

PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Tuesday, September 19, 2018

TIME: 2:15 p.m. - 3:43 p.m.

DOCKET NO.: W-218, Sub 497

**COPY**

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding

Chairman Edward S. Finley, Jr.

Commissioner Jerry C. Dockham

Commissioner James G. Patterson

Commissioner Lyons Gray

Commissioner Daniel G. Clodfelter

Commissioner Charlotte A. Mitchell

IN THE MATTER OF:

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

VOLUME: 8



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T A B L E O F C O N T E N T S  
E X A M I N A T I O N S

MICHELLE BOSWELL	PAGE
Direct Examination by Ms. Culpepper.....	6
Prefiled Direct Testimony .....	7
Cross-Examination By Mr. Bennink.....	20
PANEL OF	PAGE
WINDLEY E. COOPER and MANASA L. COOPER	
Direct Examination By Ms. Culpepper.....	23
Prefiled Direct Testimony and .....	24
Supplemental Testimony of Windley E. Henry	
Prefiled Direct and Supplemental.....	49
Testimony of Manasa L. Cooper	
Cross Examination By Ms. Force.....	96
Cross Examination By Mr. Bennink.....	98
Redirect Examination By Ms. Culpepper.....	135
Examination By Chairman Finley.....	138
Examination By Commissioner Brown-Bland...	141
Examination By Commissioner Clodfelter....	144
Further Redirect Examination .....	145
By Ms. Culpepper	

E X H I B I T S

IDENTIFIED/ADMITTED

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Boswell Exhibits 1 - 3.....	20/23
Revised Boswell Exhibits 1 and 2.....	20/23
Public Staff Henry Exhibit I.....	93/93
Public Staff Henry Supplemental ..... Exhibit I	93/93
Public Staff Henry Revised ..... Supplemental Exhibit I	93/93
Public Staff Cooper Exhibit I.....	93/93
Public Staff Cooper Exhibit II.....	93/93
Public Staff Cooper Supplemental ..... Exhibit I	93/93
Public Staff Cooper Supplemental ..... Exhibit II	93/93
Public Staff Cooper Revised ..... Supplemental Exhibit I	93/93
Additional Direct Partial Settlement . Agreement Exhibit Number 1	94/95

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

COMMISSIONER BROWN-BLAND: Let's come back on the record. Come to order. I believe we left off and the case is now with the Public Staff.

MS. CULPEPPER: The Public Staff calls Michelle M. Boswell.

MICHELLE BOSWELL

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

DIRECT EXAMINATION BY MS. CULPEPPER:

Q. Ms. Boswell, please state your name, business address, and present position for the record.

A. My name is Michelle Boswell. I'm an accountant with Public Staff. My business address is 430 North Salisbury Street, Raleigh, North Carolina.

Q. On September 5, 2018, did you prepare and cause to be filed in this docket, direct testimony consisting of eight pages, three exhibits and an appendix?

A. Yes.

Q. On September 12, 2018, did you prepare and cause to be filed, Boswell revised Exhibits 1 and 3 [sic]?

A. Yes.

1 Q. Do you have any corrections to your  
2 testimony?

3 A. No.

4 Q. If you were asked those same questions today,  
5 would your answers be the same?

6 A. Yes.

7 MS. CULPEPPER: I move that  
8 Ms. Boswell's prefiled direct testimony, consisting  
9 of ten pages and one appendix, be copied into the  
10 record as if given orally from the stand.

11 COMMISSIONER BROWN-BLAND: All right.  
12 There being no objection, that motion is allowed  
13 and her testimony will be treated as if given  
14 orally from the witness stand.

15 MS. CULPEPPER: Thank you.

16 (Whereupon, the prefiled direct,  
17 testimony of Michelle Boswell was copied  
18 into the record as if given orally from  
19 the stand.)  
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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 497

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

TESTIMONY OF  
MICHELLE M. BOSWELL  
PUBLIC STAFF – NORTH  
CAROLINA UTILITIES  
COMMISSION



BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 497

TESTIMONY OF MICHELLE M. BOSWELL  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 5, 2018

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

3 A. My name is Michelle M. Boswell. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 Staff Accountant with the Accounting Division of the Public Staff –  
6 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. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10 A. The purpose of my testimony is to supplement the prefiled direct  
11 testimony of Public Staff witness Henry to present the accounting  
12 and ratemaking adjustments I am recommending regarding state  
13 Excess Deferred Income Taxes (EDIT), federal protected EDIT, and  
14 federal unprotected EDIT.

1 Q. MS. BOSWELL, PLEASE DESCRIBE THE SCOPE OF YOUR  
2 INVESTIGATION INTO THE COMPANY'S FILING.

3 A. My investigation included a review of the application, testimony,  
4 exhibits, and other data filed by Aqua North Carolina, Inc.  
5 (Company). The Public Staff has also conducted extensive  
6 discovery in this matter, including the review of numerous data  
7 responses provided by the Company in response to data requests  
8 and participation in conference calls with the Company.

9 Q. PLEASE DESCRIBE THE ORGANIZATION OF YOUR EXHIBITS.

10 A. Boswell Exhibit 1 sets forth the calculation of an annual State EDIT  
11 Rider to be in effect for three years.

12 Boswell Exhibit 2 presents the calculation of federal protected EDIT  
13 effects on the Company's rate base and income statement.

14 Boswell Exhibit 3 sets forth the calculation of an annual Federal  
15 Unprotected EDIT Rider to be in effect for three years.

16 Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.

17 A. My adjustments are described below.

18 STATE EXCESS DEFERRED INCOME TAXES

19 Q. PLEASE EXPLAIN THE STATE EDIT RIDER.

1 A. In this case, as described in further detail by Public Staff witness  
2 Henry, the Company proposed an adjustment in the revised  
3 testimony of its witness Kopas to amortize the state EDIT that it  
4 collected pursuant to the Commission's May 13, 2014 order in  
5 Docket No. M-100, Sub 138. The Company proposes that the EDIT  
6 addressed in this order be returned to customers over a four-year  
7 period. The Public Staff believes that it would be more reasonable  
8 to return the EDIT to customers through a levelized rider that will  
9 expire at the end of a three-year period, and increase rate base by  
10 removing the entire state EDIT credit balance in the present case.<sup>1</sup>  
11 Boswell Exhibit 1 sets forth the Public Staff's calculations for the  
12 State EDIT Rider. The impact of removing the state EDIT credit from  
13 rate base is reflected in the revenue requirement proposed in Exhibit  
14 1 to the prefiled direct testimony of Public Staff witness Cooper.

15 **FEDERAL EXCESS DEFERRED INCOME TAXES**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO FEDERAL EXCESS**  
17 **DEFERRED INCOME TAXES.**

18 A. In initial testimony, the Public Staff reserved the right to supplement  
19 its filing in this docket at a later date to include the flowback to  
20 ratepayers of EDIT related to the federal tax rate decrease. The

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<sup>1</sup> The use of a levelized rider will provide ratepayers with a return on the unamortized balance of the EDIT within the calculated rider itself.

1 Company provided the information requested by the Public Staff  
2 subsequent to the Public Staff's initial filing. I have reviewed the  
3 information provided by the Company, and recommend two  
4 adjustments based upon the information provided.

5 The federal EDIT consists of two categories, protected and  
6 unprotected. The protected EDIT are deferred taxes related to timing  
7 differences arising from the utilization of accelerated depreciation for  
8 tax purposes and another depreciation method for book purposes.  
9 These deferred taxes are deemed protected because the Internal  
10 Revenue Service (IRS) does not permit regulators to flow back the  
11 excess to ratepayers immediately, but instead requires that the  
12 excess be flowed back to ratepayers ratably over the life of the timing  
13 difference that gave rise to the excess, per IRC Section 203(e). EDIT  
14 resulting from all other timing differences are unprotected, and can  
15 be flowed back to ratepayers however quickly regulators deem  
16 reasonable.

17 Based upon the foregoing, I recommend three adjustments to flow  
18 the federal EDIT back to ratepayers, one relating to protected and  
19 two relating to unprotected.

20 First, I have made an adjustment to include the return of protected  
21 federal EDIT based upon the Company's calculation of the net  
22 remaining life of the timing differences. Boswell Exhibit 2 presents

1 the impacts of the federal unprotected taxes on rate base and the  
2 income statement. Public Staff witness Henry Exhibit I depicts the  
3 impact of the updated federal protected EDIT as shown on Boswell  
4 Exhibit 2 on Company witness Kopas's revised filing.

5 For unprotected EDIT, I recommend removing the entire EDIT  
6 regulatory liability associated with the unprotected differences from  
7 rate base, and placing it in a rider to be refunded to ratepayers over  
8 three years on a levelized basis, with carrying costs. The immediate  
9 removal of unprotected EDIT from rate base increases the  
10 Company's rate base, and mitigates regulatory lag that might occur  
11 from refunds of unprotected EDIT not contemporaneously reflected  
12 in rate base.

13 The Public Staff reserves the right to recommend true-up  
14 adjustments related to the federal tax decrease, including EDIT,  
15 based upon a future Commission Order in Docket No. M-100,  
16 Sub 148.

17 **Q. PLEASE EXPLAIN WHY THE UNPROTECTED EDIT SHOULD BE**  
18 **REFUNDED TO RATEPAYERS OVER A THREE-YEAR PERIOD**  
19 **INSTEAD OF 20 YEARS AS PROPOSED BY THE COMPANY.**

20 **A.** The Company uses the term "non-property" in the testimony of  
21 witness Kopas to describe unprotected EDIT. The Company asserts  
22 that, since the unprotected EDIT is similar in nature to protected

1 EDIT, it is reasonable to flow it back to the ratepayers over a 20-year  
2 period, similar to the period over which it would have been paid to  
3 the IRS had the Federal Tax Cuts and Jobs Act not been enacted.  
4 The Company did not address whether it disputes that the  
5 Commission has the discretion to flow back all of the unprotected  
6 EDIT over any time period it finds appropriate.

7 The tax normalization rules are very clear – either EDIT is protected  
8 or it is not. The EDIT that the Company designates as “non-property  
9 related” is still clearly unprotected, a fact conceded by the Company  
10 in its data request responses. The Company’s assertion that it  
11 should only return unprotected EDIT over 20 years is not supportable  
12 by any logical accounting or ratemaking principle, and should not  
13 dictate this Commission’s decision as to what is a reasonable  
14 amount of time within which to return these funds to ratepayers.  
15 These funds rightfully belong to the ratepayers and should be  
16 returned to them as soon as reasonably possible. It should be noted  
17 that the Company will continue to collect accumulated deferred  
18 income taxes (ADIT) at a tax rate sufficient to meet its tax obligations.

19 Furthermore, the Public Staff has provided the Company with the  
20 benefit of removing the total amount of the unprotected EDIT credit  
21 from rate base in the current case, thus providing the Company with  
22 an increase in rates to moderate any potential cash flow issues. The

1 financing cost to the Company will be imposed ratably over the  
2 period that the EDIT is returned through the levelized rider.

3 **Q. WHAT IS THE PUBLIC STAFF'S POSITION REGARDING THE**  
4 **COMPANY'S PROPOSAL TO REFUND THE OVERCOLLECTION**  
5 **OF FEDERAL TAXES DUE TO THE FEDERAL TAX CUTS AND**  
6 **JOBS ACT SINCE JANUARY 1, 2018?**

7 A. The Public Staff does not oppose the Company's request to refund  
8 to the ratepayers the overcollection of federal taxes related to the  
9 decrease in federal tax rates for the period beginning January 1,  
10 2018, and corresponding interest, as a surcharge credit for a one-  
11 year period beginning when the new base rates become effective in  
12 the current docket. The Public Staff believes this should not be  
13 precedential to any recommendations the Public Staff has made or  
14 may make in Docket No. M-100, Sub 148.

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

16 A. Yes, it does.

**MICHELLE M. BOSWELL****Qualifications and Experience**

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

I joined the Public Staff in September 2000. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in Duke Energy's 2010 REPS Cost Recovery Rider; the 2008 REPS Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership; Duke Energy Carolina LLC 2017 rate case, four recent Piedmont rate cases; the 2016 rate case of Public Service Company of North Carolina (PSNC), the 2012 rate case for Dominion Energy North Carolina (DENC, formerly Dominion North Carolina Power), Duke Energy Progress LLC 2013 and 2017 rate case, several Piedmont, NUI Utilities Inc. (NUI), and Toccoa

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annual gas cost reviews; the merger of Piedmont and NUI; and the merger of Piedmont and North Carolina Natural Gas (NCNG).

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations addressing a wide range of topics and issues related to the water, electric, and telephone industries.

1 BY MS. CULPEPPER:

2 Q. Ms. Boswell, do you have the summary of your  
3 testimony?

4 A. Yes.

5 Q. Would you please read it?

6 A. Yes.

7 The purpose of my testimony is to provide  
8 recommendations relating to excess deferred income  
9 taxes, or EDIT, associated with the decrease in state  
10 and federal income tax rates. I have recommended  
11 several adjustments relating to the reduction of  
12 federal income tax due to the Federal Tax Cuts and Jobs  
13 Act and the reductions in state income tax. Boswell  
14 Exhibits 1, 2, and 3 set forth the accounting and  
15 ratemaking adjustments to state EDIT, federal protected  
16 EDIT, and federal unprotected EDIT. The proposed  
17 riders cannot be finalized until the Commission makes a  
18 determination regarding the unresolved issues of rate  
19 of return.

20 First, I have made an adjustment to include  
21 the return of protected federal EDIT to the Company's  
22 ratepayers based on the Company's calculation of the  
23 net remaining life of the timing differences. These  
24 deferred taxes are deemed protected because the

1 Internal Revenue Service does not permit regulators to  
2 flow back the excess to ratepayers immediately, but  
3 instead requires the excess to be flown back to  
4 ratepayers ratably over the life of the timing  
5 differences that gave rise to the excess.

6 Second, I have made an adjustment to remove  
7 the state EDIT regulatory liability from rate base and  
8 have placed it in a rider to be refunded to ratepayers  
9 over three years on a levelized basis with carrying  
10 costs.

11 Finally, for federal unprotected EDIT, which  
12 are excess deferred taxes that result from all timing  
13 differences other than those deemed protected by the  
14 IRS and can be flowed back to ratepayers however  
15 quickly regulators deem reasonable, I recommend  
16 removing the EDIT regulatory liability associated with  
17 the unprotected differences from rate base and placing  
18 it in a rider to be refunded to ratepayers over three  
19 years on a levelized basis with carrying costs.

20 The Company has proposed to treat the  
21 unprotected EDIT in a manner similar to protected EDIT  
22 and return EDIT to ratepayers over 20 years. The tax  
23 normalization rules are very clear: Either EDIT is  
24 protected or it is not. The EDIT that the Company

1 designates is similar to protected is still clearly  
2 unprotected, a fact conceded by the Company.  
3 Accordingly, the Public Staff disagrees with the  
4 Company's proposal to treat unprotected EDIT in this  
5 matter.

6 This concludes my summary.

7 MS. CULPEPPER: I move that  
8 Ms. Boswell's exhibits be identified as marked and  
9 entered into evidence.

10 COMMISSIONER BROWN-BLAND: There being  
11 no objection, that motion is allowed and the  
12 exhibits are identified as they were marked when  
13 prefiled.

14 (Whereupon, Boswell Exhibits 1 to 3 and  
15 Revised Boswell Exhibits 1 and 2 were  
16 identified as premarked.)

17 MS. CULPEPPER: The witness is available  
18 for cross-examination.

19 CROSS-EXAMINATION BY MR. BENNINK:

20 Q. Ms. Boswell, I think just one question.

21 Is the Public Staff and the Company in  
22 agreement on your tax issues?

23 A. We are in agreement on the flow-back period;  
24 however, the percentage of return to the ratepayers can

1 only be determined once the ROE is settled.

2 Q. Yes. But on the tax issues, such as the one  
3 that you just --

4 A. Correct. We are in agreement.

5 Q. We're in agreement. There's no issues,  
6 except for the amount that would be flowed back for  
7 rates that have been in effect since January 1st of  
8 this year through the date of the order; is that right?

9 A. Well, there is that. And then the rate at  
10 which -- the interest at which ratepayers would be paid  
11 for the flow-back of state and federal loan protected  
12 EDIT, but correct.

13 Q. And what rate is the Public Staff  
14 recommending?

15 A. We have based it off of our ROE of  
16 9.2 percent.

17 Q. And how did you come up with that, the  
18 recommendation in this case?

19 A. That was based on the recommendation given to  
20 me by other witnesses in this case.

21 Q. And who gave that to you?

22 A. I believe that was Mr. Hinton.

23 Q. All right. And so it's the overall -- his --

24 A. Well, it's a calculation that's shown in my

1 Exhibit 1 of how it all -- the levelized return, but  
2 the ROE is a factor in that.

3 Q. All right. So is that the only factor, or do  
4 you have an overall return that you're recommending?

5 A. For the interest?

6 Q. Yes.

7 A. At the 9.2 percent, it would be 6.38 percent.

8 Q. And is that the Public Staff's overall --  
9 recommended overall rate of return on rate base?

10 A. Yes.

11 MR. BENNINK: All right. That's all I  
12 have.

13 COMMISSIONER BROWN-BLAND: All right.  
14 Redirect?

15 MS. CULPEPPER: None.

16 COMMISSIONER BROWN-BLAND: Questions by  
17 Commission? Well, looks like we're done with you  
18 Ms. Boswell. You're out on time.

19 MS. CULPEPPER: She's excused?

20 COMMISSIONER BROWN-BLAND: Did you move  
21 her exhibits?

22 MS. CULPEPPER: We already did.

23 COMMISSIONER BROWN-BLAND: All right.

24 Well, I didn't state it that way. So her exhibits

1 are received in evidence at this time.

2 (Whereupon, Boswell Exhibits 1 to 3 and  
3 Revised Boswell Exhibits 1 and 3 were  
4 admitted into evidence.)

