STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. W-218, SUB 526

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

PREFILED REBUTTAL TESTIMONY OF
EDWARD THILL
ON BEHALF OF
AQUA NORTH CAROLINA, INC.

June 12, 2020

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

A. Yes, I provided Direct Testimony filed on December 31, 2019.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTALTESTIMONY?

A. I write to rebut the testimony of certain Public Staff witnesses, on certain specified positions and adjustments as discussed below.

1. CONSERVATION PILOT PROGRAM

Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY.

A. My testimony rebuts the testimony of Public Staff Witness Junis concerning the appropriateness in concept and design of the Conservation Pilot Program proposed by Aqua.

Q. CAN YOU BRIEFLY SUMMARIZE THE ISSUE THE COMPANY IS TRYING TO ADDRESS THROUGH THE PROPOSED CONSERVATION PILOT PROGRAM?

A. As described in Witness Junis' testimony, on March 20, 2019, the Commission issued an Order Establishing Generic Proceeding and Requiring Comments in Docket No. W-100, Sub 59 (W-100, Sub 59, Order). The Order made the Public Staff, CWSNC, and Aqua parties to the proceeding and required the parties to file initial comments to include "a discussion of rate design proposals that may better achieve revenue sufficiency and stability while also sending appropriate efficiency and conservation signals to consumers." Aqua's proposed Conservation Pilot

Program is a direct response to the Commission's goals as stated in that Docket.

Q. WHAT ARE THE PUBLIC STAFF'S CONCERNS REGARDING THE COMPANY'S PROPOSED CONSERVATION PILOT PROGRAM?

A. Public Staff witness Junis expresses his concerns as follows[1]:

> The Public Staff has concerns about the practicability, fairness, and value of the proposed pilot program. While well-designed inclining block rates can effectively promote conservation, the Public Staff has identified the following concerns with the Company's proposed pilot program:
>
> 1) the pilot is a limited and unrepresentative sample of residential customers,
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> 2) would not "provide meaningful results that we might extrapolate across the Company's full customer base in future rate design considerations" as the Company claims,
>
> 3) reverts to ratemaking with system-specific rates as opposed to uniform rates,
>
> 4) ignores the overlapping purpose of House Bill 529 and Commission Rules R7-40 and R10-27,
>
> 5) the potential benefit(s) of the program may be outweighed by the valuable personnel resources of the Company, Public Staff, and Commission required to implement and track the pilot, and
>
> 6) nearly guarantees service revenues, thus reducing risk.
>
> In addition, singling out groups of customers would be discriminatory and potentially prejudicial if those customers' bills increased significantly under the inclining block rates in comparison to other customers charged uniform usage rates, or vice versa for low usage customers.

Q. PLEASE RESPOND TO EACH OF THE CONCERNS EXPRESSED BY THE PUBLIC STAFF.

A. Certainly. The first two concerns expressed by Witness Junis are:

1) The pilot is a limited and unrepresentative sample of residential customers.

[1] Page 11, lines 3-21, Testimony of Public Staff witnesses Charles M. Junis, filed in Docket No. W-218, Sub 526, on May 26, 2020.

2) The pilot would not "provide meaningful results that we might extrapolate across the Company's full customer base in future rate design considerations" as the Company claims.

Because the Fairways Water system is one large system in its own rate division, the entirety of that rate entity is included in the proposed pilot and, therefore, the Public Staff's concern regarding limitation and reasonable representation is not relevant for that portion of the pilot. Concerning the four systems in the Aqua Uniform Water rate division pilot, Witness Junis states in reference to Thill Revised Exhibit 3: "From this table, it is clear that these are above average or high-usage systems that are not representative of uniform water residential customers."[2] Staff's comment seems to imply that conservation programs should be equally focused on both high-usage and low-usage systems. Introducing a block structure for systems with consumption below the block limits provides no information on the cause-and-effect relationship of pricing and conservation. Additionally, conservation-inducing pricing for low users places a greater economic burden on those who can least afford it. These households are already likely to have minimal discretionary usage and are therefore less likely to experience any financial benefit of conservation. Alternatively, Aqua's conservation pilot is intended to

[2] Page 12, lines 17-19, Testimony of Charles Junis

affect the discretionary users that are more prevalent in the high-usage systems.

The largest proposed participant system in the pilot is the Bayleaf master system in Wake County, serving approximately 6,000 households. Although that system would appropriately be deemed a high-usage system with average usage of over 7,300 gallons per month (gpm), the customer base is not a homogenous group of high-consumption households. Thill Revised Exhibit 3 introduces the concept of a volatility ratio[3] that attempts to identify the magnitude of discretionary consumption in each household. The Exhibit shows that, while 26% of Bayleaf users have significant volatility (defined as having a volatility ratio greater than 4.0), only a slightly lesser 20% of that system's users have minimal volatility (ratio of less than 1.5). To give perspective to that measure, if we assume solely for purposes of this exercise that the average household uses 4,000 gpm on a non-discretionary basis, the low volatility user might spike to 6,000 gpm in a given period while the high volatility users would spike to 16,000 gpm or more. The volatility ratio exposes those customers with the greatest capacity for conservation, as evidenced by their own consumption, and are the target of this

[3] Volatility ratio is defined in Thill Revised Exhibit 3 as [Consumption in Customer's 2nd Highest Usage Month / Consumption in Customer's 2nd Lowest Usage Month]. The 2nd highest and lowest months were selected in order to minimize the impact of potential anomalies in the billing data (billing errors, leaks, and other adjustments).

conservation pilot. Of the full year population of customers, 19% had low volatility and therefore low discretionary consumption. This group would be the primary benefactor of the initial conservation rates as they have a lower than average consumption pattern and would therefore benefit from the reduced volumetric cost of Block 1 consumption with limited exposure to increases in Blocks 2-4.

Witness Junis identifies the pilot as being limited, but that is the very nature of a pilot. Junis Exhibit 7 shows total measured monthly bills for the test year of 745,138, which equates to 62,095 full-time customers (at twelve bills per year). Thill Revised Exhibit 3 shows total test-year bills for pilot customers as 128,027, which equates to 10,669 full-time customers. Whereas any pilot is inherently limited, Aqua's proposed pilot covers 17% of Aqua Uniform Water customers and 100% of Fairways Water customers. This level of coverage, particularly in areas of high consumption, should provide worthful data on the effectiveness of the proposed design and valuable customer behavior information that can be used to refine the rate structure and apply it to the larger customer population in future cases.

3) The pilot reverts to ratemaking with system-specific rates as opposed to uniform rates.

