STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-354, SUB 400

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Carolina Water Service, Inc. of North Carolina for Authority to Adjust and Increase Rates and Charges for Water and Sewer Utility Service in All Service Areas of North Carolina and Approval of a Three-Year Water and Sewer Investment Plan	)	REBUTTAL TESTIMONY OF DANTE M. DESTEFANO ON BEHALF OF CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA

November 10, 2022

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

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

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

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

Q. WHAT ARE YOUR DUTIES WITH CII?

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

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

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

I. <u>RESPONSES TO THE PUBLIC STAFF DIRECT TESTIMONY</u>

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

A. After the enactment of N.C. Gen. Stat. § 62-133.1B (the "Statute"), and the resulting Rule R1-17A adopted by the North Carolina Utilities Commission ("Commission" or "NCUC"), the Company filed a general rate case on July 1, 2022. This Application includes a proposed WSIP covering three forecasted Rate Years, with Rate Year 1 starting on April 1, 2023, and Rate Year 3 ending on March 31, 2026.

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

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

Q. DOES THE PUBLIC STAFF AGREE THAT THE COMPANY'S PROPOSED WSIP IS IN THE PUBLIC INTEREST?

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

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

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

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

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

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

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

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

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

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

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

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

A. No. As noted by the Joint Testifiers, all of the parties to the Transaction expect the closing of the Transaction to be at the end of 2023, with many steps still to be cleared to reach final consummation of the transaction. Additionally, as was communicated to Public Staff after the August 29, 2022 announcement, CII and SouthWest have committed that there will be no involuntary reductions in force related to the transaction for 12 months after the closing. As the Joint Testifiers state, "the integration of merged companies does not occur overnight." CII expects the integration process to unfold methodically and systematically over time. This process will include in-depth analyses of integration benefits and costs and development of plans for integrating systems, operations, processes, and resources. These activities will be focused on the corporate and support functions areas, as SouthWest does not have North Carolina operations which could impact the current and future local operations of CWSNC. As the Joint Testifiers note, integration costs tend to precede any achieved financial benefits (See Joint Testimony, p. 16 lines 2-4). In summary, based on 1) the estimated timeline for closing the Transaction, 2) the lack of involuntary reductions in force for the following 12 months, 3) the expectation that integration activities will generate costs before benefits are achieved, and 4) the numerous protections afforded to customers with an approved WSIP, the Company believes the Public Staff's concerns regarding unaccounted for savings within the WSIP period are not supported.

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

A. No. Although the Transaction announcement occurred after the filing of the WSIP but before the Company's Update, the Company has not identified and is not seeking recovery of Transaction-related costs, nor any related deferred accounting mechanism, as part of the WSIP. Therefore, customers will not be subject to any integration cost impacts for the length of the proposed WSIP, which is not a protection afforded to customers without the WSIP in place.

Q. CAN YOU COMMENT ON THE US WATER ALLIANCE AND ENVIRONMENTAL FINANCE CENTER REPORT ("EFC REPORT") CITED BY THE JOINT TESTIFIERS, AND THE QUOTE EXCERPTED IN THEIR TESTIMONY?

A. Yes. The context of the excerpted quote more directly relates to the consolidation of local, often struggling utilities with larger, more stable utilities within the region or State. Struggling utilities are more likely to have an "infrastructure investment backlog", and consolidation with a larger, adjacent or interconnected utility increases the potential to identify and attain "avoided future costs". An example of an avoided future cost in this context is a struggling utility avoiding a rehab of an existing water treatment plant by, after acquisition by an adjacent utility, interconnecting with the acquirer's water supply, thereby avoiding the rehab cost. This was the case in the NJ American Water-Haddonfield acquisition cited in the EFC Report. SouthWest does not own subsidiaries operating in North Carolina; therefore, the Transaction cannot, yield the "avoided future cost" savings or releasing of infrastructure investment backlogs in North Carolina. Indeed, it appears after review that every case study in the EFC Report relates to utilities being combined for regionalization or other local operational benefits - again, this is not relevant to CWSNC in the Transaction.

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

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

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

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

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

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

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

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

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

A. No. In fact, denial of the WSIP may increase filings and resources needed by the Public Staff, the Commission, and the Company, and thereby increase costs to customers. While the NCUC has the discretion to reopen an approved WSIP, it may also provide guidance in that process to limit the scope of review of the approved WSIP to focus on the impacts of a discrete change in the business. This is also an option available to the Commission in the traditional regulatory construct, as was recently done in NCUC Dockets No. M-100 Sub 138 and Sub 148. However, the WSIP requires the utility to produce periodic reports of financial condition, as well as be subject to a detailed Annual Review process and Earnings Test. Both provide significant protection to customers, and neither is mandated with traditional rate cases. Therefore, on the one hand, if the WSIP is not approved and the Company realized significant net savings from the Transaction, the Commission would not have a timely and detailed view of such savings materializing, nor a mechanism such as the Earnings Test to potentially pass interim net benefits to customers. On the other hand, if the WSIP is not approved and Company does not attain financial benefits - which, again, would not be expected for some time after the final rates in the current case are authorized - the Company may need to file more frequent base rate cases to recover the costs forecast in the WSIP application. This outcome would forego a significant benefit of the WSIP - judicial economy, i.e., less frequent rate proceedings - and increases from the associated filing and processing costs that would follow, as well as foregoing the customer protection of the 5% cap on Rate Year 2 and 3 increases. Additionally, if the Company were to file more frequent traditional rate cases in order to identify and return any net savings from the Transaction to customers, such savings would inevitably be offset (potentially completely so) by the costs of filing the traditional cases. In summary, when comparing the risk of the NCUC desiring to reopen the WSIP against the alternative of more frequent base rate cases, customer protections are clearer and better defined for the former, and the costs to customers would be higher with the latter.