5 COMMISSIONER BROWN-BLAND: All right.  
6 You are excused, Ms. Boswell.

7 THE WITNESS: Thank you.

8 COMMISSIONER BROWN-BLAND: Thank you.

9 MS. CULPEPPER: Public Staff calls  
10 Windley E. Henry and Manasa L. Cooper.

11 WINDLEY E. COOPER and MANASA L. COOPER  
12 having first been duly sworn, were examined  
13 and testified as follows:

14 DIRECT EXAMINATION BY MS. CULPEPPER:

15 Q. Mr. Henry, please state your name, business  
16 address, and present position for the record.

17 A. (Windley Henry) My name is Windley Henry.  
18 I'm a staff accountant with the Public Staff accounting  
19 division.

20 Q. And your business address?

21 A. 430 North Salisbury Street, Raleigh,  
22 North Carolina.

23 Q. On October 21, 2018, did you prepare and  
24 cause to be filed in this docket, direct testimony

1 consisting of 16 pages and one exhibit?

2 A. Yes, I did.

3 Q. On September 5, 2018, did you prepare and  
4 cause to be file in this docket, supplemental testimony  
5 consisting of six pages and one exhibit?

6 A. Yes, I did.

7 Q. On September 13, 2018, did you prepare and  
8 cause to be filed Henry Revised Supplemental Exhibit 1?

9 A. Yes, I did.

10 Q. Do you have any corrections to your  
11 testimony?

12 A. No, I do not.

13 Q. If you were asked those same questions today,  
14 would your answers be the same?

15 A. Yes, they would.

16 MS. CULPEPPER: I move that Mr. Henry's  
17 prefiled direct testimony consisting of 16 pages  
18 and his supplemental testimony consisting of 6  
19 pages be copied into the record as if given orally  
20 from the stand.

21 COMMISSIONER BROWN-BLAND: That motion  
22 is allowed.

23 (Whereupon, the prefiled direct,  
24 testimony supplemental testimony of



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Windley E. Henry were copied into the  
record as if given orally from the  
stand.)

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Sep 21 2018

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

TESTIMONY OF WINDLEY E. HENRY  
ON BEHALF OF THE PUBLIC STAFF  
NORTH CAROLINA UTILITIES COMMISSION

August 21, 2018

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

3 A. My name is Windley E. Henry and my business address is 430 N.  
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting  
5 Manager of the Water/Communications Section of the Public Staff –  
6 Accounting Division, and represent the using and consuming public.

7 Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC  
8 STAFF?

9 A. I have been employed by the Public Staff since July 16, 1990.

10 Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND  
11 EXPERIENCE?

12 A. I am a graduate of the University of North Carolina at Wilmington with  
13 a Bachelor of Science degree in Accountancy. I am a Certified Public  
14 Accountant licensed in the State of North Carolina. Prior to joining  
15 the Public Staff, I was employed by the Seymour Johnson Federal  
16 Credit Union. My duties there involved supervision of the accounting  
17 department and preparing financial reports. I joined the Public Staff  
18 as a Staff Accountant on July 16, 1990. Since joining the Public

1 Staff, I have presented testimony and exhibits in numerous cases  
2 before this Commission involving water, sewer, and natural gas  
3 utilities.

4 **Q. WHAT ARE YOUR DUTIES?**

5 A. I am responsible for the performance and supervision of the following  
6 activities: (1) the examination and analysis of testimony, exhibits,  
7 books and records, and other data presented by utilities and other  
8 parties involved in Commission proceedings; and (2) the preparation  
9 and presentation to the Commission of testimony, exhibits, and other  
10 documents in those proceedings.

11 **Q. MR HENRY, WHAT IS THE NATURE OF THE APPLICATION IN  
12 THIS PROCEEDING?**

13 A. On March 7, 2018, Aqua North Carolina, Inc. (Aqua or Company)  
14 filed an application with the Commission seeking authority to adjust  
15 and increase rates for all of its water and sewer service areas in  
16 North Carolina. My investigation included a review of the application  
17 filed by Aqua, an examination of the Company's books and records  
18 for the test year, and a review of additional documentation provided  
19 by the Company in response to written and verbal data requests.

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

1 A. The purpose of my testimony in this proceeding is to present the  
2 results of my investigation of the levels of revenue, expenses, and  
3 investment filed by Aqua in support of its requested increase in  
4 operating revenues for its uniform water operations (Aqua NC  
5 Water), uniform sewer operations (Aqua NC Sewer), Fairways  
6 Water, Fairways Sewer and Brookwood Water operations.

7 **Q. MR. HENRY, WHAT ADJUSTMENTS TO THE COMPANY'S RATE**  
8 **BASE AND EXPENSES DO YOU SUPPORT?**

9 A. I support adjustments for the following items:

- 10 1) Accumulated deferred income taxes
- 11 2) Excess deferred income taxes
- 12 3) Salaries and wages
- 13 4) Employee pensions and benefits
- 14 5) Miscellaneous expense
- 15 6) Payroll taxes

16 **ACCUMULATED DEFERRED INCOME TAXES (ADIT) AND EXCESS**

17 **DEFERRED INCOME TAXES (EDIT)**

18 **Q. HOW HAVE YOU ADJUSTED ADIT?**

19 A. I have made several adjustments to accumulated deferred income  
20 taxes (ADIT). First, I have adjusted ADIT associated with rate case  
21 expense to reflect the unamortized balance recommended by Public  
22 Staff witness Cooper in her exhibit.

23 Next, I have adjusted ADIT to include the Company's updated  
24 amounts associated with protected, unprotected and state excess

1 deferred income taxes (EDIT). In his revised testimony, Company  
2 witness Robert Kopas recommended that the unprotected federal  
3 EDIT be flowed back to ratepayers over a twenty-year period and  
4 that the state EDIT be flowed back to ratepayers over a four-year  
5 period. The Public Staff believes both the federal unprotected and  
6 state EDIT should be flowed back to ratepayers over a shorter time  
7 frame. It is my recommendation that both the federal unprotected  
8 and state EDIT be flowed back to ratepayers and amortized over a  
9 three-year period.

10 The Public Staff will be recommending additional adjustments to  
11 ADIT and EDIT once updated information has been received from  
12 the Company, including reclassification of certain unprotected  
13 categories that the Company has erroneously classified as  
14 protected.

15 **SALARIES AND WAGES**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO SALARIES AND**  
17 **WAGES.**

18 **A.** I have made the following adjustments to salaries and wages.

- 19 1) Update payroll to June 30, 2018  
20 2) Remove open positions  
21 3) Remove 1/2 of four operators salaries  
22 4) Adjust overtime pay  
23 5) Allocate 30% of bonuses to shareholders  
24 6) Allocate executive compensation to shareholders

1 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UPDATE SALARIES  
2 AND WAGES.

3 A. On August 1, 2018, Aqua provided the Public Staff with an updated  
4 calculation of salaries and wages as of June 30, 2018. I adjusted  
5 salaries and wages to include the Company's update and the  
6 allocation of salaries and wages to non-utility operations and other  
7 states. My update adjustment also reflects removal of 21.11% of  
8 capitalized salaries and wages to get an updated amount of North  
9 Carolina payroll before any Public Staff adjustments.

10 Aqua's pro forma balance for salaries and wages includes labor  
11 costs allocated from 1) corporate service; 2) corporate sundries; and  
12 3) Aqua Customer Operations. I made several adjustments to the  
13 allocated portion of salaries and wages. I removed all the allocated  
14 costs reflected in the application and replaced them with the updated  
15 labor costs provided by the Company. After reviewing the Company  
16 updates to salaries and wages, I am recommending the following  
17 adjustments:

18 1) Labor cost allocated from corporate services: Aqua's updated  
19 labor costs from corporate services as of June 30, 2018, include an  
20 additional twenty-two employees hired after the end of the test year  
21 and reflect the removal of twelve employees no longer with the  
22 Company.

1           2) Labor cost allocated from corporate sundries: I removed the  
2 amount allocated from corporate sundries because they are not  
3 labor-related costs. Only administrative costs from Aqua Services,  
4 Inc., which do not include labor, are included in corporate sundries.

5           3) Labor cost allocated from ACO: After reviewing the Company's  
6 updated salary and wage information through June 30, 2018, there  
7 were 36 more new employees and 12 more terminated employees  
8 after the end of the test year. I adjusted salaries and wages allocated  
9 from ACO to reflect the new and terminated employees.

10 **Q. HAS THE COMPANY INCLUDED OPEN POSITIONS IN ITS**  
11 **CALCULATION OF SALARIES AND WAGES FOR THIS CASE?**

12 A. Yes. In its application, the Company included estimated salaries for  
13 open or new positions. On July 20, 2018, the Company provided an  
14 updated calculation of labor expense reflecting the June 30, 2018,  
15 actual salaries for the 175 actual employees, including two seasonal  
16 and three part time employees. The Company also included salaries  
17 for 8 open positions in its update, for a total of 183 positions.

18 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE**  
19 **SALARIES FOR OPEN POSITIONS IN RATES?**

20 A. Aqua has historically experienced some turnover in employees, and  
21 therefore, will always have some level of open positions on an  
22 ongoing basis. Based on review of historical information provided by

1 the Company, on average, the Company had 7.03 open positions  
2 during the test year October 1, 2016, through September 30, 2017.

3 During the test year there were 26 open positions where an  
4 employee's employment ended and a replacement employee was  
5 hired. The total vacancy work days Monday through Friday including  
6 paid holidays for these 26 vacancies totaled 1,835. The annual  
7 number of work days in a year, excluding Saturdays and Sundays, is  
8 261. Dividing the total vacancy work days of 1,835 by 261 work days  
9 per year per employee, equals 7.03 employee vacancies.

10 The Public Staff has removed the salaries and benefits for seven full  
11 time employees using the average salary of the six open, but  
12 previously filled positions on June 30, 2018. The adjustment is  
13 based upon the twelve-month test year vacancies, not the June 30,  
14 2018 open positions.

15 The Public Staff has also removed the salaries and benefits for the  
16 two newly approved but open positions as of June 30, 2018, listed  
17 as Construction Coordinator II and Utility Technician. The update  
18 cutoff, including the customer count, utilized by the Public Staff in this  
19 proceeding is June 30, 2018. It would not be appropriate to add  
20 employees hired after June 30, 2018, for newly approved positions  
21 without a matching of revenues due to added customer growth  
22 beyond June 30, 2018.



1 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE 1/2 OF  
2 FOUR OPERATOR SALARIES.

3 A. Based on the recommendation of Public Staff witness Junis, I  
4 removed 1/2 updated labor costs of four operators from salaries and  
5 wages. Witness Junis discusses in detail the reason this adjustment  
6 is appropriate in this proceeding.

7 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OVERTIME PAY.

8 A. In its application, Aqua calculated overtime pay by dividing projected  
9 salary and wages as of April 1, 2018, by annual hours to get an  
10 annual hourly pay rate by department. This annual hourly rate was  
11 then multiplied by 1.5 to get an annual overtime pay rate. The annual  
12 overtime pay rate was multiplied by the actual overtime hours to yield  
13 overtime cost to include in salaries and wages.

14 The Public Staff disagrees with this methodology of calculating  
15 overtime wages for several reasons. First, employees in the same  
16 department have different hourly rates. Using an average hourly rate  
17 to calculate the overtime cost for all employees in each department  
18 does not reflect the actual overtime cost. Second, the Company  
19 used projected cost instead of actual salaries and wages at June 30,  
20 2018, to calculate the overtime rate. Third, there could be some  
21 employees who left the Company during the test year but their  
22 overtime cost was still included.

1 Based on the reasons stated above, I calculated overtime pay for  
2 each individual employee based on the updated payroll as of June  
3 30, 2018.

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ALLOCATE 30% OF**  
5 **BONUSES TO SHAREHOLDERS.**

6 A. The Company's application included bonuses paid to North Carolina  
7 employees during the test year, including Short-Term Incentive (STI)  
8 bonuses and achievement awards. After examining Aqua's bonus  
9 policies, I removed 30% of the STI bonus paid to the North Carolina  
10 employees. According to Aqua's most recent policies for the STI  
11 Plan, 60% of the metric weight depended on financial while 50% of  
12 the 60% is directly related to Aqua America's earnings per share.  
13 Earnings per share directly benefit the shareholders' value instead  
14 of ratepayer's benefit. Therefore, I have removed 30% of the  
15 bonuses from expenses and allocated them to the Company's  
16 shareholders.

17 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO EXECUTIVE**  
18 **COMPENSATION?**

19 A. The Public Staff made an adjustment to remove 50% of the  
20 compensation, including pension and incentive plans, of the top five  
21 executive officers of Aqua America, Inc. as listed in the 2017 Annual  
22 Meeting of Shareholders Proxy Statement. Aqua America, Inc. is the  
23 second largest investor owned water and wastewater utility in the

1 United States with its shares traded on the New York Stock  
2 Exchange (NYSE) having a \$6.709 billion market capitalization at the  
3 August 17, 2018, market close as reported by Morningstar. Aqua  
4 America's market capitalization is larger than the cumulative market  
5 capitalization of \$6.297 billion of the next four largest investor owned  
6 water utilities which are American States Water Co. (NYSE),  
7 California Water Service Group (NYSE), SJW Group (NYSE), and  
8 Connecticut Water Service, Inc. (NASDAQ).

9 The five executives are the President and Chief Executive Officer,  
10 the Executive Vice President and Chief Financial Officer, the  
11 Executive Vice President and Chief Operating Officer, the Executive  
12 Vice President, Strategy and Corporate Development, and the  
13 Senior Vice President, General Counsel and Secretary.

14 **Q. IS YOUR RECOMMENDATION BASED ON THE PREMISE THAT**  
15 **THE COMPENSATION OF THE AQUA AMERICA EXECUTIVE**  
16 **OFFICERS YOU HAVE SELECTED ARE EXCESSIVE OR**  
17 **SHOULD BE REDUCED?**

18 **A.** No. This recommendation is based on the Public Staff's belief that it  
19 is appropriate and reasonable for the shareholders of the very large  
20 water and wastewater utilities to bear some of the cost of  
21 compensating those individuals who are most closely linked to  
22 furthering shareholder interests, which are not always the same as  
23 those of ratepayers. Officers have fiduciary duties of care and loyalty

1 to shareholders, but not to customers. Consequently, the  
2 Company's executive officers are obligated to direct their efforts not  
3 only to minimizing the costs and maximizing the reliability of Aqua's  
4 service to customers, but also to maximizing the Company's  
5 earnings and the value of its shares. It is reasonable to expect that  
6 management will serve the shareholders as well as the ratepayers;  
7 therefore, a portion of management compensation and pension  
8 should be borne by the shareholders.

9 In addition to salaries and pensions, these five executive officers  
10 receive incentive plans compensation, including Annual Cash  
11 Incentive Awards which for 2016 was based upon Aqua America's  
12 budgeted annual net income and in 2017 had 60% based upon  
13 Earning Per Share. There are also Long-Term Incentive Awards in  
14 the form of Performance Share Awards of Aqua America shares,  
15 which for 2016 were weighted 60% based on Total Shareholder  
16 Return and in 2017 were weighted 45% based upon Total  
17 Shareholder Return. Their Stock Options are based upon achieving  
18 at least an adjusted return on equity equal to 150 basis points below  
19 the return on equity granted by the Pennsylvania Public Utility  
20 Commission during Aqua America's Pennsylvania subsidiary's last  
21 rate proceeding. The 2017 Proxy Statement on page 46 states:

22

1 The Compensation Committee [of the Board of  
2 Directors] believes that by providing the named  
3 executive officers with the ability to earn stock options,  
4 the named executive officers' interests are aligned with  
5 the shareholders' interests as the value of the stock  
6 option is a function of the price of the Company's stock.

7 The Aqua America top five executives' compensation allocated to  
8 Aqua totaled \$533,697 of which the Public Staff recommends 50%  
9 totaling \$266,848 be removed as shareholder expense.

10 **PENSION AND BENEFITS**

11 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PENSIONS AND**  
12 **BENEFITS.**

13 A. I have made matching adjustments to pensions and benefits related  
14 to adjustments made to salaries and wages for updates to June 30,  
15 2018, removal of open positions, and removal of 1/2 pension and  
16 benefits of four operators. In addition I am recommending the  
17 following adjustments to pension and benefits:

18 1) Remove NC benefits for open positions and ineligible employees:  
19 I removed pension and benefits for open positions, part time,  
20 seasonal and temporary employees who are not eligible for benefits  
21 [except for part time employees who are eligible for 401(k) benefits],  
22 and full time employee who are eligible for benefits but have not met  
23 the waiting period to qualify for benefits. Details of each adjustment  
24 are as follows:

- 1           2) Remove eight open positions, three part time employees, one  
2           temporary employee and two seasonal employees: I removed the  
3           estimated benefit costs for these employees that were originally  
4           included in the application because they are not eligible for benefits.  
5           I did not remove the 401(k) benefits for the three part time employees  
6           since they are qualified for 401(k).
- 7           3) Remove full time employees who are not qualified for all the  
8           benefits as of June 30, 2018: These benefits included medical,  
9           dental, vision, AD&D, Life, LTD and Health Advocate. According to  
10          the Company's insurance policies, there is a 60-day waiting period  
11          for medical, dental and FSA, a 6-month waiting period for Life and  
12          AD&D, and a 12-month waiting period for LTD. There were eight  
13          employees who have not qualified for all these benefits as of June  
14          30, 2018, so I removed their benefits from expenses.
- 15          4) Remove full time employees who are not qualified for AD&D, Life  
16          and LTD benefits as of June 30, 2018: According to the Company's  
17          insurance policies, there is a 6-month waiting period for Life and  
18          AD&D, and 12-month waiting period for LTD. There were 16  
19          employees who were not qualified for these benefits as of June 30,  
20          2018, so I removed their benefits from expenses.
- 21          5) Remove full time employees who are not qualified for LTD benefit  
22          as of June 30, 2018: According to the Company's insurance policies,

1 there is a 12-month waiting period for an employee to qualify for long  
2 term disability. There are nine employees who have not qualified for  
3 LTD benefits as of June 30, 2018, so I removed the costs for this  
4 benefit from expenses.

5 6) Remove duplicate Health Advocate Benefits: In the update to  
6 pensions and benefits, Aqua included costs related to Health  
7 Advocate twice in expenses. Therefore, I removed the duplicated  
8 portion of this cost.