This objection by the Public Staff would preclude any pilot program. As noted in my Direct Testimony, each of the seven largest cities in North Carolina uses an inclining block structure, and each is vastly different from the others. In applying a conservation rate to realize a static revenue requirement, higher consumption customers will subsidize the cost of lower consumption users. The average revenue requirement calculated to be realized from the entire population of "piloted" communities is calculated to be the same as would be realized across non-pilot communities. There is no singular "correct" model and Aqua believes that both customers and the utility are better served by testing this concept on a representative few systems before exposing the entire customer base to a drastic change in rate structure with many unknown consequences.

4) The pilot ignores the overlapping purpose of House Bill 529 and Commission Rules R7-40 and R10-27.

Contrary to this statement, the pilot program embraces House Bill 529 by making a condition of its pilot that a revenue reconciliation process also be implemented. A program that intentionally reduces consumption but does not factor that reduction (repression) into ratemaking assigns the full cost of conservation to the utility and directly compromises its opportunity to achieve the Commission-authorized return. On the other hand, a program that assigns a repression element, an unknowable variable, without a reconciliation feature adds significant risk to both customers and the utility and is in the interest of neither.

5) The potential benefit(s) of the program may be outweighed by the valuable personnel resources of the Company, Public Staff, and Commission required to implement and track the pilot.

Again, this objection by the Public Staff would seem to preclude any pilot program. Witness Junis states[4]:

> The potential benefits are subjective based on the limited supporting documentation referred to above. The Company appears to describe operations in crises due to high volume users on one hand, yet on the other hand, fails to meet its burden to describe how the pilot may result in relief to these systems or an avoidance of capital expenditures.

This argument seems to require definitive quantification of savings that might be had from a pilot that has never been implemented, essentially requiring past proof of future benefits. Aqua approached its pilot assuming that certain "truths" already exist regarding the benefits that reduced consumption might create, as well as the impact that a properly constructed block structure might have on conservation. Those "truths" would seem to be echoed in the following Comments of the Public Staff filed on May 22, 2019, in Docket No. W-100, Sub 59[5]:

> Decreased usage is a decrease in demand. In addition to the revenue and short-term variable expense effects, decreases in demand can delay or even eliminate the need to undertake capital-intensive projects such as the expansion of plant capacity. For the larger privately-owned public utilities, this can add up to thousands or possibly millions of dollars of savings that would otherwise be booked. (Pages 2-3)
>
> … decreased usage results in decreased pumping which, in turn, increases the longevity and reliability of wells. (Page 3)
>
> Due to higher prices for greater consumption, increasing block rates also send a strong conservation signal to customers. During times when a system's capacity may be limited, such as during periods of increased irrigation, the demand increase is captured by a higher cost for above

[4] Page 13, lines 6-12, Testimony of Charles Junis
[5] Retrieved from:
https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=39673075-28db-4564-a916-322180eee462

> average water usage. This increased cost may encourage customers to focus on conservation measures. (Page 8)
>
> When the demand exceeds the well pumping supply and effective storage capacity, the customers can experience low pressure, degradation of water quality, and/or a complete outage. (Page 27)
>
> Based on the foregoing review of rate structures, and based on its experience and expertise, the Public Staff is of the opinion that, to best balance the objectives of sufficient and stable revenue for the utility with appropriate signals to consumers that support and encourage efficiency and conservation, water and wastewater rates should be volumetric with one or more increasing blocks. (Page 31)

It is important to note that the conservation pilot is proposed in response to the Commission's request of Docket No. W-100, Sub 59. Benefits of a block structure as opined by the Public Staff in the quoted passages include decreased capital costs, better access to water, reduced pressure concerns, and better quality. Each of these benefits inures to the customer. The utility will hopefully experience operational relief, which was a key component of our system selection, but that is still a benefit to the customer. The economic impact to the utility is actually a reduction of future capital investment and therefore a reduction of future earnings.

That said, Aqua is supportive of the Commission's conservation initiative and appreciates its recognition that conservation brings with it challenges to the sufficiency and stability of the utility's revenue. The Company has attempted to design its pilot in a manner that encourages conservation without sacrificing its own authorized earnings. To that end, the Company has assumed price elasticity using information gathered from the 2009 report of the UNC School of Government Environmental Finance Center required by NCUC Docket No. W-218, Sub 274 and Docket No. W-224, Sub 15[6]:

> "… we assumed a price elasticity of -0.3, meaning that for every 10% increase in the total bill that the customer receives, the customer responds by decreasing their water consumption by 3%. This elasticity is based on the most recent and focused analysis on water price elasticity in North Carolina."

Witness Junis objects to the use of that elasticity measure since it "is not specific to Aqua's customer base"[7] even as Aqua's operations span 51 counties across all of North Carolina. Witness Junis' challenge would, again, essentially require past proof of future events. However, Witness Junis then seems to soften his stance somewhat in stating:

> "While a price elasticity of -0.3 may be expected on average, the projective repression applied to the customer consumption data is in addition to the Company's Conservation Normalization Factor. The Company's proposed factor most certainly includes some degree of price elasticity impact as Aqua has increased its rates three times during the analysis period of three-year averages from October 1, 2008, to September 30, 2019, (updated to April 1, 2009, to March 31, 2020).[8]"

This statement conflates two independent measures. The Conservation Normalization Factor measures the reduced consumption experienced in the past, independent of the reason for

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[6] Page 7, UNC School of Government Environmental Finance Center. (2009) "Report on the Impact of Switching to an Increasing Block Rate Structure for Water Customers and/or Uniform Volumetric Rates for Wastewater Customers of Aqua North Carolina, Inc.", filed in Docket No. W-218, Sub 274 on November 24, 2009. Retrieved from: https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=cab2e92f-7246-4c49-9036-60efd00874fb

[7] Page 13, lines 15-16, Testimony of Charles Junis

[8] Page 13, line 18 to page 14, line 4, Testimony of Charles Junis

that reduction. Repression is a research-based projection of the amount that future consumption is likely to decline directly as a consequence of a change in rates. Without providing justification as to how these concerns, individually or in combination, would yield such a result, Witness Junis concludes[9]:

> The Company's combination of the price elasticity, Conservation Normalization Factor, and failure to take into account socio-economic demographics is likely to result in the overestimation of the expected consumption reduction.

