ratio for Uniform Sewer.

1 **Q. DO YOU AGREE WITH THE PUBLIC STAFF'S PROPOSAL? IF NOT,**
2 **PLEASE EXPLAIN WHY.**

3 A. We do not agree with the Public Staff's position concerning the fixed charge
4 to volumetric charge ratios for water and sewer rate designs for the current
5 proceeding, for several reasons. First, the Public Staff's proposed rate
6 designs represent significant changes, especially with regard to customer
7 bill impacts. Given the potential for significant customer billing volatility and
8 complaints (as occurred following the Company's W-354, Sub 336 rate
9 case, which resulted in significant rate design changes for sewer
10 customers), we believe a more cautious and incremental approach is
11 prudent at this time. The Company has already agreed to, and the
12 Commission has ordered, significant rate design shifts over the last two rate
13 proceedings for CWSNC, the most recent shift being from the prior
14 50%/50% fixed to volumetric ratio for water customers in Sub 384. As of the
15 update period through August 31, 2022, customers have received no more
16 than five bills with this new rate design from Sub 384. There has not been
17 sufficient time for the impact of this rate design change to be fully realized
18 and observed in customer conservation and efficiency signals, customer
19 billing volatility, or potential revenue stability implications for the Company.
20 Public Staff has stated that their targeted goal for an ideal service revenue

1 ratio is 30/70 for both water and sewer services, but notes that as a means
2 of mitigating rate shock the recommended service revenue ratios should
3 change gradually and incrementally. A wholesale shift from 50/50 to 30/70
4 over a two-year period is not gradual and certainly does not allow enough
5 time for customers, the Company, or the Commission to understand the full
6 implications of such changes in rate design.

7 Additionally, the Commission is in the midst of a generic proceeding
8 addressing rate design (W-100 Sub 59), and we believe it would be
9 appropriate to allow for guidance from the Commission upon the conclusion
10 of the generic proceeding before making any further rate design changes in
11 this or future proceedings, let alone the significant changes proposed by the
12 Public Staff. It is important to note that not only would customers' bills
13 become more volatile under the Public Staff's proposal, but the Company's
14 revenue levels would become more unstable as well. The Company
15 believes the current rate design ratios are fair and reasonable to both
16 CWSNC and its customers as it appropriately balances the competing
17 interests involved. As witness Darden has requested the Public Staff
18 comments in Sub 59 be incorporated into this proceeding, the Company
19 accordingly requests the joint comments of CWSNC and Aqua NC be
20 entered into the record of the current proceeding.

1 Lastly, witness Darden states that if the MYRP is approved, the
2 Company's revenue sufficiency is further protected by the return on equity
3 banding. This statement is not accurate. The Company's remedy should
4 there be revenue deficiencies under the MYRP due to usage volatility is no
5 different than if the Company did not have an approved MYRP and
6 Consumption Adjustment Mechanism: to file a new base rate case.

7 It is prudent and reasonable to maintain the current balance between
8 fixed and volumetric charges in CWSNC's rate structure until a large-scale
9 policy and process is codified and implemented on a consistent basis for
10 North Carolina water and sewer utilities, which would allow for more
11 comprehensive and unified customer education measures and messaging
12 as to the priorities and rationales behind the resulting rate design.

13 **IX. WSIP REVENUE REQUIREMENTS**

14 **Q. ARE THE PUBLIC STAFF'S PROPOSED REVENUE REQUIREMENTS**
15 **THROUGH THE WSIP RATE YEARS REPRESENTATIVE OF THE**
16 **COMPANY'S FORECASTED UTILITY OPERATIONS?**

17 **A.** No. The Public Staff's calculations and presentation of their WSIP revenue
18 requirements have effectively proposed that Utility Plant In-Service,
19 Depreciation Expense, Accumulated Depreciation, and Retirements occur

1 on day one of a WSIP Rate Year, instead of reflecting activity as it is
2 expected to occur across the Rate Year.

3 The Company believes this is not representative of operations in a
4 given Rate Year for several reasons. First, it assumes that every capital
5 project will be in-service on day one of a Rate Year, includes a full year of
6 depreciation on day one of the Rate Year, and assumes a full year of
7 Accumulated Depreciation on day one of the Rate Year. This conceptually
8 does not align with the Company's operations in the applicable Rate Years,
9 nor with the Company's actual operations currently or historically. As the
10 Company completes projects over time, they are placed into Utility Plant-In-
11 Service on a monthly basis, net of retirements. Those projects begin
12 generating Depreciation Expense as they are placed into service. As an
13 example, a project that is expected to be completed and placed into service
14 on October 1, 2023 (midpoint of WSIP Rate Year 1), will only incur 6 months
15 of actual depreciation during the WSIP Rate Year, not a full year of expense.
16 That same project, using the 13-month average of rate base balances, will
17 not have a full year's impact on the Company's rate base for earnings. For
18 these same reasons, that same project will not have a full year of
19 Accumulated Depreciation on day one of the Rate Year.

1 The Public Staff, by oversimplifying the revenue requirement in the
2 WSIP Rate Years, has presented a revenue requirement that does not align
3 with utility operations, nor align with the expected Annual Review filing
4 format and Earnings Test that will be required of the Company. This issue
5 is further illustrated by the Public Staff's position that the Company is double
6 counting inflation through its expense adjustments, which is simply not true
7 due to the fact that actual incurred expenses for most categories will occur
8 nearly twenty-four months after representative (Test Year or update period)
9 expenses were incurred, not one year later. This is discussed further in my
10 testimony regarding inflation factors.

11 The Company has organized and prepared its WSIP filing with
12 monthly incremental plant-in-service additions, retirements, and
13 depreciation and the Company has utilized an average of inflationary
14 pressures across WSIP Rate Year 1. These efforts avoid simplifying the
15 Company's revenue requirement, instead more accurately optimizing
16 forecast accuracy, and are therefore factors the Company has accounted
17 for in order to ensure that the revenue requirement requested is
18 representative of the Company's forecasted operations for each measured
19 Rate Year through the WSIP term.

1 **X. INFLATION FACTOR**

2 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS**
3 **INFLATION FACTORS?**

4 A. The Company is using CPI data obtained from the Bureau of Labor
5 Statistics to project inflation of certain test year expenses for future WSIP
6 years. CWSNC obtained CPI forecast data for 2022 through 2026, and used
7 actual monthly CPI readings through July 2022 to bridge current data to
8 future year forecasts. Inflationary adjustments were updated as part of
9 Schedule 29 in the Company's September 19, 2022, update filing.
10 Additional calculations and support for these inflationary numbers are
11 provided in Rebuttal Exhibit MPS-4. Additionally, I have included the
12 relevant and highlighted portions of Blue Chip Financial Forecasts that
13 CWSNC relied upon for its inflation adjustments, and the most recent Blue
14 Chip Financial Forecast showing actual inflation in September and October,
15 both of which are higher than the estimate used in CWSNC's update filing.
16 CWSNC continues to believe that its proposed inflation factors are
17 reasonable and should be accepted.

1 **Q. DOES THE COMPANY AGREE WITH THE PUBLIC STAFF'S**
2 **PROPOSAL RELATED TO INFLATION ESCALATORS APPLICABLE TO**
3 **THE WSIP RATE YEARS?**

4 A. Public Staff accepted the Company's proposed EIF for WSIP Rate Years 2
5 and 3 but proposed an alternative EIF to bridge the Test Year to WSIP Rate
6 Year 1, which the Company disagrees with on several grounds. To bridge
7 the test year to WSIP Rate Year 1, Public Staff proposes using a single year
8 of the CPI-U (All Items less Food and Energy) index instead of the CPI-A
9 (All Items) index for the period in which the representative expense was
10 incurred in the test year and when a similar expense will recur in Rate Year
11 1. This methodology understates the actual cost pressures the Company
12 has been facing and will continue to face throughout the first year of the
13 MYRP. For example, even though the Company made a separate
14 adjustment to its own fuel expenses, Staff's CPI-U selection ignores the
15 increase in vendor prices and charges due to the large increase in fuel
16 prices that have been experienced since the beginning of the Test Year.

17 The Company disagrees with the use of the CPI-U for all items less
18 food and energy as a basis for inflationary pressures as it is a misconception
19 of cost pressures expected to be faced by the Company. CPI-U for all items
20 less food and energy is watched by economic analysts and policy makers

1 as it is the metric determined that is not within the control of monetary policy.
2 That does not mean that the inflationary pressures for food and energy will
3 not also be inflationary pressures faced by the Company. Further, none of
4 the prominent legislated uses of the CPI excludes food and energy, such
5 as social security and federal retirement benefits. The Company would note
6 that the Bureau of Labor Statistics addresses these misconceptions in the
7 use of CPI vs CPI-Core and has included that Q&A as part of Rebuttal
8 Exhibit MPS-4.⁵

9 Public Staff's proposed EIF to bridge WSIP Rate Year 1 is based on
10 a three-year average, as of August 2022, of the CPI-U (All Items less Food
11 and Energy) index. This extended average further understates the actual
12 cost pressures the Company has experienced in the 20 months since the
13 beginning of the Test Year.

14 The Public Staff has incorrectly made the determination that the
15 Company's WSIP Rate Year 1 inflation bridge is effectively double counting
16 inflation for increased expenses. This determination is likely directly linked
17 to the Public Staff's accounting determinations for all expenses, plant, and
18 accumulated depreciation occurring on day one of a WSIP Rate Year, as
19 described above.

⁵ <https://www.bls.gov/cpi/factsheets/common-misconceptions-about-cpi.htm> last visited 11/10/22

1 Not all of the Company's expenses have been updated, and those
2 expenses that have not been adjusted to an August 31, 2022 cost level will
3 incur two full years of inflation in the first WSIP rate year – Test Year ending
4 March 2022 to Rate Year 1 ending March 2024. For example, a traditional
5 Maintenance and Repair Expense incurred in May of 2021 (within
6 CWSNC's Test Year), and a similar expense recurring in May of 2023 (in
7 WSIP Rate Year 1), will have two full years of inflationary pressures, not
8 accounted for by Public Staff's position of a single year inflationary
9 adjustment.

10 For those expenses that CWSNC has updated to current pricing
11 levels, those expenses too need additional expense inflation as they will be
12 occurring through the entire Rate Year. Depending on the window for the
13 basis of which the expense level was derived, the expense would still need
14 some level of inflationary adjustment to bridge the gap between that historic
15 period and the Rate Year in order to be representative of the costs CWSNC
16 will incur during that period. Public Staff's position that all expenses are
17 incurred on day one of a Rate Year is a flawed assumption that does not
18 properly account for how the cost increase due to inflation would be realized
19 through the Rate Year.

1 Finally, the Public Staff has used a three-year average of the CPI-U
2 in order to calculate the proposed Rate Year 1 EIF. The specific reason that
3 the Public Staff proposed a three-year average is not clearly explained in
4 their testimony, but CWSNC believes that it does not accurately represent
5 expected expenses and Company operations in Rate Year 1, specifically in
6 light of current inflationary pressures.

7 **XI. RECURRING CAPITAL SPEND**

8 **Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS**
9 **RECURRING CAPITAL SPEND?**

10 A. The Company calculated a forty-month average of its non-project-level
11 spend in order to project similar capital additions on a monthly basis through
12 the WSIP rate years. The Company calculated its forty-month average
13 based on the spend figures from January 1, 2019 through April 30, 2022
14 which was inclusive of the best information on-hand at the time of filing.

15 **Q. WHAT DID THE PUBLIC STAFF PROPOSE WITH RESPECT TO**
16 **INCLUSION OF RECURRING CAPITAL SPEND?**

17 A. The Public Staff made two primary adjustments to the Company's proposed
18 recurring capital spend through the WSIP rate years. First, the Public Staff
19 utilized a three-year average of 2019, 2020, and 2021, dropping the spend

1 from January-April 2022, which the Public Staff believes potentially skewed
2 the monthly average. Second, the Public Staff has determined a number of
3 accounts should have zero recurring spend and associated retirements
4 included in the WSIP period, including sewer gravity mains, manholes,
5 services to customers, service lines, meters, meter installations, and
6 transmissions and distribution mains. The Public Staff has made the
7 determination that these accounts should have zero recurring spend based
8 on two factors: that there is significant overlap between the Company's
9 Capital Investment Plan (projects) and the recurring spend, and the plant
10 assets are predominantly associated with new growth that would be offset
11 by Contributions in Aid of Construction (CIAC).

12 **Q. DOES THE COMPANY AGREE WITH THE PUBLIC STAFF'S POSITION**
13 **ON THE RECURRING CAPITAL SPEND?**

14 A. The Company does not agree with the Public Staff's positions regarding its
15 future recurring capital spend, for a number of reasons.

16 First, the position that the inclusion of spend from January through
17 April 2022 could potentially skew the results is unfounded. Utilization of the
18 most recent data, inclusive of the most recent cost trends, provides strong
19 supporting data for potential future recurring capital spend.

1 Additionally, CWSNC does not agree to the removal of certain
2 recurring capital spend categories on the basis that they are not
3 predominantly associated with CIAC offsets. This conclusion of the
4 Company is supported by the Company's books and records, as well as
5 discovery responses provided to the Public Staff. Rebuttal Exhibit MPS-5
6 shows recurring capital spend by year from January 2019 through April
7 2022, inclusive of the specific cost accounts that Public Staff has taken the
8 position were predominantly associated with CIAC. Over the forty-month
9 period reviewed, CWSNC spent on average over \$200,000 per month
10 above CIAC received for the accounts specifically identified by Public Staff.

11 Public Staff further supports their position based on the number and
12 scale of projects in the CIP program. CWSNC agrees that there are a
13 number of projects that overlap the general account types represented in
14 the Company's recurring spend but disagrees that the scale and scope of
15 the projects in the CIP would negate the need for recurring capital spend
16 throughout its systems. As a few points of example, CWSNC operates 38
17 sewer systems in North Carolina, and has wastewater collection system
18 ("WWCS") projects planned for only 11 of those systems over the WSIP
19 term. Further, the WWCS work does not entail rehab of the entire sewer
20 system, but instead reflects discrete activities that address identified or

1 potential issues. CWSNC operates 93 water systems in North Carolina and
2 has main replacement projects planned for 13 systems through the WSIP
3 term. These water main replacement projects are for specific portions of the
4 water systems and do not account for, nor are they representative of
5 replacing all mains in the entire system. CWSNC having projects planned
6 in some of its systems that address some of the future needs related to main
7 replacements, manholes, and sewer gravity mains does not negate the
8 ongoing replacement work required in other systems. This is the case
9 historically as well, as the Company's historical recurring capital spend on
10 which the forecast is based occurred during years of sometimes significant
11 similar projects across other portions of the Company's water and sewer
12 footprint.

13 For the reasons detailed above, the Company believes the Public
14 Staff's position is not representative of future capital needs related to
15 recurring capital investments through the WSIP rate years.
16

1 **XII. RETIREMENTS AND ACCUMULATED DEPRECIATION**

2 **Q. DOES THE COMPANY AGREE WITH THE PUBLIC STAFF'S**
3 **ACCOUNTING FOR RETIREMENTS THROUGH THE WSIP RATE**
4 **YEARS?**

5 A. No, it does not appear that the Public Staff fully accounted for retirements
6 through the Rate Years. The Company estimated retirements for all projects
7 through the WSIP rate years that were directly replacing assets currently in
8 service. The accounting for these retirements results in a reduction to plant-
9 in-service and an offsetting increase to accumulated depreciation, resulting
10 in a rate base neutral impact, but reducing future Depreciation Expense.

11 Public Staff does not appear to have included the increase to
12 Accumulated Depreciation as an offset to the reduction to Utility Plant In-
13 Service, resulting in materially misstating rate base through each of the
14 WSIP rate years⁶. As noted in the Joint Testimony of Hinton, Junis, Sun,
15 and Zhang on page 49, Public Staff only reflected a full year of Depreciation
16 Expense as an adjustment to Accumulated Depreciation. As noted above,
17 regarding a revenue requirement that is representative of the Company's
18 operations, the Company disagrees with the premise of reflecting a full

⁶ CWSNC, in discussions with Public Staff, understands that the Public Staff has reviewed and revised their calculation of Accumulated Depreciation related to retirements.

1 years' worth of Depreciation Expense on day one of the WSIP Rate Year,
2 as it produces a misstated Accumulated Depreciation balance for the Rate
3 Year when compared to the actual expected experience of the Company.

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

6 A. Yes.

7 **XIII. CONCLUSION**

8
9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes, it does. However, I reserve the right to update or amend this testimony
11 upon receipt of additional relevant data or other information that may
12 become available.

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Matthew P. Schellinger II. My business address is 5821
4 Fairview Road, Suite 401, Charlotte, North Carolina 28209.

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Regional Director of Financial Planning and Analysis, East Region for
7 Carolina Water Service, Inc. of North Carolina (“CWSNC” or “Company”).

8 **Q. ARE YOU THE SAME MATTHEW SCHELLINGER WHO SUBMITTED**
9 **CASE-IN-CHIEF AND REBUTTAL TESTIMONY ON BEHALF OF**
10 **CWSNC IN THIS PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

13 A. The purpose of my settlement testimony is to explain how the revenue
14 requirements for Rate Years 1, 2, and 3 are calculated in the Partial
15 Settlement Agreement reached between CWSNC and the Public Staff. In
16 addition, my testimony discusses the Settlement Agreement provisions
17 related to rate design, along with the provisions relating to annual and
18 quarterly reporting.

19 **II. WSIP REVENUE REQUIREMENTS**

20 **Q. PLEASE GIVE A BRIEF OVERVIEW OF THE JOINT PARTIAL**
21 **SETTLEMENT AGREEMENT AS IT RELATES TO REVENUE**

1 **REQUIREMENTS DURING THE TERM OF THE AGREED UPON MULTI-**
2 **YEAR RATE PLAN?**

3 A. The Joint Partial Settlement Agreement (Settlement Agreement) provides
4 for a 3-year rate plan, with Rate Year 1 beginning April 1, 2023; Rate Year
5 2 beginning April 1, 2024; and Rate Year 3 beginning April 1, 2025.

6 To begin, I would note that the Company and the Public Staff have
7 not reached agreement on two issues: (1) return on equity during the term
8 of the Water and Sewer Investment Plan (WSIP); and (2) whether the 5%
9 annual revenue requirement increase should be administered on a
10 company or a rate division basis. As a result, the revenue requirements
11 agreed to and presented in the Settlement Agreement are incomplete, in
12 the sense that the Commission will have to determine the authorized ROE
13 and then apply the resulting authorized rate of return to the agreed upon
14 rate base for each Rate Year. In addition, any impacts of the 5% cap will
15 need to be factored in, depending on the Commission's decision on that
16 unresolved issue.

17 Aside from that, the agreed-upon revenue requirements are
18 presented in Public Staff Settlement Exhibit 1. The ultimate starting point
19 for the calculations is the Base Case – the historical 12 months ended
20 March 31, 2022, as presented in the Company's case-in-chief testimony.
21 The starting point for our settlement discussions and the precise
22 calculations included in Public Staff Settlement Exhibit 1 is the Public Staff's

1 proposed revenue requirement presented in their October 26, 2022
2 testimony.¹ From there, the parties agreed upon and made the following
3 adjustments to the Base Case revenue requirement, which were then
4 carried through to the revenue requirements for Rate Years 1, 2, and 3:

- 5 ▪ Miscellaneous regulatory commission expense
- 6 ▪ Amortization of Rate Case Expenses over four years
- 7 ▪ Depreciation on Atlantic Region and CWSNC cost centers, and
- 8 reclassification of the Bradfield Farms WWTP electric rehab project
- 9 ▪ Uncollectibles expense (based on a 5-year average calculation
- 10 ▪ Chemicals expense (adjusted upward by \$31,000 for known non-
- 11 Waterguard expenses)
- 12 ▪ Sludge hauling expense (based on a 3-year average calculation)
- 13 ▪ Insurance expense (updated to reflect recent fixed, known and
- 14 measurable increases)
- 15 ▪ Included expenses and revenues associated with Danby

16 The revenue requirement for Rate Year 1 used the modified Base
17 Case revenue requirement described above, then made further
18 adjustments as follows:

- 19 ▪ Reduced projected capital investment plan costs by 10% (this 10%
20 reduction carries over to Rate Years 2 and 3)
- 21 ▪ Corrected accumulated depreciation to reflect certain plant
22 retirements (these adjustments carry over to Rate Years 2 and 3)
- 23 ▪ Escalated Base Case O&M expenses by 3.4%, except for items with
24 specific projections or applicable tracking mechanisms (salaries and
25 wages, and purchased water and sewer services)
- 26 ▪ Escalated salaries and wages by 3%

¹ Note that before settlement discussions began, the parties were already in agreement on the following revenue requirement issues, as evidenced by the Public Staff's testimony and the Company's rebuttal testimony: Corrections to Regulatory Commission Expenses, Inclusion of depreciation expense associated with the Atlantic and CWSNC cost centers, accumulated depreciation associated with retirements through the Rate Years, and reclassification of Bradfield Farms WWTP electrical rehab project for depreciation purposes.