9 **MISCELLANEOUS EXPENSE**

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO MISCELLANEOUS**  
11 **EXPENSE.**

12 A. I have made an adjustment to remove 50% of the compensation and  
13 expenses associated with the Board of Directors (BOD) of Aqua  
14 America, Inc. that have been allocated to Aqua. The allocations to  
15 Aqua encompass the BOD's compensation and other miscellaneous  
16 expenses. The premise of this adjustment is closely linked to the  
17 premise of the adjustment made by the Public Staff related to  
18 executive compensation. We believe that it is appropriate and  
19 reasonable for the shareholders of the very large water and  
20 wastewater utilities to bear a reasonable share of the costs of  
21 compensating those individuals who have a fiduciary duty to protect

1 the interests of shareholders, which may differ from the interests of  
2 ratepayers.

3 The Aqua America, Inc. Board of Directors Corporate Governance  
4 Guidelines state in Section II:

5 RESPONSIBILITIES OF THE BOARD

- 6 1. It is the responsibility of the Board to provide
- 7 guidance and direction on the Corporation's
- 8 general business goals and strategy, and to
- 9 provide general oversight of, and direction to,
- 10 management so that the affairs of the
- 11 Corporation are conducted in the long-term
- 12 interests of all of its shareholders.

13 Aqua America allocated to Aqua \$116,838 for BOD compensation  
14 and \$17,381 for BOD expenses. The Public Staff recommends 50%  
15 of BOD compensation totaling \$58,419 and 50% of BOD expenses  
16 totaling \$8,691 be removed as a shareholder expense.

17 PAYROLL TAXES

- 18 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.**
- 19 **A.** I have adjusted payroll taxes for Aqua NC employees and allocated
- 20 salary costs from the corporate services and ACO to reflect my
- 21 adjusted level of salary and current payroll tax rates. These
- 22 adjustments resulted in an increase in payroll taxes of \$23,174.

23



1           **WATER AND SEWER SYSTEM IMPROVEMENT CHARGE**

2    **Q.    DO YOU HAVE ANY COMMENTS CONCERNING THE WATER**  
3           **SYSTEM IMPROVEMENT CHARGE (WSIC) AND SEWER**  
4           **SYSTEM IMPROVEMENT CHARGE (SSIC) MECHANISMS THAT**  
5           **WERE APPROVED BY THE COMMISSION FOR THE COMPANY**  
6           **IN ITS LAST GENERAL RATE CASE, DOCKET NO. W-218, SUB**  
7           **363?**

8    **A.    Yes. Consistent with Commission Rules R7-39(k) and R10-26(k),**  
9           **Aqua's WSIC and SSIC surcharges will reset to zero as of the**  
10          **effective date of the approved rates in this proceeding.**

11            By law, the cumulative maximum charges that the Company can  
12            recover between rate cases cannot exceed five percent of the total  
13            service revenues approved by the Commission in this rate case.

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

15   **A.    Yes, it does.**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 497

In the Matter of	)	
Application of Aqua North Carolina,	)	SUPPLEMENTAL
Inc., 202 MacKenan Court, Cary, North	)	TESTIMONY OF
Carolina, 27511, for Authority to Adjust	)	WINDLEY E. HENRY
and Increase Rates for Water and	)	PUBLIC STAFF – NORTH
Sewer Utility Service in All Service	)	CAROLINA UTILITIES
Areas in North Carolina.	)	COMMISSION

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

SUPPLEMENTAL TESTIMONY OF WINDLEY E. HENRY  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION

September 5, 2018

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

3 A. My name is Windley E. Henry and my business address is 430 N.  
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting  
5 Manager of the Water/Communications Section of the Public Staff –  
6 Accounting Division, and represent the using and consuming public.

7 Q. ARE YOU THE SAME WINDLEY E. HENRY WHOSE DIRECT  
8 TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON  
9 AUGUST 21, 2018?

10 A. Yes.

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

13 A. The purpose of my supplemental testimony is to present the  
14 accounting and ratemaking adjustments I have updated from my  
15 original testimony or recommend as a result of information provided  
16 by the Company subsequent to the filing of my direct testimony, as  
17 well as updates and corrections recommended by other Public Staff  
18 witnesses.

1 Q. MR. HENRY, WHAT UPDATED OR CORRECTED  
 2 ADJUSTMENTS TO THE COMPANY'S COST OF SERVICE DO  
 3 YOU RECOMMEND?

4 A. I support recommending updated, corrected or new adjustments in  
 5 the following areas:

- 6 1) Accumulated deferred income taxes (ADIT)
- 7 2) Salaries and wages
- 8 3) Employee pensions and benefits
- 9 4) Miscellaneous expense
- 10 5) Payroll taxes

11 Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC  
 12 STAFF WITNESSES DOES YOUR EXHIBIT INCORPORATE?

13 A. My exhibit reflects the following adjustments recommended by other  
 14 Public Staff witnesses:

- 15 1) The recommendations of Public Staff witness Boswell  
 16 regarding excess deferred income taxes (EDIT).
- 17 2) The recommendations of Public Staff witness Cooper  
 18 regarding unamortized rate case expense and unamortized  
 19 repair tax credit.

20 Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.

21 A. My adjustments are described below.

1                    ACCUMULATED DEFERRED INCOME TAXES (ADIT)

2    Q.    HOW HAVE YOU ADJUSTED ADIT?

3    A.    I have made several adjustments to ADIT. First, I have updated  
4           ADIT associated with rate case expense to reflect the unamortized  
5           balance recommended by Public Staff witness Cooper in her Exhibit  
6           I to her direct testimony. Next, I have adjusted ADIT to include the  
7           amounts associated with the Public Staff's recommended levels of  
8           unamortized repair tax credit costs. I have adjusted ADIT to include  
9           amounts associated with post-test year additions based on  
10           calculations provided by the Company. Finally, I adjusted ADIT to  
11           include the amount of EDIT recommended by Public Staff witness  
12           Boswell in her testimony.

13                    SALARIES AND WAGES

14    Q.    PLEASE EXPLAIN YOUR ADJUSTMENTS TO SALARIES AND  
15           WAGES.

16    A.    I have made the following adjustments to salaries and wages:

17           Open positions: In my prefiled testimony, I adjusted salaries and  
18           wages to remove salaries and benefits for seven open positions and  
19           two newly approved open positions, for a total of nine vacant  
20           positions. Based on additional information provided by the  
21           Company, I adjusted salaries and wages to add back four of the nine  
22           positions I recommended be excluded from operating expenses.



1 expenses as miscellaneous expense to be recovered from ratepayers  
2 over a three-year period. The remaining one-half of the actual  
3 expenses is allocated to shareholders.

4 PAYROLL TAXES

5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAXES.**

6 A. I have adjusted payroll taxes for Aqua NC employees and allocated  
7 salary costs from the corporate services and ACO to reflect my  
8 adjusted level of salary and wages and current payroll tax rates.  
9 Payroll taxes have also been adjusted to include a matching  
10 adjustment to remove 50 percent of executive compensation.

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

12 A. Yes, it does.

1 BY MS. CULPEPPER:

2 Q. Ms. Cooper, please state your name, business  
3 address and present position for the record.

4 A. (Manasa Cooper) My name is Manasa L. Cooper.  
5 I'm a staff accountant with the Public Staff water  
6 communications division. My business address is 430  
7 North Salisbury Street, Raleigh, North Carolina.

8 Q. On August 21, 2018, did you prepare and cause  
9 to be filed in this docket, direct testimony consisting  
10 of 26 pages and 2 exhibits?

11 A. Yes, I did.

12 Q. On September 5, 2018, did you prepare and  
13 cause to be filed in this docket, supplemental  
14 testimony consisting of 12 pages and 2 exhibits?

15 A. Yes, I did.

16 Q. On September 13, 2018, did you prepare and  
17 cause to be filed, Cooper Revised Supplemental  
18 Exhibit 1?

19 A. Yes.

20 Q. Do you have any corrections to your  
21 testimony?

22 A. No, I don't.

23 Q. If you were asked those same questions today,  
24 would your answers be the same?



1           A.       Yes, they would.

2                       MS. CULPEPPER: I move that Ms. Cooper's  
3           prefiled direct testimony consisting of 26 pages  
4           and her supplemental testimony consisting of  
5           12 pages be copied into the record as if given  
6           orally from the stand.

7                       COMMISSIONER BROWN-BLAND: And that  
8           motion is allowed. Her testimony will be treated  
9           as if given orally from the witness stand.

10                      (Whereupon, the prefiled direct and  
11                      supplemental testimony of  
12                      Manasa L. Cooper was copied into the  
13                      record as if given orally from the  
14                      stand.)

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

TESTIMONY OF MANASA L. COOPER  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION

August 21, 2018

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

3 A. My name is Manasa L. Cooper and my business address is 430 N.  
4 Salisbury Street, Raleigh, North Carolina. I am a Staff Accountant  
5 with the Accounting Division of the Public Staff – North Carolina  
6 Utilities Commission, and represent the using and consuming  
7 public.

8 Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE PUBLIC  
9 STAFF?

10 A. I have been employed by the Public Staff since November 6, 2017.

11 Q. WILL YOU STATE BRIEFLY YOUR EDUCATION AND  
12 EXPERIENCE?

13 A. I am a graduate of the University of North Carolina at Wilmington  
14 with a Bachelor of Science degree in Accountancy. I am also a  
15 graduate of North Carolina Central University with a Master degree  
16 in Public Administration. Prior to joining the Public Staff, I was  
17 employed with the North Carolina Department of State Treasurer,  
18 State and Local Government Finance Division. My duties there

1 involved analyzing the financial statement audits of public  
2 authorities in North Carolina to assess their fiscal health. Prior to  
3 joining the North Carolina Department of State Treasurer, I was a  
4 Senior Accountant with Thomas E. Spivey, CPA, PA. My duties  
5 there included performing financial statement audits (including  
6 audits of federal and state funds), agreed-upon procedures,  
7 reviews, compilations and income tax services for non-profit  
8 organizations, small businesses and religious organizations.

9 **Q. WHAT ARE YOUR DUTIES?**

10 A. I am responsible for analyzing testimony, exhibits, and other data  
11 presented by parties before this Commission. I have the further  
12 responsibility of performing the examinations of books and records  
13 of utilities involved in proceedings before the Commission, and  
14 summarizing the results into testimony and exhibits for presentation  
15 to the Commission.

16 **Q. MS. COOPER, WHAT IS THE NATURE OF THE APPLICATION**  
17 **IN THIS PROCEEDING?**

18 A. On March 7, 2018, Aqua North Carolina, Inc. (Aqua or Company)  
19 filed an application with the Commission seeking authority to  
20 increase rates for all of its water and sewer service areas in North  
21 Carolina. The purpose of my testimony in this proceeding is to  
22 present the results of my investigation of the levels of revenue,

1 expenses, and investment filed by Aqua in support of its requested  
2 increase in operating revenues.

3 **Q. WOULD YOU DESCRIBE THE PRESENTATION OF YOUR**  
4 **TESTIMONY AND EXHIBITS?**

5 A. Yes. For each issue I will present a discussion of how and why I  
6 differ from the Company. Correspondingly, I will present schedules  
7 showing the calculation of my adjustments to revenues, expenses,  
8 and rate base. My schedules will also reflect adjustments  
9 recommended by Public Staff witnesses Henry, Junis, Darden, and  
10 Hinton.

11 Schedules 1(a) through 1(e) of my exhibit present the return on  
12 original cost rate base under present rates, Company proposed  
13 rates, and Public Staff recommended rates. Schedule 2, along with  
14 its supporting schedules, presents the original cost rate base.  
15 Schedule 3, along with its supporting schedules, presents the net  
16 operating income under present rates, Company proposed rates,  
17 and Public Staff recommended rates.

18 Schedule 1 of Exhibit II presents the calculation of the gross  
19 revenue impact of the adjustments prepared by the Public Staff.

20 **Q. WHAT MODIFICATIONS OF THE TEST PERIOD HAVE YOU**  
21 **MADE IN THIS PROCEEDING?**

1 A. In its application, Aqua made a pro forma adjustment to rate base  
2 to include estimated plant additions, net of retirements, which will  
3 be placed in service between October 1, 2017, and the hearing  
4 date in this proceeding. Aqua also made pro forma adjustments to  
5 increase salaries, benefits, and payroll taxes and other operational  
6 expenses.

7 The Public Staff agrees with the Company that the test year should  
8 be updated for certain events that occurred after the test year.  
9 Those events should be known and measurable as of a certain  
10 date in order to be considered in evaluating the need for rate relief.  
11 Therefore, the Public Staff witnesses have made adjustments in  
12 this proceeding to update the Company's test year to recognize  
13 certain events, including the increase in rate base, revenues, and  
14 expenses as a result of growth that occurred through June 30,  
15 2018.

16 As part of this overall update adjustment, I have made adjustments  
17 to recognize changes to plant in service, accumulated depreciation,  
18 contributions in aid of construction, advances for construction, plant  
19 acquisition adjustment, and other rate base changes that occurred  
20 through June 30, 2018.

21 **Q. WHAT ARE THE COMPANY'S PROPOSED INCREASES IN**  
22 **SERVICE REVENUES IN THIS CASE?**

1 A. The service revenues under present rates, the Company's  
 2 proposed increases, and the Company's proposed rates are as  
 3 follows:

	Present Rates	Proposed Increase	Proposed Rates
4 Aqua NC Water	\$34,859,850	\$ 2,852,568	\$ 37,712,418
5 Aqua NC Sewer	14,112,255	604,940	14,717,195
6 Fairways Water	1,084,684	100,090	1,184,774
7 Fairways Sewer	1,360,925	723,545	2,084,470
8 Brookwood Water	<u>5,109,303</u>	<u>421,838</u>	<u>5,531,141</u>
9 Total Aqua	<u>\$ 56,527,017</u>	<u>\$ 4,702,981</u>	<u>\$ 61,229,998</u>

12 Q. WHAT CONCLUSIONS HAVE YOU REACHED AS TO THE  
 13 COMPANY'S RATE INCREASE REQUEST?

14 A. Based on my investigation, the Company's original cost rate base  
 15 as of September 30, 2017, updated to June 30, 2018, is as follows:

16 Aqua NC Water	\$ 103,485,586
17 Aqua NC Sewer	42,111,424
18 Fairways Water	3,758,815
19 Fairways Sewer	10,068,908
20 Brookwood Water	<u>16,677,386</u>
21 Total Aqua	<u>\$ 176,103,119</u>

22 Based on the overall rate of return of 6.92% recommended by  
 23 Public Staff witness Hinton, I recommend that rates be set to  
 24 produce the following revenues:

	Service Revenues	Other Revenues & Uncollectibles	Total Operating Revenues
25 Aqua NC Water	\$33,023,284	\$ 627,488	\$33,650,772
26 Aqua NC Sewer	13,649,924	89,163	13,739,087
27 Fairways Water	1,290,101	89,570	1,379,671
28 Fairways Sewer	1,946,333	(7,463)	1,938,870
29 Brookwood Water	<u>4,894,601</u>	<u>263,377</u>	<u>5,157,978</u>
30 Total Aqua	<u>\$54,804,243</u>	<u>\$1,062,105</u>	<u>\$55,866,378</u>

1 Based on these levels of revenues, I recommend the following  
2 increases/(decreases) in service revenues:

3	Aqua NC Water	\$(1,836,566)
4	Aqua NC Sewer	(462,331)
5	Fairways Water	205,417
6	Fairways Sewer	585,408
7	Brookwood Water	<u>(214,702)</u>
8	Total Aqua	<u>\$(1,722,774)</u>

9 Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC  
10 STAFF WITNESSES HAVE YOU INCLUDED IN YOUR  
11 TESTIMONY?

12 A. My exhibit reflects the following adjustments recommended by  
13 other Public Staff witnesses:

14 1) The recommendations of Public Staff witness Hinton  
15 regarding the capital structure, embedded cost of long-term  
16 debt, and return on common equity.

17 2) The recommendations of Public Staff witness Junis  
18 regarding the following items:

- 19 (a) Service revenues under present rates
- 20 (b) Service revenues under Company proposed rates
- 21 (c) Availability revenues
- 22 (d) Number of bills used to calculate annualization factors
- 23 (e) Water consumption factors
- 24 (f) Purchased water
- 25 (g) Plant in service
- 26 (h) Contributions in Aid of Construction (CIAC)

27 3) The recommendations of Public Staff witness Darden  
28 regarding the following items:

- 29 (a) Purchased sewer
- 30 (b) Purchased power
- 31 (c) Chemicals
- 32 (d) Testing fees
- 33 (e) Sludge removal

1 4) The recommendations of Public Staff witness Henry  
2 regarding the following items:

- 3 (a) Accumulated deferred income taxes (ADIT)  
4 (b) Excess deferred income taxes (EDIT)  
5 (c) Salaries and wages  
6 (d) Employee pensions and benefits  
7 (e) Miscellaneous expense  
8 (f) Payroll taxes

9 **Q. WHAT ADJUSTMENTS WILL YOU DISCUSS?**

10 A. The accounting and ratemaking adjustments that I will discuss  
11 relate to the following items:

- 12 1. Plant in service  
13 2. Accumulated depreciation  
14 3. CIAC  
15 4. Accumulated amortization of CIAC  
16 5. Purchase acquisition adjustments (PAA)  
17 6. Accumulated amortization of PAA  
18 7. Advances for construction  
19 8. Excess capacity adjustment  
20 9. Working capital allowance  
21 10. Late payment fees  
22 11. Uncollectibles  
23 12. Miscellaneous revenues  
24 13. Transportation  
25 14. Contract services – legal  
26 15. Contract services – other  
27 16. Insurance  
28 17. Regulatory commission expense  
29 18. Annualization adjustment  
30 19. Consumption adjustment  
31 20. Depreciation expense  
32 21. CIAC amortization expense  
33 22. PAA amortization expense  
34 23. Regulatory fee  
35 24. State income taxes  
36 25. Federal income taxes



1

PLANT IN SERVICE

2

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO PLANT IN

3

SERVICE?