Regardless of the validity of Witness Junis' argument either in totality or of any component, his conclusion of an overestimation of consumption reduction could prove true. Such a statement should not be regarded as a softening of the Company's position but rather an acknowledgement that the modeled repression of -0.3 most certainly **<u>will not</u>** exactly be experienced. We don't know if it will be more or less, but -0.3 is the best estimate we have today of an unknowable future event. As a result, actualized repression **<u>will</u>** result in the Company receiving more or less revenue than intended by the Commission – unless a reconciliation measure is adopted in concert with the pilot as discussed earlier.

6) The pilot nearly guarantees service revenues, thus reducing risk.

While Aqua has conditioned its conservation pilot program on the implementation of a related revenue reconciliation process, that

[9] Page 14, lines 6-10, Testimony of Charles Junis

reconciliation acts as a safeguard for both customers and the utility. Aqua's intent within this program design is to encourage conservation without sacrificing its own opportunity to earn its authorized earnings. Implementing a pilot rate design that fully satisfies the totality of the Public Staff's objections would result in a design encompassing 100% of Aqua's customer base, with no elasticity assumption and no revenue reconciliation. And Staff's concern is that Aqua might want to reduce risk?

{unnumbered objection from Witness Junis' testimony} **In addition, singling out groups of customers would be discriminatory and potentially prejudicial if those customers' bills increased significantly under the inclining block rates in comparison to other customers charged uniform usage rates, or vice versa for low usage customers.**

This standard offered by Witness Junis, similar to other objections raised, would preclude any effective pilot from implementation. All pilots, by definition, only apply to a subset of the customer base, while a pilot must necessarily create significant increases/decreases to be considered effective.

Note also that any change to rate structure will necessarily create "winners" and "losers", some intentionally and some by association. This objection is another argument in favor of the Company's revenue reconciliation proposal since it specifically ensures that any excess or deficit in revenue generated by the pilot is returned to or collected from only those customers that contributed to that excess or deficit.

Q. PLEASE SUMMARIZE THE COMPANY'S POSITION ON ITS PROPOSED CONSERVATION PILOT PROGRAM AND ANY CONDITIONS TO THAT PROGRAM.

A. The Company has proposed its pilot in response to the Commission's interest in water efficiency and conservation. The pilot covers a representative group of users in mostly high-volume, operationally challenged systems that have significant opportunity for benefit and where consumer behavior can best be evaluated in terms of the effectiveness of conservation price signals. The proposed revenue reconciliation process is an integral element of this pilot program providing a critical safeguard for both the customers and the Company. If the Commission determines that the revenue reconciliation process as proposed should not be approved, the Company would respectfully and regrettably withdraw its proposed conservation pilot.

2. BILLING ANALYSIS

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My testimony rebuts certain portions of testimony provided by Witness Junis concerning topics within Billing Analysis.

Q. WHAT OBSERVATION HAS THE PUBLIC STAFF MADE REGARDING CONSUMPTION TRENDS?

A. Witness Junis provides a host of charts and graphs in Junis Exhibit 2 in an effort to support the validity of the conclusion reached in the 2016

Environmental Finance Center ("EFC") Study[10] that consumption of Aqua water customers has stabilized close to an average of 5,000 gallons per month. He opines that "The average monthly consumption each year may fluctuate above or below the three-year average, however, the band of variation has narrowed significantly in recent years.[11]" And further, "From the updated data on a consolidated basis, there has been a clear leveling or stabilizing of average monthly consumption.[12]"

Q. IN WHAT CONTEXT IS THIS DISCUSSION OF STABILITY?

A. The Company has suggested that the use of a three-year average in determining consumption should be supplemented by a Conservation Normalization Factor; that is, an adjustment to reflect a continuing downward trend in rates of customer consumption. The Public Staff has countered that the downward trend has stabilized and therefore no adjustment is warranted.

Q. WHAT IS WITNESS JUNIS' CONCLUSION REGARDING AQUA'S CONSERVATION NORMALIZATION FACTOR?

A. Witness Junis concludes:

> The average consumption during the years 2008 through 2012 were higher and trended downward. However, that trend is no longer occurring and, therefore, using it to calculate the Conservation Normalization Factor would underestimate average monthly

[10] Page 58, UNC School of Government Environmental Finance Center. (2016) "Studies of Volumetric Wastewater Rate Structures and a Consumption Adjustment Mechanism for Water Rates of Aqua North Carolina, Inc.", filed in Docket No. W-218, Sub 363A on March 31, 2016. Retrieved from: https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=a7fd9d58-46ed-425f-9298-c4419f319a1f

[11] Page 22, lines 11-14, Direct Testimony of Public Staff witness Charles Junis filed in Docket No. W-218, Sub 526, on May 26, 2020.

[12] Page 24, lines 20-22, Testimony of Charles Junis

> consumption per customer. This is especially important when the number of customers and the total consumption continues to increase and, as concluded by the EFC, that growth in revenues outpaces the associated variable expenses.[13]

Two points stand out for debate from this statement: 1) since the trend is no longer occurring, the Company's calculation would underestimate average monthly consumption, and 2) due to growth in the number of customers, total consumption continues to increase and outpaces the associated variable expenses.

Q. DOES AQUA AGREE WITH THE STAFF'S OBSERVATION CONCERNING THE LACK OF A CURRENT TREND?

A. The Company agrees that a narrowing of the band of variation has occurred, but true stabilization would imply essentially no volatility at all. The Company has acknowledged, as Witness Junis states, that the three-year average advocated by the Public Staff accomplishes a smoothing of year-to-year consumption patterns impacted by weather. If we assume that the three-year average is effective in this purpose, the average change from year-to-year should be fairly minimal and equally move in positive and negative directions. In fact though, as Junis Exhibit 2, page 2 shows, 7 of the 8 changes in the most recent consolidated three-year averages were decreases. When we view the data at the rate entity level, 19 of 24 changes (79%) were negative, including every measurement for the Brookwood entity. Aqua chose

[13] Page 28, lines 4-11, Testimony of Charles Junis

the periods presented in Junis Exhibit 2 as that data shows the clear and convincing trend that has plagued the Company for years. As noted, Aqua agrees that a narrowing has occurred, but a narrowing does not mean the trend is gone. If we were to tighten our view to just the change over the last three years, we would see two (2) declines and one neutral experience for the consolidated operations, and seven (7) of nine (9) declines at the rate entity level.

Witness Junis discusses the effect weather can have on a single year, such as the 12-month period ending March 31, 2019. While the three-year average smooths that out over time, a particularly wet or dry year will skew the average of each calculation for three years, hopefully offset by an unusual weather pattern with the opposite impact on consumption. With that in mind, an alternative view of the ongoing trend could be to look at the absence or presence of stability in the three-year averages in three-year intervals. Analyzing the data in this manner removes the multi-year impact of anomalies and, using figures from Junis Exhibit 2, shows continued volatility as calculated in Thill Table 1.