- 1 ▪ Purchased water and sewer expenses and rates remain at Base
2 Case levels, with any increases (or decreases) to be reflected in
3 applicable pass-through mechanisms)
4 ▪ Included additional recurring spend for certain asset accounts, net of
5 CIAC
6 ▪ Included amortization of previously approved deferrals for Nags
7 Head and Connestee Falls WWTPs.

8 The revenue requirement for Rate Year 2 used the modified Base
9 Case revenue requirement described above, as modified for Rate Year 1,
10 then made further adjustments as follows:

- 11 ▪ Escalated Base Case O&M expenses by 2.4%, except for items with
12 specific projections or applicable tracking mechanisms (salaries and
13 wages, and purchased water and sewer services)
14 ▪ Escalated salaries and wages by 3%
15 ▪ Purchased water and sewer expenses remain at Base Case levels,
16 with any increases (or decreases) to be reflected in applicable pass-
17 through mechanisms)
18 ▪ Included additional recurring spend for certain asset accounts, net of
19 CIAC

20 The revenue requirement for Rate Year 3 used the modified Base
21 Case revenue requirement described above, as modified for Rate Years 1
22 and 2, then made further adjustments as follows:

- 23 ▪ Escalated Base Case O&M expenses by 2.4%, except for items with
24 specific projections or applicable tracking mechanisms (salaries and
25 wages, and purchased water and sewer services)
26 ▪ Escalated salaries and wages by 3%
27 ▪ Purchased water and sewer expenses remain at Base Case levels,
28 with any increases (or decreases) to be reflected in applicable pass-
29 through mechanisms)
30 ▪ Included additional recurring spend for certain asset accounts, net of
31 CIAC

32 **Q. WHAT IS THE AGREED UPON BASE CASE REGULATORY**
33 **COMMISSION EXPENSE BASED UPON?**

1 A. The regulatory commission expense is based upon actual known and
2 measurable expenses incurred through November 19, 2022, unamortized
3 rate case expenses, and a 4-year amortization period for such expenses.
4 Further adjustments to the known and measurable expenses should be
5 made through the close of proposed orders with reasonable estimates
6 through final noticing of the rate case order.

7 **Q. WHAT IS THE AGREED UPON BASE CASE CHEMICALS EXPENSE**
8 **BASED UPON?**

9 A. The chemicals expense is based on inclusion of fixed, known, and
10 measurable changes in the expense level from the Waterguard vendor,
11 along with other chemicals vendors.

12 **Q. WHAT IS THE AGREED UPON BASE CASE SLUDGE HAULING**
13 **EXPENSE BASED UPON?**

14 A. The sludge hauling expense is based upon the Company's current fixed,
15 known, and measurable sludge hauling expense averaged with the
16 previous sludge hauling expenses as approved in prior dockets and further
17 detailed in Rebuttal Exhibit MPS-3.

18 **Q. HOW WERE THE ECHOTA AND SEVEN DEVILS SYSTEMS HANDLED**
19 **IN THE REVENUE REQUIREMENTS?**

20 A. These systems, for which transfer has not yet been approved and
21 completed, are not reflected in the WSIP revenue requirements.

1 **Q. HOW ARE THE DANBY CUSTOMERS AND PLANT HANDLED IN THE**
2 **REVENUE REQUIREMENTS?**

3 A. The Danby customers and plant located in South Carolina are reflected in
4 the WSIP revenue requirements as proposed by the Company, but the
5 Settlement Agreement provides that the Company and the Public Staff will
6 work toward the resolution of this issue.

7 **Q. HOW IS INSURANCE EXPENSE HANDLED IN THE REVENUE**
8 **REQUIREMENTS?**

9 A. The insurance expense is reflective of the most recent policy renewals as
10 of November 18, 2022.

11 **Q. WHAT ARE THE ANNUAL ESCALATION FACTORS AGREED TO**
12 **BASED UPON?**

13 A. The annual escalation factors for Rate Years 1, 2, and 3 are based upon
14 the escalation factors propose by the Public Staff in their October 26, 2022
15 testimony.

16 **III. RATE DESIGN**

17 **Q. WHAT DOES THE SETTLEMENT AGREEMENT PROVIDE WITH**
18 **RESPECT TO RATE DESIGN?**

19 A. The Settlement Agreement provides that the fixed and volumetric rate
20 recovery proportions approved in Sub 384 by the Commission on April 8,
21 2022 will remain in place during the term of the WSIP – i.e., a 40%/60%

1 fixed/volume ratio for the uniform water rate division and BF/FH/TC water
2 rate division, and a 60%/40% fixed/volume ratio for the uniform sewer rate
3 division, as well as maintain the existing ratios for the BF/FH/TC sewer rate
4 division.

5 **IV. REPORTING REQUIREMENTS**

6 **Q. WHAT REPORTING REQUIREMENTS ARE REQUIRED BY THE**
7 **SETTLEMENT AGREEMENT?**

8 A. The Settlement Agreement provides that CWSNC will provide the quarterly
9 and annual reports outlined in the WSIP Statute and the WSIP Rules.

10 **V. REVENUE REQUIREMENTS**

11 **Q. IN YOUR OPINION, ARE THE REVENUE REQUIREMENTS AND**
12 **RESULTING RATES FOR THE TERM OF THE WSIP AS AGREED TO IN**
13 **THE SETTLEMENT AGREEMENT JUST AND REASONABLE?**

14 A. Yes, they are. The Settlement Agreement's revenue requirement and rate
15 provisions, as adjusted by the Commission's final determinations on Return
16 on Equity and application of rate caps, will result in the establishment of
17 rates that are fair both to the customer and to the water or sewer utility,
18 while reasonably ensuring the continuation of safe and reliable utility
19 services by CWSNC to its customers. Further, the Settlement Agreement
20 WSIP will not result in sudden substantial rate increases to customers

1 annually or over the term of the plan and is representative of the utility's
2 operations over the plan term.

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

5 A. Yes, it is.

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

7 A. Yes, it does.

1 DIRECT EXAMINATION BY MS. SANFORD:

2 Q. Mr. Schellinger, would you state your name,
3 business address, and position for the record, please.

4 A. My name is Matthew P. Schellinger II. I'm
5 employed by Carolina Water Service as the regional
6 director of financial planning and analysis. My
7 address is 5821 Fairview Road, Suite 401, Charlotte,
8 North Carolina 28209.

9 Q. Thank you.

10 MS. SANFORD: And, Commissioner
11 Clodfelter, I had a couple of additional direct
12 questions based upon that exhibit that we talked
13 about yesterday, and then I understand the Public
14 Staff has some cross.

15 COMMISSIONER CLODFELTER: I understand
16 that as well. So let's hear your questions on
17 Exhibit 6.

18 MS. SANFORD: Okay. Thank you very
19 much.

20 Q. Mr. Schellinger, you reviewed -- after you
21 received some information and assistance from the
22 Public Staff, you reviewed Public Staff D'Ascendis'
23 Proposed Cross Exhibit Number 6; is that correct?

24 A. That's correct.

1 Q. And you reviewed the calculations and the
2 math that was supporting the exhibit, correct?

3 A. That's correct.

4 Q. Is the math in the exhibit accurately stated,
5 in your opinion?

6 A. The math in the NOI change columns and the
7 revenue requirement change columns is accurately
8 stated.

9 I believe the total revenue requirement
10 change sum is a mischaracterization of the revenue
11 requirements that would be -- would actually be for the
12 Company depending on which direction we go.

13 Q. Which direction we go with respect to ROE?
14 Is that --

15 A. Which direction we go with respect to if it's
16 a base-year case versus a --

17 Q. Oh.

18 A. -- multiyear rate plan case.

19 Q. Okay. So can you explain how that total
20 revenue requirement is mischaracterized? Can you
21 explain that a little more?

22 A. Sure. In the event that the multiyear rate
23 plan or the WSIP is approved, the Company would go from
24 its present rate straight into a rate-year-one rates.

1 So I think, on this exhibit specifically,
2 using the base-year-revenue requirement is effectively
3 saying, oh, the Company is getting four years of
4 revenue requirements, but really it would only be the
5 three years of revenue requirements. So what that
6 results in is an overstatement of that total revenue
7 requirement change figure.

8 Q. And those were the only observations that you
9 had after your examination of the exhibit; is that
10 correct?

11 A. That's correct.

12 MS. SANFORD: Okay. Mr. Schellinger is
13 available for cross.

14 COMMISSIONER CLODFELTER: Cross
15 examination?

16 CROSS EXAMINATION BY MR. FREEMAN:

17 Q. Mr. Schellinger, thank you for that.

18 If we remove from Exhibit 6 the base years,
19 which are approximately 800-, \$900,000, would that
20 satisfy the mischaracterization concern that you have?

21 A. I believe it's more than 800-, \$900,000. But
22 if we were to remove that column, I think it would
23 satisfy my concerns.

24 Q. Can you give me -- and I'm trying to add and

1 talk, which is always a mistake.

2 A. I think it's closer to 1.2 million, a little
3 under.

4 Q. And if I take 1.2 million out of 6.7, I've
5 got about 5.5?

6 A. That's fair.

7 Q. Okay. So that would leave it -- I see. It
8 could be 1.17 million?

9 A. Yes.

10 Q. And so if we subtract 1.17 from 6.76, 5.5?

11 A. A little more than 5.5, yes.

12 Q. Okay. I understand. I want to find areas of
13 agreement and not commit that we don't -- that we
14 don't -- that we're not sacrificing the base year
15 issue.

16 But we can agree that for rate years one,
17 two, and three, approximately slightly more than
18 \$5.5 million would be the total revenue requirement
19 change?

20 A. If nothing else changes other than the ROE,
21 that would be the number, yes.

22 MR. FREEMAN: Thank you very much.

23 COMMISSIONER CLODFELTER: Redirect?

24 MS. SANFORD: No redirect.

1 COMMISSIONER CLODFELTER: Questions from
2 the Commissioners?

3 Go ahead. Commissioner McKissick, go
4 ahead.

5 COMMISSIONER MCKISSICK: Sure.

6 EXAMINATION BY COMMISSIONER MCKISSICK:

7 Q. And this is relating to your rebuttal
8 testimony, I guess on pages 28 and 29 dealing with
9 recurring capital spend, and the Public Staff's
10 approach to this, I guess, calculating over kind of a
11 three-year period.

12 Of course, your observations were that you
13 had objections to the way that they projected dealing
14 with that based upon the way cost had been incurred
15 historically. Could you speak to that?

16 A. I can. I believe the Public Staff -- so let
17 me back up.

18 When we were originally projecting out our
19 recurring spend through the multiyear, we had used a
20 40-month average. At that point, it was the preceding
21 three years and then the four months into 2022, and
22 that was what we were using as our average going
23 forward projecting out that recurring spend.

24 Public Staff backed it up to a 36-month

1 average but used the three full calendar years instead
2 of, say, the most recent 36-month average or the
3 36-month average ending March 31, '22.

4 So that was really the fundamental
5 disagreement there is why say a 36-month average with a
6 calendar year end was somehow more appropriate than the
7 most recent 36-month average, or with the test year end
8 at 36 months, or any other ending period, really.

9 Q. And I guess what you did, you were looking
10 at, you know, about \$200,000 a month or so that had
11 been spent out over, say, estimated to be, like, a
12 40-month period?

13 A. I think those are two separate issues.

14 Q. Okay.

15 A. So one of the issues is the 36-month versus
16 40-month --

17 Q. Okay.

18 A. -- portion.

19 The other area of disagreement with the
20 recurring spend originally was for items that the
21 Public Staff said is really kind of supported by our
22 contributions and native construction. So that's where
23 the \$200,000 figure comes from.

24 So Public Staff had originally removed a

1 subset of accounts where they said, "These accounts
2 really are all CIAC."

3 Our pushback was really, "I don't disagree
4 that there is CIAC there, but it's not all CIAC."

5 Mains break. We repair those mains. That --
6 that repair is not contribution at that point, right?

7 So in my rebuttal testimony I -- and in the
8 settlement as well, we came to agreement that really
9 those accounts do have recurring spend, and it should
10 be net of CIAC.

11 COMMISSIONER MCKISSICK: Thank you for
12 providing that clarity. I don't have any further
13 questions.

14 COMMISSIONER CLODFELTER: Anything
15 further?

16 (No response.)

17 COMMISSIONER CLODFELTER: All right.

18 MR. FREEMAN: Commissioner, I'd like to
19 move exhibits -- oh, I'm sorry.

20 COMMISSIONER KEMERAIT: Commission
21 Clodfelter.

22 COMMISSIONER CLODFELTER: I'm sorry.
23 Commissioner Kemerait.

24 EXAMINATION BY COMMISSIONER KEMERAIT:

1 Q. I wanted to follow up about this Exhibit 6 to
2 be clear about what yours and the Company's position
3 is.

4 With the understanding that this exhibit has
5 been orally modified or an updated exhibit is provided
6 that removes the base year amounts and then changes the
7 total revenue requirement, total revenue requirement
8 changed to the approximately \$5.5 million, is the
9 Company then in agreement with those numbers? Do you
10 have any issues with this Exhibit 6 if -- based upon
11 the changes that you just testified to?

12 A. I wouldn't -- I don't think I would have any
13 issue with it. I think really what this exhibit shows
14 is if the ROE changes, the revenue requirement changes.
15 And I think, conceptually, we don't have a disagreement
16 with that.

17 COMMISSIONER KEMERAIT: Okay. Thank
18 you.

19 COMMISSIONER CLODFELTER: Okay. Any
20 questions on the Commissioner's questions?

21 Commissioner Hughes. I'm sorry.

22 EXAMINATION BY COMMISSIONER HUGHES:

23 Q. This is just something that I've been
24 struggling with, and I thought maybe you could help me.

1 We were talking a little bit about performance measures
2 and tracking things.

3 It's always seemed to me a challenge to track
4 the tradeoffs between capital spends and operating
5 savings, and I think that's often, kind of, discussed
6 as a way of getting to innovation and -- I think maybe
7 the biggest example in your proposal is going to AMI
8 and potentially having some savings there.

9 How, as an organization, would you track,
10 okay, we make this capital investment in year one, so
11 we're gonna get this operating savings in year two and
12 three?

13 Now that we're moving to a multiyear
14 framework, it seems like we have an opportunity to
15 actually really track savings and verify savings and
16 show customers savings.

17 And I just -- I could ask the same question
18 to the Public Staff. I just -- you know, I'm just
19 curious what your take on that question would be.

20 A. Sure. I appreciate the question.

21 I think it really depends on the type of
22 project. And something like AMI specifically might be
23 one of the easier ones to actually specifically
24 identify savings, right, because you can specifically

1 identify a meter read if it's a third-party meter
2 reader.

3 In a lot of cases, it may not be a
4 third-party meter reader, and instead that savings
5 isn't necessarily a monetary savings. But it allows
6 our operators to spend their time in a different area
7 instead of meter reading.

8 So it's a difficult problem. There is
9 savings with some of these projects, but there's also
10 additional costs that could be incurred with some of
11 these projects. And it's not always as clear-cut
12 trying to get to what that savings point is.

13 Through discovery we responded to a number of
14 questions specifically regarding meter reading, and we
15 showed there is movement in meter reading.

16 But we do a large amount of meter reading
17 in-house, so those -- that savings gets transferred to
18 other operational benefits, and it may not necessarily
19 be a direct dollar-for-dollar in those situations.

20 Q. So no easy answers?

21 A. No easy answers.

22 Q. Okay. Thanks.

23 A. We looked. We looked, though, and we try,
24 so. We try to understand those movements. But it's --

1 it's not just a simple, you know, math problem on an
2 Excel sheet, so.

3 Q. Yeah. Sometimes when the case is presented,
4 it seems to be presented -- and I'm not taking Carolina
5 Water, but just in general. It seems to be presented
6 as a simple calculation in the cost-benefit analysis or
7 the kind of justification, but then on the back end,
8 it's, like you said, very tricky. So it just makes it
9 a little difficult for us to, kind of, approve
10 something with a promise and then -- you know.

11 A. I understand.

12 Q. So that was just 2 cents. Thanks.

13 COMMISSIONER CLODFELTER: It's not a
14 question, but I'm gonna channel Commissioner Hughes
15 a little further on this because I know where he's
16 coming. We've had a different proceeding involving
17 a different company and a different issue, but I
18 understand where this is coming from, and I share
19 it.

20 And I want to just say to the Public
21 Staff and the Company both that, as you continue
22 your discussions under the stipulation, it seems to
23 me that there is more work to be done than just to
24 define the incentives and the penalties.

1 But the method of measurement of whether
2 you've attained the metric or not, whether you've
3 fallen short or whether you've exceeded the metric,
4 there's also some work to still be done on
5 clarifying how that's gonna happen.

6 Some of these are fairly
7 straightforward, but others -- and Commissioner
8 Hughes has given an example. I can look at a
9 couple of the others the same way.

10 The measurement of whether or not you've
11 met the agreed standard is, at least as I read the
12 stipulation, still a lot of work to be done on that
13 issue. So that's a -- more of a comment than it is
14 a question.

15 THE WITNESS: May I make a comment to
16 your comment?

17 COMMISSIONER CLODFELTER: You may
18 indeed.

19 THE WITNESS: I appreciate it.

20 I think it's -- metrics are good data,
21 right? But they don't necessarily all have to have
22 targets for them to be informing. Maybe I will
23 just -- I'll stop there.

24 COMMISSIONER CLODFELTER: Some will and

1 some won't.

2 THE WITNESS: Some will and some won't.

3 COMMISSIONER CLODFELTER: Okay.

4 Anything further from Commissioners?

5 Commissioner Kemerait, sure.

6 EXAMINATION BY COMMISSIONER KEMERAIT:

7 Q. Yeah. To follow up on your last comment --

8 A. Okay.

9 Q. -- can you give examples so that we can
10 better understand what situations in which you think
11 metrics may not be informative or helpful so that we
12 can understand your testimony?

13 A. Oh. I definitely want to clarify that,
14 because I think all metrics, in some way, are
15 informative or helpful. What I think is that some
16 metrics don't necessarily lend themselves to if above
17 target or below target, if you succeeded or not
18 succeeded, right?

19 The metrics can be very informative without
20 necessarily needing a "did you get above or below,"
21 right? And I think that's more of where my position
22 is.

23 COMMISSIONER KEMERAIT: Thank you.

24 COMMISSIONER CLODFELTER: Commissioner

1 Duffley.

2 EXAMINATION BY COMMISSIONER DUFFLEY:

3 Q. So to follow up --

4 A. Yes.

5 Q. -- can you provide an example?

6 A. Let's see here. Go through the list.

7 (Witness peruses document.)

8 Water loss might be a good example. If
9 it's -- you have a number, a percentage of water loss,
10 it could be across all of our systems. It could be
11 well systems. It could be purchase systems.

12 Having a high water loss doesn't mean that
13 there's anything the Company has necessarily done
14 wrong. It may be absolutely appropriate that we didn't
15 have that exceptional capital spend to reduce that
16 number to some target or to some metric.

17 So that would be one where I think I'd be
18 hesitant to say, you know, you put a target on it, and
19 then all of a sudden you're making, maybe, capital
20 investments that didn't make sense pretarget, so.

21 COMMISSIONER DUFFLEY: Thank you. That
22 does provide clarity.

23 EXAMINATION BY COMMISSIONER CLODFELTER:

24 Q. In those instances, though, at least the

1 metric signals to you that perhaps further inquiry may
2 be warranted?