4

A. I have made the following adjustments to plant in service in this

5

case:

6

Amount

7

Adjust post test year additions to actual costs \$9,063,156

8

Remove purchase price related to future customers (91,925)

9

Adjust sewer expansion-Neuse Colony (2,120,000)

10

Adjust rate base-Neuse Colony (99,145)

11

Adjust meter and meter installations (4,416,536)

12

Total adjustment to plant in service \$2,335,550

13

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO INCLUDE THE

14

ACTUAL COST FOR POST-TEST YEAR ADDITIONS.

15

A. On its application, the Company included actual and estimated

16

post-test year additions of \$36,129,482 in plant in service. In

17

response to Public Staff data requests, I have adjusted the

18

Company's post-test year plant additions for actual additions

19

booked from October 1, 2017, through June 30, 2018. I have also

20

adjusted plant in service to include non-growth related additions for

21

the month of July 2018. The net effect of these adjustments results

22

in a level of post-test year additions of \$45,192,638, which is an

23

increase of \$9,063,156 from the amount estimated in the

24

Company's application.

1 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT TO REMOVE  
2 COSTS RELATED TO FUTURE CUSTOMERS FOR AQUA?

3 A. Typically, the purchase price paid by Aqua for systems is based on  
4 the number of lots to be served times a set price per lot. Under  
5 certain contracts with developers, Aqua paid the entire purchase  
6 price for a new subdivision or phase of an existing subdivision  
7 when it acquired the system from the developer, instead of paying  
8 the developer for each lot as customers connected to the system.  
9 For these systems, Aqua books the entire purchase price paid to  
10 the developer at closing to plant in service. As a result, the  
11 purchase price related to the lots not yet served is included in plant  
12 in service on the Company's application. Current customers should  
13 not have to pay for plant costs related to future customers.  
14 Therefore, I have made an adjustment to remove from rate base  
15 the portion of the purchase price related to future customers. To  
16 determine the amount of plant related to future customers, I  
17 compared the purchase price booked by Aqua with the price of the  
18 plant that would be considered used and useful, based on the  
19 number of customers served as of June 30, 2018, resulting in a  
20 reduction to Aqua plant in service of \$91,925.

21 Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THIS  
22 ISSUE?

1 A. Yes. The Commission addressed this issue in a previous rate case  
2 for Heater Utilities, Inc., in Docket No. W-274, Sub 478. In that  
3 docket, the Commission found that these payments should be  
4 removed since current customers should not have to pay for plant  
5 costs related to future customers.

6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ALLOCATE**  
7 **PURCHASED VEHICLES.**

8 A. The majority of the vehicles purchased by Aqua during the test  
9 period were placed into service as a part of the Aqua NC Water  
10 rate division. The purchase price of these vehicles, along with the  
11 applicable accumulated depreciation and depreciation expense,  
12 was allocated between the rate entities using the customer  
13 allocation percentages shown on Schedule 4 of my exhibit.

14 **ACCUMULATED DEPRECIATION**

15 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO ACCUMULATED**  
16 **DEPRECIATION?**

17 A. I have adjusted accumulated depreciation to include an additional  
18 \$256,206 of depreciation related to adjustments made to plant in  
19 service for post-test year additions, adjustments for meters and  
20 meter installations, adjustments to rate base relating to the Neuse  
21 Colony wastewater system, cost related to future customers, and  
22 allocation of purchased vehicles, as discussed above.

1                   **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

2   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO CIAC.**

3   A.   I have made an adjustment to CIAC as part of my adjustment to  
4       update rate base to June 30, 2018. I have increased CIAC by  
5       \$4,770,588 to reflect actual additions made on the Company's  
6       books from October 1, 2017, through June 30, 2018, and to reflect  
7       recommendations regarding the Neuse Colony wastewater system  
8       provided by Public Staff witness Junis.

9                   **ACCUMULATED AMORTIZATION OF CIAC**

10   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENT TO ACCUMULATED**  
11       **AMORTIZATION OF CIAC.**

12   A.   I have decreased accumulated amortization of CIAC by \$88,690 to  
13       reflect the amortization associated with the CIAC additions from  
14       October 1, 2017, through June 30, 2018, and I have included in  
15       CIAC recommendations regarding the Neuse Colony wastewater  
16       system provided by Public Staff witness Junis.

17                   **PURCHASE ACQUISITION ADJUSTMENT (PAA)**

18   **Q.   WHAT ADJUSTMENTS HAVE YOU MADE TO PAA?**

19   A.   I adjusted acquisition adjustment to include \$49,950 of Mid South  
20       growth related PAA from October 1, 2017, through June 30, 2018.

1                                    **ACCUMULATED AMORTIZATION OF PAA**

2    Q.    WHAT ADJUSTMENTS HAVE YOU MADE TO ACCUMULATED  
3            AMORTIZATION OF PAA?

4    A.    I have adjusted accumulated amortization of PAA to reflect my  
5            adjustments to the acquisition incentive account. I have also made  
6            an adjustment to update accumulated amortization of PAA for  
7            activity through June 30, 2018.

8                                    **ADVANCES FOR CONSTRUCTION**

9    Q.    WHAT ADJUSTMENTS HAVE YOU MADE TO ADVANCES FOR  
10           CONSTRUCTION?

11   A.    I have adjusted advances for construction to reflect the balances as  
12           of June 30, 2018, as part of my adjustment to update rate base.

13                                   **EXCESS CAPACITY ADJUSTMENT**

14   Q.    PLEASE EXPLAIN YOUR ADJUSTMENTS FOR EXCESS  
15           CAPACITY.

16   A.    There was an error made by the Company in its calculation of  
17           excess capacity for this proceeding. The Company used the wrong  
18           depreciation rate in determining the net plant in service and  
19           depreciation expense subject to an excess capacity adjustment for  
20           the Carolina Meadows wastewater treatment plant. I corrected this  
21           error by reducing the depreciation rate from 5% to 4%.

1 Next, I applied Public Staff witness Junis' excess capacity  
 2 percentage of 30.63%, 38.67% and 35.56% to remove from rate  
 3 base the percentage of plant and accumulated depreciation related  
 4 to excess capacity for the wastewater treatment plants at Carolina  
 5 Meadows, The Legacy at Jordan Lake, and Westfall Subdivision,  
 6 respectively.

7 **WORKING CAPITAL ALLOWANCE**

8 **Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO THE WORKING**  
 9 **CAPITAL ALLOWANCE.**

10 **A.** I have made the following adjustments to the working capital  
 11 allowance:

12 **Cash working capital**

13 I have calculated cash working capital as one-eighth of operating  
 14 and maintenance expenses, excluding purchased water and sewer  
 15 costs.

16 **Prepayments**

17 I have made several adjustments to the level of prepayments  
 18 included by the Company on its application. First, I adjusted the  
 19 unamortized balances for tank painting for Aqua NC Water and  
 20 Brookwood Water to reflect the balances as of June 30, 2018,  
 21 consistent with other updates made to rate base by the Public Staff  
 22 in this proceeding.

1 Next, I have adjusted unamortized rate case expense and  
2 unamortized gains and losses to reflect my recommended levels for  
3 these items as discussed later in my testimony under regulatory  
4 commission expense.

5 **Tax Accruals**

6 I have calculated average tax accruals as one-fifth of  
7 unemployment taxes and regulatory fee plus one-half of property  
8 taxes.

9 **LATE PAYMENT FEES**

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO LATE PAYMENT**  
11 **FEES.**

12 A. I have adjusted the late payment fee percentages for each of  
13 the rate entities to reflect the per books levels of late payment  
14 fees and service revenues for the test year. I then applied these  
15 percentages to my adjusted levels of service revenues under  
16 present, Company proposed, and Public Staff recommended rates  
17 to derive my recommended levels of late payment fees.

18 **UNCOLLECTIBLES**

19 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO**  
20 **UNCOLLECTIBLES.**

21 A. I have adjusted the uncollectibles percentages for each of the rate  
22 entities to reflect the per books levels of uncollectibles, late

1 payment fees, and service revenues for the test year. I then  
2 applied these percentages to my adjusted levels of service  
3 revenues and late payment fees under present, Company  
4 proposed, and Public Staff recommended rates to derive my  
5 recommended levels of uncollectibles.

6 **MISCELLANEOUS REVENUES**

7 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO**  
8 **MISCELLANEOUS REVENUES?**

9 A. In its application, the Company included availability as a part of  
10 service revenues. I adjusted miscellaneous revenues for Aqua NC  
11 Water and Aqua NC Sewer operations to move the availability  
12 revenues included in service revenues to miscellaneous revenues  
13 to keep the accounting treatment of these revenues consistent with  
14 the other rate entities in this proceeding.

15 **TRANSPORTATION**

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO**  
17 **TRANSPORTATION EXPENSE.**

18 A. Based on information provided by the Company, I applied an  
19 expense allocation factor of 78.33% to total transportation expense  
20 to reflect the annual amount of expense to be recovered from  
21 ratepayers.



1 My final adjustment to transportation expense is to allocate the  
2 adjusted amount between the rate entities using the customer  
3 allocation percentages shown on Schedule 4 of my exhibit.

4 **CONTRACT SERVICES - LEGAL**

5 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO LEGAL**  
6 **EXPENSES IN THIS CASE?**

7 A. I have made adjustments to legal fees to remove legal fees  
8 associated with fines and penalties and to remove legal fees that  
9 occurred before the test year. In addition, the Public Staff removed  
10 from test year legal expenses \$44,005 for legal services relating to  
11 legislation for two bills before the North Carolina General Assembly  
12 introduced at the request of Aqua, which are House Bill 351, the  
13 Fair Market Valuation for the purchase of government owned water  
14 and wastewater utilities, and House Bill 752, the Water  
15 Consumption Adjustment Mechanism. Customers should not pay  
16 for Aqua's lobbying costs.

17 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO LEGAL FEES**

18 A. As a result of oversight by the Company, the following legal fees  
19 should have been charged to non-utility expenses and excluded  
20 from this rate filing:

1		<u>Amount</u>
2	Fees associated with fines and penalties assessed	\$10,099
3	by the NC Department of Environmental Quality	
4	Fees that occurred prior to the test year	12,942
5	Fees associated with lobbying expenses	<u>44,005</u>
6	Total adjustment to legal expenses	<u>\$67,046</u>

7 I adjusted legal expense to remove the costs listed above from  
 8 operating expenses.

9 **CONTRACT SERVICES - OTHER**

10 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO CONTRACT**  
 11 **SERVICES-OTHER IN THIS CASE?**

12 A. I have made adjustments to contract services-other, to remove  
 13 contract services that occurred before the test year and to adjust  
 14 fees related to NC 811 locates as recommended by Public Staff  
 15 witness Junis.

16 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CONTRACT**  
 17 **SERVICES-OTHER**

18 A. Contract services in the amount of \$1,366 were dated prior to the  
 19 test year, but were included in operating expenses for Aqua NC  
 20 sewer. I adjusted contract services-other to remove this cost from  
 21 operating expenses.

22 Upon recommendation by Public Staff witness Junis, an adjustment  
 23 was made to reflect adjustments to the NC 811 locates costs. This  
 24 adjustment was allocated between the rate entities using the

1 customer allocation percentages shown on Schedule 4 of my  
2 exhibit.

3 **INSURANCE**

4 **Q. PLEASE EXPLAIN HOW YOU DETERMINED YOUR PRO**  
5 **FORMA LEVEL OF INSURANCE EXPENSE.**

6 A. First, I adjusted the insurance premiums to reflect the current  
7 premiums for insurance for Aqua America, Inc., the parent  
8 company of Aqua, provided by the Company, allocated to Aqua  
9 using the following factors:

10 (a) The amounts of premiums paid by the Company for workers'  
11 compensation and general liability insurance are based on  
12 payroll. Therefore, I have allocated workers' compensation  
13 and general liability premiums to North Carolina based on  
14 payroll information provided by the Company. Ohio has a  
15 separate workers' compensation policy and is not included in  
16 the workers' compensation policy for Aqua America.  
17 Therefore I have excluded Ohio payroll in my allocation of  
18 the workers' compensation premium.

19 (b) I have allocated the automobile premium based on the  
20 number of automobiles for North Carolina as a percentage to  
21 the total number of automobiles.

1 (c) I have allocated property insurance to North Carolina based  
2 on the values of the property covered by the current policy.

3 (d) The pollution control liability insurance premium is based on  
4 revenues, and I have allocated this premium to North  
5 Carolina based on the revenues used to calculate the  
6 premium.

7 (e) I have allocated umbrella, excess liability, employment  
8 practices, executive risk, cyber security, and other fees to  
9 North Carolina based on the overall nonregulated/customer  
10 factor for the test year of 9.11%.

11 Next, I have adjusted claims for workers' compensation, general  
12 liability, and automobile insurance to reflect the average of claims  
13 paid for North Carolina for the last five years. This adjustment is  
14 consistent with the treatment of workers' compensation, general  
15 liability, and automobile insurance claims in Aqua's previous  
16 general rate case, Docket No. W-218, Sub 363.

17 I have also included surety bonds for North Carolina based on  
18 information provided by the Company.

19 These adjustments resulted in a total insurance cost for North  
20 Carolina of \$599,781. I then allocated my adjusted levels of  
21 workers' compensation premium, workers' compensation claims,

1 automobile premium and automobile claims between capital, non-  
2 utility operations, and water and sewer expense based on my  
3 adjusted levels of salaries and wages. I allocated the remaining  
4 insurance items to the various North Carolina entities based on the  
5 number of customers. These adjustments resulted in a decrease in  
6 insurance expense of \$364,847.

7 **REGULATORY COMMISSION EXPENSE**

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REGULATORY**  
9 **COMMISSION EXPENSE.**

10 A. In this proceeding, Aqua applied for rate case expenses totaling  
11 \$695,701 to be amortized over three years. The expenses included  
12 estimates of ongoing services and expenses including legal fees  
13 totaling \$225,700, what Aqua labels a Communications Initiative  
14 totaling \$133,000, postage – notices totaling \$90,878, Public Staff  
15 travel to Bryn Mawr, Pennsylvania totaling \$3,000, and  
16 PriceWaterhouseCoopers' fee for Public Staff information requests  
17 totaling \$10,000.

18 The Public Staff has removed the \$133,000 estimate for what Aqua  
19 describes as a Communications Initiative. This includes \$58,000 to  
20 the Paige Group and \$75,000 for Aqua Efforts – Customer  
21 Education and Mailings. These expenses were not incurred during  
22 the test year and, although the communications contain information

1 on Aqua's water quality plans, these are Aqua self-promotional  
2 communications. The timing of the mailings suggests that the  
3 purpose was to promote a more positive image of Aqua going into  
4 the customer hearings in this rate proceeding. Aqua's retention of  
5 a public relations firm to develop the mailings, which easily could  
6 have been developed in-house, further demonstrates the mailings  
7 were primarily for public relations purposes. It is not appropriate for  
8 customers to pay for expenses associated with Aqua's self-  
9 promotion.

10 Aqua filed this rate increase application on March 7, 2018. The  
11 informational mailings to all Aqua water customers were sent on  
12 February 19, 2018. Subsequent mailings were sent by Aqua to  
13 Raleigh area subdivisions that had experienced Aqua service  
14 issues, including Brayton Park, Brandon Station, Stillwater Landing,  
15 Stonehenge, Wildwood Green, and Coachman's Trail, in June 2018  
16 prior to the June 25, 2018, Commission public witness hearing in  
17 Raleigh.

18 While the mailings provided some information useful to customers,  
19 the Aqua website [www.ncwaterquality.com](http://www.ncwaterquality.com) has useful customer  
20 information and customers could be directed to this useful website  
21 information by regular customer bill notations or regular billing  
22 inserts. Even if Aqua deemed the letters appropriate for a mailing,

1 the Company could have included the letters as a monthly billing  
2 insert at a lower cost.

3 The postage for Commission required customer notice mailings has  
4 been reduced from Aqua's estimate of \$90,878 to \$43,298 based  
5 upon the actual mailing cost from the Commission ordered  
6 customer notices on April 20, 2018, totaling \$21,649 multiplied by  
7 two. The Public Staff has not traveled to Bryn Mawr, Pennsylvania,  
8 thereby eliminating the \$3,000 estimate, and to date the  
9 PriceWaterhouseCoopers invoice has not been received so the  
10 Public Staff has removed the \$10,000 estimate. The attorney's  
11 fees will be trued up based upon actual invoices.

12 **ANNUALIZATION ADJUSTMENT**

13 **Q. WOULD YOU EXPLAIN YOUR ANNUALIZATION**  
14 **ADJUSTMENT?**

15 **A.** Since Public Staff witness Junis has updated revenues to reflect  
16 the number of customers as of June 30, 2018, it is necessary to  
17 adjust the growth related expenses incurred during the test year to  
18 this updated level of customers. The end result is a level of  
19 expense that corresponds to the level of customers included in the  
20 revenue calculation.

21 Based on information provided by Public Staff witness Junis, I have  
22 calculated annualization factors of 3.05% for Aqua NC Water

1 operations, 9.73% for Aqua NC Sewer operations, 9.39% for  
2 Fairways Water operations, 7.32% for Fairways Sewer operations,  
3 and 2.36% for Brookwood Water operations.

4 I have applied these annualization factors to my adjusted levels of  
5 purchased power, chemicals, and fuel for production for both water  
6 and sewer operations.

7 **CONSUMPTION ADJUSTMENT**

8 **Q. PLEASE EXPLAIN YOUR CALCULATION OF THE**  
9 **CONSUMPTION ADJUSTMENT.**

10 A. Since Public Staff witness Junis has made an adjustment to the  
11 level of consumption in calculating water revenues, it is necessary  
12 to adjust consumption related expenses to reflect the Public Staff's  
13 adjusted level of consumption. The end result is a level of expense  
14 that corresponds to the level of consumption included in revenues.

15 Based on information provided by Public Staff witness Junis, his  
16 adjustment to consumption resulted in an increase/decrease from  
17 the amount of gallons sold during the test year of (.47%) for Aqua  
18 NC Water operations, (1.85%) for Aqua NC Sewer operations,  
19 2.97% for Fairways Water operations, (.91%) for Fairways Sewer  
20 operations, and 1.21% for Brookwood Water operations.



1 I have applied these consumption factors to my adjusted levels of  
2 purchased power, chemicals, and fuel for production for both water  
3 and sewer operations.