Thill Table 1

Entity	3/31/14	3/31/17	Change	Annual	3/31/20	Change	Annual
All	5,338	5,160	-3.33%	-1.11%	5,036	-2.40%	-0.80%
ANC	5,068	4,961	-2.11	-0.70%	4,870	-1.83%	-0.61%
Brookwood	5,844	5,484	-6.16	-2.05%	5,083	-7.31%	-2.44%
Fairways	7,582	6,994	-7.76	-2.59%	7,139	+2.07%	+0.69%

As Thill Table 1 shows, a consolidated decrease from 5,160 gpm at 3/31/17 to 5,036 gpm at 3/31/20 is a change of -2.40% over three years, or -0.80% per year on a simple average. By many standards, that could be termed stable. For the Company however, that 0.80% difference comes at a real dollar cost as we will discuss shortly.

When viewed at the rate entity level, consumption in the Brookwood entity is certainly not stable. Witness Junis opines that "It would be reasonable to expect the Brookwood Water average monthly consumption to eventually flatten and stabilize …"[14] When responding to a Data Request for further explanation for that conclusion, Witness Junis responded that "consumption cannot decline in perpetuity as there is some minimum level of non-discretionary usage[15]." On that point we can agree. There is a bottom out there somewhere but there is no evidence we are there. In fact, even if we were at that bottom today, we are still using inflated historical consumption data to

[14] Page 24, lines 17-19, Testimony of Charles Junis

[15] Public Staff response to Aqua Data Request 7, Question 7a, included here as Thill Rebuttal Exhibit 4

determine today's rates. The chart for Brookwood Water presented in Junis Exhibit 2, page 4, clearly shows the decline. Rates are proposed by the Public Staff to be set using the three-year historical average which essentially moves and utilizes consumption levels from eighteen months earlier on that chart (the mid-point of the three years used in the average). Meanwhile, the Public Staff has proposed to increase the cost to the Company of any further consumption declines.

Q. WHAT IS MEANT BY YOUR STATEMENT THAT THE PUBLIC STAFF IS PROPOSING TO INCREASE THAT COST?

A. Thill Rebuttal Exhibit 1 provides a summary of the Public Staff's rate design. This Exhibit shows proposed service revenues in the amount of $61.9 million. Comprising that amount is $43.8 million for water revenues using a 30/70 fixed-to-variable ratio, and $18.1 million of sewer revenues including $10.7 million which has been modeled by the Public Staff using a 60/40 fixed-to-variable ratio. The ratios approved by the Commission in the Company's Sub 497 rate case were 40/60 for water and 100/0 (fully fixed) for that comparable subset of sewer customers. Thill Rebuttal Exhibit 2 shows the impact of these ratio adjustments would be to move an additional $8.6 million, or 16% of the revenue subject to rate design, from fixed to variable. These ratio adjustments are being done with the express intent of encouraging conservation, which reduces revenue and adds volatility to the Company's revenue stream. Staff's assessment of stability is not necessarily wrong, it is just measured against a different yardstick than the Company's. Staff is focused on percentages while the Company focuses on real economic impact.

Q. HAS THE COMPANY QUANTIFIED THE "REAL ECONOMIC IMPACT" SUGGESTED IN THE PRIOR ANSWER?

A. The Company's yardstick of economic impact measures against the $34.8 million of variable revenue (see Thill Rebuttal Exhibit 1) tied directly to consumption, or 56% of the Staff's proposed $61.9 million. A 0.80% decline as discussed earlier may be small enough to be considered stable by some, including witness Junis, but it calculates to a $278,000 loss of revenue by the utility when applied to the variable component of the Company's revenue stream. Later in this testimony, I address the Public Staff's use of the term "financial windfall" in reference to $4,000. Here we have the genesis of a $278,000 potential revenue deficit, yet it seems that the Staff would have the Company accept that as "close enough."

Q. WHAT IS THE COMPANY'S RESPONSE TO STAFF'S CONTENTION THAT DUE TO GROWTH IN THE NUMBER OF CUSTOMERS, TOTAL CONSUMPTION CONTINUES TO INCREASE AND OUTPACES THE ASSOCIATED VARIABLE EXPENSES?

A. Aqua has been able to serve more customers, positively impacting the Company with additional revenue in the short term (until those customers are included in the next rate case), while producing long-term benefits to the entire customer base by spreading the Company's mostly-fixed costs across a wider distribution. Staff's reference to the outpacing of associated variable expenses is attributed to the EFC Study. Witness Junis does not provide a specific reference but the Study's discussion on the impact of growth, at page 10, provides the following:

> Expenses would also rise. In the example described in the question, only short-term variable expenses would rise, plus a small portion of the fixed expenses (e.g. administrative costs for billing and collections).

But the Study continues further on that page:

> However, customer growth will eventually affect all short-term costs (fixed and variable) as well as some of the long-term costs.
>
> If depreciation, taxes and interest are also factored in (longer-term costs), the Test Year 2013 total wastewater expenses averaged $65.20/bill, canceling out the additional revenues generated from the new customers.

And further still:

> This analysis, however, does not consider the fact that operating expenses in the future will likely not be the same as they were in Test Year 2013. If unit costs for O&M increase (e.g. cost of chemicals and power increase, salaries increase, etc.), the future costs would be higher than the averages calculated above.

Staff is promoting a top-line-only rationale that the <u>prospective,</u> post-rate case, event of growth should justify the <u>current</u> practice of ignoring demonstrated and continual deficiencies in the three-year consumption average, and does so while ignoring comprehensive cost increases associated with providing services in that prospective period.

Q. IS THERE ANY INDICATION THAT THE PUBLIC STAFF MIGHT HAVE CONCERNS ABOUT THE FAIR REPRESENTATION OF THE THREE-YEAR AVERAGE AS A PROXY FOR CURRENT CONSUMPTION?

A. Witness Junis has devoted considerable effort to support his contention that the current measure of the three-year average is a fair and stable representation of customer consumption. That would imply a balance that could tip in either direction, which the data shows has not been the case, even in recent years. But if we were to accept Witness Junis' conclusion that the three-year average was an appropriate proxy for current consumption, that would imply that the measure would reflect an equilibrium between risk and opportunity for both customers and the utility. Despite that risk equilibrium, the Public Staff has suggested in this case and prior, that a risk premium reduction should accompany any consumption adjustment mechanism. If the risk is truly evenly distributed, the presence or absence of a consumption adjustment mechanism in a "stable" consumption environment would have no greater value for the Company than it would for the customers.