3 A. Absolutely.

4 Q. Sometimes it's an incentive. Sometimes it's
5 the penalty. Sometimes it's just a signal that you
6 need to do some more questioning.

7 A. I agree.

8 Q. Got it.

9 COMMISSIONER CLODFELTER: Yes,
10 Commissioner McKissick.

11 EXAMINATION BY COMMISSIONER MCKISSICK:

12 Q. And on this same note, I think the critical
13 thing that we're looking for, or certainly I'm looking
14 for, is that when we see what comes forward related to
15 these performance metrics in 180 days of granting the
16 order, that there are articulable standards, that there
17 are benchmarks, to the extent to which they can be
18 established, as well as penalties that seem reasonable,
19 proper, and appropriate, you know? Because, in my
20 mind, if we're creating incentives, the penalties ought
21 to be commensurate.

22 And I'm curious to see how this moves
23 forward. I understand that there wasn't, perhaps,
24 sufficient time for this to get all worked out between

1 the Company and the Public Staff, but I think the more
2 specificity and the more detail, the better, you know,
3 when we see that submission.

4 And I understand there will be certain
5 categories, like water loss, where it may be more
6 challenging, but, at the same time, I'm really hopeful
7 that we will have something that we can look forward to
8 contrasting and comparing, doing critical analysis as a
9 basis for whether these performance standards are
10 working or not. So I hope that that comes forward when
11 that submission comes in.

12 A. I understand. And we look forward to working
13 with the Public Staff.

14 COMMISSIONER McKISSICK: Thank you.

15 COMMISSIONER CLODFELTER: One more.

16 Commissioner Duffley.

17 EXAMINATION BY COMMISSIONER DUFFLEY:

18 Q. And along that same vein of, when you have a
19 situation where you cannot put specific measurement
20 metrics or measurements around -- around, for example,
21 water loss, just provide examples or explanations as to
22 why it might create perverse incentives or absurd
23 results --

24 A. I'm not --

1 Q. -- so that the Commission understands why
2 there may not be a discrete measurement surrounding
3 that metric. Thank you.

4 A. I'm not sure I'm the best person to talk
5 about that. I do apologize there. I think really
6 the -- and maybe the one example I gave you on water
7 loss maybe incentivizing some capital investment that
8 otherwise would not occur would be an example of that.
9 I'm not sure I have any other specific examples that I
10 could provide.

11 Q. I'm not asking for it today.

12 A. Oh.

13 Q. I'm just stating when you're working through
14 these.

15 A. Got it.

16 COMMISSIONER CLODFELTER: Going once.
17 Going twice. Going three or four or five or six
18 times.

19 (No response.)

20 COMMISSIONER CLODFELTER: All right.
21 Let me just say to the parties, I think you can
22 see -- get some insight into, sort of, the
23 Commission's interest in this aspect of the case.
24 And it is -- as I commented with Mr. Denton, it's

1 the most undeveloped piece of the stipulation.

2 And yet you can see from the dialogue
3 that the Commissioners -- I don't think I'm
4 speaking out of turn based on the questions that
5 I've just been listening to. I think the
6 Commissioners consider it a very critical piece of
7 the case, and it's still to be determined.

8 So with that, are there questions on the
9 Commission's questions?

10 MR. FREEMAN: I would like to address
11 the accounting issues, but if -- just briefly.

12 COMMISSIONER CLODFELTER: Sure.

13 EXAMINATION BY MR. FREEMAN:

14 Q. The rate year one begins April 1, 2023?

15 A. Correct.

16 Q. So from the date of this Commission's order
17 through March 31, 2023, there could be a revenue
18 impact. We just don't know what it is yet.

19 A. You might have messed me up on those dates,
20 because you went April 2023 to March 2023. I
21 apologize.

22 Q. The rate year begins in April.

23 A. Sure.

24 Q. The first year. The base year ends in March.

1 A. If the multiyear rate plan is approved, there
2 is no base year. The base year is only informative of
3 rate year one. So if the multiyear is approved, there
4 is no base year. If the multiyear is not approved, you
5 switch to the base year.

6 Q. And the multiyear begins April 1, 2023?

7 A. Correct.

8 Q. Okay.

9 MR. FREEMAN: Commissioners -- and I
10 don't want to foreclose additional questioning, but
11 I would propose to submit an Exhibit 21, I think,
12 with the Commission's approval, or a modified
13 Exhibit 6.

14 COMMISSIONER CLODFELTER: Before we do
15 that, let me see if there are any questions from
16 the Company on the Commissioner's --

17 MR. FREEMAN: I'm sorry.

18 COMMISSIONER CLODFELTER: -- questions.
19 Okay.

20 MS. SANFORD: I don't think so. We're
21 just gonna see where this is going.

22 COMMISSIONER CLODFELTER: All right.
23 I'm going to follow you too.

24 All right. Back to you, Mr. Freeman.

1 MR. FREEMAN: We have agreement on
2 three-fourths of the years outlined here, and I'm a
3 big fan of agreement.

4 I think there is a disagreement about
5 how the base rate finances will be impacted, but
6 certainly I'd like to -- I don't want to have an
7 exhibit in the record that is misrepresent --
8 "mischaracterizing" I think is the term they use.

9 So what I propose to do is submit a
10 modified -- either a modified 6 or an Exhibit 21,
11 and not put this one in, that has the three years
12 in which there is agreement.

13 COMMISSIONER CLODFELTER: Well, I was
14 going to suggest something similar to you, because
15 I don't -- I think the record right now is
16 hopelessly muddied on what Exhibit 6 does and
17 doesn't do, and I think it would be terrible to
18 have that be all we have in the record.

19 But before I hear you further on that, I
20 want to ask this question:

21 Was the information that was provided
22 for Mr. Schellinger to use to provide his testimony
23 this morning on direct and cross, was that same
24 information provided to the Commission staff?

1 MR. FREEMAN: We copied Mr. Mertz on the
2 email.

3 COMMISSIONER CLODFELTER: That's good.
4 Thank you. So Commission staff has that same
5 information. All right.

6 Now, so I think the motion is that the
7 Public Staff be allowed to submit a late-filed
8 exhibit, which will be designated as Proposed Cross
9 Examination Exhibit 21, and would be a revision to
10 what we've been calling Proposed Exhibit 6.

11 MS. SANFORD: And so you said --

12 COMMISSIONER CLODFELTER: ^ response.

13 MS. SANFORD: We would not -- I'm sorry.
14 I missed the very last part of what you said. We
15 would not admit 6?

16 COMMISSIONER CLODFELTER: We will not --

17 MS. SANFORD: Admit 6.

18 COMMISSIONER CLODFELTER: I will sustain
19 the objection to Exhibit 6 --

20 MS. SANFORD: Thank you. And --

21 COMMISSIONER CLODFELTER: -- as it has
22 been presented.

23 MS. SANFORD: And with respect to the
24 late-filed exhibit, if we could talk for just a

1 minute about the most efficient way to do that.

2 Does it make sense to propose that the
3 Public Staff share that exhibit with the Company
4 and we see if we work to agreement and, if we
5 don't, we identify disagreements before it is
6 filed?

7 MR. FREEMAN: We'll take out that 1.17
8 that's at issue here -- million and just have the
9 base -- I'm sorry -- just have the rate years, not
10 the base year.

11 MS. SANFORD: And we would swap views of
12 that?

13 MR. FREEMAN: You will see it before I
14 send it to -- for filing.

15 MS. SANFORD: For filing. Okay. Great.

16 MR. FREEMAN: And if you don't like
17 it --

18 MS. SANFORD: Great. And that way we
19 can all be sure we are on the same page or that
20 we're not, and we'll know why, so.

21 COMMISSIONER CLODFELTER: Okay. We will
22 permit the Public Staff, then, to file a late-filed
23 exhibit, which we will designate as Public Staff
24 Late-Filed Exhibit -- let's just call it Late-Filed

1 Exhibit 21. Again, that just keeps the numbering
2 sequence consistent.

3 And I understand the parties may wish to
4 argue some about whether that exhibit is or is not
5 100 percent accurate or is only 95 percent
6 accurate, but that's argument and not a question
7 about what's in the exhibit itself.

8 All right? Everybody got that?

9 MS. SANFORD: And so just to be sure I
10 understand it before we leave the room and I try to
11 remember what we all said, so you'll provide us a
12 copy of it. We will exchange comments about that.
13 And if there is a disagreement, we will express our
14 disagreement in a filing.

15 COMMISSIONER CLODFELTER: If there's a
16 disagreement, we will probably hear you on --
17 virtually or by telephone.

18 MS. SANFORD: Okay. That sounds great.

19 COMMISSIONER CLODFELTER: Okay?

20 MS. SANFORD: Thank you.

21 MR. FREEMAN: Thank you.

22 COMMISSIONER CLODFELTER: All right.

23 Can we let Mr. Schellinger off the hook?
24 Anything further.

1 (No response.)

2 COMMISSIONER CLODFELTER: All right.

3 You are excused, sir. Thank you.

4 THE WITNESS: Thank you.

5 COMMISSIONER CLODFELTER: All right.

6 Ms. Sanford?

7 MS. SANFORD: That completes our case.

8 And we're making sure everything's in, but we're
9 relying on the scheduling order to think
10 everything's in and we don't need to move anything
11 else at this point.

12 COMMISSIONER CLODFELTER: All right.

13 Then, with that, we will turn to the
14 Public Staff.

15 And before I recognize counsel, let me
16 simply say, in accordance with the Additional
17 Procedures Order and in accordance with
18 paragraph 7A of the joint partial stipulation
19 settlement, without objection from any other party
20 and without need for further oath or affirmation to
21 be taken, the Commission will receive into
22 evidence, along with any corrections that were
23 filed and served pursuant to paragraph 2 of the
24 Additional Procedures Order, the following items:

1 Number 1, the prefiled joint testimony
2 of Darrell Brown and Lynn Feasel, along with
3 Exhibits I and II thereto.

4 Number 2, the prefiled direct testimony
5 of Lindsay Darden, along with Appendix A and
6 Exhibits 1 through 16.

7 Number 3, the prefiled direct testimony
8 of Michael Franklin, along with Appendix A and
9 Exhibits 1 through 3.

10 Number 4, the prefiled direct testimony
11 of Evan Houser, along with Appendix A and Exhibits
12 1 through 3.

13 Number 5, the prefiled direct testimony
14 of Jay Lucas, along with Appendix A and Exhibits 1
15 through 3.

16 Number 6, the prefiled direct testimony
17 of Shashi Bhatta, along with Appendix A and
18 Exhibit 1.

19 And Number 7: The prefiled joint
20 corrected and settlement testimony of
21 Darrell Brown, Fenge Zhang, and Charles Junis along
22 with revised Brown and Feasel Exhibits 1 and 2 and
23 Public Staff Settlement Exhibit 1.

24 The Commission will also receive into

1 the record, pursuant to Commission Rule 1-24D the
2 summary of the corrected and settlement testimony
3 of Witnesses Brown, Zhang, and Junis.

4 All such prefiled testimony will be
5 admitted into evidence along with any corrections
6 made and will appear in the transcript in the
7 sequence that I have just recited for witnesses who
8 do not provide further testimony at this hearing.

9 Prefiled testimony for witnesses who are
10 called to testify in this hearing for cross
11 examination or questions from Commissioners will be
12 copied into the transcript immediately after they
13 have taken their oaths.

14 And with that said, let me remind you
15 also that yesterday, when we were doing out of
16 sequence, we've already admitted the prefiled
17 direct testimony of John Hinton and the panel of
18 Hinton, Junis, Fen Sun, and Fenge Zhang.

19 Too many pronunciation challenges for me
20 there. But that's already in the record as of
21 yesterday.

22 (Brown and Feasel Exhibits I and II,
23 Public Staff Darden Exhibits 1 through
24 16, Public Staff Franklin Exhibits 1

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through 3, Public Staff Houser Exhibits
1 through 3, Public Staff Lucas Exhibits
1 through 3, and Public Staff Bhatta
Exhibit 1 were identified and admitted
into evidence.)
(Whereupon, the prefiled joint direct
testimony and Appendices A and B of
Lynn Feasel and Darrell Brown, prefiled
direct testimony and Appendix A of
Lindsay Q. Darden, prefiled direct
testimony and Appendix A of
D. Michael Franklin, prefiled direct
testimony and Appendix A of
Evan M. Houser, prefiled direct
testimony and Appendix A of
Jay B. Lucas, and prefiled direct
testimony and Appendix A of
Shashi M. Bhatta were copied into the
record as if given orally from the
stand.)

1 **Q. Mr. Brown, please state your name, business address, and**
2 **present position.**

3 A. My name is Darrell Brown. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst III
5 with the Accounting Division of the Public Staff – North Carolina
6 Utilities Commission (Public Staff).

7 **Q. Would you briefly discuss your education and experience?**

8 A. My education and experience are summarized in Appendix A of this
9 testimony.

10 **Q. Ms. Feasel, please state your name, business address, and**
11 **present position.**

12 A. My name is Lynn Feasel. My business address is 430 North
13 Salisbury Street, Raleigh, North Carolina. I am the Financial
14 Manager of the Water, Sewer, and Telecommunications Sections in
15 the Accounting Division of the Public Staff.

16 **Q. Would you briefly discuss your education and experience?**

17 A. My education and experience are summarized in Appendix B of this
18 testimony.

- 1 **Q. What is the purpose of your testimony?**
- 2 A. The purpose of our testimony is to present the accounting and
- 3 ratemaking adjustments we are recommending, as well as those
- 4 recommended by other Public Staff witnesses, as a result of the
- 5 Public Staff's investigation of the base case¹ revenues, expenses,
- 6 and rate base filed by Carolina Water Service, Inc. of North Carolina
- 7 (CWSNC or Company) in support of its requested increase in
- 8 operating revenues for its uniform water operations (CWSNC Water),
- 9 uniform sewer operations (CWSNC Sewer), Bradfield Farms,
- 10 Fairfield Harbour, and Treasure Cove water operations (BF/FH/TC
- 11 Water), and Bradfield Farms and Fairfield Harbour sewer operations
- 12 (BF/FH Sewer). The results of the Public Staff's investigation and its
- 13 recommendations related to the Company's request for a Water and
- 14 Sewer Investment Plan (WSIP) (hereinafter, MYRP) are discussed
- 15 in the Joint Testimony of Public Staff witnesses Hinton, Junis, Sun,
- 16 and Zhang (Joint Testimony) filed contemporaneously in this docket.

¹ A base year is the multi-year rate plan (MYRP) equivalent of the test year or test period in traditional historic test year ratemaking. The base year is the foundation of a MYRP because all future expenses, revenues, etc., are based upon the levels established in the base year. All of the data supporting a utility's base year can be referred to as the utility's base case.

1 **Q. What revenue increase is the Public Staff recommending?**

2 A. Based upon the level of rate base, revenue, and expenses
3 annualized for the test period ended March 31, 2022 (test year or
4 test period), with certain updates, the Public Staff is recommending
5 an increase in annual operating revenue for the base case of
6 \$511,774 for CWSNC Water, \$1,317,507 for CWSNC Sewer,
7 \$103,507 for BF/FH/TC Water, and \$34,234, for BF/FH Sewer.

8 **Q. Please describe the scope of your investigation into the**
9 **Company's base case filing.**

10 A. Our investigation included a review of the base case application,
11 testimony, exhibits, and other data filed by the Company, an
12 examination of the books and records for the test year, and a review
13 of the Company's accounting, end-of-period, and after-period
14 adjustments to test year revenue, expenses, and rate base. The
15 Public Staff has also conducted extensive discovery in this matter,
16 including reviewing numerous data request responses provided by
17 the Company in response to Public Staff data requests and
18 participating in conference calls with the Company.

1 **Q. Please briefly describe the Public Staff's presentation of the**
2 **issues regarding the Company's base case.**

3 A. Each Public Staff witness will present testimony and exhibits
4 supporting his or her position and recommend any appropriate
5 adjustments to the Company's proposed base case rate base and
6 cost of service. Our exhibits reflect and summarize the adjustments
7 of other Public Staff witnesses, as well as the adjustments we
8 recommend.

9 **Q. Please give a more detailed description of the organization of**
10 **your exhibits.**

11 A. Schedules 1(a) through 1(d) of Brown and Feasel Exhibit I present
12 the return on original cost rate base for water and sewer operations
13 under present rates, the Company's proposed rates, and the Public
14 Staff's recommended rates. Schedules 2(a) through 2(d) of Brown
15 and Feasel Exhibit I, along with their supporting schedules, present
16 the original cost rate base for water and sewer operations. Schedules
17 3(a) through 3(d) of Brown and Feasel Exhibit I, along with their
18 supporting schedules, present the calculation of net operating
19 income for a return under present rates, the Company's proposed
20 rates, and the Public Staff's recommended rates.

1 **Q. What adjustments to the Company's cost of service do you**
2 **recommend?**

3 A. We are recommending adjustments in the following areas of the base
4 case:

- 5 (a) Plant in service;
- 6 (b) Accumulated depreciation;
- 7 (c) Cash working capital;
- 8 (d) Net contributions in aid of construction;
- 9 (e) Accumulated deferred income taxes;
- 10 (f) Net plant acquisition adjustment;
- 11 (g) Average tax accruals;
- 12 (h) Deferred charges;
- 13 (i) Miscellaneous revenues;
- 14 (j) Uncollectibles;
- 15 (k) Maintenance and repair expense;
- 16 (l) Capitalized salaries expense;
- 17 (m) Outside services expense;
- 18 (n) Salaries and wages and payroll tax expenses;
- 19 (o) Pension and Other Benefits expense;
- 20 (p) Regulatory commission expense;
- 21 (q) Insurance expense;
- 22 (r) Miscellaneous expense;
- 23 (s) Depreciation expense;
- 24 (t) Amortizations of contributions in aid of construction
25 and plant acquisition adjustment; and
- 26 (u) Regulatory fee.

1 **Q. What adjustments recommended by other Public Staff**
2 **witnesses do your exhibits incorporate?**

3 A. Our exhibit reflects the following adjustments recommended by other
4 Public Staff witnesses:

5 (1) The recommendations of Public Staff witness Lindsay
6 Q. Darden regarding service revenues at present rates
7 and the Company's proposed rates;

8 (2) The recommendations of Public Staff witness D.
9 Michael Franklin regarding sludge hauling, purchased
10 power, and meter reading expenses;

11 (3) The recommendations of Public Staff witness Evan M.
12 Houser regarding transportation expense;

13 (4) The recommendations of Public Staff witness Shashi
14 M. Bhatti regarding chemicals expense; and

15 (5) The recommendations of Public Staff witness John R.
16 Hinton regarding capital structure, embedded cost of
17 long-term debt, and return on common equity.

18 **Q. Please describe your recommended adjustments.**

19 A. Our adjustments are described below.

1

PLANT IN SERVICE

2

Q. Please explain your adjustments to plant in service.

3

A. Our calculation begins with plant in service based on the Company's actual per books plant in service amounts and updated for known and actual changes to plant that have been recorded between the end of the test year and August 31, 2022. We then updated plant in service for the adjustments recommended by Public Staff witness Junis to reflect the Public Staff's recommended pro forma plant in service as of March 31, 2023.

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Next, we reclassified general ledger account 141255 - Power Sewers Treatment Plant from the CWSNC Uniform Water division to the CWSNC Uniform Sewer division based upon information provided by the Company in response to a data request. This asset was incorrectly booked to the CWSNC water division and should have been booked to the CWSNC sewer division.

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Additionally, we flowed through the Allowance for Funds Used During Construction (AFUDC) adjustment identified and approved in CWSNC's last general rate case filed in Docket No. W-354, Sub 384 (Sub 384 Rate Case) regarding the over-calculated interest during construction cost (IDC cost) for projects closed after March 31, 2019, through August 31, 2021.

1 Plant in service was also adjusted to reflect the impact of insurance
2 proceeds received as reimbursement for plant in service losses
3 related to Hurricane Florence. These proceeds were allocated to
4 CWSNC Water, CWSNC Sewer, BF/FH/TC Water, and BF/FH/TC
5 Sewer.

6 Lastly, we included the equivalent residential connection (ERC)
7 changes to adjust the allocated rate base for availability customers
8 using the difference between the unadjusted ERC percentage and
9 adjusted ERC percentage.