4 **DEPRECIATION EXPENSE**

5 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO DEPRECIATION**  
6 **AND AMORTIZATION EXPENSE?**

7 A. I have made adjustments to depreciation expense to reflect Public  
8 Staff adjustments to plant in service for post-test year additions,  
9 adjustments for meters and meter installations, adjustments to rate  
10 base relating to the Neuse Colony wastewater system, cost related  
11 to future customers, adjustment to excess capacity and allocation  
12 of purchased vehicles.

13 **CIAC AMORTIZATION EXPENSE**

14 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO CIAC**  
15 **AMORTIZATION EXPENSE?**

16 A. I have adjusted CIAC amortization expense to reflect my  
17 adjustments to CIAC for post-test year additions, CIAC adjustments  
18 related to the Neuse Colony wastewater system and an adjustment  
19 to excess capacity.

1 PAA AMORTIZATION EXPENSE

2 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO PAA  
3 AMORTIZATION EXPENSE?

4 A. I have adjusted PAA amortization expense to reflect my  
5 adjustments to acquisition adjustments, including Mid South growth  
6 related adjustments.

7 REGULATORY FEE

8 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO REGULATORY  
9 FEES?

10 A. I have calculated regulatory fee using the statutory rate of 0.14%  
11 applied to total operating revenues under present, Company  
12 proposed, and Public Staff recommended rates.

13 STATE INCOME TAXES

14 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE INCOME  
15 TAXES.

16 A. State income tax was calculated based on the adjusted levels of  
17 revenues and expenses, and the State income tax rate of 3%,  
18 effective January 1, 2017.

1

FEDERAL INCOME TAXES

2 Q. WHAT ADJUSTMENTS HAVE YOU MADE TO FEDERAL  
3 INCOME TAXES?

4 A. Federal income tax is based on the statutory corporate rate of 21%  
5 as prescribed in The Federal Tax Cuts and Jobs Act of 2017,  
6 effective January 1, 2018.

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes, it does.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-218, SUB 497

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

SUPPLEMENTAL  
 TESTIMONY OF  
 MANASA L. COOPER  
 PUBLIC STAFF – NORTH  
 CAROLINA UTILITIES  
 COMMISSION

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION  
DOCKET NO. W-218, SUB 497

SUPPLEMENTAL TESTIMONY OF MANASA L. COOPER  
ON BEHALF OF THE PUBLIC STAFF –  
NORTH CAROLINA UTILITIES COMMISSION

SEPTEMBER 5, 2018

Sep 21 2018

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

3 A. My name is Manasa L. Cooper. My business address is 430 North  
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a  
5 Staff Accountant with the Accounting Division of the Public Staff –  
6 North Carolina Utilities Commission.

7 Q. ARE YOU THE SAME MANASA L. COOPER WHOSE DIRECT  
8 TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON  
9 AUGUST 21, 2018?

10 A. Yes.

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

13 A. The purpose of my supplemental testimony is to present the  
14 accounting and ratemaking adjustments I have updated from my

1 original testimony or recommended as a result of information  
 2 provided by the Company subsequent to that testimony, as well as  
 3 those updates and corrections recommended by other Public Staff  
 4 witnesses.

5 **Q. WHAT UPDATED SERVICE REVENUE INCREASE/(DECREASE)**  
 6 **IS THE PUBLIC STAFF RECOMMENDING?**

7 A. Based on the level of rate base, revenues, and expenses at  
 8 September 30, 2017, with certain updates, the Public Staff is  
 9 recommending the following increases/(decreases) in service  
 10 revenues:

11	Aqua NC Water	\$(1,159,093)
12	Aqua NC Sewer	\$ 216,486
13	Fairways Water	\$ (51,726)
14	Fairways Sewer	\$ 635,495
15	Brookwood Water	<u>\$ 162,962</u>
16	Total	<u>\$ (195,876)</u>

17 Adjustments to rate base, revenues and expenses resulted in an  
 18 overall increase of \$1,526,898 in combined service revenues.

19

1 Q. MS. COOPER, WHAT UPDATED OR CORRECTED  
2 ACCOUNTING AND RATEMAKING ADJUSTMENTS DO YOU  
3 RECOMMEND?

4 A. I recommend updated, corrected, or new adjustments in the following  
5 areas:

- 6 1) Plant in service
- 7 2) Accumulated depreciation
- 8 3) Purchase acquisition adjustment (PAA)
- 9 4) Accumulated amortization of PAA
- 10 5) Excess capacity adjustment
- 11 6) Working capital allowance
- 12 7) Late payment fees
- 13 8) Uncollectibles and abatements
- 14 9) Transportation
- 15 10) Insurance
- 16 11) Regulatory commission expense
- 17 12) Annualization and consumption adjustment
- 18 13) Depreciation expense
- 19 14) PAA amortization expense
- 20 15) State income taxes
- 21 16) Federal income taxes

1 The above adjustments are reflected in the attached Cooper Supp.  
2 Exhibits I and II.

3 **Q. WHAT ADJUSTMENTS RECOMMENDED BY OTHER PUBLIC**  
4 **STAFF WITNESSES DO YOUR SUPPEMENTAL EXHIBITS**  
5 **INCORPORATE?**

6 A. My supplemental exhibits reflect the following adjustments  
7 recommended by other Public Staff witnesses:

8 1) The recommendations of Public Staff witness Junis regarding  
9 the following items:

- 10 a) Service revenues under present rates  
11 b) Service revenues under Company proposed rates  
12 c) Number of bills used to calculate annualization factors  
13 d) Plant in service

14 2) The recommendations of Public Staff witness Henry regarding  
15 the following items:

- 16 a) Accumulated deferred income taxes (ADIT)  
17 b) Salaries and wages  
18 c) Employee pensions and benefits  
19 d) Miscellaneous expense  
20 e) Payroll taxes

21 3) The recommendation of Public Staff witness Boswell  
22 regarding excess deferred income taxes (EDIT).



1 Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENTS.

2 A. My adjustments are described below.

3 PLANT IN SERVICE

4 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO PLANT IN  
5 SERVICE.

6 A. Several adjustments have been made to plant in service: First, to  
7 correct an error in the customer allocation percentages used to  
8 allocate vehicles purchased between Fairways Water, Fairways  
9 Sewer and Brookwood Water. The adjustment did not result in an  
10 overall change for the Company, but only for the three rate divisions  
11 listed above. The applicable depreciation expense and accumulated  
12 depreciation have been adjusted for this change as well. Second, to  
13 correct costs related to future customers based on information  
14 previously provided by the Company. Third, to account for a  
15 recommendation by Public Staff witness Junis to adjust meters and  
16 meter installations. As a result, plant in service increased by  
17 \$281,382.

18

19

1 **ACCUMULATED DEPRECIATION**

2 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ACCUMULATED**  
3 **DEPRECIATION.**

4 A. I adjusted accumulated depreciation to reflect the adjustments that  
5 were made to plant in service. As a result, accumulated depreciation  
6 has decreased by \$69,229.

7 **POSITIVE ACQUISITION ADJUSTMENT (PAA)**

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAA.**

9 A. I adjusted the acquisition adjustment to increase Mid South Growth  
10 by \$4,950 and to include an acquisition incentive adjustment of  
11 \$75,090 that was subsequently discovered by the Company. As a  
12 result, PAA increased by \$80,040.

13 **ACCUMULATED AMORTIZATION OF PAA**

14 **Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED**  
15 **AMORTIZATION OF PAA.**

16 A. I have adjusted accumulated amortization of PAA to correct an error  
17 on my prefiled schedules and to update accumulated amortization  
18 for the Mid South Growth and additional acquisition adjustment as  
19 listed above. As a result, amortization of PAA decreased by  
20 \$227,152.

21

1 EXCESS CAPACITY ADJUSTMENT

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR EXCESS  
3 CAPACITY.

4 A. Excess capacity has been adjusted to reflect activity through June  
5 30, 2018. As a result, excess capacity increased by \$518,095.

6 WORKING CAPITAL ALLOWANCE

7 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO THE WORKING  
8 CAPITAL ALLOWANCE.

9 A. I have adjusted unamortized rate case expense to reflect updates by  
10 the Company to regulatory commission expense, which was used to  
11 compute unamortized rate case expense. Average tax accruals  
12 have been adjusted as well to reflect updates to unemployment  
13 taxes. As of the date of this filing, there is outstanding information  
14 from the Company that could affect these adjustments. The  
15 adjustments will be updated when the information is provided. As of  
16 the date of this filing, the working capital allowance increased by  
17 \$58,110.

18

19

20

1 LATE PAYMENT FEES

2 Q. PLEAS EXPLAIN YOUR ADJUSTMENT TO LATE PAYMENT  
3 FEES.

4 A. I have adjusted late payment fees to reflect updates to service  
5 revenues. As a result, the Public Staff recommended rates for late  
6 payment fees increased by \$3,429.

7 UNCOLLECTIBLES AND ABATEMENTS

8 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UNCOLLECTIBLES  
9 AND ABATEMENTS.

10 A. I have adjusted uncollectibles and abatements to reflect updates to  
11 service revenues. As a result, the Public Staff recommended rates  
12 for uncollectibles and abatements increased by \$15,915.

13 TRANSPORTATION

14 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO TRANSPORTATION  
15 EXPENSE.

16 A. The original adjustment for transportation expense has been  
17 removed because it was subsequently discovered that the Company  
18 made the same adjustment when the application was submitted. As  
19 a result, transportation expense increased by \$199,179.

1 INSURANCE

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO INSURANCE  
3 EXPENSE.

4 A. I have made two adjustments to insurance expense. For workers'  
5 compensation and automobile premiums and for workers'  
6 compensation and automobile claims, I corrected the payroll  
7 capitalization percentage. This is shown on Cooper Supp. Exhibit I,  
8 Schedule 3-3(a). I also updated the amount of claims paid through  
9 June 30, 2018. This is shown on Cooper Supp. Exhibit I, Schedule  
10 3-3(b). As a result of these adjustments, insurance expense  
11 increased by \$51,892.

12 REGULATORY COMMISSION EXPENSE

13 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REGULATORY  
14 COMMISSION EXPENSE.

15 A. I have adjusted the amortization period for regulatory commission  
16 expense from three years to five years. As of the date of this filing,  
17 there is outstanding information from the Company that could affect  
18 these adjustments. The adjustments will be updated when the  
19 information is provided. As of the date of this filing, regulatory  
20 commission expense decreased by \$30,117.

1                   **ANNUALIZATION AND CONSUMPTION ADJUSTMENT**

2   **Q.   PLEASE   EXPLAIN   YOUR   ADJUSTMENT   TO   THE**  
3           **ANNUALIZATION AND CONSUMPTIONS ADJUSTMENTS.**

4   A.   I have updated the annualization and consumption adjustment to  
5       reflect changes in the number of pro forma bills used to calculate  
6       annualization factors as provided by Public Staff witness Junis. As  
7       a result, the annualization adjustment decreased by \$118,301 and  
8       the consumption adjustment increased by \$1,568.

9                   **DEPRECIATION EXPENSE**

10   **Q.   PLEASE EXPLAIN YOUR ADJUSTMENTS TO DEPRECIATION**  
11           **EXPENSE.**

12   A.   I have adjusted depreciation expense to reflect the adjustments that  
13       were made to plant in service. As a result, depreciation expense  
14       increased by \$66,239.

15                   **AMORTIZATION OF PAA**

16   **Q.   PLEASE   EXPLAIN   YOUR   ADJUSTMENTS   TO   PAA**  
17           **AMORTIZATION EXPENSE.**

18   A.   I have adjusted PAA amortization expense to correct an error on my  
19       prefiled schedules and to update accumulated amortization for the  
20       Mid South Growth and additional acquisition adjustment as listed  
21       above. As a result, amortization expense of PAA decreased by  
22       \$227,152.

1                                    **STATE AND FEDERAL INCOME TAXES**

2    **Q.    PLEASE EXPLAIN YOUR ADJUSTMENT TO STATE AND**  
3                    **FEDERAL INCOME TAXES.**

4    A.    I have adjusted State and Federal income taxes to reflect  
5                    adjustments in net operating income, O&M and G&A expenses,  
6                    depreciation and amortization expense, payroll taxes, regulatory fee,  
7                    and interest expense. As a result, State and Federal income taxes  
8                    increased by \$6,780 and \$46,035, respectively.

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

10   A.    Yes, it does.

1 BY MS. CULPEPPER:

2 Q. Mr. Henry, do you have a summary of your  
3 testimony?

4 A. (Windley Henry) Yes, I do.

5 Q. Would you please read it?

6 A. Aqua North Carolina filed a rate increase  
7 application on March 7, 2018. I performed an  
8 investigation of the data in the application as well as  
9 the books and records and prefiled testimony exhibit on  
10 August 21, 2018, as well as supplemental testimony and  
11 an exhibit on September 5, 2018.

12 On September 13, 2018, I filed a revised  
13 supplemental exhibit that reflects updates and  
14 revisions to my prefiled and supplemental testimony and  
15 exhibits. I will now summarize my more significant  
16 adjustment.

17 I have adjusted accumulated deferred income  
18 taxes related to rate case expense and repair tax  
19 credit to reflect the unamortized balance of these  
20 deferred items. I have adjusted ADIT to include  
21 amounts associated with post-test year additions based  
22 on calculations provided by the Company. ADIT has also  
23 been adjusted to include the Public Staff adjusted  
24 level of excess deferred income taxes.



1 I have updated the federal portion of  
2 protected EDIT to reflect the amount provided by the  
3 company in response to Public Staff date requests. I  
4 have also adjusted EDIT to include the amount of the  
5 federal unprotected EDIT and state EDIT recommended by  
6 Public Staff Ms. Boswell in her testimony.

7 I have reduced salaries and wages to remove  
8 salaries related to open positions. If and when these  
9 positions will be filled and how much the new employee  
10 will be paid if these positions are filled, is not  
11 actual and known. Even if the Company has filled the  
12 positions, those employees may have left the Company  
13 during the interim period. Aqua has historically  
14 experienced some turnover in employees, and therefore,  
15 will always have some level of open positions on an  
16 ongoing basis.

17 I have reduced salary and wages to reflect  
18 the overtime hours and overtime pay rate for each  
19 individual employee based on updated payroll as of  
20 June 30, 2018.

21 I have adjusted salaries and wages to remove  
22 50 percent of the compensation, including pensions and  
23 incentive plans of the top five executive officers of  
24 Aqua America to reflect the Public Staff recommended

1 level of salary and wages for these executives. It is  
2 reasonable to expect that management will serve the  
3 shareholders as well as the ratepayers, therefore, a  
4 portion of management compensation and pension should  
5 be borne by the shareholders.

6 Matching adjustments have been made to  
7 pensions, and benefits, and payroll taxes to reflect  
8 the Public Staff adjusted level of salaries and wages.

9 Miscellaneous expense has been adjusted to  
10 remove 50 percent of the compensation and expenses  
11 associated with the board of directors of Aqua America  
12 that have been allocated to Aqua. The premise of this  
13 adjustment is closely linked to the premise of the  
14 adjustment made by the Public Staff related to  
15 executive compensation.

16 I have also adjusted miscellaneous expense to  
17 include the actual cost associated with the Company's  
18 communication initiative and customer education  
19 mailings that the Company had included as rate case  
20 expense.

21 This concludes my summary.

22 Q. Ms. Cooper, do you have a summary of your  
23 testimony?

24 A. (Manasa Cooper) Yes, I do.

1 Q. Would you please read it?

2 A. Aqua North Carolina Incorporated filed a rate  
3 increase application on March 7, 2018. I performed an  
4 investigation of the data in the application as well as  
5 the Company's books and records. I prefiled testimony  
6 and exhibits on August 21, 2018, as well as  
7 supplemental testimony and exhibits on  
8 September 5, 2018. I filed a revised supplemental  
9 exhibit on September 13, 2018, to reflect various  
10 updates and revisions.

11 The purpose of my testimony is to present the  
12 accounting and ratemaking adjustments that I am  
13 recommending as a result of my investigation of the  
14 revenue, expenses, and rate base filed by Aqua in  
15 support of its requested increase in service revenues.  
16 I will summarize my more significant adjustments.

17 I have adjusted plant in service to correct  
18 an error in the customer allocation percentages used to  
19 allocate vehicles purchased between Fairways Water,  
20 Fairways Sewer and Brookwood Water. In addition, costs  
21 related to future customers has been corrected based on  
22 information previously provided by the Company.

23 Finally, an adjustment to meters and meter  
24 installations for Aqua Water and Brookwood Water was

1 made based on a recommendation by Public Staff witness  
2 Junis. The applicable accumulated depreciation and  
3 depreciation expense has been adjusted for these items.  
4 As a result, plant in service increased by \$281,382 and  
5 accumulate depreciation and depreciation expense  
6 increased by \$69,229.

7 I have adjusted the positive acquisition  
8 adjustment, PAA, to reflect an increase in Mid South  
9 Growth of \$4,950 and to include an acquisition  
10 incentive adjustment that was subsequently discovered  
11 by the Company. As a result, PAA increased by \$80,040.  
12 In addition, I have adjusted accumulated amortization  
13 of PAA to correct an error on my prefiled schedules and  
14 to update accumulated amortization and amortization  
15 expense for the Mid South Growth and the additional  
16 acquisition adjustment as listed above. As a result,  
17 accumulated amortization and amortization expense of  
18 PAA decreased by \$227,152.

19 I have adjusted excess capacity to reflect  
20 activity through June 30, 2018. As a result, excess  
21 capacity increased by \$518,095.

22 My original adjustment for transportation  
23 expense has been removed because it was subsequently  
24 discovered by the Company -- or subsequently discovered

1 that the Company made the same adjustment when the  
2 application was submitted. As a result, transportation  
3 expense increased by \$199,179.

4 Lastly, I have adjusted the annualization and  
5 consumption adjustment to reflect changes in the number  
6 of pro forma bills used to calculate annualization  
7 factors as provided by Public Staff witness Junis. As  
8 a result, the annualization adjustment decreased by  
9 \$118,301, and the consumption adjustment increased by  
10 \$1,568.