Q. WITNESS JUNIS HAS RECOMMENDED APPLICATION OF CONSUMPTION FACTORS TO SEWER ENTITIES IN CONTRAST TO THE COMMISSION'S DECISION IN THE SUB 497 RATE CASE. DOES AQUA AGREE WITH THIS ADJUSTMENT?

A. The Company strongly disagrees with the proposed adjustments as being flawed in concept. Witness Junis analyzed the consumption history of a substantial number of customers for whom the ANC and Fairways entities provided both water and sewer services. That analysis produced the figures that follow in Revised Junis Table 4 (Witness Junis provided this revised table when alerted by the Company that certain information originally provided in support of this analysis had contained inconsistencies).

Revised Junis Table 4

Rate Entity	Test Year Ending Sep-19	Three-Year Average Ending Mar-20	Consumption Factor
Aqua Water	4.840	4.871	0.65%
Aqua Sewer	5.116	5.004	-2.20%
Brookwood Water	5.035	5.069	0.66%
Fairways Water	7.785	7.151	-8.13%
Fairways Sewer	6.486	6.169	-4.90%

Witness Junis concludes as presented in Revised Junis Table 4 that, for one example, where the three-year average of Fairways customers in the population averaged consumption of 6,169 gallons per month ("gpm") and the test year consumption was 6,486 gpm, it is reasonable to expect consumption to decline to the three-year average (a 4.90% decline) so variable costs for those sewer entities should likewise be reduced. Thill Rebuttal Exhibit 3 uses the same data source that Witness Junis used in calculating the three-year averages in his Revised Table 4. This Exhibit expands the comparison to a monthly evaluation of residential customers, as opposed to Witness Junis' annual calculation. Note that comparable monthly commercial information was not immediately available but represent only 28% and 2% of the consumption for ANC and Fairways, respectively. For reference in viewing this Exhibit, the Exhibit's far-right column labeled "Consumption Factor" shows a negative factor when the test year consumption was higher than the three-year average, and if we expect consumption to revert to the average, the proposal alleges that sewer flows would see a similar decline and variable expenses should be adjusted downward accordingly. Positive variances would indicate the opposite. Witness Junis' proposition pivots on the concept that an increase in water consumption necessarily correlates to an increase in sewer expenses. However, the Exhibit clearly indicates that the increased water consumption in this population is concentrated in the summer months, as one would expect. Discretionary water usage in summer months is driven overwhelmingly by irrigation, which goes into the ground, not the sewer system. To evaluate the non-discretionary water usage that does flow through the sewer system, the analysis should focus only on the less-discretionary usage of the winter months which, as can be seen in the Exhibit, have actually experienced lesser flows than the average. If we hold to the Public Staff's philosophy that consumption should return to the three-year average, a better argument could be made that test-year sewer flows were actually below average and should be expected to increase, and therefore a positive adjustment to sewer expenses should be considered. The Company does not propose such an adjustment at this time but rather recommends that no consumption adjustment be assigned to sewer entities in keeping with the decision of the Sub 497 Order.

Q. WITNESS JUNIS HAS CHALLENGED THE COMPANY'S APPLICATION OF GROWTH AND CONSUMPTION FACTORS TO CERTAIN EXPENSE ITEMS. DOES THE COMPANY AGREE WITH THIS ADJUSTMENT?

A. Aqua does agree with Staff's adjustment. The Company's intent was to maintain consistency with the Commission's Sub 497 Order but erroneously applied growth and consumption factors to purchased water expenses and purchased wastewater treatment.

3. RATE DESIGN

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose is to rebut certain portions of testimony provided by Witness Junis concerning topics within Rate Design.

Q. WHAT IS THE CURRENT AVERAGE WATER BILL SERVICE REVENUE RATIO (BASE FACILITY CHARGE vs USAGE CHARGE), WHAT RATIO HAS THE COMPANY REQUESTED, AND WHAT DOES THE PUBLIC STAFF RECOMMEND?

A. The Sub 497 Order approved a water rate ratio of 40:60 and the Company has requested that no change be made to that ratio. Staff is proposing a shift to 30:70.

Q. DOES THE COMPANY AGREE WITH THIS SHIFT TO A GREATER VOLUMETRIC RATE?

A. No. The Company does not agree with the appropriateness of a shift to greater volumetric rates. In proposing this shift, the Staff offers:

> The incremental shift to higher volumetric charges sends a price signal that properly promotes efficiency and conservation. As discussed above, the Company's total service revenues continue to increase annually and are expected to outpace the associated variable expenses. In addition, average monthly consumption per customer been shown to be stabilizing. This combination of growth and stabilizing consumption makes it unlikely that the revenue instability and insufficiency the Company warns against will come to pass.[16]

The Company's objections to this rationale exist on several levels:

[16] Page 34, lines 8-16, Testimony of Charles Junis

- Earlier discussion has already debated whether stabilization has actually occurred;
- If a design is expressly employed to induce efficiency and conservation (i.e. lower consumption), past stability, even as a flawed conclusion, has no relevance in assessing future destabilization;
- As quoted earlier from the EFC study:

> Expenses would also rise. In the example described in the question, only short-term variable expenses would rise, plus a small portion of the fixed expenses (e.g. administrative costs for billing and collections).
>
> However, customer growth will eventually affect all short-term costs (fixed and variable) as well as some of the long-term costs.
>
> If depreciation, taxes and interest are also factored in (longer-term costs), the Test Year 2013 total wastewater expenses averaged $65.20/bill, canceling out the additional revenues generated from the new customers.

Staff's focus on only short-term variable expenses continues to ignore the comprehensive cost of providing service;

- Staff would create further imbalance between the Company's highly fixed expense structure (89% short-term fixed expenses for water entities as determined by the EFC Study[17]) and its mostly variable revenue structure;
- Staff offers, here again, that future revenue deficiencies that are a known and intended consequence of this rate design process

[17] Page 11

should be recovered from future growth, without regard to the utility's need to cover growth in future expenses incurred fully on behalf of and for the benefit of its customers. Witness Junis opens his comment on the Staff's position on water rate design by saying:

> The Public Staff agrees with the Commission that a balance should be struck between achieving revenue sufficiency and stability to ensure quality, reliability, and long-term viability for properly operated and well-managed utilities on the one hand, and setting fair and reasonable rates that effectively promote efficiency and conservation on the other hand.[18]

Staff's proposal provides further customer incentive for efficiency and conservation but serves to exacerbate the Company's current concerns regarding revenue sufficiency and stability.