10 **ACCUMULATED DEPRECIATION**

- 11 **Q. Please explain your adjustments to accumulated depreciation.**
- 12 A. We adjusted accumulated depreciation to include actual and known
13 accumulated depreciation related to plant additions, net of
14 retirements, made on the Company's books from April 1, 2022,
15 through August 31, 2022. We have also made a matching adjustment
16 to accumulated depreciation based on the Public Staff's
17 recommended level of depreciation expense.

1 **CASH WORKING CAPITAL**

2 **Q. Please describe your calculation of cash working capital.**

3 A. Cash working capital provides the Company with the funds
4 necessary to carry on its day-to-day operations. In our calculation,
5 we have included 1/8 of total adjusted Operating and Maintenance
6 (O&M) and General and Administrative (G&A) expenses, less
7 purchased water and sewer expense, as a measure of cash working
8 capital.

9 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

10 **Q. Please explain your adjustments to CIAC.**

11 A. CIAC has been adjusted to include actual and known additions made
12 on the Company's books from April 1, 2022, through August 31,
13 2022, for both CIAC and accumulated amortization (A/A) of CIAC.
14 These additions include amounts allocated from the CWS Systems
15 cost center, BF /FH/TCove cost center, and CWSNC Uniform cost
16 center, as well as CIAC directly incurred in the four rate divisions. We
17 have also made a matching adjustment to A/A of CIAC based on the
18 Public Staff's recommended level of amortization expense.

1 **ACCUMULATED DEFERRED INCOME TAXES (ADIT)**

2 **Q. Please explain your adjustments to ADIT.**

3 A. We have made several adjustments to ADIT. First, we updated ADIT
4 associated with rate case expense to reflect the unamortized
5 balance. Second, we adjusted ADIT to include the amount
6 associated with the Public Staff's recommended levels of
7 unamortized deferred maintenance. Lastly, we adjusted ADIT to
8 include the amount associated with the Public Staff's recommended
9 levels of post-test year plant in service additions.

10 The Public Staff will update ADIT to reflect final updates, including
11 rate case expense, to be provided by the Company.

12 **PLANT ACQUISITION ADJUSTMENT (PAA)**

13 **Q. Please explain your adjustments to PAA.**

14 A. PAA has been adjusted to include actual general ledger additions
15 made on the Company's books as of August 31, 2022, for A/A of
16 PAA. These additions include amounts allocated from the CWS
17 Systems cost center, BF/FH/TC cost center, and CWSNC Uniform
18 cost center, as well as A/A of PAA incurred directly in the four rate
19 divisions. A/A of PAA amortization has also been adjusted to include

1 an annualized level of amortization based on the Public Staff's
2 adjusted level of PAA amortization expense.

3 **AVERAGE TAX ACCRUALS**

4 **Q. How did you calculate average tax accruals?**

5 A. Average tax accruals, calculated as 1/2 of property taxes plus 1/5 of
6 regulatory fee, are taxes that the Company collects in rates but does
7 not pay to the collecting governmental agency every month. Since
8 the Company has the use of the money until it is paid to the
9 governmental agency, these tax accruals should be deducted from
10 rate base. Payroll taxes are not included in our calculation of average
11 tax accruals since they are paid to the taxing agencies on a more
12 frequent basis.

13 **DEFERRED CHARGES**

14 **Q. Please describe your adjustments to deferred charges.**

15 A. We have adjusted deferred charges to reflect the unamortized
16 balance of deferred maintenance costs for tank painting, tank
17 inspection, wastewater treatment plant painting, and Fusion Oracle
18 (Fusion) projects as of March 31, 2023. We did not include the
19 unamortized balance of the Belvedere pump and haul costs in
20 deferred charges because they were unusual, nonrecurring,

1 abnormally high, and incurred because of a dispute between the
2 Company and the Belvedere golf course. It is inappropriate for the
3 Company to earn a return on these types of expenses. Our exclusion
4 of the unamortized balance of the pump and haul expenses is
5 consistent with the treatment CWSNC and the Public Staff stipulated
6 to in the Sub 384 Rate Case.

7 In the current rate case proceeding, the Company used the total
8 original cost for Fusion projects, as filed in its Sub 384 rate case, to
9 calculate the unamortized deferred charges balance and the
10 amortized annual expenses. The Public Staff utilized the same
11 methodology the Commission approved in the Sub 384 rate case to
12 amortize the approved Fusion projects' costs to calculate the
13 unamortized deferred charges balance and deferred maintenance
14 expense. The Company has not incurred additional costs related to
15 Fusion projects since the Sub 384 Rate Case. The unamortized
16 Fusion projects costs are reflected in deferred charges and the
17 amortized annual expenses are reflected in deferred maintenance
18 expense, as a portion of maintenance and repair expense.

19 **MISCELLANEOUS REVENUES**

20 **Q. Please explain your adjustments to miscellaneous revenues.**

21 A. First, we adjusted miscellaneous revenues to include the gain from

1 the sale of utility property. Additionally, we calculated a forfeited
2 discount rate for CWSNC water, CWSNC sewer, BF/FH/TC water,
3 and BF/FH sewer operations with a historical five-year average of
4 the forfeited discount rates by dividing forfeited discounts by service
5 revenues. The resulting rates were then applied to the Public Staff's
6 present, proposed, and recommended levels of service revenues to
7 determine an appropriate level of forfeited discounts to include in
8 miscellaneous revenues.

9 **UNCOLLECTIBLES**

10 **Q. Please explain your adjustments to uncollectibles.**

11 A. The Company used the sum of uncollectible revenue divided by the
12 sum of service revenues from the Company's books in the test year
13 to calculate a composite uncollectible percentage and then applied
14 that percentage to service revenues for the Uniform and BF/FH/TC
15 rate divisions in order to calculate uncollectibles expenses. The
16 Public Staff adjusted uncollectibles utilizing the previously approved
17 methodology of calculating uncollectibles for each Company division.
18 In addition, we also calculated uncollectibles utilizing a five-year
19 normalized average to account for any anomalies in any given year.
20 These percentages were applied to the adjusted levels of service

1 revenues under present, Company proposed, and recommended
2 rates to derive our adjusted levels of uncollectibles expense.

3 **MAINTENANCE AND REPAIR EXPENSE**

4 **Q. Please explain your adjustments to maintenance and repair**
5 **expense.**

6 A. Maintenance and repair expense has been adjusted to include
7 amounts recommended by Public Staff witness Franklin. In addition,
8 we adjusted maintenance and repair expense to reflect one year of
9 annual amortization expense based on the Public Staff's
10 recommended level of deferred charges, as discussed in the
11 deferred maintenance section of our testimony.

12 **CAPITALIZED SALARIES EXPENSE**

13 **Q. Please explain your adjustments to capitalized salaries**
14 **expense.**

15 A. The Company amortized salaries of employees involved in the rate
16 case over a three-year period to account for the decrease in the
17 number of rate cases should the Company's request for a MYRP be
18 approved. We have adjusted the amortization period to five years,
19 consistent with our adjustment to rate case expenses, since the

1 period between rates effective for each case will be close to five
2 years.

3 **OUTSIDE SERVICE EXPENSE**

4 **Q. Please explain your adjustments to outside services expense.**

5 A. Outside services expense has been adjusted to remove external
6 consulting and legal expenses associated with the pending
7 acquisitions of the Echota Water Utility System and Seven Devils
8 Wastewater Utility System, as these systems have not been acquired
9 and are not included in the Company's cost of service.

10 **SALARIES AND WAGES AND PAYROLL TAXES**

11 **Q. Please explain your adjustments to salaries and wages and
12 payroll taxes.**

13 A. We have adjusted salaries and wages to reflect the updated payroll
14 information provided by CWSNC. The Company's updated payroll
15 information includes salary and wage increases granted since the
16 end of the test year, the reallocation of an employee from the Atlantic
17 Region to the East Region, the removal of vacant positions, and an
18 adjustment of on call earnings from an annualized level proposed by
19 the Company to the actual 12-months of on call earnings as of
20 August 2022. Additionally, the Company used salary levels as of May

1 21, 2022; however, we used the actual, up-to-date salary and wages
2 expense incurred by the Company as of September 19, 2022 for our
3 adjustment.

4 Finally, we updated payroll taxes based on the Public Staff's
5 recommended level of salaries and wages at the current payroll tax
6 rates.

7 **PENSION AND OTHER BENEFITS EXPENSE**

8 **Q. Please explain your adjustments to pension and other benefits**
9 **expense.**

10 A. We updated pension and other benefits expense to reflect the most
11 current list of employees participating in the programs. In addition,
12 we also reclassified worker's compensation insurance expense from
13 pension and other benefits to insurance expense.

14 **REGULATORY COMMISSION EXPENSE**

15 **Q. Please explain how you calculated regulatory commission**
16 **expense.**

17 A. Based on information provided by the Company regarding costs
18 incurred to date and expected costs that will occur to complete this
19 rate case proceeding, we included actual rate case expenses for this
20 proceeding, which are comprised of legal fees; capitalized salaries

1 and wages; customer printing; and consulting fees. Additionally, we
2 removed the Fusion projects' amortization expenses included in
3 regulatory commission expense, since the amortized annual
4 expense for Fusion projects is included in deferred maintenance
5 expense as part of maintenance and repair expense.

6 We allocated total rate case expense to CWSNC Uniform Water,
7 CWSNC Uniform Sewer, BF/FH/TC Water, and BF/FH Sewer based
8 on the customer allocation percentages calculated from the
9 Company's ERCs and amortized the actual rate case expense over
10 a five-year period because five years is generally the period that
11 would be between consecutive MYRPs.

12 Finally, we recommend that the amortization period for the approved
13 unamortized amounts from the Company's previous rate cases
14 continue to be amortized over the remaining balance of the five-year
15 amortization period as approved by the Commission in CWSNC's
16 last rate case.

1 **INSURANCE EXPENSE**

2 **Q. Please explain your adjustment to insurance expense.**

3 A. We adjusted insurance expense to reclassify worker's compensation
4 insurance expense from pension and other benefits to insurance
5 expense.

6 **MISCELLANEOUS EXPENSE**

7 **Q. Please explain your adjustments to miscellaneous expense.**

8 A. As previously discussed in the above testimony, we removed pro
9 forma operating expenses associated with the pending acquisitions
10 of the Echota Water Utility System and Seven Devils Wastewater
11 Utility System.

12 We also removed various miscellaneous expense amounts that were
13 not supported by invoices or other accounting documentation, as
14 well as other expense amounts sampled by the Public Staff for which
15 the Company indicated it is not seeking recovery.

16 Finally, we reclassified excess deferred income taxes recorded by
17 the Company as miscellaneous expense to deferred income tax
18 expense.

1 **DEPRECIATION EXPENSE**

2 **Q. Please explain your adjustments to depreciation expense.**

3 A. We have adjusted depreciation expense to reflect an ongoing,
4 annual level of depreciation expense for direct plant in service, based
5 on the Public Staff's adjusted level of plant in service and the
6 depreciable lives for each plant account.

7 **AMORTIZATIONS OF CIAC AND PAA**

8 **Q. Please explain your adjustments to amortizations of CIAC and**
9 **PAA.**

10 A. CIAC amortization expense was adjusted to reflect the Public Staff's
11 recommended level of CIAC multiplied by the individual amortization
12 rates for each plant in service account related to CIAC.

13 PAA amortization expense was adjusted to reflect the Public Staff's
14 recommended level of PAA multiplied by the amortization
15 percentage, which is based on the composite, overall depreciation
16 rate for the Public Staff's adjusted level of direct plant in service.

1

REGULATORY FEE2 **Q. What adjustment have you made to the regulatory fee?**

3 A. The Company used 0.13% as the regulatory fee rate. The new
4 regulatory fee rate was changed to 0.14%, effective July 1, 2022. We
5 updated the regulatory fee rate to 0.14% and applied it to total
6 revenue under present, Company proposed, and Public Staff
7 recommended rates.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

DARRELL BROWN

I graduated from North Carolina State University with a Bachelor of Science in Accounting.

Prior to joining the Public Staff, I was employed by Lumen (FKA CenturyLink, Inc.), as a Regulatory Operations Manager. My duties included preparation and review of federal and state regulatory financial and compliance report filings; analyzing and interpreting federal and state commission and legislative policies, rulemakings, and statutes; providing analytical support and guidance necessary for federal and state regulatory policy development, investigations, and internal and external audit requests; coordination of regulated accounting and reporting policy changes; and managing accounting and pricing functions.

I joined the Public Staff in May 2021 as a Public Staff Accountant. Since joining the Public Staff, I have performed investigations and prepared testimony and exhibits in support of natural gas and water utilities rate cases and performed various other investigations and compliance reviews related to gas, telecommunications, and water utilities.

QUALIFICATIONS AND EXPERIENCE

LYNN FEASEL

I am a graduate of Baldwin Wallace University with a Master of Business Administration degree in Accounting. I am a Certified Public Accountant licensed by the State of North Carolina. Prior to joining the Public Staff, I was employed by Franklin International in Columbus, Ohio until June 2013. Additionally, I worked for ABB Inc. from September 2013 until October 2016. I joined the Public Staff as a Staff Accountant in November 2016. Since joining the Public Staff, I have worked on rate cases involving water and sewer and natural gas utilities; filed testimony and affidavits in various general rate cases; calculated quarterly earnings for Carolina Water Service, Inc. of North Carolina and Aqua North Carolina, Inc.; calculated quarterly earnings for various natural gas companies; calculated refunds to consumers from AH4R and Progress Residential; and reviewed franchise and contiguous filings for multiple water and sewer companies.

1 customers and thus no decrease in the revenue requirement. When
2 the purchased water base facility charge is reduced, that revenue
3 reduction is reflected in the non-purchased water customer usage
4 rates.

5 With the present rates and current rate structure, purchased water
6 systems revenue contributes approximately 13% of the overall
7 revenues for Uniform water. Due to this percentage of the overall
8 rates, if the purchased water base facility charges are reduced due
9 to rate design, the impact on the overall revenue distribution leads to
10 an inequity for the non-purchased water customers in the volumetric
11 rate.

12 The Public Staff proposes to treat the purchased water base charges
13 separately from the non-purchased water base charges. All the
14 purchased water third-party providers have lower volumetric rates
15 than CWSNC, which results in the purchased water systems not
16 having the same rate design as the non-purchased water system
17 customers. Since the purchased water systems do not equate to a
18 30:70 rate design individually, it is unnecessary for the base facility
19 charge to be consistent with the non-purchased water base facility
20 charge.

1 The Public Staff recommends that the base facility charge for
2 purchased water systems be increased by the same percent
3 increase of the service revenue requirement for the rate entity. For
4 example, for the base case, the Public Staff's recommended service
5 revenue requirement for the Uniform water rate entity is an increase
6 of 2.31% compared to the last rate case; therefore, the purchased
7 water system proposed base facility charge would be the current
8 approved base facility charge of \$24.53 increased by 2.31%, or
9 \$0.57. This is the same method that the availability charges and
10 certain system-specific rates are calculated for the rate entities.

11 The service revenue requirement increase percentage applied to the
12 purchased water base facility charge to determine the proposed rate,
13 as discussed above, has been included in my recommended rates
14 and supporting exhibits detailing the billing analysis.

15 **Q. Does the Public Staff's recommended rate design vary for the**
16 **base year and WSIP Years 1, 2, and 3?**

17 A. No. The Public Staff recommends the same rate design and rate
18 structure for the base year and WSIP Years 1, 2, and 3.

19 **WATER EFFICIENCY PROGRAM**

20 **Q. Briefly describe CWSNC's request regarding the Water**
21 **Efficiency Program.**

1 A. In its application and as detailed in the direct testimony of CWSNC
2 witness Philip J. Drennan,¹² the Company has proposed to continue
3 the Water Efficiency Program as approved in Sub 384, including the
4 deferral of rebates applied to customer bills. The Water Efficiency
5 Program implements rebates to customers for installing efficient
6 water fixtures and appliances. Once a customer submits the program
7 application and the application is approved, CWSNC applies a
8 rebate as a credit to the customer's monthly bill. CWSNC proposes
9 to track the rebates applied to customer bills in a regulatory asset
10 account that would be addressed in a future rate case. The program
11 was approved in the Commission's Order Granting Partial Rate
12 Increase and Requiring Customer Notice issued on April 8, 2022
13 (Sub 384 Order); after the end of the test year for the current rate
14 case. CWSNC made a pro-forma adjustment to Office Supplies and
15 Other Expenses in the amount of \$2,000 to account for the cost of
16 an annual bill insert to provide information to customers about the
17 program. CWSNC states that as of July 5, 2022, no applications have
18 been received, but it expects more participation after customer
19 noticing and outreach efforts are complete.

¹² Page 29, line 22 through page 30, line 19, Direct Testimony of Company witness Philip J. Drennan filed in Docket No. W-354, Sub 400, on July 5, 2022.

- 1 **Q. Does the Public Staff have any concerns about CWSNC's**
2 **proposed water efficiency program?**
- 3 A. As stated in its testimony in the last rate case, the Public Staff has
4 concerns about the cost-benefit to customers, the regulatory asset
5 account balance, and the implementation of a brand-new program.
6 While providing a rebate in the form of a customer credit could
7 promote water efficiency, the Public Staff has the following concerns
8 with the Company's proposed Water Efficiency program: 1) a cost-
9 benefit analysis has not been completed for this program due to the
10 unknown customer participation, therefore, CWSNC would be
11 implementing a full program instead of a time-limited pilot; 2) with
12 participation and thereby overall cost unknown, waiting to address
13 the recovery of the regulatory asset in the next rate case could be
14 contentious; 3) since customers typically stay in their homes longer
15 than the estimated lives of the appliances included in this program,
16 CWSNC's maximum credit of one dishwasher, one washing
17 machine, two shower heads, and two toilets may be too limited; 4)
18 participation may be heavily influenced by household financial
19 demographics; and 5) conceptually, more efficient appliances should
20 reduce consumption, which would likely cause the utility to request
21 higher rates in future rate cases to recover program costs and offset
22 lower consumption.

1 **Q. What is the Public Staff's position on the Water Efficiency**
2 **Program?**

3 A. The Sub 384 Order issued in the last rate case states that the Water
4 Efficiency Program should be treated as a pilot program and
5 reevaluated in CWSNC's next rate case (see page 10 and Ordering
6 Paragraph 11). The Commission ordered CWSNC to file a report on
7 an annual basis detailing the dollar amount and number of rebates
8 applied to customers' bills, the dollar amount of the regulatory asset,
9 the type of water efficiency measures for which rebates were applied
10 and estimates or ranges of water efficiency impacts of such
11 measures from an authoritative, third-party source. The Commission
12 issued the Sub 384 Order on April 8, 2022, and CWSNC filed a
13 general rate case less than three months later on July 1, 2022. Due
14 to the program not being fully implemented over this short period,
15 and having no participants yet, the Public Staff is unable to evaluate
16 this program. The Public Staff does not oppose the Water Efficiency
17 Program, but recommends that the conditions set forth by the
18 Commission in Ordering Paragraphs 11 and 12 of the Sub 384 Order
19 be continued in this rate case proceeding, which state as follows:

20 11. That CWSNC is authorized to implement its
21 proposed Water Efficiency Program, as a pilot
22 program, to be reevaluated in CWSNC's next general
23 rate case. With regard to the Water Efficiency Program,
24 CWSNC shall file an annual report with the
25 Commission and the Public Staff detailing the

1 implementation of this program, the dollar amount and
2 number of rebates applied to customer bills, the dollar
3 amount of the regulatory asset, the type of efficient
4 water fixtures for which rebates were applied, and
5 estimates or ranges of water efficiency impacts of such
6 measures from an authoritative, third-party source;
7 [and]

8 12. That consistent with CWSNC's proposal, the
9 Stipulating Parties agree that CWSNC should be
10 authorized to defer in a regulatory asset account and
11 subsequently recover in a future rate case the efficient
12 water fixture rebates applied to customer bills. The
13 regulatory asset account shall not earn a return or
14 carrying charges[.]