11 That concludes the summary of my testimony.

12 MS. CULPEPPER: I move that the exhibits  
13 be identified as marked and entered into evidence.

14 COMMISSIONER BROWN-BLAND: All right.  
15 That motion will be allowed, and that the exhibits  
16 to both Witness Henry and Witness Cooper will be  
17 received into evidence.

18 (Whereupon, Public Staff Henry Exhibit  
19 I, Public Staff Henry Supplemental  
20 Exhibit I, Public Staff Henry Revised  
21 Supplemental Exhibit I, Public Staff  
22 Cooper Exhibit I, Public Staff Cooper  
23 Exhibit II, Public Staff Cooper  
24 Supplemental Exhibit I, Public Staff

1 Cooper Supplemental Exhibit II, and  
2 Public Staff Cooper Revised Supplemental  
3 Exhibit I were identified and admitted  
4 into the record.)

5 BY MS. CULPEPPER:

6 Q. Mr. Henry, have Aqua and the Public Staff  
7 entered into a partial settlement agreement?

8 A. (Windley Henry) Yes, we have.

9 MS. CULPEPPER: We are passing out an  
10 exhibit now. We request that this be marked as  
11 Henry Additional Direct Exhibit 1.

12 COMMISSIONER BROWN-BLAND: All right.  
13 Ms. Culpepper, I'm going to identify this with the  
14 long name of Henry Additional Direct Partial  
15 Settlement Agreement Exhibit 1.

16 (Whereupon, Additional Direct Partial  
17 Settlement Agreement Exhibit 1 was  
18 marked for identification.)

19 MS. CULPEPPER: Could you repeat that,  
20 please?

21 COMMISSIONER BROWN-BLAND: Henry  
22 Additional Direct Partial Settlement Agreement  
23 Exhibit 1.

24 MS. CULPEPPER: Thank you.

1 BY MS. CULPEPPER:

2 Q. Mr. Henry, have you had a chance to look at  
3 the document?

4 A. Yes, I have.

5 Q. Is it the document that the Public Staff  
6 filed to memorialize the agreement between Aqua and the  
7 Public Staff?

8 A. Yes, it is.

9 Q. And it was filed on September 17, 2018?

10 A. Yes, it was.

11 Q. And the title of the agreement is "Partial  
12 Settlement Agreement and Stipulation"?

13 A. Yes, it is.

14 Q. Attached to this agreement is a schedule on  
15 the back; is that correct? Supplemental Exhibit 1 with  
16 its two pages?

17 A. Yes.

18 MS. CULPEPPER: I move that Henry  
19 Additional Direct Partial Settlement Agreement  
20 Exhibit 1 be entered into evidence.

21 COMMISSIONER BROWN-BLAND: That motion  
22 will be allowed.

23 (Whereupon, Additional Direct Partial  
24 Settlement Agreement Exhibit Number 1

1                   was admitted into evidence.)

2 BY MS. CULPEPPER:

3           Q.     Mr. Henry, I had another question about the  
4 exhibit.

5                   Does it show the settled items and also the  
6 unsettled items at the bottom?

7           A.     Yes, it does.

8                   MS. CULPEPPER: The witnesses are  
9 available for cross-examination.

10                   COMMISSIONER BROWN-BLAND: Does the  
11 Attorney General have any cross?

12                   MS. FORCE: I have one question.

13 CROSS EXAMINATION BY MS. FORCE:

14           Q.     Thank you. I think this is for Ms. Cooper,  
15 but it could be for either of you.

16                   Ms. Cooper, if you would turn to your Revised  
17 Supplemental Exhibit, Schedule 1, and look down to line  
18 40.

19                   MS. CULPEPPER: Could you tell me again, I'm  
20 sorry, what exhibit you're referencing?

21                   MS. FORCE: Public Staff Cooper Revised  
22 Supplemental Exhibit 1, Schedule 1, page 1.

23 BY MS. FORCE:

24           Q.     And I'm looking at line 40. You mentioned,



1 in your summary, that you had identified some of the  
2 main adjustments that were made. I just wanted to ask  
3 you about the adjustment that was made for the rate of  
4 return on equity.

5 I know that wasn't yours, that was testimony  
6 from Mr. Hinton; is that right?

7 A. (Manasa Cooper) That's correct.

8 Q. So if we look across line 40 to column F, am  
9 I right, then, would you agree with me that the amount  
10 of adjustment related to the rate of return would be 1  
11 million 990 -- can you hear from that? I don't know if  
12 I'm being picked up. \$1,995,556 -- 656?

13 A. That's correct.

14 Q. And that's the amount of reduction in the  
15 annual revenue requirement if the Commission approves a  
16 9.2 percent rate of return on equity instead of the  
17 original 10.9 percent that was recommended by Aqua; is  
18 that right?

19 A. That's my understanding.

20 Q. And if you look one column to the right of  
21 that, there is a number that shows the adjustment from  
22 Aqua of \$117,391.

23 Is that the amount of difference that it made  
24 when the witness for Aqua agreed that 10.8 percent rate

1 of return on equity would be acceptable to -- as  
2 sufficient, as far as Aqua is concerned?

3 A. That's correct.

4 MS. FORCE: Okay. Thank you. I don't  
5 have any other questions.

6 COMMISSIONER BROWN-BLAND: All right.  
7 Cross from the Company?

8 CROSS EXAMINATION BY MR. BENNINK:

9 Q. Mr. Henry, I want to start with you, and I've  
10 got a couple of questions that arise just from the  
11 summaries that I want to ask both you and Ms. Cooper.

12 At the bottom of the first page of your  
13 summary, Mr. Henry, you discuss the -- your  
14 adjustment -- the adjustment to remove salaries and --  
15 salaries related to open positions, correct?

16 A. (Windley Henry) That's correct.

17 Q. And in this instance, that is a settled  
18 position between the Company and the Public Staff; is  
19 that correct?

20 A. (Witness peruses document.)

21 That's correct.

22 Q. And is it correct that the Public Staff,  
23 through two adjustments initially in -- I think in your  
24 direct testimony, proposed to eliminate nine positions,

1 and through negotiation, the Company and the Public  
2 Staff agreed upon a number of five?

3 A. That's correct.

4 Q. Now, do you have the stipulation in front of  
5 you, the partial stipulation? Look at page 5, items D  
6 and E.

7 MS. CULPEPPER: Did you say B, as in  
8 boy?

9 MR. BENNINK: No. I'm sorry, D, as in  
10 dog, and E.

11 BY MR. BENNINK:

12 Q. Do you have that, Mr. Henry?

13 A. I have page 5. Which items?

14 Q. D and E.

15 A. Yes.

16 Q. All right. It is correct, isn't it, that  
17 your adjustment just to remove the salaries and wages  
18 for the five open positions is \$175,000, correct?

19 A. Yes, that's correct.

20 Q. And in E, when you take out the benefits  
21 related to those five open positions, it's another  
22 adjustment of \$150,000 plus?

23 A. That's correct.

24 Q. And so the total for those two adjustments

1 taken out of salaries, and wages, and benefits is  
2 \$325,000; is that correct?

3 A. That's correct.

4 Q. All right. Thank you.

5 Ms. Cooper, on page 2 -- well, starts at the  
6 bottom of page 1 of your summary, you say:

7 "The applicable accumulated depreciation and  
8 depreciation expense has been adjusted for  
9 these items. As a result, plant in service  
10 increased by \$281,382 and accumulated  
11 depreciation and depreciation expense  
12 increased by \$69,229."

13 Now, can you tell me for each category, for  
14 instance, beginning with plant in service, you say  
15 there was an increase under your proposal of \$281,000,  
16 rounded.

17 What did you eliminate from plant in service  
18 that was proposed by the Company?

19 A. (Manasa Cooper) Well, actually, with the  
20 plant in service adjustments, there were some  
21 eliminations and some additions. That change is a  
22 combination of both. And what we have, if you look  
23 at -- in my revised supplemental schedules, on  
24 Exhibit 2-1, it gives you a detail of what's included

1 in that plant in service number to see those  
2 adjustments. Let's see. Here it is.

3 Now, the adjustment is lines 1 through 6, and  
4 in the adjustment to number 1, post-test year  
5 additions, that number is supplied by the Company. And  
6 that number 1 did not change from my prefiled testimony  
7 to my revised supplemental. The cost related to future  
8 customers, that number did change, because, as I  
9 described in my summary, that there was -- the Company  
10 had updated that amount, and I prefiled it as if it had  
11 not been updated. So that was to correct the fact that  
12 the cost related to future customers had been updated  
13 by the Company.

14 Now, on line number 3 is an adjustment  
15 proposed by staff engineer Junis in relation to the  
16 Neuse Colony expansion to \$2,120,000. Item number 4,  
17 line number 4, the adjustment to meters and meter  
18 installations, that number has changed from my prefiled  
19 testimony. I can't give you the exact dollar amount,  
20 but there is a slight difference in what that amount  
21 was in my prefiled testimony.

22 And on line number 5, the adjustment to  
23 allocate purchased vehicles, those numbers varied  
24 because I used -- the customer ratios were not

1 following the correct rate divisions. So those  
2 particular -- even though, in total, for the allocated  
3 purchases, the number is still zero, the allocations  
4 between the different rate divisions either decreased  
5 or increased based on the correct customer ratio.

6 So the difference in the plant in service  
7 number is a very -- is made up of various issues.

8 Q. And how about your calculation of the  
9 depreciation expense increase; where is that now?

10 A. The actual -- well, let's start with the  
11 accumulated depreciations first, and that is on Cooper  
12 Supplemental Exhibit 1, Schedule 2, I want to say  
13 2 dash -- I think 2-7. No. I'm getting too far back.  
14 Let's see. Okay. It is Schedule 2-2. And what you  
15 see, you'll see the same line items except for the  
16 Neuse Colony expansion, because there's no accumulated  
17 depreciation for that particular line item. Because  
18 the way it was originally classified, it was  
19 nondepreciable, so there is no related accumulated  
20 depreciation for the Neuse Colony adjustment. But you  
21 see these same line items listed on this schedule  
22 that's listed on Schedule 2-1, and so that, you can see  
23 the accumulated depreciation effect of those changes.  
24 And I can't -- the only thing -- I can't remember the

1 exact dollar amount that they changed by, because as I  
2 said earlier, it's various changes plus or minus.

3 And you'll see, on Schedule -- for the  
4 depreciation expense, Schedule 3 -- let's see. It's  
5 towards the back. I want to say Schedule 3-7. Not 7.  
6 Let's see. 3-6, you will see the related accumulated  
7 depreciation for those same line items as well.

8 Q. All right. Thank you.

9 A. Uh-huh.

10 Q. You say that you adjusted excess capacity to  
11 reflect activity through June 30th, and that increased  
12 by \$518,000, over half a million dollars.

13 What accounts for that adjustment?

14 A. Well, what happened is that the amount that's  
15 in my prefiled schedules only includes activity through  
16 the test year. And the excess capacity, of course,  
17 based on the plant items that's listed on Schedule 2 --  
18 let's see. Excess capacity is on Schedule 2 -- on  
19 Schedule 2-6. And you'll see that, with each of these  
20 sewer systems, there's a plant cost associated with it.  
21 And what's happened is that those plant costs have been  
22 updated through 6/30/18. So, of course, those numbers  
23 increased from what was in my prefiled testimony.

24 Q. All right. And some of those -- some of

1 those adjustments were for plant additions made after  
2 the test year, correct?

3 A. That's correct.

4 Q. And even though -- even though it might have  
5 been a refurbishment project or other capital  
6 additions, you applied the same excess capacity  
7 adjustment to those type capital expenditures that you  
8 did for the initial plant; is that correct?

9 A. Well, I applied them to whatever the Company  
10 identified as the additional plant costs.

11 Q. But you started off applying the excess  
12 capacity adjustment to the, let's say, the test year --

13 A. Yes.

14 Q. -- investment plants --

15 A. Uh-huh.

16 Q. -- but if there were -- if there were  
17 investments in plant subsequent to the June 30th or  
18 this test year, you excluded 30 percent of those costs  
19 as well on the same rationale; is that right?

20 A. Or 30 -- well --

21 Q. Or a ballpark 30?

22 A. Right. It's different for each subdivision.

23 Q. All right. Okay. That's all I've got there.

24 Let me ask you -- and this is for Ms. Cooper



1 too -- is it correct that, on page 2, lines 51 and 52,  
2 column F, and this would be on your Cooper Exhibit 2,  
3 Schedule 2, which I'll call, in effect, the  
4 reconciliation.

5 A. Let me pull the right one. Okay. Okay.

6 Q. Is it true that when you -- and this exhibit  
7 was filed with your direct testimony on August 21st,  
8 correct?

9 A. Yes, it was.

10 Q. Is it correct that, on this exhibit, page 1,  
11 line 1, column F, it indicates that the starting point  
12 for this case was a rate increase of \$4,935,516?

13 A. Or increase in total revenues.

14 Q. In total revenues. That's right.

15 Is it correct that, on page 2, going to lines  
16 51 and 52 of that exhibit, the Public Staff initially  
17 proposed negative revenue adjustments in this case  
18 totaling what I'll call \$6.65 million rounded?

19 A. That's correct.

20 Q. And you proposed, in your direct case, a rate  
21 decrease of \$1.7 million, slightly more?

22 A. That's correct.

23 Q. All right. If you would go to your  
24 supplemental testimony, which was filed on

1 September 5th, and we'll go to the same schedule, which  
2 is your Exhibit 2, Schedule 1.

3 A. Uh-huh.

4 Q. If we again look at lines 53 and 54, column  
5 F, in this filing, which, you know, the initial filing  
6 was August 21st, this was your supplemental testimony  
7 filed on September 5th. So let's say approximately  
8 15 days later.

9 Is it correct then that the revenue impact of  
10 the Public Staff's adjustments was reduced from the  
11 initial adjustment of \$6.65 million down to  
12 \$5.133 million?

13 A. That's correct.

14 Q. And is it also true that your -- the proposed  
15 base rate decrease which you initially proposed was  
16 reduced from \$1.7 million to 1 -- or \$197,484?

17 A. That's correct.

18 Q. So that's a -- your initial -- your initial  
19 rate decrease proposal was 1.7, somehow it went down to  
20 only \$200,000 ballpark in a matter of 15 days; is that  
21 correct?

22 A. That's correct.

23 Q. Now, if you would, look at the settlement  
24 agreement, which was filed on September 8th -- 17th of

1 this year. And that was just yesterday, correct?

2 A. That's correct.

3 Q. Is it correct that, on the settlement,  
4 Exhibit 1, which is -- consists of two pages, if you go  
5 to page 2, and line 55 of that exhibit, is it true that  
6 the revenue impact of the Public Staff's adjustment was  
7 reduced from the supplemental testimony adjustment  
8 level of \$5.13 million down to 3 point, I would say 6,  
9 7 million dollars?

10 A. That's correct.

11 Q. That's a total reduction of almost  
12 \$3 million? All right. It's a total reduction of  
13 approximately \$3 million since you originally filed the  
14 case and you had a proposed reduction -- revenue  
15 reduction of \$6.65 million.

16 A. That's correct.

17 Q. So is it -- does it follow that, rather than  
18 your initial recommendation of a rate decrease, your  
19 schedules now support a base rate increase for Aqua of  
20 \$1.27 million? And that's shown on line 57 of the  
21 settlement exhibit, page 2 of 2.

22 A. Yes, that's the amount, approximately.

23 Q. So to summarize, is it correct that the  
24 Public Staff has gone from initially -- on recommending

1 on August 21st, a base rate revenue decrease for Aqua  
2 of approximately \$1.7 million to a rate increase today  
3 of approximately \$1.27 million?

4 A. Yes, that summary is correct.

5 Q. Do you agree that there are approximately 15  
6 unsettled issues between the Public Staff and Aqua  
7 which will be decided by the Commission in this case?

8 A. Yes, that's correct.

9 Q. All right. I want to move on to regulatory  
10 commission expense.

11 In your direct testimony filed in this docket  
12 on August 21st, did you recommend a three-year  
13 amortization period for rate case expense? And that's  
14 the common term that we use for regulatory commission  
15 expense.

16 A. Yes, I did.

17 Q. And that's found at Cooper Exhibit 1,  
18 Schedule 3-5, column B; is that correct?

19 A. On my direct? Let's see.

20 (Witness peruses document.)

21 Yes, so my direct exhibits, yes.

22 Q. And has it been usual and customary for the  
23 Public Staff to recommend utilization of a three-year  
24 amortization period for regulatory commission expense

1 in water and wastewater cases?

2 A. From my understanding, typically in the past,  
3 it has been, but there have been exceptions.

4 Q. And do you agree with that, Mr. Henry?

5 A. (Windley Henry) Yes, I do.

6 Q. And what would the exceptions be?

7 A. (Manasa Cooper) Well, the one that comes to  
8 mind is that, in the latest KRJ Utilities rate case,  
9 the amortization period for those rate expenses was  
10 three years, that was used. But the question did come  
11 from the Commission that, since KRJ had not been in for  
12 a rate case in a number of years, why wasn't a longer  
13 amortization period being used? That's the one that,  
14 since I have been a part of Public Staff, that I can  
15 relate to.

16 Q. But that was not an adjustment. I mean, that  
17 case was settled on a three-year amortization period,  
18 was it not?

19 A. Right. But the question did come from the  
20 Commission as to why it was not.

21 Q. That's right. And an answer was proposed,  
22 wasn't it?

23 A. Right. That it was the typical three years  
24 is what we standard -- use as a standard.

1 Q. Did the Commission have the opportunity to  
2 say on that one item that they were not going to --  
3 they were not going to approve that part of the  
4 stipulation?

5 A. Yes, they -- right. But it was still  
6 approved.

7 Q. They did approve it, didn't they?

8 A. Yes, they did.

9 Q. And let me ask you, does the length of the  
10 amortization period for items such as rate case expense  
11 have cash flow implications for Aqua and other  
12 utilities?