Q. DOES THE CURRENT 40/60 RATIO PROVIDE CONSERVATION INCENTIVE AND WOULD A SHIFT TO 30/70 PROVIDE MATERIALLY MORE INCENTIVE?

A. Conservation incentive exists whenever there is a volumetric element to the rate design, and a shift to a greater volumetric element provides greater conservation incentive. The materiality of that change really depends again on your measuring tool. Witness Junis states "For ANC Water, the present uniform water rate structure provides relatively little incentive, a bill reduction of 37.6%, for customers to significantly reduce their usage by 50%.[19]" For the Public Staff, 37.6% is relatively little but 50%

[18] Page 33, line 22 to page 34, line 4, Testimony of Charles Junis
[19] Page 36, lines 9-11, Testimony of Charles Junis

is significant. Witness Junis' proposal, using his proposed 30:70 rate structure, would move that percentage to 41.2%[20]. The analysis relies heavily on percentages to discuss extreme changes in consumer behavior. Staff offers no reason to believe that a typical 10,000 gpm user might have sufficient discretionary usage to cut their consumption in half. Nor is there reason to believe, using Junis Table 6, that the same 10,000 gpm customer might react differently if the incentive to reduce consumption was increased from the Company's proposed savings of $29.15 to the Staff's proposal of $34.35. Additionally, though Witness Junis presents that this rate design shift will drive customer conservation, he makes no provision in his rate design for elasticity and specifically objected to the concept of an elasticity adjustment in the Company's conservation pilot program. He offers no safeguard or offset to the Company while intentionally attempting to drive down consumption creating additional risk for the Company. Staff makes this proposal while also asking for a 10-basis point risk penalty if a consumption adjustment mechanism is approved. Missing from the Staff's discussion on the financial incentive of conservation to the customer is from where those dollars saved will come? Where is the balance to sufficiency and stability against the intended conservation, particularly considering an already unrepresentative 40:60 fixed vs variable rate structure and a demonstrated pattern of declining consumption?

[20] Page 36, line 18, Testimony of Charles Junis

Q. WHAT IS THE CURRENT AVERAGE WASTEWATER BILL SERVICE REVENUE RATIO (BASE FACILITY CHARGE:USAGE CHARGE), WHAT HAS THE COMPANY PROPOSED, AND WHAT DOES THE PUBLIC STAFF RECOMMEND?

A. For residential customers: The Sub 497 Order approved a ratio of 100:0 (flat rate) and the Company has requested that no change be made to that design. Staff is proposing a shift to 60:40 for all customers that are provided both water and sewer services by the ANC or Fairways entities, and flat rates for all others.

For commercial customers: The Sub 497 Order approved a ratio of 35:65 and the Company has requested that no change be made to that design. Staff is proposing to increase the ratio to 60:40 to align with its proposal for residential customers.

Q. DOES THE COMPANY AGREE WITH THIS SHIFT TO A VOLUMETRIC RATE?

A. Emphatically not. The Company does not agree with a shift to volumetric sewer rates for many of the same reasons expressed earlier concerning Staff's proposal for a greater volumetric element for water revenues. Witness Junis recounts in his testimony the genesis and subsequent history of an EFC study authorized by the Commission and completed in 2016. No evidence or conclusion is provided from that study, nor does Witness Junis provide evidence of his own in support of his position. Though it is difficult to rebut an argument not made, Witness Junis' position could be argued against using some of his own objections logged earlier in the discussion of the pilot program, particularly with regard to reversion from uniform to system-specific rates and the potential for claims of discriminatory practices.

Aqua's own objections include many of those raised earlier. The Staff proposal:

- Creates further instability and insufficiency in the Company's revenue stream without safeguards for the utility or ROE compensation for the added risk;
- Makes no provision in the rate design for the elasticity that is an intended consequence of this proposal;
- Disassociates sewer revenues from sewer expenses since much of the fluctuation in water revenues is due to irrigation and other customer behaviors that have no effect on sewer operations;
- Creates further imbalance between the Company's highly fixed expense structure (83% short-term fixed expenses for wastewater entities as determined by the EFC Study[21]) and its current mixed revenue structure. The current imbalance in favor of fixed costs in the sewer entities is more than offset by the greater imbalance in the (larger) water entities.

Q. ARE THERE ADVANTAGES TO A FLAT RATE STRUCTURE?

[21] Page 6 of the EFC Study

A. Yes, the EFC Study listed the following benefits of flat-rate billing:

> Flat-rate (flat-charge) billing is simpler to administer for the utility, and easier to budget for as a customer in terms of knowing with certainty what the wastewater charge will be every single month. Customers that have high water use (or even have a leak) will not be charged an excessively high volumetric wastewater bill. Flat-rate billing avoids the difficulty of pricing a volumetric rate, which could create problems if a portion of the customer base relies on high water use for basic needs and will therefore face high volumetric wastewater rates. Flat-rate billing provides a more predictable and stable revenue stream to the utility.[22]

Q. ARE THERE ADVANTAGES TO A METERED STRUCTURE?

A. Yes, there are advantages to metered billing, but in that Staff has not offered any testimony in support of those advantages, the Company will not seek to rebut its own position here, particularly as weighed against the many disadvantages already enumerated.

4. UTILITY PLANT IN SERVICE ("UPIS")

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. To rebut the joint testimony of Public Staff Witnesses Henry and Junis concerning their review of Utility Plant in Service.

Q. WHAT CONCERN REGARDING UPIS HAS THE PUBLIC STAFF IDENTIFIED IN ITS REVIEW?

A. As recounted in Staff's testimony at greater length and detail[23], in response to Public Staff's recommendation, the Commission ordered in the W-218, Sub 274, rate case, a review of and changes to Aqua's

[22] Page 8 of the EFC Study

[23] Page 7, line 8 to page 8, line 15, Joint Testimony of Public Staff witnesses Windley E. Henry and Charles M. Junis, filed in Docket No. W-218, Sub 526, on May 26, 2020.

accounting procedures. In complying with Ordering Paragraph No. 12 of that Docket, the Company responded as follows[24]:

> On a monthly basis the Accounting Department sends the Regional Managers a CWIP report for review, requesting that the Managers notify Accounting of projects that are complete and in service. Accounting allows 30 to 60 days for any trailing costs to be charged to these in-service activity numbers before closing the asset.