15 **CREDIT CARD FEES**

16 **Q. Briefly describe CWSNC's fee-free payment option.**

17 A. The Sub 384 Order authorized CWSNC to implement its proposed
18 fee-free payment option for residential customers. CWSNC is
19 required to file a report on November 30 and May 31 each year on
20 the implementation of the fee-free payment option, detailing the
21 number of fee-free payments made by customers by month, along
22 with CWSNC's uncollectibles expense by month. CWSNC witness
23 Drennan¹³ states in his testimony that the fee-free payment program
24 was scheduled to be fully operational by mid-July of 2022.

¹³ Page 31, lines 8 through 9, Direct Testimony of Company witness Philip J. Drennan filed in Docket No. W-354, Sub 400, on July 5, 2022.

1 **Q. Have any adjustments been made associated with the fee-free**
2 **payment option?**

3 A. No. The Public Staff agrees with CWSNC's pro-forma adjustment for
4 residential-only credit card payment processing fees. The Public
5 Staff verified that the adjustment included costs for only residential
6 customers, and no commercial customers.

7 **Q. What is the Public Staff's position on the credit card fees?**

8 A. The Public Staff recommends that the conditions set forth by the
9 Commission in Ordering Paragraph 10 of the Sub 384 Order be
10 continued in this rate case proceeding, which states as follows:

11 10. That CWSNC is authorized to implement its
12 proposed fee-free payment option for residential
13 customers; in connection with this option, CWSNC
14 shall report to the Commission and Public Staff, every
15 six months on November 30 and May 31 each year with
16 the first report to be filed on or before November 30,
17 2022, for the six months ending September 30, 2022,
18 on the implementation of this option, detailing the
19 number of fee-free payments made by customers by
20 month, along with CWSNC's uncollectibles expense by
21 month[.]

22 **METER REPLACEMENT PROJECTS**

23 **Q. Please describe the meter replacement projects included in the**
24 **WSIP projections.**

25 A. Appendix 1A and 1B of the Capital Improvement Plan (CIP) plan
26 prepared by engineering firm, Black & Veatch for CWSNC lists the

1 future AMI (advanced metering infrastructure) water meter
2 replacement projects for the Uniform Water and BF/FH/TC Water
3 rate entities, respectively. CWSNC uses three types of water meters,
4 standard, AMR (automated meter reading), and AMI meters. A
5 standard meter requires a manual on-site read of the meter gauge,
6 which is typically performed once a month. An AMR meter uses radio
7 frequencies to send an electronic read that can be taken by a person
8 in a vehicle driving by near the meter. An AMI meter is on a fixed-
9 point network, either radio or cellular, with strategically distributed
10 collectors or receivers that are capable of two-way communication
11 with the meter. An AMI meter does not require a person or vehicle to
12 be in the vicinity of the meter to send an electronic read and can be
13 communicated with in near real time.

14 CWSNC included several meter replacement projects in WSIP Year
15 1 for Uniform Water customers and WSIP Year 2 for BF/FH/TC
16 Water customers. Each of the meter replacement projects included
17 the installation of AMI meters. For Uniform Water, in WSIP Year 1,
18 CWSNC plans to replace approximately 4,962 meters in 15 systems.
19 The total estimated cost of these projects is \$1,974,810. For
20 BF/FH/TC Water, in WSIP Year 2, CWSNC plans to have one AMI
21 meter replacement project for Fairfield Harbor replacing 1,877

1 meters. The total cost for the Fairfield Harbor meter replacement
2 project is \$590,316.

3 **Q. Please describe the functionality of the AMI meter compared to**
4 **the standard meter.**

5 A. In response to Public Staff Data Request No. 46, CWSNC stated
6 that, “AMI meters will provide the ability to continuous meter reading
7 and data along with stored data of water usage for up to 96 days.”
8 CWSNC also clarified that when the data is pulled from the meters
9 via AMI, leak, backflow, and tamper codes are collected. CWSNC
10 currently has one system with AMI meters, Mountain Air where
11 CWSNC is the emergency operator.

12 **Q. Please describe the functionality of the AMR meter compared to**
13 **the standard meter.**

14 A. Also, in response to Public Staff Data Request No. 46, CWSNC
15 stated that AMR meters provide the ability to perform drive-by meter
16 reading along with stored historical data of water usage up to 96
17 days. CWSNC also stated that data can be individually pulled by a
18 CWSNC employee upon request from the customer, and when the
19 data is pulled manually, leak, backflow, and tamper codes are
20 collected. CWSNC is currently performing monthly meter reads for
21 the AMR systems.

1 **Q. Please describe the potential benefits resulting from an AMR**
2 **and AMI meter replacement project.**

3 A. The Company contends that AMR and AMI meter technology
4 provides the following benefits for operations: reduced time to
5 manually read meters requiring less employee time or contract meter
6 readers to read meters; greater accuracy in meter reads and
7 reporting; and additional usage data to provide insight to leaks, main
8 breaks, unusual usage, etc. AMR and AMI meter technology offers
9 the following benefits for customers: access to data allow customers
10 to manage their usage goals or be notified quickly of a leak or break;
11 and customers can benefit from greater accuracy in their meter reads
12 by receiving accurate bills. The primary benefit to customers from
13 AMR and AMI meters is the access to data. CWSNC stated the
14 following in their response to Public Staff's Data Request No. 46,
15 Question 3:

16 CWSNC does not currently provide for customers to
17 access their AMR or AMI data. On customer request,
18 CWSNC is able to provide AMR or AMI data to
19 customers directly. CWSNC is working to allow
20 customers to directly access their AMI and has the
21 capabilities to do so but there has not been a roll out of
22 AMI meters in CWSNC's service areas.

23

1 **Q. Please describe the Public Staff’s position on the AMR and AMI**
2 **meter projects.**

3 A. CWSNC’s current practices and set up with AMR and AMI meters
4 does not provide a customer with easily and readily accessible usage
5 data. CWSNC has not implemented benefits to the customers while
6 materially increasing the cost to customers. CWSNC provided the
7 Public Staff copies of letters that were sent customers for three
8 systems receiving AMR meters and one system receiving AMI
9 meters. The letters described the technology and the logistics of the
10 project but did not notify customers that they could access their
11 personal usage data or request that data from CWSNC. The letters
12 provided by CWSNC in response to Public Staff DR No. 46 are
13 included in **Darden Exhibit 16.**

14 As stated previously, CWSNC plans to invest approximately \$2.57
15 million in AMI replacement projects within WSIP Years 1 and 2. This
16 would be an unreasonable cost to spend on advanced technology
17 that serves little to no realized benefit to customers. The Public Staff
18 recommends that CWSNC first implement the process to allow
19 customers to directly access their AMI data. This should be a
20 pressing priority for the Company before the installation of AMI
21 meters, not afterwards. The Public Staff recommends that customers
22 have direct access to their personal usage data without having to

1 contact a CWSNC employee. The Public Staff also recommends that
2 CWSNC change its notification letter to customers to clearly
3 communicate the current and future process that is available to them
4 to access their personal data. CWSNC should focus on educational
5 outreach to the systems receiving AMI meters so that customers are
6 aware of the technology and benefits that could be available to them.

7 Due to the customer usage data access program being incomplete
8 and projects planned to come online in future years, the Public Staff
9 cannot fully review the cost-benefit analysis of the meter
10 replacement projects for customers. Therefore, the Public Staff
11 reserves the right to analyze the reasonableness and prudence of
12 the AMI meter replacement projects in a future rate case, once the
13 projects are completed.

14 **SEWER USE RULE**

15 **Q. Briefly describe CWSNC's request regarding the Sewer Use**
16 **Rule and tariff revision.**

17 A. CWSNC requests approval of the newly proposed Sewer Use Rule
18 and accompanying new tariff wording. CWSNC witness Dana Hill¹⁴
19 states in his testimony that the Sewer Use Rule is necessary to

¹⁴ Page 21, lines 1 through 23 and Page 22, lines 1 through 13 Direct Testimony of Company witness Dana Hill filed in Docket No. W-354, Sub 400, on July 5, 2022.

1 provide sewer customers with defined discharge limits and provide
2 CWSNC with enforcement actions to monitor the discharge of
3 contaminants into the utility's collection system that are harmful to
4 the sewer treatment process. Currently, CWSNC does not have a
5 mechanism to grant it enforcement authority when customers
6 discharge certain contaminants, such as fats, oils, grease, etc. that
7 can be harmful to the sewer treatment process and the environment.
8 CWSNC provided a proposed Sewer Use Rule as Schedule F-6 to
9 Appendix 7 and included the following proposed wording in the
10 Uniform Sewer and BF/FH/TC Sewer tariffs included in Schedule F:

11 All sewer use customers are subject to the terms as
12 outlined in the Sewer Use Tariff.

13 **Q. Please describe the Public Staff's position on the proposed**
14 **Sewer Use Rule and tariff revision.**

15 A. The Public Staff agrees with CWSNC that defining discharge limits
16 for sewer customers and providing CWSNC with enforcement
17 actions is beneficial to operations and the environment, and,
18 therefore, is beneficial to customers. CWSNC witness Dana Hill¹⁵
19 references the federal requirements of 40 C.F.R. § 403, North
20 Carolina requirements of 15A NCAC 02H.0900, and NCUC Rule

¹⁵ Page 22, footnote 3 Direct Testimony of Company witness Dana Hill filed in Docket No. W-354, Sub 400, on July 5, 2022.

1 R10-16 in his testimony. The Public Staff has reviewed the proposed
2 Sewer Use Rule, the Company's references and additional source
3 material, and agrees with implementation of CWSNC's proposed
4 Sewer Use Rule. However, the Public Staff does not agree with the
5 proposed tariff revision wording concerning the Sewer Use Rule.

6 The Public Staff recommends that additional detail and clarification
7 be added to the wording on the tariff so the customers can have more
8 context concerning the Sewer Use Rule. The Public Staff
9 recommends the following wording be included in the Notes section
10 of the Uniform Sewer and the BF/FH/TC Sewer tariffs:

11 All nondomestic and industrial waste is subject to the
12 Sewer Use Rule. The Sewer Use Rule can be
13 accessed at [URL for CWSNC website page that posts
14 the Rule] and is also available upon request. The
15 Sewer Use Rule requires Users (utility customers) to
16 provide advance notice of any nondomestic or
17 industrial waste discharge into the Utility's sanitary
18 sewer systems, and to meet certain effluent limitations
19 and pretreatment requirements. Violation of the Sewer
20 Use Rule may result in disconnection. Reconnection
21 will require reimbursement of the Utility's actual costs
22 incurred as a result of the violation. Repeat violations
23 may result in permanent disconnection.

24 As part of the Sewer Use Rule, the Utility may require
25 installation and/or proper operation of grease traps on
26 grease producing commercial facilities. Failure to
27 properly operate grease traps will result in
28 disconnection of service pursuant to Commission Rule
29 R10-16.

30

- 1 Q. Does this conclude your testimony?
- 2 A. Yes, it does

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

LINDSAY Q. DARDEN

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Civil Engineering. I am a licensed Professional Engineer (PE - State of North Carolina #042110). I am also certified as a B-Well Operator (#130281) by the North Carolina Water Treatment Facility Operators Certification Board. I worked for the North Carolina Department of Environmental Quality (DEQ), Public Water Supply Section for four years prior to joining the Public Staff in December 2016. Prior to working for DEQ, I worked for Smith Gardner, an engineering consulting firm.

My duties with the Public Staff are to monitor the operations of regulated water and wastewater utilities with regard to rates and service. These duties include conducting field investigations, reviewing, evaluating, and recommending changes in the design, construction, and operations of regulated water and wastewater utilities, presenting expert testimony in formal hearings, and presenting information, data, and recommendations to the North Carolina Utilities Commission.

1 **Q. Please state your name, business address, and present**
2 **position.**

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

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. Briefly explain the scope of your investigation regarding this**
10 **rate increase application.**

11 A. My areas of investigation in this proceeding have been the review of
12 Carolina Water Service, Inc. of North Carolina's (CWSNC or
13 Company) records and expenses, including purchased power,
14 sludge removal, meter reading, purchased water, and purchased
15 sewer in coordination with the Public Staff Accounting Division.

16 **Q. Have you recommended any adjustments to expenses related**
17 **to water and wastewater operations?**

18 A. Yes, I have provided Public Staff Financial Analyst Darrell Brown with
19 recommendations for adjustments to purchased power, sludge
20 removal, and meter reading.

1 **Purchased Power Expenses**

2 I reviewed CWSNC's expenses for purchased power for all CWSNC
3 rate divisions. In response to Public Staff Data Request No. 40,
4 CWSNC provided additional information regarding invoices received
5 from Duke Energy Carolinas and Duke Energy Progress. CWSNC
6 also provided copies of approximately 500 purchased power invoices
7 for specific meters identified by the Public Staff. Based on my review
8 of the purchased power invoices, I determined the billed amount
9 shown in the Company's general ledger report accurately reflected
10 the actual invoiced amount. No late fees were recorded, and, unlike
11 the previous rate case, there was no pervasive evidence of the
12 Company recording the total past-due balance as the monthly
13 purchased power expense.

14 I recommend adjustments to the purchased power expense amount
15 requested by CWSNC for the Uniform Water and Uniform Sewer rate
16 Divisions. During the review of purchased power expenses, I
17 determined the Company was inappropriately including invoices
18 from the South Carolina business units of Duke Energy Carolinas
19 and Duke Energy Progress. Removal of these charges reduced the
20 Uniform Sewer purchased power expense amount by \$13,484 and
21 Uniform Water purchased power expense amount by \$1,966.

1 Further review determined the Company's systems in its Danby
2 service area, part of Uniform Water and Sewer, include service
3 connections in both North Carolina and South Carolina, with the
4 wastewater treatment plant (WWTP) actually located in South
5 Carolina. CWSNC informed the Public Staff that in addition to serving
6 the Danby service area, the Danby WWTP also provides wastewater
7 utility service to 328 additional customers in Lancaster County, South
8 Carolina. Based on information provided by the Company, Danby
9 WWTP serves 355 total customers in South Carolina with a total of
10 1,614 wastewater customers in North and South Carolina. Since the
11 customer count in South Carolina represents approximately 22% of
12 the Danby wastewater customers, the purchased power expenses
13 during the test year for Danby wastewater were reduced 22%, or
14 \$8,861. Similarly, the Danby water utility system serves 27
15 customers in South Carolina out of a total of 1,283 water utility
16 customers in North and South Carolina, or approximately 2%. I
17 therefore reduced the purchased power expense for Danby water
18 service area by \$239.

19 As a result, the Public Staff's recommended total purchased power
20 expense for Uniform Water is reduced by \$2,205 and Uniform Sewer
21 is reduced by \$22,345. No adjustments were made to the Bradfield

1 Farm/Fairfield Harbour/Treasure Cove (BF/FH/TC) Water and Sewer
2 rate divisions purchased power expenses.

3 Based on the analysis of the most recent purchased power invoices
4 and information derived from additional data provided by the
5 Company, the Public Staff recommends the following purchased
6 power expense levels in the Company's base case:

7		<u>CWSNC Updated</u>	<u>Public Staff</u>
8		<u>Application</u>	<u>Recommendation</u>
9	Uniform Water	\$1,073,063	\$1,070,858
10	Uniform Sewer	\$838,500	\$816,155
11	BF/FH/TC Water	\$70,432	\$70,432
12	BF/FH/TC Sewer	\$149,604	\$149,604

13 My calculations are shown in **Franklin Exhibit 1**.

14 **Sludge Removal Expenses**

15 In order to investigate the Company's requested sludge hauling
16 expense, I reviewed the historical sludge hauling quantity and
17 expense data provided by CWSNC in response to Public Staff Data
18 Request Nos. 14 and 36. The Company provided the data based on
19 a review of sludge hauling invoiced amounts from September 1,
20 2019, through August 31, 2022. To accurately reflect the most recent
21 pricing, I used sludge hauling expenses for the time period from

1 September 1, 2021, through August 31, 2022, based on the cost
2 information provided by the Company. The following is a summary
3 of adjustments by rate division.

4 **Uniform Water**

5 In response to Public Staff Data Request No. 36, the Company
6 provided a sludge variance explanation spreadsheet that showed
7 sludge hauling expenses were assigned to Belvedere Plantation
8 Water and Sugar Mountain Water, but instead, should have been
9 assigned to Belvedere Plantation Sewer and Sugar Mountain Sewer,
10 respectively. This resulted in a \$20,385 reduction to the Uniform
11 Water sludge hauling expense amount. Further, the total
12 documented sludge cost for the updated time period from September
13 1, 2021, through August 31, 2022, is \$14,195 less than the expense
14 amount provided by the Company, resulting in a total adjustment of
15 \$34,580.

16 **Uniform Sewer**

17 As stated above, \$20,385 was reallocated to Uniform Sewer from
18 Uniform Water. Additionally, as previously discussed in my testimony
19 on adjustments to Purchased Power, sludge hauling expenses for
20 the Danby service area were reduced by 22% to account for the
21 wastewater connections located in South Carolina. Factoring in the

1 above, I calculated the total sludge hauling expenses for the updated
2 12-month period from September 1, 2021, through August 31, 2022,
3 to be \$403,299 resulting in a downward adjustment of \$60,837 from
4 the Company's September 19, 2022, updated Schedule B-6a,
5 amount of \$464,136.

6 **BF/FH/TC Water**

7 There were no sludge hauling expenses for this rate division during
8 the evaluated time period.

9 **BF/FH/TC Sewer**

10 In response to Public Staff Data Request No. 36, the Company
11 provided a sludge variance explanation spreadsheet that stated
12 increased sludge hauling during the test year was required at
13 Bradfield Farms and Fairfield Harbour due to ongoing capital
14 projects. The Bradfield Farms project is a multi-year project to
15 replace the electrical controls at the WWTP and install new sludge
16 transfer pumps. The capital project for Fairfield Harbour required the
17 emptying of WWTP tanks for inspection to determine project scope.
18 Since both capital projects are considered infrequent events and not
19 representative of operations on a go-forward basis, I reduced the
20 sludge hauling expenses for both Bradfield Farms and Fairfield
21 Harbour to account for these projects.

1 For Bradfield Farms, I reduced the sludge hauling expense by
2 \$16,856 to match the sludge hauling expense more closely for the
3 test year of CWSNC's previous rate case (Docket No. W-354, Sub
4 384). Fairfield Harbour's sludge hauling expense was reduced by
5 \$4,320, which was the sludge hauling expense that was booked the
6 closest to the time of the inspection based on the Company's capital
7 improvement plan. Further reductions in sludge hauling expenses of
8 \$29,816 were made based on the Public Staff's review of the sludge
9 hauling expenses for the time period from September 1, 2021,
10 through August 31, 2022. This reduction results in a total sludge
11 hauling expense for the rate division of \$39,685, which is \$50,992
12 less than the Company's September 19, 2022, updated Schedule B-
13 6b, amount of \$90,677.

14 Based on the analysis of sludge hauling levels and the current sludge
15 hauling expenses derived from invoices and additional data provided
16 by the Company, the Public Staff recommends the following sludge
17 hauling expense levels:

	<u>CWSNC Updated Application</u>	<u>Public Staff Recommendation</u>
1		
2		
3	Uniform Water	\$39,130
4	Uniform Sewer	\$464,136
5	BF/FH/TC Water	\$0
6	BF/FH/TC Sewer	\$90,677

7 My calculations are shown in **Franklin Exhibit 2**.

8 **Meter Reading**

9 To investigate the Company's meter reading expenses, I analyzed
10 the General Ledger Detail Report the Company provided in response
11 to Public Staff Data Request No. 42. For the updated test year ending
12 August 31, 2022, I calculated the Uniform Water meter reading
13 expense as \$222,612, as compared to the updated Schedule B-8a
14 amount of \$229,336, resulting in a downward adjustment of \$6,724.
15 No adjustments were required for the Uniform Sewer or BF/FH/TC
16 Water and Sewer rate divisions' meter reading expenses.