13 A. Yes, it does.

14 Q. And tell me how.

15 A. Well, if you look at Schedule 3 -- let's see.  
16 Excuse me, it's Schedule 2 -- let's see. It's the cash  
17 working capital schedule. It is Schedule 2-7. You  
18 will see that, in order to -- or I guess the cash  
19 working capital schedule, first of all, recognizes that  
20 in between -- when a company has -- in between the time  
21 a company has to pay an expense and the time that they  
22 receive the revenue to operate, that there is a time  
23 lag. And so that cash working capital schedule gives  
24 them a bridge between that gap. And you'll see, on

1 that schedule, on line number 9, that there is an  
2 adjustment to take into consideration that unamortized  
3 portion of the regulatory fee.

4 Q. The regulatory fee or regulatory commission  
5 expense?

6 A. I'm sorry. Yes. I'm getting the two terms  
7 mixed up there. You will see, on the line number 4,  
8 I'm sorry, unamortized rate case expense. So, of  
9 course, if the amortization period is longer, then, of  
10 course, that number would be less. So yes, it would --  
11 it could affect the Company's cash flow.

12 Q. And I don't have that exhibit before me.  
13 How much is the adjustment that you put in  
14 there?

15 A. I can give it to you -- I don't have it in  
16 total, but I have it per rate division, that particular  
17 number.

18 Q. Just tell me Aqua Water.

19 A. \$232,846.

20 Q. Now, that includes much more than just  
21 regulatory commission expense, doesn't it?

22 A. Not in that number; no, sir. That is the  
23 exact number for the unamortized portion of rate case  
24 expense for Aqua Water.

1 Q. For this case? How much rate case expense  
2 are you showing in your exhibit, ma'am?

3 A. Now, that has been updated. Let's see.

4 (Witness peruses document.)

5 We are showing a total cost through today, of  
6 what we received in actual invoices, rate case expense  
7 of \$462,805, in total.

8 Q. And that's through today?

9 A. That's through today.

10 Q. Do you know what time period that actually  
11 covers?

12 A. It -- everything up through that we received  
13 through today.

14 Q. All right.

15 A. And I understand there are some other pending  
16 invoices to be received as well to update that number  
17 even further.

18 Q. In terms of my question regarding cash flow  
19 implications, let me give you a hypothetical example.  
20 Let's say, rather than using this average, because the  
21 hypothetical that I had come up with for purposes of  
22 questioning was rate case expense of \$375,000. Now, if  
23 you amortize that over three years, the Company would  
24 be allowed an expense allowance in rates of \$125,000,



1 correct?

2 A. That's correct, per year.

3 Q. If you amortize it over five years, the  
4 allowed expense would be \$75,000?

5 A. Correct.

6 Q. So the difference there is \$50,000 based upon  
7 which amortization period you take?

8 A. Yes, that's correct.

9 Q. Doesn't that have cash flow implications for  
10 the utility?

11 A. Yes. Because it's less that they are  
12 recovering, of course, in that particular year and  
13 their expenses.

14 Q. And isn't that -- that would be, I think --  
15 well, I don't want to get in a math problem, so I'll  
16 move on from that.

17 It is true that, in your supplemental  
18 testimony at page 10, lines 15 and 16, which was filed  
19 on September 5th, you switched to use of a five-year  
20 amortization period for regulatory commission expense;  
21 isn't that correct?

22 A. That's correct.

23 Q. And in your -- as we previously established,  
24 in your direct testimony filed on August 21st, you were

1 using a three-year amortization period?

2 A. That's correct.

3 Q. Why -- and so my next question was going to  
4 be, why did the Public Staff change the amortization  
5 period.

6 Is your answer what you previously said, that  
7 coming from the KRJ case, the Commission asked a  
8 question as to why a five-year amortization period was  
9 not used?

10 A. That's not the primary reason. The primary  
11 reason is just looking at the number or the amount of  
12 legal fees that has been incurred to date, and what's  
13 to come in this particular rate case in comparison to  
14 the last two rate cases. And also it's the thought  
15 that, since the Company is utilizing the WSIC/SSIC  
16 mechanism, that there would be a longer time lag in  
17 between rate cases, since they are recovering those  
18 certain costs incrementally. And we have seen that  
19 it's been four and a half years since they have come in  
20 for their last rate case. So those were the two  
21 primary reasons as to why the amortization period is  
22 now recommended to be five years instead of three.

23 Q. Have you been in the room last week and today  
24 to hear the questions from the Commission, and in

1 particular, about secondary water quality problems and  
2 what the Company needs to do to rectify those problems?

3 A. Yes, I was here.

4 Q. Do you think it's likely, with the emphasis  
5 on that, that the Company may well hit the 5 percent  
6 cap on WSIC/SSIC, WSIC in particular, before the five  
7 years that you're now putting forward?

8 A. It's possible. Yes, I think it's possible.

9 Q. I mean, before the WSIC was put in, my  
10 recollection is that the Company had rate cases, they  
11 may have had -- the last three rate cases, there may  
12 have been a year or little more in between two of them,  
13 and two years between the last one, which was Sub 363  
14 in the prior case.

15 Is that your recollection, your  
16 understanding?

17 A. I would have to defer to someone who has that  
18 historical.

19 Q. Mr. Henry, do you know the answer to that  
20 question?

21 A. (Windley Henry) I don't know what the time  
22 frame was between the Sub 319 and 363 rate cases.

23 Q. But would you agree that, with what we heard  
24 today, that there would be renewed or more emphasis put

1 on WSIC investment that may hasten the Company reaching  
2 that cap and having to file for a rate increase faster?

3 A. Could you repeat that question again?

4 Q. Based on the testimony -- or the questions  
5 and the testimony that has been put in the record thus  
6 far, if you have been here to hear it, would you agree  
7 that there is significant interest and emphasis on  
8 expenditures to correct secondary water quality  
9 problems that would qualify for WSIC treatment?

10 A. Yes.

11 Q. And do you think that that emphasis could  
12 cause the Company to reach its cap on -- the 5 percent  
13 cap on WSIC expenditures faster than, say, the five  
14 years that you're saying it would be before they would  
15 have another rate increase?

16 A. I guess that's possible, yes.

17 Q. Did -- who -- what was the genesis of this  
18 idea, to go with the five-year amortization period?

19 A. She explained to you our thoughts behind  
20 going from three years to five years. One of the big  
21 problems was the amount of legal fees that have been  
22 incurred to date and the legal fees that will be  
23 incurred subsequent to this date. Also, the five and a  
24 half years in between rate cases. I mean four and a

1 half, excuse me.

2 Q. And would you -- would you concede that this  
3 has been a very contentious case and that -- how many  
4 lawyers does the Public Staff have working on the other  
5 side?

6 A. They are right there, count them yourself.

7 Q. Mr. Drooz been involved as well?

8 A. He has advised us, yes.

9 Q. I mean, this has been, you know -- well, how  
10 long has it been since we had a litigated case? Was  
11 that Sub 319 case?

12 A. It was the Sub 319 rate case, yes.

13 Q. So we had the Sub 363 case that was settled?

14 A. Yes.

15 Q. This case has not been settled.

16 A. No.

17 Q. And it has put a major workload on both the  
18 Public Staff and the Company; is that correct?

19 A. I would agree with that. I would definitely  
20 agree with that.

21 Q. Put a lot of stress out there, hasn't it?

22 A. Yes, it has.

23 Q. And so would you expect a case of that  
24 nature, that has not been settled, only partially

1 settled, would result in increased legal fees?

2 A. Right. And therefore, we have tried to  
3 smooth out that impact directly by amortizing these  
4 over a five-year period instead of three.

5 Q. But do you agree that it does cause -- you  
6 know, that that does cause some cash flow -- potential  
7 cash flow problems, in terms of rate recovery?

8 A. Yes, it does.

9 Q. Do you know -- and we'll go back to  
10 Ms. Cooper. You initially started out recommending a  
11 three-year amortization period, changed to five.

12 Did the Public Staff ever discuss this change  
13 with the Company, particularly in advance of the Public  
14 Staff's decision to make this change in position?

15 A. (Manasa Cooper) Now, that, I'm not aware of.  
16 I'm not sure what discussions, because I was not privy  
17 to the actual phone conversations or what have you, but  
18 it was in my supplemental testimony.

19 Q. Which was filed on September 5th, the day  
20 after the Company filed its rebuttal testimony,  
21 correct?

22 A. Right. Right.

23 Q. Did you ever discuss it with a Company  
24 employee?

1           A.       Well, I never spoke with the -- I was not a  
2 part of the Company negotiation, so I would not have --  
3 I would not have been the person to bring that to the  
4 Company's attention.

5           Q.       To your knowledge, was that ever called to  
6 the attention of the Company, that the Public Staff  
7 intended to go with a five-year amortization period?

8           A.       I can't say. Like I said, I was not privy to  
9 that.

10          Q.       Mr. Henry, can you speak to that?

11          A.       (Windley Henry) It was part of her  
12 supplemental testimony, and we assumed that you all had  
13 read it.

14          Q.       Which was filed the day after the Company's  
15 rebuttal testimony was filed and after we conducted,  
16 you know -- primarily -- our primary settlement  
17 negotiations; is that correct?

18          A.       I assume so, if you have the date.

19          Q.       Were you in the settlement negotiations?  
20 Sorry. Were you in the settlement negotiations?

21          A.       I was in some of the settlement negotiations,  
22 yes.

23          Q.       Did you ever hear of any mention of changing  
24 the amortization period?

1           A.       With the Company, as part of the settlement  
2 negotiations?

3           Q.       Yes.

4           A.       I don't recall.

5           Q.       All right. Thank you. I want to move on now  
6 to -- do you -- I want to move on to the AMR meter  
7 adjustment. And I'll ask these questions, at least  
8 first of Ms. Cooper.

9                    If you would, look at the settlement,  
10 Exhibit 1 at line 49.

11          A.       (Manasa Cooper) Uh-huh.

12          Q.       And is this the adjustment proposed by Public  
13 Staff witness Junis to eliminate from the Company's  
14 cost of service, revenues in the amount of what I will  
15 call ballpark \$474,000 related to elimination of AMR  
16 meters, meter installation cost, and applicable  
17 depreciation?

18          A.       Right. That's the revenue adjustment for the  
19 rate base and the expense, yes.

20          Q.       Right. If the Public Staff's proposed AMR  
21 meter adjustment is accepted by the Commission, is it  
22 correct to say that this will cause the Company to  
23 experience a permanent revenue reduction of  
24 approximately \$474,000 through loss of a return on its



1 investment and loss of the ability to depreciate these  
2 assets?

3 A. I'm not sure if it's a permanent --

4 Q. Let me rephrase that.

5 A. Yes. Thank you.

6 Q. So long as there is an asset to depreciate?

7 A. Yes. Then that would be gone, yes, because  
8 it's removed from rate base.

9 Q. Would you accept, subject to check, that, on  
10 page 16, at lines 20 through 23, of his supplemental  
11 testimony filed on September 5th, Mr. Junis recommends  
12 reductions to Aqua's rate base for Aqua North Carolina  
13 water of \$2.83 million; is that correct?

14 A. Yes, that is correct.

15 Q. And is that the number that you have used?

16 A. Yes.

17 Q. And he also recommends reduction to the  
18 Brookwood Water rate base of approximately  
19 \$1.4 million?

20 A. Yes. It's between Brookwood and Aqua Water.

21 Q. And so this would be a total rate base  
22 reduction to Aqua coming out of this case of  
23 \$4.23 million?

24 A. Four point -- no, it should be two point --

1 2.13. If you're just talking about the AMR meters  
2 themselves.

3 Q. No. I'm talking about everything.

4 A. Because the meters, themselves, was at 2.8 --  
5 was \$2,834,633 in the reduction for Aqua Water and --  
6 in total, yes, that is correct.

7 Q. The total is approximately \$4.2 million rate  
8 base reduction?

9 A. Right. In total, that's correct.

10 Q. Right. And is this level of rate base  
11 reduction reflected in the -- your line -- or the  
12 settlement line 49?

13 A. Yes, it is.

14 Q. And that amount is \$474,000?

15 A. Or 400 -- right. Ballpark.

16 Q. Is it correct that the Company's investment  
17 in the amount of approximately \$1.4 million for AMR  
18 meters installed at its Brookwood Water rate division  
19 has been included in rates since new rates were set by  
20 the Commission in the Company's Sub 363 rate case,  
21 which became effective on May 2, 2014?

22 A. I would have to look into that, because I'm  
23 not sure.

24 Q. Would you accept that, subject to check?

1 A. Subject to check.

2 Q. And I know, in that case, the Public Staff  
3 did reserve the right to challenge that, but the fact  
4 is, that that investment has been in place -- it was  
5 incurred, obviously, before the rate case order was  
6 issued, because it was plant in service.

7 But the point is, that amount, for Brookwood  
8 at least, has been in plant in service and in rate  
9 since May 2, 2014, approximately two and a half -- four  
10 and a half years; is that correct?

11 A. I would have to research that, because I'm  
12 not sure.

13 Q. Would you accept that, subject to check?

14 A. Subject to check.

15 Q. Turn to your Supplemental Exhibit, Schedule  
16 3-6, line 3.

17 Does the information on that schedule  
18 indicate that the Public Staff has removed depreciation  
19 expense in the amount of \$93,543 for Aqua Water related  
20 to these meters?

21 A. (Witness peruses document.)

22 Yes, that's correct.

23 Q. And it indicates that the adjustment for  
24 Brookwood Water was \$46,184?

1           A.       Yes, that's correct.

2           Q.       So the total appreciation expense  
3 disallowance in this case is approximately \$139,700  
4 related to AMR meters and meter installations; is that  
5 correct?

6           A.       That's correct.

7           Q.       And is this amount of depreciation expense,  
8 which you have removed in the previous number that we  
9 talked about, the revenue reduction of \$474,500?

10          A.       Yes, it is.

11          Q.       So if the Public Staff prevails on its AMR  
12 meter and meter installation adjustment, and the  
13 Company's rate base is reduced by \$4.2 million as  
14 recommended by the Public Staff, Aqua asserts and  
15 believes that the Company would be required by its  
16 auditors to immediately write off that amount of  
17 disallowed rate base.

18                   Do either of you have any reason, as CPAs and  
19 as regulatory CPAs, for a basis to disagree with that  
20 position?

21          A.       (Windley Henry) I don't have any knowledge  
22 of them having to write off this, based on what the  
23 auditors told me. I don't know.

24          Q.       Would you think it likely that they would

1 have to write off that investment?

2 A. I don't know. I don't have any knowledge of  
3 that. I would have to do some research on that.

4 Q. Ms. Cooper?

5 A. (Manasa Cooper) I would have to do research  
6 as well.

7 Q. Well, if that is the case, do you have an  
8 opinion, as CPAs, as to whether that treatment would be  
9 fair to the Company, under the circumstances of this  
10 case? Hypothetically, if that's a true statement,  
11 would that be fair to the Company, under the  
12 circumstances of this case?

13 A. (Windley Henry) To write off the --

14 Q. Yes.

15 A. It may not be fair to the rate -- to the  
16 Company, but it would be fair to the ratepayers.

17 Q. All right. I've got some questions now, I  
18 think I'll refer these to you, Mr. Henry, concerning  
19 procedure and discovery in this case.

20 How long have you been employed by the Public  
21 Staff accounting division?

22 A. Twenty-eight years.

23 Q. And how long have you been the director of  
24 the division?

1           A.       I was supervisor for several years, and then  
2 I became the accounting manager approximately two years  
3 ago.

4           Q.       All right. So you've got a long history in  
5 the accounting division at the supervisory level, then?

6           A.       Yes.

7           Q.       Would you accept, subject to check, that Aqua  
8 filed the current rate case on March 7th of this year?

9           A.       Yes.

10          Q.       And would you accept that the Company's  
11 proposed new rates were proposed to become effective on  
12 April 6th of this year? Would you accept that, subject  
13 to check?

14          A.       Yes, I would.

15          Q.       Again, subject to check, would you accept  
16 that the evidentiary hearing in this case would  
17 normally have been scheduled approximately five months  
18 from the filing date. And by my calculation, filing  
19 date on March 7th, the hearing would, under normal  
20 circumstances, have been held -- the evidentiary  
21 hearing would have begun on Monday, August 6th.

22                   Does that sound about right to you?

23          A.       I wasn't a part of the Public Staff group  
24 that decided what dates the hearing was going to be on.

1 Q. Well, when a company files a rate case, they  
2 have to put -- they propose rates, they can't be  
3 effective for 30 days, correct?

4 A. Yes.

5 Q. And then, under the suspension statute, they  
6 can be suspended for up to 270 days, but six months  
7 from the proposed effective date, the Company can put  
8 interim rates into effect under bond.

9 Do you know that?

10 A. Yes, I'm aware of that.

11 Q. So, under normal circumstances, from the date  
12 of filing, there's a period of, we'll say, seven months  
13 until the Company can put the rates into effect under  
14 bond.

15 And isn't that a target date for the  
16 Commission, in particular, and all the parties operate  
17 in that way to have a final order prior to that date?

18 A. I believe that to be true.

19 Q. And so that would be a period of 7 months,  
20 210 days, ballpark?

21 A. Ballpark, yes.

22 Q. So, again, under my premise, if you schedule  
23 the hearing five months from the filing date, that  
24 would have been approximately August 6th. And that

1 leaves two months to hear the case, brief it, and for  
2 the Commission to make its decision before rates go  
3 into effect; would you accept that?

4 A. Yes, subject to check. Yeah.

5 Q. Would you accept or do you know that this  
6 hearing was, in fact, scheduled to begin five weeks, or  
7 35 days later than the date that I previously  
8 suggested? And the hearing was initially scheduled to  
9 begin on September 10th. And so from the date that I  
10 suggested of Monday, August 6th, that's a period of --  
11 calendar period of five weeks, 35 days.

12 A. I'll accept that, subject to check.

13 Q. Aqua -- and in that regard, are you aware  
14 that Aqua voluntarily agreed to extend the date upon  
15 which it would be entitled to place temporary rates  
16 into effect under bond by 34 days from October 6th  
17 until November 9th of this year?

18 A. I'm aware that the Public Staff and the  
19 Company agreed to that date.

20 Q. Yes.

21 Is it true that the Commission's scheduling  
22 order for this case contained no discovery guidelines,  
23 deadlines, or stated restrictions?

24 A. If it's not in the order, then no, I'm not



1 aware of that.