Regarding that policy, Staff lists among its concerns[25]:

> This approach would be acceptable to the Public Staff if utilized consistently and for an overwhelming majority of its construction work in progress (CWIP) projects. However, based on its review, the Public Staff has found that this has not been the case. There are numerous projects that have been unitized by the Company in the same month, and sometimes even the same day, as being placed in service, while others are unitized months, or even years, after being placed in service. The evidence and discussion of this issue is presented in further detail later in our testimony.

Staff includes within its testimony and exhibits specific assets for which the unitization date is called into question and concludes[26]:

> The inconsistent UPIS practices described above are concerning to the Public Staff as they can result in financial windfalls to the detriment of ratepayers.

Q. HOW DOES AQUA RESPOND TO THIS CONCERN?

A. Aqua takes this matter very seriously and has worked with the Public Staff to understand its concerns. The Company has provided an inordinate amount of detail and has reviewed that information and Aqua's related processes extensively with Staff. In fact, the Company provided Staff with

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[24] Second Status Report filed in Docket No. W-218, Sub 274, on September 29, 2009.
[25] Page 8, lines 16-24 of Joint Testimony
[26] Page 17, lines 3-5 of Joint Testimony

information on over 63,000 asset entries for the period 2015-2020. The Company has nothing to hide, the data speaks for itself, and we disagree with Public Staff's conclusion. There are systems and processes in place to track, document and verify the Company's utility plant in service. Aqua North Carolina is a subsidiary of Essential Utilities (formerly Aqua America), a publicly traded utility. As such, Essential Utilities is subject to the Sarbanes-Oxley process which includes a review of key internal controls on an annual basis. In addition, the finance department of Aqua North Carolina works through quarterly reviews of various capital project reports and conducts regular meetings with operations and engineering staff to stay informed of the status of Construction Work in Progress ("CWIP"). Finally, Essential Utilities also has an internal audit group that follows a three-year rotational review of each state, which includes Aqua North Carolina (last review in 2018). While all processes are subject to inadvertent mistakes and no process is without room for improvement, the Company feels strongly that its processes work, and work well. As to the specific concerns, we will address them in paragraphs to follow.

Q. PLEASE COMMENT ON THE GENERAL BREADTH AND SIZE OF THE COMPANY'S INFRASTRUCTURE IMPROVEMENT FOCUS AND HOW THIS IMPACTS THE ACCOUNTING STAFF CHARGED WITH RECORDING THESE ENTRIES.

A. In any given month, the Company is closing as much as $13 million in rate base. Excluding the auto-unitizing "blanket"[27] projects, the Company manually unitized an average of 133 line-items per month in 2015-2020, and as many as 749 in a single month. Each of these line-items can be as simple as a single invoice or as complex as hundreds of lines of activity including vendor payments, internal payroll capitalizations, inventory assignments, overhead allocations and AFUDC assessments.

Projects are a compilation of the efforts of specialists: engineers, operators and compliance professionals. The Company does not employ an overlay of professional project managers but rather relies on the individual specialists to successfully execute within their silos of expertise, as well as in concert with each other. The unitization process is coordinated by the Company's property accountant. That individual is a highly skilled and experienced accountant, and though neither a project manager nor a field expert, her role has elements of each discipline. It is particularly the project management element that instills complication and real world challenges in the unitization process as she coordinates the administrative "punch list" of open items across the various disciplines, integrated with the accounting requirements to ensure that vendor payments occur only when properly

[27] "Blanket" funding projects represent a specific category of asset additions with particular characteristics within the Company's Power Plant asset subledger. These projects are typically routine replacements, often emergency services or similar expenditures that require no engineering or long-term coordination of resources. These assets are not assigned (and Aqua personnel have no ability to assign) completion or in-service dates as they are immediately unitized and placed in-service in the month the expenditure is incurred. This is a standard feature of the Power Plant asset subledger, a software program designed for the utility industry. Because these purchases unitize individually each month for each asset class and each system, Aqua's asset listing is overwhelmingly comprised of blanket purchases.

approved and substantiated.

Q. DO YOU KNOW IF AQUA NORTH CAROLINA IS UNIQUE IN THE REQUIREMENT TO CLOSE PROJECTS FOR INDIVIDUAL SYSTEMS?

A. Yes, the North Carolina requirement for system level assignment of assets is unique. It is my understanding that no other state in which Aqua operates requires assets within the same consolidated rate division to be accounted for at the individual water system level. To give perspective to the diffuse nature of Aqua North Carolina's operations and resultant accounting challenges, there are 735 water systems and 64 sewer systems in Aqua North Carolina. These North Carolina systems comprise nearly 50% of the systems in all of Aqua America but serve less than 10% of all its customers. In my view, the system-level of detail takes away one of the benefits of consolidation and exacerbates the added layer of work in tracking the thousands of projects our employees work on every year.

Q. DESPITE THIS DETAIL, DOES THE PROCESS WORK?

A. Yes, the Company has adapted to this process. However, I will note, and it must be recognized, that real work events impact the process. Employee vacations and sick time, vendor changes, delays, and varying levels of field staff experience are just a few examples of factors that impact the process. I will also note that, building on earlier discussion regarding project management, communication between the field staff and accounting staff is key here. Again, due to the way in which individual projects are closed, that communication impacts the timing of closing projects.

Q. PLEASE EXPAND ON THE PUBLIC STAFF'S CONCERN.

A. Staff's concern is that the Company—allegedly intentionally---unitizes assets inconsistently. In Staff's view, the unitization occurs too quickly in some cases, and not soon enough in others. When an asset unitization is delayed----even where necessary or unavoidable---it can end up in the wrong year. Their concern follows that this impacts the starting period for depreciation and that can have an impact on rate base, and therefore rates.

Q. HOW DOES USING THE MID-YEAR DEPRECIATION CONVENTION MINIMIZE ANY INCREMENTAL GAIN FOR THE COMPANY?

A. The mid-year convention is a commonly used depreciation method, compliant under Generally Accepted Accounting Principles, that assesses a half year's depreciation to all assets in the year of acquisition regardless of the in-service month. Whether an asset is unitized in January-2019 or December-2019, the asset will be assessed the same ½ of a full year's depreciation, therefore minimizing the impact of the unitization date during the year.

Q. WHERE HAS THE PUBLIC STAFF SEEMED TO FOCUS IN TERMS OF UNITIZATION DATES?

A. Because of the mid-year depreciation convention, unitization dates really only matter when an asset crosses years. For example, if an asset is unitized in 2020 that should have been unitized in 2019, the asset will record no depreciation in 2019 and six months of depreciation in 2020. However, the asset would appropriately have recorded six months in 2019 and a full year in 2020, a difference of one year's depreciation. Thus, much of the conversation with Public Staff has been when an asset crosses years.