17 Based on the foregoing analysis of meter reading expenses, derived
18 from the data request response provided by the Company, the Public
19 Staff recommends the following meter reading expense levels in the
20 base case:

	<u>CWSNC Updated</u>	<u>Public Staff</u>	
	<u>Application</u>	<u>Recommendation</u>	
3	Uniform Water	\$229,336	\$222,612
4	Uniform Sewer	\$3,024	\$3,024
5	BF/FH/TC Water	\$47,602	\$47,602
6	BF/FH/TC Sewer	\$1,041	\$1,041

7 My calculations are shown in **Franklin Exhibit 3**.

8 **Purchased Water**

9 CWSNC's pro forma adjustment to the Uniform purchased water
10 expense, which is included in its update filed on September 19, 2022,
11 reflects changes in suppliers' rates from the City of Charlotte, City of
12 Fayetteville - Public Works Commission (PWC), Town of Franklin,
13 Town of Hendersonville, Town of Southern Pines, and Johnston
14 County. To match costs to the revenues and facilitate future filings
15 pursuant to N.C. Gen. Stat. § 62-133.11, purchased water expenses
16 and pass-through rates charged by the utility should reflect the
17 current rates for all suppliers. Therefore, in addition to the updated
18 rates included in CWSNC's pro forma adjustment, I updated the rates
19 for the City of Asheville, City of Gastonia, Town of Sanford and
20 Lancaster County, South Carolina. With respect to the City of
21 Winston-Salem and the Town of Hendersonville, I disagree with the
22 Company's rates of \$5.79 and \$5.27 per 1,000 gallons, respectively.

1 Both municipalities use tiered rates that result in the overall rate
2 changing based on the volume of water purchased. Based on the
3 City of Winston-Salem's and the Town of Hendersonville's current
4 schedule of rates, effective July 1, 2022, and the purchased water
5 amount determined during the update period from each municipality,
6 the usage rate for water service is \$5.64 per 1,000 gallons for the
7 City of Winston-Salem and \$5.22 per 1,000 gallons for the Town of
8 Hendersonville.

9 In response to Public Staff Data Request No. 13, CWSNC provided
10 test year invoices for its partial purchased water and 100%
11 purchased water systems. The data request response also included
12 a spreadsheet showing for each of the purchased water systems the
13 volume of water provided by CWSNC wells, the volume of water
14 purchased, the volume of water sold, and the volume of non-revenue
15 water. In response to Public Staff Data Request No. 63, CWSNC
16 revised this spreadsheet to show these amounts through the update
17 period for the purchased water systems.

18 The Public Staff calculates purchased water expenses based on the
19 actual number of gallons purchased during the test year period,
20 adjusted for excess amounts of non-revenue purchased water if
21 applicable, multiplied by the supplier's current rate. I therefore made
22 non-revenue water (NRW) adjustments to the Zemosa Acres, Kings

1 Grant, High Vista Estates, Carolina Forest, Woodrun, Eastgate, and
 2 Riverbend Estates purchased water systems. The Public Staff
 3 recommends a 15% maximum allowance for NRW for most water
 4 systems and 20% for water systems located in the mountain regions
 5 of North Carolina, which is consistent with the Public Staff's position
 6 in the last two general rate cases, Docket No. W-354, Subs 364 and
 7 384. Due to challenges with terrain and rocky subsurface conditions,
 8 the mountainous areas are expected to have more issues with
 9 managing NRW than water systems in other regions of North
 10 Carolina. **Franklin Table 1** shows the purchased water systems that
 11 were adjusted for NRW, the actual NRW percentage, and the Public
 12 Staff's recommended allowable NRW percentage.

13 **Franklin Table 1**

Purchased Water System	Supplier	Actual NRW (%)	Public Staff Adjusted NRW (%)
Zemosa Acres	City of Concord	23.8	15
Kings Grant	City of Gastonia	44.2	15
High Vista Estates	City of Hendersonville	39.3	20
Carolina Forest	Montgomery County	16.9	15
Woodrun	Montgomery County	21.2	15
Eastgate	PWC	21.9	15
Riverbend Estates	Town of Franklin	39.1	20

1 Based on the foregoing analysis of CWSNC's purchased water
 2 expenses and the impact of the analysis results on CWSNC's
 3 updated purchase water expenses, I have found the updated
 4 purchased water expense levels to be reasonable and agree with the
 5 Uniform Water rate division's updated purchased water expenses as
 6 follows:

7	<u>Per Books</u>	<u>Pro Forma Adjustment</u>	<u>Total Expense</u>
8	\$1,632,051	\$33,405	\$1,665,457

9 There are no purchased water systems within the Bradfield
 10 Farms/Fairfield Harbour/Treasure Cove, (BF/FH/TC) Water Rate
 11 Division.

12 **Purchased Sewer**

13 I reviewed CWSNC's expenses for Uniform Sewer Purchased Sewer
 14 based on invoices and documentation provided by the Company.
 15 Based on my review, I agree that the following expense levels
 16 requested by the Company in its application accurately reflect
 17 expected expense levels going forward and, therefore, do not
 18 recommend any adjustments:

19	<u>Per Books</u>	<u>Pro Forma Adjustment</u>	<u>Total Expense</u>
20	\$1,032,514	\$16,026	\$1,048,540

1 There are no purchased water systems within the Bradfield
 2 Farms/Fairfield Harbour/Treasure Cove, (BF/FH/TC) Water Rate
 3 Division.

4 **Purchased Sewer**

5 I reviewed CWSNC's expenses for Uniform Sewer Purchased Sewer
 6 based on invoices and documentation provided by the Company.
 7 Based on my review, I agree that the following expense levels
 8 requested by the Company in its application accurately reflect
 9 expected expense levels going forward and, therefore, do not
 10 recommend any adjustments:

11	<u>Per Books</u>	<u>Pro Forma Adjustment</u>	<u>Total Expense</u>
12	\$1,032,514	\$16,026	\$1,048,540

13 **Q. Does This Conclude Your Testimony?**

14 A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

D. MICHAEL FRANKLIN

I graduated from the University of South Carolina, earning a Bachelor of Science Degree in Engineering. I worked in the electric utility industry for 33 years prior to joining the Public Staff in June 2019. While employed by the Public Staff, I have worked on utility rate case proceedings, new franchise and transfer applications, customer complaints, and other aspects of utility regulation.

1 **Q. Please state your name, business address, and present**
2 **position.**

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

8 **Q. Briefly state your qualifications and duties.**

9 A. My qualifications and duties are included in Appendix A.

10 **Q. Briefly explain the scope of your investigation regarding this**
11 **rate increase application.**

12 A. My areas of investigation in this proceeding have been the review of
13 the company records of Carolina Water Service, Inc. of North
14 Carolina (CWSNC or Company), including environmental
15 compliance and Department of Environmental Quality (DEQ)
16 records. I have also assisted the Public Staff Accounting Division
17 with the review of fuel for transportation.

18 **Environmental Compliance**

19 **Q. Describe the results of your investigation of DEQ Notices of**
20 **Violation and Fines.**

1 A. In response to Public Staff Data Request No. 10, CWSNC provided
 2 information on findings of environmental noncompliance regarding
 3 CWSNC's water and wastewater utility systems. As shown below in
 4 **Houser Table 1**, CWSNC accrued a much larger number of
 5 violations related to its wastewater systems than its water systems.

6 Houser Table 1 – CWSNC Violation Summary

Year	Wastewater Violations	Water Violations
2020	19	8
2021	41	4
2022	12	1

7 **Q. Describe CWSNC's wastewater violations and civil penalties.**

8 A. In 2020, 13 wastewater systems were issued a total of 19 Notices of
 9 Violation (NOVs) by DEQ. In 2021, the number of wastewater
 10 systems that were issued violations increased to 18 and the number
 11 of NOVs issued in 2022 increased to a total of 41. From January
 12 2022 through August 2022, eight wastewater systems were issued a
 13 total of 12 NOVs.

14 Of the 72 total NOVs CWSNC was issued from January 2020
 15 through August 2022, 53 of the 72 included an effluent limit
 16 exceedance with some violations including multiple exceedances for
 17 one or more parameters. A summary of parameter exceedances can
 18 be found below in **Houser Table 2**.

1 Houser Table 2 – CWSNC Wastewater Parameter Exceedances

Parameter	NOVs Parameter Exceedance
Biological Oxygen Demand (BOD)	22
Fecal	14
Enterococci	8
Ammonia	8
Nitrogen	8
Phosphorus	5
Total Suspended Solids (TSS)	3

2 CWSNC reported its investigation of these parameter exceedances
3 and various resolutions. The reported resolutions included actions
4 such as implementing new operational procedures, training or
5 retraining staff, maintenance and/or repairs of equipment, installation
6 of new equipment, and planning for future plant upgrades. CWSNC
7 reported that six of the NOVs could have been related to weather
8 events.

9 CWSNC received ten NOVs for sanitary sewer overflows (SSO).
10 CWSNC reported that four SSO NOVs were due to debris or roots,
11 three were caused by operator error or equipment malfunction, and
12 two were caused by weather events. An additional SSO was
13 reportedly due to erosion exposing portions of the collection system.

14 CWSNC was issued three violations for failing to meet minimum
15 parameter limits, two violations for pH, and one violation for dissolved
16 oxygen. CWSNC reported retraining operations staff on maintaining

1 dissolved oxygen levels, pH meter calibration, and sample
2 technique.

3 Ashley Hills, Carolina Pines, Sugar Mountain, White Oak Estates,
4 Regalwood, Fairfield Harbour, Saddlewood, Queens Harbor,
5 Riverpointe, Brandywine Bay, Monteray Shores, and Carolina Trace
6 wastewater systems received three or more NOVs between July 1,
7 2020, and March 31, 2022.

8 The total wastewater civil penalties reported by CWSNC from 2020
9 through 2022 are summarized below in **Houser Table 3**.

10 Houser Table 3 – CWSNC Wastewater Penalties by Year

Year	Wastewater Penalties
2020	\$6,039
2021	\$5,548
2022	\$1,254

11 The wastewater civil penalties accrued from January 2022 to August
12 2022 are significantly less than the previous two years.

13 **Q. Describe CWSNC's water violations and civil penalties.**

14 A. Of the 13 water NOVs, eight were issued for maximum contaminant
15 level (MCL) exceedances, three for failure to calibrate the effluent
16 flow meter of a water treatment plant annually, and two for failure to

1 monitor. CWSNC has not received any civil penalties for water
2 system NOVs.

3 The Zemosa Acres water system was issued three violations for
4 exceeding the total trihalomethanes (TTHM) locational running
5 annual average (LRAA) in the first three quarterly monitoring periods
6 of 2021. CWSNC indicated in its environmental compliance
7 submission that it has installed automatic flushing devices to resolve
8 the issue. The system did not receive another MCL violation for
9 TTHM after the third quarter of 2021, indicating that the issue has
10 been resolved.

11 The remaining five MCL exceedances include a combined radium
12 LRAA exceedance, a TTHM exceedance, and haloacetic acid
13 (HAA5) exceedance in three water systems. CWSNC installed a
14 treatment system at the Elk River water system following its radium
15 exceedance in 2020. A chlorine injection point was relocated to lower
16 the timeframe for disinfection byproducts (DBP) to form in the
17 Fairfield Harbour water system, addressing the TTHM exceedance
18 that was received in November of 2020. The Brandywine Bay water
19 system was switched to chloramines for disinfection to resolve the
20 HAA5 exceedance that it received in February of 2021. The
21 remaining two HAA5 exceedances occurred in the Carolina Forest
22 and Woodrun water systems, which receive purchased water from

1 the City of Concord. CWSNC has worked with DEQ and the City of
2 Concord to address HAA5 exceedances in those water utility
3 systems.

4 These five MCL exceedance violations did not recur after the initial
5 violation, indicating that the issues are not ongoing. The Company
6 received two monitoring violations, one for failing to sample DBPs in
7 the third quarter of 2020 and another for failing to sample total
8 coliform in June of 2022.

9 CWSNC reported receiving an Administrative Order for the
10 Brandywine Bay water system dated September 1, 2020. After
11 reviewing the letter from NCDEQ, I determined that the letter was not
12 an Administrative Order and is instead a notification that CWSNC
13 must submit a plan for returning the Brandywine Bay water system
14 to compliance. CWSNC reported that the disinfection system would
15 be switched to chloramines to address the DBP levels. DEQ stated
16 that the system had returned to compliance for TTHM and HAA5
17 MCLs referenced in the letter.

18 **Q. Describe any other findings of noncompliance issues.**

19 A. CWSNC was issued 17 Notices of Deficiency (NOD) related to its
20 wastewater systems. Six NODs were related to limit exceedances
21 three for failing to sample, two for failing to report monthly flow and

1 coliform results, two for Sanitary Sewer Overflows, two for not having
2 a Sewer Use Ordinance or Fats, Oils, and Grease programs, and
3 one for failure to collect a temperature reading. The remaining NOD
4 was issued after DEQ noted that a sludge blanket was not being kept
5 at acceptable levels.

6 For the water systems, Connetsee Falls water system had a fluoride
7 secondary MCL exceedance in 2021, requiring CWSNC to post a
8 Special Public Notice. The Saddlewood water system exceeded the
9 lead action level during the 2020 to 2022 three-year monitoring
10 period, for which it sampled in 2021, requiring CWSNC to submit a
11 corrosion control treatment recommendation to DEQ. CWSNC was
12 issued a NOD for the Heather Glen water system after the system
13 exceeded the manganese action level in 2021.

14 **Q. Summarize the state of CWSNC's water quality.**

15 A. CWSNC's water systems are generally in compliance with federal
16 and state regulations, testing requirements, and primary water
17 quality standards. CWSNC's water systems have had some issues
18 with TTHMs and HAA5s LRAA exceedances; however, CWSNC has
19 indicated that it has addressed these issues.

20

1

Fuel for Transportation

2 **Q. Describe your investigation of CWSNC's fuel for transportation**
3 **expense.**

4 A. I reviewed CWSNC's fuel for transportation expense for each rate
5 entity using data provided by the Company in response to Public
6 Staff Data Request Nos. 16 and 28. The Company provided the
7 monthly fuel consumption and cost between January 2019 and
8 August 2022, as well as percentages of its total fuel consumption by
9 fuel type and percentages allocated to each rate entity. In its
10 application, CWSNC based the fuel for transportation expense on
11 the per books value of the test year, the 12-months ending March 31,
12 2022, and added an inflator rate to adjust to each of the years in the
13 Water and Sewer Investment Plan (WSIP). The Company uses
14 entity-specific inflator rates rather than one universal inflator rate for
15 all rate entities.

16 I determined a cost per gallon value of \$3.13 using a 24-month
17 average of fuel costs from the U.S. Energy Information
18 Administration (EIA). The test year average and current EIA data
19 trends support this cost per gallon. I recommend that this cost be
20 used for the base year and all three years of the WSIP, if approved.

1 The cost per gallon of \$3.13 incorporates both gasoline and diesel
2 prices that have been averaged over a 24-month period ending
3 October 3, 2022. The gasoline and diesel costs were combined using
4 a weighted average, based on the Company's 2019 to 2022 usage
5 (approximately 95% gasoline and 5% diesel). The average cost per
6 gallon incurred by the Company during the test year, 12-month
7 period ending March 31, 2022, was \$3.12 per gallon across all its
8 rate entities. The Company's average cost per gallon for fuel during
9 the 24-month period ending August 31, 2022, was \$3.10 per gallon.
10 Based on the EIA Lower Atlantic Retail Gasoline and Diesel
11 (PADD1C) data, the cost per gallon of gasoline has been trending
12 downwards since June of 2022 after peaking at \$4.69 per gallon on
13 June 13, 2022. The price of diesel fuel has been decreasing since
14 June 20, 2022, after it peaked at \$5.76 per gallon. **Houser Exhibit 1**
15 includes the fuel prices by date.

16 I applied the \$3.13 cost per gallon to the Company's average fuel
17 consumption for its rate entities to calculate the fuel for transportation
18 expense. Based on this analysis, the Public Staff recommends the
19 following expense levels for Fuel for Transportation:

20

	<u>Public Staff Recommendation</u>
1	
2	Uniform Water \$185,832
3	Uniform Sewer \$110,868
4	BFFFHTC Water \$ 22,327
5	BFFHTC Sewer \$ 22,854

6 My calculations are shown in **Houser Exhibit 2**.

7 **Q. Describe the applicability of inflator rates to fuel for**
 8 **transportation for Rate Years 1 through 3 of the WSIP.**

9 A. CWSNC proposed in its application inflator rates for Rate Year 1
 10 between 9.61% and 8.91% across all its rate entities. The
 11 Company's inflator rates for Rate Year 2 were lower, ranging
 12 between 2.59% and 3.89% for the transportation fuel expense. The
 13 inflator rates did not change between Rate Years 2 and 3. These
 14 proposed inflator rates are calculated based on two factors, the
 15 Company's expected growth as well as expected increased cost.

16 Based on data provided by the Company in response to Public Staff
 17 Data Request No. 28, CWSNC's fuel consumption for transportation,
 18 by volume, has decreased by approximately 799 gallons, or 2.7%
 19 annually, between 2019 and 2022, from an approximate average of
 20 9,986 gallons per month in 2019, to approximately 9,187 gallons per
 21 month so far in 2022.

1 The State of California Public Utilities Commission issued a
2 memorandum on July 29, 2022, titled "Public Advocates Office:
3 Estimates of Non-labor and Wage Escalation Rates for 2022 through
4 2026 from the July 2022 IHS Global Insight U.S. Economic Outlook."
5 The memorandum is included as **Houser Exhibit 3**. This
6 memorandum includes recommended non-labor inflation rates to
7 2026. The rates recommended by the California Public Utilities
8 Commission are -1.4%, -2.3%, and -0.3% for 2023, 2024, and 2025,
9 respectively. Based on this resource, I do not recommend that a
10 positive inflation rate be used in the calculation of the fuel for
11 transportation adjustment to the test year.

12 Due to a decreasing consumption trend and negative non-labor
13 inflation rate across Rate Years 1, 2 and 3, the Public Staff
14 recommends that an inflator rate, including growth and cost inflation,
15 not be used for the fuel for transportation expense. The Public Staff,
16 however, recommends the fuel for transportation expense levels
17 calculated in **Houser Exhibit 2** be applied to the proposed base case
18 and the Rate Years 1, 2, and 3 of the WSIP.

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

20 A. Yes, it does.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

EVAN M. HOUSER

I graduated from North Carolina State University, earning a Bachelor of Science Degree in Environmental Engineering. I am a certified Engineering Intern in the state of North Carolina. I worked for the North Carolina Department of Environmental Quality (DEQ), Public Water Supply Section for approximately three years prior to joining the Public Staff in 2022. Prior to working for DEQ, I worked for an engineering consulting firm: Highfill Infrastructure Engineering, P.C.

My duties with the Public Staff are to monitor the operations of regulated water and wastewater utilities with regards to rates and service. These duties include conducting field investigations, reviewing, evaluating, and recommending changes in the design, construction, and operations of regulated water and wastewater utilities, presenting expert testimony in formal hearings, and presenting information, data, and recommendations to the Commission.

1 **Q. Please State Your Name, Business Address, And Present**
2 **Position.**

3 A. My name is Jay B. Lucas. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
5 Manager of the Electric Section – Operations and Planning in the
6 Energy Division of the Public Staff – North Carolina Utilities
7 Commission (Public Staff). I am testifying in this general rate case
8 based on my past experience as an engineer in the Public Staff
9 Water & Sewer Division.

10 **Q. Briefly State Your Qualifications And Duties.**

11 A. My qualifications and duties are included in Appendix A.

12 **Q. What Is The Purpose Of Your Testimony?**

13 A. The purpose of my testimony is to provide recommendations to the
14 Commission on the plant-in-service expenditures of Carolina Water
15 Service, Inc. of North Carolina (CWSNC or the Company) in this
16 general rate case proceeding.

17 **Q. Please provide the background for CWSNC's plant-in-service.**

18 A. CWSNC provided the dollar amounts of its gross and net plant-in-
19 service in Appendix 2, Schedule A of its initial application filed on
20 July 1, 2022, which includes the Company's water and sewer

1 systems with uniform rates (Uniform) and its Bradfield Farms,
 2 Fairfield Harbor, and Treasure Cove (BF-FH-TC) rate divisions.
 3 CWSNC provided detailed lists of gross plant-in-service in Appendix
 4 2, Schedule A-1a. Net plant-in-service is gross plant-in-service
 5 minus accumulated depreciation. CWSNC's gross plant-in-service in
 6 its application is summarized in **Lucas Table 1** below:

Lucas Table 1 – CWSNC Appendix 2, Schedule A Gross Plant-In-Service (\$)			
System	Total per Books	Pro-Forma Adjustment	Historical Test Year as Adjusted
Uniform Water	126,050,522	3,409,066	129,459,588
Uniform Sewer	112,861,840	3,105,253	115,967,093
BF-FH-TC Water	7,156,465	227,363	7,383,828
BF-FH-TC Sewer	16,704,595	709,516	17,414,111

7 **Q. Which plant-in-service improvement projects did you review?**

A. A list of plant-in-service projects that I reviewed is shown in **Lucas Exhibit 1**, which includes the description provided by CWSNC.