2 Q. Are you aware of any Commission-ordered  
3 discovery guidelines, deadlines, or stated  
4 restrictions?

5 A. Other than the filing dates, no.

6 Q. All right. So as a result, is it true that  
7 the Public Staff had up to an additional 35 days to  
8 conduct discovery in this case over and above what you  
9 would have had in the normal case?

10 A. Yes, based on your calculations.

11 Q. And did you utilize this additional time to  
12 continue to conduct discovery?

13 A. Yes, we did.

14 Q. And did you continue to file discovery  
15 request until, I think, the latest Friday,  
16 September 7th, prior to the hearing start date of the  
17 10th?

18 A. That sounds about right, yes.

19 Q. Do you believe that this extension of time  
20 for discovery, in this particular case, conferred an  
21 advantage on the Public Staff?

22 A. No. We were just trying to gather  
23 information.

24 Q. Is it true that, in past Aqua rate cases,

1 Public Staff personal traveled to Bryn Mawr,  
2 Pennsylvania, to conduct a significant part of its rate  
3 case investigations?

4 A. We did in the Sub 363 rate case.

5 Q. And that trip is traditionally funded as a  
6 rate case expense, correct?

7 A. That is correct.

8 Q. And why was that not done in this case?

9 A. We decided that our time would be best  
10 utilized here in the area, and we could get information  
11 that we needed through e-mails and through data  
12 requests.

13 Q. All right. Under the Commission rule, the  
14 Company's direct testimony has to be filed 45 days  
15 prior to the evidentiary hearing; is that correct?

16 A. I believe that to be true.

17 Q. And in this case, that -- the Company filed  
18 its testimony on August 6th, which was 45 days prior to  
19 the initial September 10th date.

20 And by the rule, the Public Staff's testimony  
21 was to be filed 20 days prior to the hearing, correct?

22 A. That's generally true, yes.

23 Q. And you filed on August 21st.

24 And then according to the scheduling order,

1 Aqua had to file its rebuttal testimony 10 days prior  
2 to the hearing?

3 A. Yes.

4 Q. And that would have been August 31st?

5 A. Subject to check, I would agree with that  
6 date.

7 Q. And the Company subsequently got a four-day  
8 extension and filed its testimony on September 4th?

9 A. That sounds about right.

10 Q. Now, in the past, hasn't the Public Staff  
11 always been willing to conduct settlement negotiations  
12 with water and wastewater utilities prior to filing its  
13 testimony?

14 A. We have made those -- we have made that -- we  
15 have done that in the past, yes.

16 Q. And did the Public Staff change that policy  
17 with this case?

18 MR. GRANTMYRE: I object.

19 THE WITNESS: Repeat your question, I'm  
20 sorry.

21 BY MR. BENNINK:

22 Q. Did the Public Staff change that policy with  
23 this case?

24 MS. CULPEPPER: I'm going to object. I

1 don't know that this is relevant. We don't discuss  
2 settlement negotiations and --

3 MR. BENNINK: I'm not going to get  
4 any --

5 MS. CULPEPPER: -- procedure before the  
6 Commission. I object to it.

7 MR. BENNINK: It's process.

8 COMMISSIONER BROWN-BLAND: Overruled, if  
9 he knows the answer.

10 THE WITNESS: Will you repeat the  
11 question, please?

12 BY MR. BENNINK:

13 Q. Well, have you changed the policy with this  
14 case?

15 A. I don't think there was a change in policy.  
16 I just think that we decided, in this instance, that we  
17 needed as much time to get our testimony filed, and we  
18 didn't have a chance to sit down with the Company to  
19 discuss settlement.

20 COMMISSIONER BROWN-BLAND: Keep your  
21 voice up, Mr. Henry.

22 THE WITNESS: Okay.

23 BY MR. BENNINK:

24 Q. And even though -- that's even though you had

1 an additional 35 days for discovery?

2 A. And we used that time wisely to gather  
3 information to file our testimony and exhibits.

4 Q. So do you -- would you agree that, since the  
5 Public Staff was not willing to negotiate with Aqua  
6 until after it filed its testimony, that required the  
7 Company to conduct settlement negotiations during the  
8 10-day period that it had to prepare its rebuttal  
9 testimony?

10 A. Yes, that did happen.

11 Q. And is it true that the settlement  
12 negotiations did not begin until Thursday, August 23rd,  
13 the second day of Aqua's 10 days?

14 A. I accept your date, subject to check.

15 Q. And that session was a Q-and-A session only,  
16 right?

17 A. Yes.

18 Q. There were no negotiations going on.

19 And would you agree that in-person  
20 negotiations did not actually begin until a meeting on  
21 Tuesday, August 28th, which was the seventh day of  
22 Aqua's 10 days to prepare rebuttal testimony?

23 A. I accept that date, subject to check.

24 Q. Mr. Henry, would you agree that the work

1 required by you -- for a utility like Aqua to  
2 participate in a case like this is largely driven by  
3 the Public Staff's level of discovery and other  
4 investigative activities?

5 A. We require a lot of information from the  
6 Company in order to make opposition with the  
7 Commission. So whatever level we need, we're going to  
8 file, we're going to ask for that information.

9 Q. And we understand that.

10 But in this case, you conducted your  
11 discovery up until well after you filed your  
12 supplemental testimony, correct? You were still  
13 sending out data requests?

14 A. Yes, we were.

15 Q. And the Company, in effect, refused to  
16 negotiate until after you filed your direct testimony?  
17 I mean, the -- I'm sorry, I misspoke.

18 COMMISSIONER BROWN-BLAND: Mr. Bennink,  
19 that's been asked and answered, I do believe. And  
20 it's becoming argumentative.

21 MR. BENNINK: Okay. I'm sorry.

22 COMMISSIONER BROWN-BLAND: Move on. I  
23 appreciate it.

24 MR. BENNINK: All right. That's all.

1 Thank you.

2 COMMISSIONER BROWN-BLAND: Redirect?

3 REDIRECT EXAMINATION BY MS. CULPEPPER:

4 Q. Mr. Henry, are you aware that Aqua reviewed  
5 the agenda document including the scheduling order  
6 prior to it being on the agenda?

7 A. (Windley Henry) Yes, I'm aware of that.

8 Q. And are you aware that the evidentiary  
9 hearing date has to be set around the Commission's  
10 calendar?

11 A. Yes, I am aware of that.

12 Q. And are you aware that Aqua requested a delay  
13 in the hearing date due to the unavailability of its  
14 witness?

15 A. I was not aware of that.

16 Q. Are you aware that the Public Staff's  
17 executive director changed the Public Staff's policy  
18 about negotiating prior to filing testimony, that it  
19 was his decision to do that?

20 A. I -- yes, I am aware of that.

21 Q. And that was the same policy that was filed  
22 in the Duke Energy Carolinas and Duke Energy Progress  
23 rate cases?

24 A. I was not aware of that.

1 Q. Ms. Cooper, there was some questions about  
2 rate case expense?

3 A. (Manasa Cooper) Yes.

4 Q. Did Aqua file supplemental rebuttal testimony  
5 about the amortization period of rate case expense?

6 A. No.

7 Q. Between the time that you filed your direct  
8 testimony and Aqua -- filed your direct testimony and  
9 the supplemental testimony, did Aqua retain three  
10 additional attorneys on this case?

11 A. To my knowledge, yes.

12 Q. There were some questions about meters, AMR  
13 meters.

14 Can rate recovery of AMR meters be litigated  
15 in the next rate case?

16 A. That was my understanding, yes.

17 Q. There were also some questions about why your  
18 numbers changed between the time that you filed direct  
19 and rebuttal testimony.

20 Is that due to the delay in receiving  
21 information from Aqua and also not receiving correct  
22 information?

23 A. That, and receiving updates and just going  
24 through the -- some of the negotiation process, yes.



1 Q. And \$1 million of that change is attributable  
2 to billing analysis of Public Staff witness  
3 Chuck Junis; is that correct?

4 A. Yes. That was a huge portion of the change.

5 Q. And \$1 million of the change is due to taxes,  
6 and then \$1 million was put back into rate base?

7 A. That's correct.

8 Q. So the emphasis in some of these questions  
9 for Mr. Bennink was on correcting water quality  
10 problems.

11 Is that an operational issue as well as a  
12 capital investment issue?

13 A. I think so, yes.

14 Q. Is it clear that the WSIC/SSIC cap of  
15 5 percent will be exceeded, necessitating another rate  
16 case?

17 A. Mr. Henry may better answer that question.

18 A. (Windley Henry) The current WSIC/SSIC has  
19 been exceeded.

20 Q. I mean the one after it resets out of this  
21 rate case.

22 A. Repeat your question.

23 Q. So we don't know when that cap will be  
24 exceeded?

1 A. No, we do not.

2 Q. Is it unclear that future rate increases will  
3 be necessary even if the cap is reached, depending on  
4 overall earnings?

5 A. It's not clear.

6 Q. Is legal workload partly a function of  
7 difficulty for the Public Staff in getting information  
8 from Aqua?

9 A. Yes.

10 Q. And again, the changes recommended by the  
11 Public Staff were driven by updates from Aqua?

12 A. Yes.

13 MS. CULPEPPER: That's all I have on  
14 redirect.

15 COMMISSIONER BROWN-BLAND: All right.  
16 Any questions from the Commission?

17 Chairman Finley?

18 CHAIRMAN FINLEY: Mr. Henry settled some  
19 issues and left some issues unsettled.

20 EXAMINATION BY CHAIRMAN FINLEY:

21 Q. I take it, in looking at this, that the  
22 Johnston County Flowers adjustments, that up until now  
23 has been a contentious issue between the parties, is  
24 one that has not been settled; is that right?

1 A. (Windley Henry) That is correct.

2 Q. All right. And what is the final test year  
3 in this case? What is the end of the test year now?

4 A. We updated it through June 30th of 2018.

5 Q. All right. And one of the things that the  
6 Public Staff has done, as a result of its audit and  
7 position it's taken in this case, is to make a  
8 recommendation to the Company with respect to rate  
9 base?

10 A. That's correct.

11 Q. And so as of June 30, 2018, you make  
12 recommendations with respect to, among other things,  
13 plant in service, Contributions in Aid of Construction,  
14 and other elements that make up the rate base to come  
15 up with a number?

16 A. Yeah. We updated all of those up to  
17 June 30th. All rate base items up through  
18 June 30, 2018.

19 Q. And is the Commission appropriate, with  
20 respect to your position, in taking that number and  
21 going with it, as far as this case is concerned and  
22 future cases are concerned? In other words, in the  
23 next case, if the Public Staff says that the  
24 Contributions in Aid of Construction ought to be

1 \$5 million in this case as of the end of June 2018,  
2 would it be appropriate for the Commission to take that  
3 at face value and assume that you wouldn't be coming in  
4 on the next case and saying, whoops, wait a minute, the  
5 Contributions in Aid of Construction that we said were  
6 appropriate are too low and it should be \$600,000?

7 A. Well, we would have to evaluate what has  
8 taken place since the last rate case.

9 Q. No. I'm not talking about since the last  
10 rate case. I'm talking about as of the end of this  
11 rate case and this test year, would it be appropriate  
12 in the next case for the Public Staff to come in and  
13 say, whoops, wait a minute, we made you a  
14 recommendation with respect to Contributions in Aid of  
15 Construction as of the end of June 30, 2018, and that  
16 was too low?

17 A. If something changes in between the last rate  
18 case and the next rate case, yes, we will go back to  
19 the prior rate case and look to make any changes that  
20 were not made at that time.

21 Q. Nothing changes. Nothing changes. This is a  
22 historical period, June 30, 2018. Nothing is going to  
23 change between now and the next rate case, because  
24 that's in the books, isn't it?

1 A. It may change. We don't have --

2 Q. Give me an example.

3 A. I can't give you an example. There are  
4 instances in which we have agreed to a certain level  
5 rate base in prior rate case, things change, additional  
6 information came to our knowledge -- to our  
7 understanding at that particular time that we didn't  
8 have in the rate case that changes our opinion of the  
9 amount that was settled in that case.

10 Q. All right. With respect to this case and the  
11 rate base in this case, what has changed in past  
12 periods that caused you to change what should have been  
13 the rate base in prior periods?

14 A. It's outlined in Mr. Junis' testimony.

15 Q. And you didn't know that before?

16 A. We were unaware of it.

17 Q. Well, why is that?

18 A. You would have to ask Mr. Junis.

19 Q. I certainly will.

20 A. Okay.

21 Q. Thank you, sir.

22 COMMISSIONER BROWN-BLAND:

23 Commissioner Clodfelter?

24 EXAMINATION BY COMMISSIONER BROWN-BLAND:

1 Q. Mr. Henry, I have a copy of things to ask  
2 you. First, it's a late-filed exhibit that we  
3 received, so let me know if you can't do this. But we  
4 would like a late-filed exhibit, the calculation of  
5 your adjustment to allocate 50 percent of executive  
6 compensation, including pensions and incentive plans,  
7 of the top five offices of Aqua America to  
8 shareholders. And we want you to include each officer  
9 by name, title, and a related compensation to which the  
10 50 percent adjustment was applied.

11 Is that something you can do?

12 A. (Windley Henry) Yes, it is.

13 Q. All right. And then what was the basis for  
14 the 50 percent adjustment rather than a 30 percent or a  
15 25 percent?

16 A. We felt like the executives of Aqua America,  
17 their comp --

18 Q. Keep your voice up in the mic.

19 A. Their compensation is based off financial  
20 metrics that benefit the shareholders, so therefore,  
21 50 percent of their compensation should be allocated to  
22 shareholders.

23 Q. I accept your answer, but did you consider in  
24 that, was there any analysis of the percentage used for

1 other large water wastewater utilities?

2 A. My understanding is, in the two Duke Energy  
3 cases, we used 50 percent in those cases. Well, the  
4 Company filed allocating 50 percent of their  
5 executives' compensation to shareholders.

6 Q. So it's your testimony that your  
7 recommendation has come from application of -- you were  
8 looking at and saying that there were shareholder  
9 drivers behind what the Company did, and that more so  
10 than just a 50/50 share?

11 A. Yes, ma'am.

12 Q. All right. Would you also file as a  
13 late-filed exhibit, the supporting documentation from  
14 Aqua short-term incentive plan that supports your  
15 30 percent removal of the bonuses paid to the  
16 North Carolina employees during the test year from  
17 operating expenses in this proceeding? And those are  
18 at page 9 -- you explain that at page 9, lines 4  
19 through 16 of your prefiled testimony.

20 A. Yes, I can do that.

21 Q. All right.

22 COMMISSIONER BROWN-BLAND: Are there  
23 questions? You passed. You passed.

24 Commissioner Clodfelter.

1                   COMMISSIONER CLODFELTER: I did, but  
2                   this is actually prompted by your questions,  
3                   Madam Chair.

4                   EXAMINATION BY COMMISSIONER CLODFELTER:

5                   Q.       Just a curiosity question. When you -- for  
6                   the expenses that are carried in Aqua America, like the  
7                   executive compensation of the top five executives,  
8                   that's an expense carried at the parent level.

9                   I assume you first do an allocation among the  
10                  different subsidiaries of that expense, right?

11                 A.       (Windley Henry) Yes, it's allocated --

12                 Q.       I'm just curious, generally, about what  
13                 you're allocated down to North Carolina.

14                 What's the factor you use for that?

15                 A.       It's based on customers around the state, and  
16                 I think the factor is around 9, 10 percent for  
17                 North Carolina.

18                 Q.       You use customers, you don't use gross  
19                 revenue, or net operating income, or book equity?

20                 A.       No. We --

21                 Q.       Why do you use customers to do that  
22                 allocation?

23                 A.       It's what we have used for years.

24                 Q.       It's just what you historically used?



1 A. Yes.

2 Q. Thank you.

3 COMMISSIONER BROWN-BLAND: Any questions  
4 on the Commission's questions?

5 MR. BENNINK: No questions.

6 MS. CULPEPPER: I have some.

7 FURTHER REDIRECT EXAMINATION BY MS. CULPEPPER:

8 Q. Mr. Henry, you were asked by Chairman Finley  
9 about the CIAC.

10 Are you aware that the Public Staff  
11 discovered this issue in May 2008 -- I'm sorry, in  
12 May 2018 that Aqua had failed to collect CIAC from 2006  
13 to 2018?

14 A. Yes, I'm aware of that.

15 COMMISSIONER GRAY: Sir, can you speak  
16 into the mic.

17 THE WITNESS: Yes, I'm aware of that,  
18 sorry.

19 COMMISSIONER GRAY: Some of us are, you  
20 know, just a little --

21 MS. CULPEPPER:

22 Q. Commissioner Brown-Bland had asked you some  
23 questions about executive comp?

24 A. Yes.

1 MS. CULPEPPER: We would like to pass  
2 out an exhibit.

3 COMMISSIONER BROWN-BLAND:  
4 Ms. Culpepper, do you know if this will be short or  
5 you've got a few to go?

6 MS. CULPEPPER: I got a few to go.

7 COMMISSIONER BROWN-BLAND: We are going  
8 to take a break, and we need to switch out our  
9 court reporter. So we will take a break, and let's  
10 see if we can come back at 3:55.

11 MS. FORCE: Madam Chair, could I  
12 inquire, do we have a time that we will go to this  
13 afternoon; have we talked about that?

14 COMMISSIONER BROWN-BLAND: Let's talk  
15 about it. You all can come in, and we'll talk  
16 about it.

17 (The hearing was adjourned at 3:43 p.m.  
18 and set to reconvene at 3:55 p.m. on  
19 Tuesday, September 18, 2018.)  
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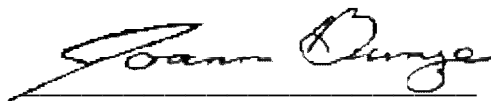
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CERTIFICATE OF REPORTER

STATE OF NORTH CAROLINA )  
COUNTY OF WAKE )

I, Joann Bunze, RPR, the officer before whom the foregoing hearing was taken, do hereby certify that the witnesses whose testimony appears in the foregoing hearing were duly sworn; that the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to this; 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 20th day of September, 2018.



JOANN BUNZE, RPR

Notary Public #200707300112