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

A. No. As noted above, the Company would be subject to periodic financial reporting requirements and a detailed Annual Review and Earnings Test under a WSIP, and no such reporting or earnings test would be required without the WSIP in place. In addition, as the integration process is expected to incur costs in order to effectuate potential future benefits, the Company posits that if any savings are generated, the costs to achieve such savings should likewise be considered to reasonably account for the full impacts of the integration.

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

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

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

A. No, I do not. The Company's forecasts utilize a certain Inflation Factor through Rate Year 1, and then modify this assumption to a lower incremental inflation rate for Rate Years 2 and 3. Public Staff agrees with the Company that certain inflationary adjustments are needed to account for reasonable and prudent cost increases beyond the costs reflected in the historical test year and the Company's Update to the Base Case. Utilizing historic, actual activity does not likewise account for changes in costs in the future, regardless of the rate of inflation currently in place or to be realized in the future. The historic test year approach will consistently fail to account for incremental inflationary increases, and, absent economic deflation, will result in rates that lag behind the ongoing costs a utility will experience, resulting in more frequent rate case filings to capture the increased costs. This shortcoming of the historic test year model is precisely what the Statute addresses in allowing for the utilization of a WSIP.

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

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

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

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

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

Q. DOES THE COMPANY AGREE WITH THIS RATIONALE?

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

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

A. No. The Joint Testifiers cite the Company's proposed rules in Docket W-100 Sub 63 as the basis for this determination. However, the NCUC, in its final order establishing rules for the WSIP, adopted the following language: "The first Rate Year shall begin no later than the first day of the month which includes the end of the statutory suspension period under G.S. 62-134." [See R1-17A(c)(1)]. The Public Staff confirmed in discovery that the end of the statutory suspension period, based on the Company's filing date of July 1, 2022, would be April 27, 2023. See Public Staff Response to DR 1-39. Therefore, the "first day of the month which includes the end of the statutory suspension period" would be April 1, 2023. This is the date selected by the Company to start Rate Year 1 of the WSIP. Consequently, the Public Staff's recommendation that the NCUC refrain from establishing an EMF to account for a possible delay in the implementation of WSIP rates beyond April 1, 2023, is moot.

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

A. No. The Joint Testifiers state that the Statute does not specify what is meant by the word "utility" in the context of the 5% cap's applicability to "the utility's North Carolina retail jurisdictional gross revenues". However, other North Carolina statutes are illuminating on this point. The phrase "utility's North Carolina retail jurisdictional gross revenues" is used in multiple other statutes, including N.C.G.S. §'s 62-133.2 and 62-110.8, which reference an "electric public utility's total North Carolina jurisdictional gross revenues". N.C.G.S. § 62-110.9 in turn relies on the definition of "electric public utility" in N.C.G.S. § 62-3(23). In N.C.G.S. § 62-3(23), there are many examples of a defined "public utility". None of these definitions are applied or reconcilable to the level of a water or sewer Rate Division, but the most instructive are N.C.G.S. § 62-3(23)(a) which references a "person, … organized under the laws of this State ...", and N.C.G.S. § 62-3(23)(b), which speaks to "any person producing, generating or furnishing any of the foregoing services to another person for distribution to or for the public for compensation." The use of "person" would be directly applicable to CWSNC in many other contexts per Chapter 62 and NCUC rules, but not applicable for a Rate Division - a term which does not appear at all in Chapter 62. Indeed, the paragraph following the above claim in the Joint Testifier's testimony uses "utility" and "the "Company" interchangeably, acknowledging this is the most practical interpretation.

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

A. Yes. In Rule R1-17A(b)(4), the Commission states that "utility" shall mean "a water, sewer, or water and sewer public utility". This correlates with the definition cited above in Chapter 62. In addition, from a practical standpoint, the Commission has indicated it is favorable to tariff consolidation, in particular in the consolidation of various CWNSC predecessor entities and companies into the current four Rate Divisions. Should the 5% cap be applied to a Rate Division level, it would make future consolidation of Rate Divisions practically impossible, as limits on the ability to increase one or all Rate Divisions would undermine the ability to make progress in consolidating rates.

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

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

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

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

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

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

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

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

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

Q. DOES THE COMPANY AGREE WITH THIS RECOMMENDATION?

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

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

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

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

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

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

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

A. The Company believes its proposed WSIP is in the public interest. The proposed WSIP has conformed appropriately to all statutory rules and requirements and makes reasonable and prudent forecasts of revenues, expenses and capital investments. The proposed WSIP requests rates that are both fair and reasonable to the customer and the Company, reasonably ensure the continuation of safe and reliable service, will not result in sudden substantial rate increases to customers, and are representative of the Company's operations over the plan term. These customer protections provide significant transparency, monitoring, controls, and limitations on the Company that alleviate the concerns presented by the Public Staff related to the Transaction. As importantly, they provide the Public Staff and NCUC multiple avenues to monitor the Company's activity over the plan term.

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

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

A. Yes.

II. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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