8 **Q. Did you review any of CWSNC's capital improvement plan**
 9 **projects?**

10 A. Yes. CWSNC provided a capital improvement plan as Appendix 11
 11 to its application. I assisted Public Staff witness Charles Junis in

1 reviewing the capital improvement projects shown in **Lucas Exhibit**
2 **2.**

3 **Q. Do you recommend any changes to CWSNC's cost recovery of**
4 **plant-in-service improvement projects or capital improvement**
5 **projects that you reviewed?**

6 A. No, I do not.

7 **Q. Do you have any other recommendations for CWSNC?**

8 A. Yes. I recommend that CWSNC require more detailed cost estimates
9 from its engineering consultants. CWSNC had an engineering
10 consultant prepare an estimate for relocating a water line for the
11 Pinnacle Shores system. The cost estimate attached as **Lucas**
12 **Exhibit 3** shows that the consultant did not provide separate
13 estimates for each line item but instead provided a total lump-sum
14 estimate for the project, which in effect prevents CWSNC from
15 determining its accuracy.

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

17 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

JAY B. LUCAS

I graduated from the Virginia Military Institute in 1985, earning a Bachelor of Science Degree in Civil Engineering. Afterwards, I served for four years as an engineer in the U. S. Air Force performing many civil and environmental engineering tasks. I left the Air Force in 1989 and attended the Virginia Polytechnic Institute and State University (Virginia Tech), earning a Master of Science degree in Environmental Engineering. After completing my graduate degree, I worked for an engineering consulting firm and worked for the North Carolina Department of Environmental Quality in its water quality programs. Since joining the Public Staff in January 2000, I have worked on utility cost recovery, renewable energy program management, customer complaints, and other aspects of utility regulation. Since September 2020, I have been the Manager of the Electric Section – Operations and Planning in the Public Staff’s Energy Division. I am a licensed Professional Engineer in North Carolina.

1 **Q. Please state your name, business address, and present**
2 **position.**

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

7 **Q. Briefly state your qualifications and duties.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. Briefly explain the scope of your investigation regarding this rate**
10 **increase application.**

11 A. My areas of investigation in this proceeding have been the review of
12 company records of Carolina Water Service, Inc. of North Carolina
13 (CWSNC or the Company), Department of Environmental Quality
14 (DEQ) records, and customer complaints. I have also assisted the
15 Public Staff Accounting Division with the review of chemicals and
16 maintenance testing expenses.

17 **Q. Briefly describe your review of CWSNC's customer service.**

18 A. My review of CWSNC's customer service is based on the following:
19 CWSNC's customer statements filed in Docket No. W-354, Sub
20 400CS; the Company's customer complaint log, which was included in
21 CWSNC's response to Public Staff Data Request No. 51; and the

1 Public Staff Consumer Services Division's (Consumer Services)
2 complaint logs.

3 On September 2, 2022, the Commission issued an Order Scheduling
4 Hearing, Establishing Intervention and Testimony Due Dates and
5 Discovery Guidelines, and Requiring Notice providing for, among other
6 things, five hearings across the State for the purpose of receiving
7 public witness testimony from CWSNC's customers. The five
8 scheduled public witness hearings are as follows:

9 Monday, October 3, 2022, Raleigh, North Carolina
10 Wednesday, October 19, 2022, Virtual Hearing
11 Thursday, October 20, 2022, Boone, North Carolina
12 Tuesday, October 25, 2022, Jacksonville, North Carolina
13 Wednesday, October 26, 2022, Charlotte, North Carolina

14 **Customer Statements**

15 As of October 19, 2022, 24 customer statements have been filed in
16 Docket No. W-354, Sub 400CS. All the customer statements oppose
17 the proposed rate increase. The reasons provided by customers in
18 opposition to the proposed rate increase include:

- 19 • The Company has already received multiple rate increases
20 recently;

- 1 • Rates are too high, excessive, out of line, unwarranted, unfair
2 to the customers, and do not reflect accurate cost-of-living
3 adjustments and inflation;

- 4 • The rate increase does not provide any customer benefits;

- 5 • CWSNC's rates are already higher than the other utility
6 provider rates such as other nearby water/wastewater utility
7 (mostly municipalities);

- 8 • The Company has not made any improvements to their
9 systems (physical or water quality) to warrant increasing their
10 rates;

- 11 • The Company may be using their funds improperly and needs
12 to be investigated;

- 13 • Water quality had not improved and that they must purchase
14 bottled water for drinking, and therefore the Company does not
15 need an additional rate increase;

- 16 • Instead of approving the rate increase, their system should be
17 taken over by a nearby municipality;

- 18 • The fixed sewer rate is not fair because their second homes are
19 not occupied year-round and fixed charges must be paid even
20 when there is no usage;

- 1 • Customers should not have to pay for routine maintenance that
2 the Company has been negligent in performing; and
- 3 • The Company shows incompetence and criminal behavior in its
4 billing practices and should install electronic water meters in his
5 service area.

6 **Water Quality**

7 Consumer Services investigates customer complaints and helps to
8 resolve them after the customer has first attempted to resolve the
9 problem directly with the utility. It is the standard practice of Consumer
10 Services staff to ask customers whether they have contacted the
11 appropriate utility prior to contacting Consumer Services. Customer
12 complaints received by Consumer Services between April 8, 2022,
13 the date of CWSNC’s last rate case Order in Docket No. W-354, Sub
14 384 (Sub 384), through October 19, 2022, were reviewed. A total of
15 56 complaints were filed with Consumer Services with more than
16 50% of the complaints (37 out of 56) related to the rate increase from
17 the last rate case Sub 384, and 12 complaints related to high water
18 bills or billing disputes. Five complaints filed during this period related
19 to water quality issues, one complaint questioned the accuracy of the
20 water meter, and one was for a damaged fire hydrant that had not
21 been replaced.

1 Of the five complaints related to water quality issues, two complaints
2 were about frequent water outages and multiple boil water notices
3 within a short period at two Uniform water systems, Connestee Falls
4 and Linville Ridge. CWSNC sent a letter to the customers regarding
5 these issues explaining that there had been power outages due to
6 storms that led to the water system outages at both systems, as well
7 as water main breaks due to the age of the systems. The Company
8 provided Connestee Falls customers a list of maintenance projects
9 that had been recently completed for their system and the total
10 amount invested in system improvements. The Company also stated
11 that it would continue to make improvements to the Connestee Falls
12 system.

13 Regarding outages in the Linville Ridge system, in addition to the
14 previously mentioned power outages due to storms, there were
15 water main breaks that required repairs. The Company also stated
16 that when water main repairs are performed on a system, the
17 Company's standard procedure is to issue a boil water notice until
18 the repair work is complete and the bacteriological sample results
19 meet DEQ standards.

20 The other two water quality customer concerns were a complaint that
21 a Fairfield Harbour customer's water had a rotten egg smell and a
22 complaint of low water pressure from a system near West Jefferson.

23 The Company's field representative collected a lead and copper

1 sample from the Fairfield Harbour customer's residence at the
2 customer's request, flushed the water line along the customer's
3 street, and also field-tested other water quality parameters (chlorine,
4 phosphate, iron and manganese, which were all found to be within
5 the allowable Safe Drinking Water Act limits). Regarding the low-
6 pressure issue at a system near West Jefferson, the Company
7 explained that this occurred due to a power outage that led to the
8 water outage.

9 In response to Public Staff Data Request No. 51, CWSNC provided the
10 Company's customer complaint log for water quality, which showed
11 approximately 65 water quality-related complaints between April 2022
12 to September 2022. Out of 65 complaints, 62 were regarding cloudy,
13 milky, and/or discolored water. Two complaints were related to foul
14 odor, and one complaint was regarding low system pressure. Multiple
15 complaints were received for the Sapphire Valley (7), Wood Trace (5),
16 The Point (5), Treasure Cove (4), and Belvedere Plantation (4) service
17 areas. It appears the Company took a responsive action for each
18 complaint received to address the customers' complaints.

19 My investigation to date indicates that CWSNC has generally
20 addressed customers' complaints properly and tried to correct the
21 problems, working towards a solution in a timely manner. Normally,
22 the Public Staff incorporates customers' testimony from the public
23 hearings into its written testimony, but not all public hearings have

1 been held, and the Company has not filed its reports responding to
2 the customers' testimony. Therefore, following the conclusion of the
3 public hearings, the Public Staff will file a response, which will include
4 findings and any recommendations that may be appropriate and
5 necessary.

6 Expenses

7 **Q. Have you recommended any adjustments to expenses related**
8 **to water and wastewater operations?**

9 A. Yes, I have provided Public Staff Financial Analyst Darrell Brown with
10 recommendations for adjustments to chemicals expenses. A
11 summary of my review of both maintenance testing and chemicals is
12 provided below.

13 Maintenance Testing

14 The Company calculated its pro forma adjusted testing expense
15 (Maintenance Testing) in its September 19, 2022, update for water
16 and wastewater systems. The Company used current testing
17 schedules, amortized the expense over the number of years
18 corresponding to the testing frequencies for the various tests, and used
19 the current unit cost for the tests. I verified the Company's testing costs
20 by reviewing the testing invoices provided by the Company in response
21 to Public Staff Data Request No. 15. The Public Staff has determined
22 that the Company's testing expense levels including the proposed

1 pro forma adjustments are reasonable. The Public Staff agrees with
 2 the following Maintenance Testing expense levels requested by the
 3 Company in its Application:

	<u>Total Expense</u>
4 Uniform Water	\$195,388
5 Uniform Sewer	\$305,558
6 BF/FH/TC Water	\$10,196
7 BF/FH/TC Sewer	\$24,179

9 **Chemicals**

10 I reviewed CWSNC's expense for chemicals for both its water and
 11 wastewater operations. Based on CWSNC's response to Public Staff
 12 Data Request No. 8, I reviewed the expense amounts to determine
 13 whether the application's pro-forma adjusted amounts reflect the latest
 14 chemicals pricing. Using the invoices provided in CWSNC's response
 15 to Public Staff Data Request No. 43 and the chemical supplier
 16 statements, I verified the updated chemical pricing and effective date.
 17 If CWSNC was not able to provide a chemical invoice, then I used the
 18 most recent chemical cost based on the Company's per book amount.

19 I reviewed the quantity and the cost of the chemicals purchased during
 20 the test year and compared it to the General Ledger information and
 21 the chemical suppliers' sales report provided by the Company.
 22 Waterguard is the main chemical supplier and "non-waterguard" is the

1 designation for chemicals purchased through other suppliers. The
2 Public Staff calculated its chemical expense recommendation based
3 on the expense total using the quantity of chemicals purchased during
4 the test year and the verified updated chemical cost.

5 The Public Staff does not agree with the Company's proposed pro-
6 forma adjustment. The Company calculated its pro forma adjustment
7 by taking the difference in price of the chemicals purchased during the
8 test year and the adjusted price of the same amount of chemicals.
9 Since the adjusted chemicals cost already includes the increased
10 chemicals cost, a pro-forma adjustment is not required. If the proposed
11 pro-forma adjustment is added to the Company's already adjusted
12 chemicals price, the cost of chemicals would be double counted.

13 To accurately capture the updated chemicals pricing, the Public Staff
14 used the quantity of chemicals purchased in the test year and applied
15 the current rates to determine the total chemicals expense for each
16 rate entity. Based on this analysis, the Public Staff recommends the
17 following for expense levels for Chemicals:

		<u>CWS Application</u>	<u>Public Staff</u> <u>Recommendation</u>
1			
2			
3	Uniform Water	\$395,380	\$330,832
4	Uniform Sewer	\$587,472	\$575,879
5	BFFFHTC Water	\$ 62,926	\$ 86,200
6	BFFHTC Sewer	\$ 48,489	\$ 62,703

7 My calculations are shown in **Bhatta Exhibit 1**.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

SHASHI M. BHATTA

I graduated from Michigan State University, earning a Bachelor of Science Degree in Chemical Engineering and a Master of Science degree in Environmental Engineering. I am a licensed Professional Engineer in the State of North Carolina. I am also certified as a B-Well Operator by the North Carolina Water Treatment Facility Operators Certification Board. Prior to joining the Public Staff in April of 2022, I worked for the North Carolina Department of Environmental Quality (DEQ), Public Water Supply Section - Raleigh Regional Office for three and a half years primarily inspecting water systems, and in DEQ's Public Water Supply Section - Central Office for 16 years, primarily reviewing engineering design of water systems' construction. Prior to working for DEQ, I worked for an environmental consulting company, Malcolm Pirnie, Inc. for two and a half years.

My duties with the Public Staff are to monitor the operations of regulated water and wastewater utilities with regard to rates and service. These duties include conducting field investigations, reviewing, evaluating, and recommending changes in the design, construction, and operations of regulated water and wastewater utilities, presenting expert witness testimony in formal hearings, and presenting information, data, and recommendations to the Commission.

1 COMMISSIONER CLODFELTER: So, Ms. Holt,
2 Mr. Freeman, the case is now with you.

3 MS. HOLT: Thank you.

4 Q. Ms. Zhang, please state your name.

5 COMMISSIONER CLODFELTER: All right.

6 Let me -- you're calling the panel?

7 MS. HOLT: Yes.

8 COMMISSIONER CLODFELTER: You're calling
9 your panel?

10 MS. HOLT: I'm calling the panel.

11 COMMISSIONER CLODFELTER: Great. All
12 right. And let's get the oath done.

13 All three of you, hands on the Bible.

14 THE WITNESS: (Charles Junis) Fenge and
15 I are already sworn in, right?

16 COMMISSIONER CLODFELTER: Well --

17 THE WITNESS: I'll do it again. I'm
18 happy to do it.

19 COMMISSIONER CLODFELTER: Just for good
20 order's sake. No free rides for anybody. Okay?

21 Whereupon,

22 DARRELL BROWN, FENGE ZHANG AND CHARLES JUNIS,

23 having first been duly sworn, were examined

24 and testified as follows:

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COMMISSIONER CLODFELTER: Okay. Now,
Ms. Holt.

MS. HOLT: Thank you.

(Revised Brown and Feasel Exhibits I and II and Public Staff Settlement Exhibit 1 were identified and admitted into evidence.)

(Whereupon, the prefiled corrected and settlement testimony of Darrell Brown, Fenge Zhang, and Charles Junis and prefiled summary of corrected and settlement testimony of Darrell Brown, Fenge Zhang, and Charles Junis were copied into the record as if given orally from the stand.)

1 **Q. Mr. Brown, please state your name, business address, and**
2 **present position.**

3 A. My name is Darrell Brown. My business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am a Financial Analyst III
5 with the Accounting Division of the Public Staff – North Carolina
6 Utilities Commission (Public Staff).

7 **Q. Ms. Zhang, please state your name, business address, and**
8 **present position.**

9 A. My name is Fenge Zhang. My business address is 430 North
10 Salisbury Street, Raleigh, North Carolina. I am the Financial
11 Manager - Electric Section with the Accounting Division of the Public
12 Staff.

13 **Q. Mr. Junis, please state your name, business address, and**
14 **present position.**

15 A. My name is Charles Junis. My business address is 430 North
16 Salisbury Street, Raleigh, North Carolina. I am the Director of the
17 Public Staff's Water, Sewer, and Telephone Division.

18 **Q. Are you the same Darrell Brown, Fenge Zhang, and Charles**
19 **Junis who submitted direct testimony on behalf of the Public**
20 **Staff in this proceeding?**

1 A. Yes.

2 **Q. Mr. Brown, Ms. Zhang, and Mr. Junis, what is the purpose of**
3 **your corrected and settlement testimony in this proceeding?**

4 A. The purpose of our corrected and settlement testimony is to (1)
5 support the Agreement and Stipulation of Partial Settlement
6 (Stipulation) between Carolina Water Service, Inc. of North Carolina
7 (CWSNC or Company) and the Public Staff (Stipulating Parties)
8 regarding certain issues related to the Company's pending
9 applications for a general rate increase and the water and sewer
10 investment plan (WSIP); (2) present the non-settled accounting and
11 ratemaking adjustments; (3) recommend adjustments as a result of
12 information provided by the Company, subsequent to the filing of the
13 Public Staff's original testimonies; and (4) make corrections to the
14 Public Staff's original base and WSIP testimonies in this proceeding.

15 **Q. What updated revenue increase is the Public Staff**
16 **recommending for the base year under the WSIP?**

17 A. Based on the level of rate base, revenue, and expenses annualized
18 at August 31, 2022, with certain updates, the Public Staff is
19 recommending an increase in annual base rate operating revenue of
20 \$776,826 for CWSNC Water, \$1,099,303 for CWSNC Sewer,
21 \$129,596 for BF/FH/TC Water, and \$147,501 for BF/FH Sewer. This
22 updated revenue increase is calculated using the Public Staff's

1 recommended return on equity (ROE) of 9.25%. We note that only
2 after the Commission makes a determination regarding the
3 unresolved issues, including ROE, and the Public Staff's audit of
4 updated regulatory commission expense is complete, can the
5 accounting and ratemaking adjustments be finalized, and the
6 resulting rate base, net operating income, and rate increase be
7 calculated.

8 **Q. What updated revenue increase or decrease is the Public Staff**
9 **recommending for the WSIP rate years 1 to 3?**

A. The revenue increases or decreases are shown on Public Staff
Settlement Exhibit 1, Schedules 3(a)(1), 3(a)(2), and 3(a)(3) to
Schedules 3(d)(1), 3(d)(2), and 3(d)(3). Please note that these
revenue increases or decreases are prior to application of the 5%
statutory revenue cap.

10 **Q. What adjustments have you corrected in the calculating the**
11 **Public Staff's proposed revenue requirement for the base year?**

12 A. The Public Staff has corrected the following adjustments for the base
13 year:

- 14 1) Depreciation expense for allocated plant in-service from the
15 CWSNC Cost Center (primarily vehicles);
- 16 2) Depreciation expense for re-classified wastewater treatment
17 plant investment;

- 1 3) Uncollectibles rate calculated based on five-year average of
2 service revenues and bad debt expenses, including test year
3 results; and
4 4) Regulatory commission expense.

5 **Q. What adjustments have you corrected to calculate the Public**
6 **Staff's proposed revenue requirements for the WSIP rate years?**

7 A. In addition to correcting adjustments in the base year that are carried
8 forward to the WSIP rate years, the Public Staff corrected the
9 following adjustments for the WSIP rate years:

- 10 1) Direct accumulated depreciation for WSIP rate years 1 to 3 for
11 plant retirements; and
12 2) Deferred maintenance and repair for Connestee Falls and
13 Nags Head WWTP annual amortization for rate years 1 and
14 2.

15 **Q. Please briefly describe the Stipulation.**

16 A. The Stipulation sets forth the agreement between the Stipulating
17 Parties regarding the following revenue requirement issues:

- 18 1) Capital structure and embedded cost of long-term debt;
19 2) Service revenues;
20 3) Uncollectibles;
21 4) Forfeited discounts;
22 5) Miscellaneous revenues;

- 1 6) Plant in service;
- 2 7) Depreciation expense and accumulated depreciation;
- 3 8) Cash working capital and average tax accruals;
- 4 9) Accumulated deferred income tax;
- 5 10) Deferred charges;
- 6 11) Salaries and wages;
- 7 12) Purchased power expense;
- 8 13) Maintenance and repair expense;
- 9 14) Chemicals expense;
- 10 15) Transportation expense;
- 11 16) Regulatory commission expense amortization;
- 12 17) Pension and other benefits expense;
- 13 18) Amortization of purchase acquisition adjustment;
- 14 19) Meter reading;
- 15 20) Payroll taxes;
- 16 21) Outside services;
- 17 22) Capitalized time;
- 18 23) Insurance expense;
- 19 24) Miscellaneous expense;
- 20 25) Regulatory fee;
- 21 26) Growth factors in certain expenses utilized in WSIP rate
22 years 1 through 3;
- 23 27) Inflation factors utilized in WSIP rate years 1 through 3;
- 24 28) Estimated plant additions, retirements, and recurring spend
25 for WSIP rate years 1 through 3; and

1 29) Recommended Performance-based Metrics (PBMs) for
2 WSIP rate years 1 through 3.

3 The details of the agreements in these areas are set forth in the
4 Stipulation.

5 **Q. Does the Stipulation mitigate the Public Staff's concerns**
6 **regarding the Company's WSIP application?**

7 A. While the terms of the Stipulation mitigate the Public Staff's concerns
8 regarding implementation of a WSIP, the Public Staff intends to
9 closely monitor operation of the WSIP under the prescribed statutory
10 guidelines and the terms of the Stipulation.

11 **Q. What benefits does the Stipulation provide for ratepayers?**

12 A. From the perspective of the Public Staff, the most important benefits
13 provided by the Stipulation are as follows:

14 (a) An aggregate reduction in the specific expense items listed
15 above from the levels requested in the Company's general
16 rate case and WSIP applications, resulting from the
17 adjustments agreed to by the Stipulating Parties.

18 (b) The avoidance of protracted litigation between the Stipulating
19 Parties before the Commission and possibly the appellate
20 courts.

1 Based on these ratepayer benefits, as well as the other provisions of
2 the Stipulation, the Public Staff believes the Stipulation is in the
3 public interest and should be approved.

4 **Q. Are there any areas about which the Stipulating Parties did not**
5 **reach agreement?**

6 A. Yes. The Stipulating Parties did not reach agreement regarding the
7 ROE and the application of the 5% statutory revenue cap. The Public
8 Staff fully supports its previously filed positions on these particular
9 issues and intends to demonstrate the appropriateness and
10 reasonableness of its positions through litigation in this case.

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

12 A. Yes, it does.

PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. W-354, SUB 400
SUMMARY OF THE CORRECTED AND SETTLEMENT TESTIMONY
OF DARRELL BROWN, FENGE ZHANG AND CHARLES JUNIS
NOVEMBER 23, 2022

On November 22, 2002, we filed corrected and settlement testimony and Public Staff Settlement Exhibit 1 in support of the Agreement and Stipulation of Partial Settlement (Stipulation) between Carolina Water Service, Inc. of North Carolina (CWSNC) and the Public Staff (Stipulating Parties) as filed in this docket. Our testimony provides the updated revenue increase or decrease the Public Staff recommends for the base year and WISP rate years 1 to 3, as well as a brief discussion on all settled items per the Stipulation. The Stipulating Parties did not reach agreement on the rate of return on equity (ROE) and the application of the 5% statutory revenue cap.

This concludes our summary.

1 DIRECT EXAMINATION BY MS. HOLT:

2 Q. Ms. Zhang, please state your name, business
3 address, and current position with the Public Staff.

4 A. (Fenge Zhang) My name is Fenge Zhang. I'm a
5 financial manager with the financial section of the
6 Public Staff accounting division. And my business
7 address will be 430 North Salisbury Street, Raleigh,
8 North Carolina.

9 Q. Thank you.

10 Mr. Brown, please state your name, business
11 address, and position for the record.

12 A. (Darrell Brown) My name is Darrell Brown.
13 My business address is 430 North Salisbury Street,
14 Raleigh, North Carolina 27699. My position is
15 financial analyst with the Public Staff -- with the
16 accounting division of the Public Staff. Thank you.

17 Q. Thank you.

18 Mr. Junis, please state your name, business
19 address, and position with the Public Staff.

20 A. (Charles Junis) Charles Junis. 430 North
21 Salisbury Street. Director of the Public Staff water,
22 sewer, and telephone division.

23 MS. HOLT: Thank you.

24 The panel is available for cross

1 examination and questions from the Commission.

2 COMMISSIONER CLODFELTER: Okay. Cross
3 examination?

4 MR. ALSON: The Company has no cross.
5 Thank you.

6 COMMISSIONER CLODFELTER: No cross from
7 the Company.

8 Questions, then, from the Commissioners?

9 (No response.)

10 EXAMINATION BY COMMISSIONER CLODFELTER:

11 Q. Okay. Mr. Junis, you heard the question I
12 asked Mr. Denton. Can you do it in 60 days? If the
13 Commission were to decide to issue an order saying,
14 "Get this piece of the case tidied up and presented to
15 us within 60 days," could you do it?

16 A. (Charles Junis) So, obviously, we would do
17 whatever the Commission requires of us.

18 I will point out, obviously, we -- the Public
19 Staff did have laid-out incentives and targets, and
20 then, as part of the settlement, we kind of compromised
21 there. So we do have a starting point, in my mind, and
22 that's where we would start that conversation again,
23 look to work with the Company.

24 I do recognize that there are challenges with

1 that timeline, because we would be faced with proposed
2 orders in this case and the pending Aqua case. And,
3 obviously, you're gonna see a lot of the same people
4 working in both those cases.

5 So it would certainly be challenging, but we
6 would do whatever the Commission requires.

7 Q. I understand. And I'm not speaking for the
8 Commission, because we haven't talked about it among
9 ourselves. It's just -- I'm speaking only for myself.

10 It would be nice to avoid a situation where
11 we're already in the middle of rate year one, and then
12 we're making decisions that may impact expenses,
13 revenues, and credits to customers, all of those kind
14 of things. It would be nice to avoid that kind of mess
15 if we could.

16 A. So could I clarify a timeline --

17 Q. Sure.

18 A. -- just a little bit there?

19 Q. That's what I'm looking for.

20 A. So, obviously, you have, sort of, base
21 rates -- whenever the Commission issues its order, you
22 have base rates until the start of rate year one, which
23 the start of rate year one would be April 1 of 2023.
24 At that point, that is the beginning of the metrics and

1 any tracking.

2 So if the metrics are approved as set out in
3 the settlement, you would begin tracking those starting
4 April 1, 2023. And then you'd have quarterly reports
5 and eventually an annual review after the conclusion of
6 rate year one.

7 So the metrics, for the most part, wouldn't
8 kick in, in terms of any incentive or penalty, until
9 that annual review, with the exception of any quarterly
10 one. Obviously, we had talked about one of our
11 incentives being a quarterly check-up, but depending on
12 how those are set out in the time line, you would be
13 looking at potentially implementing at the annual
14 review time frame.

15 I think the Company has shown a willingness
16 in this settlement to accommodate that schedule and
17 recognizing that they would be implemented
18 retroactively to the beginning of rate year one.

19 Q. Thank you. That's very helpful. I think the
20 appropriate phrase here, and we'll just leave it at
21 that, is "all deliberate speed." Okay?

22 COMMISSIONER CLODFELTER: Some people
23 actually remember that, right?

24 COMMISSIONER McKISSICK: Oh, yeah.

1 1954, yeah.

2 Q. All right. We have one other question. And
3 I'm not sure who to direct this to, so I'll let you
4 decide who it is. And I'm going to refer to Public
5 Staff Settlement Exhibit 1 and to Schedules RY-1, RY-2,
6 and RY-3.

7 Actually, the question is gonna be the same
8 for all three, so let's just use Schedule RY-2. We
9 only need to ask the question one time.

10 So if you'll get Settlement Exhibit 1,
11 Schedule RY-2.

12 You've got it?

13 A. (Fenge Zhang) Yes.

14 Q. Okay. So on the adjustment -- let's use the
15 Carolina Water system, the North Carolina water column,
16 Column A. And then, again, the same question will
17 apply to all the other columns, but let's just focus on
18 Column A.

19 So on line 48, the Public Staff makes an
20 adjustment recommending a rate decrease in rate year
21 two of \$98,742. Got that?

22 A. Yes.

23 Q. Okay. And then on line 49 in Column A, the
24 Public Staff -- it looks to me like that's an

1 additional adjustment to reflect an adjustment for the
2 statutory cap limit.

3 What's the -- tell me how lines 48 and 49
4 work together, how they fit together.

5 A. Okay. I believe 48 is the adjustment to the
6 expense based on the Public Staff investigation. And
7 then that's where they adjust the expenses, all the
8 miscellaneous revenue or uncollectibles.

9 So just like -- similar like the base year is
10 a normal adjustment, the, like, 49 is the -- when we
11 calculate the Public Staff recommended revenue, we base
12 on the level of expense or their revenue, like their
13 uncollectible or the miscellaneous revenue. So we come
14 up with our recommended revenue amount.

15 And there, because those amount, when we
16 apply the 5 percent statutory cap on the rate year two
17 and three, you will exceed that cap. So we make
18 adjustment. You can see that on the Schedule 3-23.

19 So I think here is maybe a little bit
20 confusing the way it looks, because we use the same --
21 we try to reconcile based on the base year like the
22 traditional ratemaking. So it, kind of, make it more
23 confusing why is the Company talk to us on that.

24 This is like why is only reducing the revenue

1 amount, that these are just the presentation issue
2 other than, like, the actual adjustment.

3 Q. So line 48 is the adjustments to the
4 revenue -- or to the expenses that the Public Staff
5 says in settlement, "These are the adjustments to
6 expenses that need to be made for that rate year."

7 A. Yes.

8 Q. And then you still have -- you're still above
9 the 5 percent cap, so you have to make an additional
10 adjustment to bring you under the 5 percent cap?

11 A. Yes.

12 Q. And I understand that that's using the Public
13 Staff's view of how the 5 percent cap applies.

14 A. Yes.

15 Q. I think we can follow you now. And, as I
16 say, it flows through the rest of them, so I've got
17 that question cleaned up.

18 A. Thank you.

19 COMMISSIONER CLODFELTER: Let's see if
20 there are other questions from Commissioners.

21 Commissioner Hughes.

22 EXAMINATION BY COMMISSIONER HUGHES:

23 Q. I just wanted to make sure I understood this.
24 I'm just restating it.

1 But if you look at the total columns for
2 RY-2, can I characterize it correctly if I say that the
3 Company and the Public Staff have taken agreement on
4 the 25,974, but the 734,636 is one of the litigated --

5 A. Yes, that's correct.

6 Q. -- issues?

7 A. Yes.

8 COMMISSIONER HUGHES: Okay. No further
9 questions.

10 COMMISSIONER CLODFELTER: Okay.
11 Anything further from Commissioners?
12 (No response.)

13 COMMISSIONER CLODFELTER: All right.
14 Questions on Commissioners' questions?

15 MS. HOLT: No questions.

16 COMMISSIONER CLODFELTER: Mr. Alson?

17 MR. ALSON: We do. Thank you.

18 EXAMINATION BY MR. ALSON:

19 Q. I want to confirm that, if we go to Public
20 Staff Settlement Exhibit 1, Schedule Rate Year Two,
21 line 48 that we were just discussing, I want to -- I
22 want you to confirm that Public Staff is not
23 recommending a decrease of 25,974.

24 A. (Fenge Zhang) The Public Staff is -- that's

1 not the final amount adjustment because we still in the
2 position of the revenue cap on that.

3 MR. ALSON: If we could have a moment,
4 please?

5 COMMISSIONER CLODFELTER: You may.

6 (Pause.)

7 MR. ALSON: Thank you, Commissioner.
8 Can we just request a 10-minute recess, please?

9 COMMISSIONER CLODFELTER: I think we've
10 got enough time for that.

11 Let's stand down. We've been going for
12 an hour and a half. Let's take our morning break,
13 anyway. May be a break of unequal parts, but let's
14 take a 10-minute break here and come back at 10:40.

15 MR. ALSON: Thank you, Commissioner.

16 (At this time, a recess was taken from
17 10:29 a.m. to 11:20 p.m.)

18 COMMISSIONER CLODFELTER: Let's go back
19 on the record, please.

20 And help me out a bit. I forget exactly
21 where we were, but I think we were at the questions
22 on Commissioners' questions was procedurally where
23 we are, but I understand we may want to sort of
24 take a somewhat different tack at this point. So

1 who's going to tell me where exactly we are?

2 I mean, I'm still gonna give an
3 opportunity for questions on Commissioners'
4 questions, but I understand with response to --
5 with respect to the question that I asked
6 concerning Public Staff Settlement Exhibit 1,
7 Schedule RY-1, 2 and 3, that the parties have
8 something additional that they wish to offer.

9 MR. ALSON: If I may, Commissioner. And
10 we can --

11 COMMISSIONER CLODFELTER: You may. I'm
12 looking for someone to lead me here.

13 MR. ALSON: Thank you.

14 I would propose to continue with
15 questions on Commission's questions and do it in a
16 way to seek to clarify the issue and then to have a
17 proposal on a way to submit materials to the
18 Commission which will further clarify the issue.

19 COMMISSIONER CLODFELTER: We'll proceed
20 in that matter.

21 Mr. Alson.

22 MR. ALSON: Thank you, Commissioner.

23 Thank you, Gina.

24 Q. So, Ms. Zhang, can you please confirm that

1 Public Staff is not recommending a rate decrease for
2 rate year two?

3 A. (Fenge Zhang) Are you talking about the
4 reconciliation schedule on the Schedule RY-2 and RY-3?

5 Q. That is correct.

6 A. Yes. That's the presentation issue. And I
7 think we -- after we talked with the Commission staff
8 and the Company, the Company and the Public Staff
9 agreed we will file a late-filed supplemental exhibit
10 to clean out some confusion, and we will revise the net
11 operating income schedule, which is Schedule 3A to 3D.
12 I believe that's -- so it will make it simple and
13 easier to follow.

14 Q. And if I could just walk through one of the
15 current net operating income schedules, I think it will
16 help clarify today that there's no decrease being
17 recommended by Public Staff.

18 Ms. Zhang, could you please turn to
19 Schedule 3-A1?

20 A. Yes.

21 Q. And this is the net operating income schedule
22 just for Carolina Water operations only. And this is
23 just an example to walk through here.

24 If you look at line 4 --

1 COMMISSIONER CLODFELTER: Hold just a
2 second, Mr. Alson. Let's get to the -- is it 3-1A?

3 MR. ALSON: Correct. So it's Schedule
4 3-A1. 3-A1.

5 COMMISSIONER CLODFELTER: Is it 3-A1 or
6 3-1A?

7 MR. ALSON: 3-A1. Sorry.

8 And it says -- on the top right, it says
9 "Public Staff Settlement Exhibit 1, Schedule 3-A1."

10 COMMISSIONER CLODFELTER: We have it.

11 MR. ALSON: Thank you.

12 Q. And in the far -- it's Column G on the Excel.
13 And it says on the far right "rate year one, Public
14 Staff recommended rates."

15 Looking specifically at line 4, this is the
16 total operating revenues. And what number is listed
17 there, Ms. Zhang?

18 A. That \$24,638,076. That's the Public Staff
19 recommended rate year one before the 5 percent revenue
20 cap but with the 9.25 ROE.

21 Q. And that's for water only?

22 A. Yeah. That's for Carolina Water only.

23 Q. So if we look at the corresponding exhibit
24 for rate year two, it's a different schedule, Schedule

1 3-A2.

2 And, again, this is Carolina Water operations
3 only, rate year two, line 4, the total operating
4 revenues on the far right. This would be Column G on
5 the Excel version.

6 Ms. Zhang, what number does that reflect?

7 A. That's \$25,986,812 for rate year two. The
8 same, again, is a ROE at 9.25 without the adjustment to
9 the revenue cap.

10 Q. And just to close the loop, then, the delta
11 between the year one operating revenues on line 4 on
12 Schedule 3-A1 and the corresponding line item on the
13 rate year two schedule, Schedule 3-A2, is \$1,348,736
14 increase; is that correct, Ms. Zhang?

15 A. Yes.

16 Q. And thank you for allowing us to walk through
17 that demonstration.

18 MR. ALSON: And I do -- will state the
19 Company's agreement with the proposal stated by the
20 witness that staff will submit a late-filed
21 supplemental schedule which -- which supplements
22 certain of these schedules to make this more clear
23 for the Commission and staff.

24 COMMISSIONER CLODFELTER: All right.

1 Will this be a joint exhibit or a Public Staff
2 exhibit? Just so I'm clear.

3 MR. ALSON: This will be a Public Staff
4 exhibit. And the agreement is that they will send
5 it to us for a review and comment prior to its
6 submittal.

7 COMMISSIONER CLODFELTER: Okay.

8 MS. HOLT: That is correct.

9 COMMISSIONER CLODFELTER: That's
10 correct?

11 MS. HOLT: That's correct.

12 COMMISSIONER CLODFELTER: Okay. We
13 will -- please mark that when it's ready for
14 submission after it's been reviewed as Public Staff
15 Late-Filed Supplemental Exhibit 1. Okay?

16 MR. ALSON: The Company has no further
17 questions at this time. Thank you.

18 COMMISSIONER CLODFELTER: Okay.
19 Questions from the Public Staff on Commissioner
20 questions?

21 MS. HOLT: No questions.

22 COMMISSIONER CLODFELTER: Okay. All
23 right. I think that brings us to the conclusion
24 with the panel. Thank you.

1 All right, Ms. Holt. Next?

2 MS. HOLT: That's the end of our case.

3 COMMISSIONER CLODFELTER: All right.

4 And, Ms. Sanford, at least according to
5 what I have, the rebuttal case for the Company has
6 been dealt with in Mr. D'Ascendis' testimony.

7 Does the Company have any further
8 rebuttal case to present?

9 MS. SANFORD: We do not.

10 COMMISSIONER CLODFELTER: All right.

11 MS. SANFORD: I do have -- well, after
12 you're through, I have one question.

13 COMMISSIONER CLODFELTER: All right.

14 Well -- all right. Thank you.

15 I just want to be sure, if you had any
16 additional rebuttal case, we -- this would be the
17 time to take it.

18 If not, then let me ask the parties.

19 Have we dealt -- as far as my records indicate and
20 lists indicate, we've dealt with all exhibits, in a
21 certain manner or other. They are all now at least
22 buttoned up for the record.

23 Are there any other matters we need to
24 deal with?

1 MS. SANFORD: We had one question about
2 your recitation of the exhibits in the testimony.

3 COMMISSIONER CLODFELTER: All right.

4 MS. SANFORD: We were unclear, what we
5 heard among the three of us here, as to whether
6 Denton settlement testimony and Schellinger
7 settlement testimony was in your list.

8 COMMISSIONER CLODFELTER: It was in the
9 list, but let's just confirm it again --

10 MS. SANFORD: Okay.

11 COMMISSIONER CLODFELTER: -- that the
12 prefiled settlement testimony of Donald Denton and
13 of Matthew Schellinger are also received into
14 evidence without further authentication or without
15 oath or affirmation, and along with any exhibits
16 that were accompanying them as they were prefiled.

17 MS. SANFORD: Thank you very much.

18 COMMISSIONER CLODFELTER: Anything else?

19 MS. HOLT: Nothing.

20 COMMISSIONER CLODFELTER: All right. If
21 not, then, based on some conference with counsel
22 during our break, I understand parties are
23 agreeable to submitting briefs on the issues and
24 proposed orders on -- for consideration by the

1 Commission within 45 days of the receipt of the
2 transcripts. Agreed?

3 MS. SANFORD: Yes, sir.

4 MS. HOLT: Yes.

5 COMMISSIONER CLODFELTER: All right. It
6 will be so done.

7 And just to sort of -- also, in line
8 with some of the conversation that we've had during
9 Commissioner questions, please be on the lookout
10 for the Commission may be considering issuing an
11 interim order requesting a status report -- an
12 interim status report on the progress of
13 discussions relating to the performance metrics
14 covered in the joint stipulation.

15 So we'll have to check calendars on
16 that, and so I'm not prepared to set that right
17 now. But just don't be surprised if that shows up
18 in your inbox in a few days. Okay?

19 Anything further?

20 If not, Madam Court Reporter, you may
21 close the record subject to receipt of late-filed
22 exhibits, and we are adjourned. Thank you all.

23 (Hearing concluded at 11:30 a.m. on
24 November 28, 2022.)

CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA)
COUNTY OF WAKE)

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was conducted, do hereby certify that any witnesses whose testimony may appear in the foregoing hearing were duly sworn; that the foregoing proceedings were taken by me to the best of my ability and thereafter reduced to typewritten format under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

This the 1st day of December, 2022.

Joann Bunze



JOANN BUNZE, RPR

Notary Public #200707300112