Q. DO YOU HAVE ANYTHING YOU'D LIKE TO COMMENT ON IN REGARD TO THE PUBLIC STAFF'S TERMINOLOGY?

A. Yes, Staff's use of the term "financial windfall" is concerning. Aqua takes exception to this language and to the insinuations that arise from it. As mentioned previously, Aqua has thousands of projects each year that must be documented and processed on a timely basis. The Company is always open for constructive suggestions from the Public Staff and we will review those recommendations; especially those which can help improve our processes. The Company objects strongly, however, to suggestions that we are trying to inflate the costs to ratepayers to the benefit of shareholders. A successful organization finds a balance among all its stakeholders: customers, shareholders, employees, bondholders, the environment, and the communities in which we reside and to whom we serve. Aqua feels strongly that it has a history of maintaining such a balance and rejects any implication to the contrary.

Q. WHAT CONCERNS WERE IDENTIFIED BY THE PUBLIC STAFF IN HENRY AND JUNIS EXHIBIT 1?

A. Henry and Junis Exhibit 1 lists nine projects (fifteen line-items) totaling $5.8

million of additions included in the prior rate case (W-218 Sub 497, decided by Order of December 18, 2018) that Staff now believes may have been unitized in the wrong period. Although Staff proposed no adjustment for these expenditures, since the issue has been raised, the Company addresses it here.

Note that upon its further review, Staff has acknowledged[28] that one of the listed projects (Governor's Club EQ Replacement) in the amount of $1.1 million is no longer a concern for Staff.

Q. PLEASE EXPAND ON SOME OF THE REASONS WHY A PROJECT CLOSING MIGHT BE DELAYED AS PART OF NORMAL OPERATIONS OF THE COMPANY.

A. The Company agrees with the Public Staff's assessment that the unitization process can be cumbersome, but much of that is a direct result of the inherent complexity of any project completion process. As described previously, the closing of a project can involve the separate functions of engineering, operations, compliance and accounting. External influencers such as vendors and regulatory agencies add another level of complexity and inefficiency. As Staff notes, ideally all plant would unitize in the month placed in service, but Staff also notes appropriate causes for delay in unitization "… include, but are not limited to, receipt of accounts payable from vendors, invoicing disputes, and mechanical, structural, and/or

[28] Provided by Public Staff in response to question 3a of Aqua's Data Request No. 8

efficacy issues that develop upon start-up.[29]"

Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND JUNIS EXHIBIT 1?

Thill Rebuttal Exhibit 5 has added a column to Henry and Junis Exhibit 1 to identify the last invoice payment for each of the listed projects. Staff identified a number of subjective reasons that might appropriately delay unitization, but invoice payment dates are a fully objective indicator, as the project ***cannot*** close until all costs are in. Note that six line-items totaling $3.4 million of the $4.7 million in question (after removing the Governor's Club project from the population) show that, despite having in-service dates of October 2017, final invoice payments did not occur until December of 2017. Another $0.8 million made final payments in November 2017. Just as immediate unitization is an ideal, so too is the 30-60 day subsequent window.

Q. BASED ON YOUR REVIEW, IS IT EASY TO SECOND-GUESS SOME OF THE CLOSINGS?

A. Looking back, we can now know definitively when final payments were made, but only through that lens of hindsight. Information is often not known for some window of time after payments are made due to the necessary

[29] Provided by Public Staff in response to question 1b(i) of Aqua's Data Request No. 8, included in this Rebuttal as Thill Rebuttal Exhibit 6.

coordination between internal departments and external vendors, particularly where invoice disputes might exist. And payment processing is only one factor for consideration in the unitization process. The Public Staff's post-unitization review has the benefit of hindsight in reviewing payment data, but does not assess the full complement of factors influencing the Company's unitization on a real-time basis. Yet, Staff would seek to retroactively assign its conclusion to the Company's unitization practice.

Q. WHAT OTHER OBSERVATIONS DID STAFF MAKE?

A. Despite expressing its view that unitization in the month placed in service is the ideal practice, Staff, at the same time, registers concern when that ideal is actually achieved. Staff opines that "the Company benefits financially from unitizing plant costs as close to rate recovery as possible.[30]" The Company offers that a more correct phrasing of this relationship is that the Company is harmed less by lag when it unitizes plant costs as close to rate recovery as possible. Staff correctly notes that unitizations occur at a higher frequency in the months that cut off the two semi-annual WSIC/SSIC filing periods. Regulatory lag itself incentivizes utilities to time the start and completion of projects based on rate recovery cycles. This should be neither surprising nor alarming. As quoted in Staff's testimony, the primary intent of the WSIC/SSIC mechanism is "… to encourage and accelerate

[30] Page 11, lines 16-18 of Joint Testimony

investment in needed water and sewer infrastructure by means of a mechanism which will alleviate the effects of regulatory lag…[31]" The concern raised now by Staff is not a challenge to the prudency of the expenditure or the validity of recovery or even the timely benefit to the customer, but that somehow the Company is wrong for timing its expenditures to minimize the loss of its original cost (or principal, if one were to view the transaction as a loan to be repaid) as well as the related cost of capital (or interest/return). Note that the interest and depreciation (principle) incurred/recorded on all assets is LOST (free) through the date an asset is included in prospective rates – these costs are never recovered by the utility. Staff would have the Commission accept that the Company's prudent, loss-minimization strategy equates to the production of an inappropriate "financial windfall." Obviously, the Company contests that assertion.

Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND JUNIS EXHIBIT 3?

A. Henry and Junis Exhibit 3 describes projects included in the Company's November 1, 2019 Application for Approval of Water and Sewer System Improvement Charge Rate Adjustments. Staff paints a picture of an inflated

[31] Page 31, lines 22-25 of Joint Testimony, quoting from the Commission's May 2, 2014, Order Granting Partial Rate Increase, Approving Rate Adjustment Mechanism, and Requiring Customer Notice, in Docket No. W-218, Sub 363

WSIC/SSIC application by the Company to the financial detriment of its customers. Aqua agrees that adjustments were made in October to reduce the cost of assets included in that application by $16,354. The adjustments were necessary and appropriate corrections of a system processing error that recorded too much AFUDC in September. It was an inadvertent mistake. However, contrary to Staff's representation, this information was provided to the Public Staff and was considered in the Staff's presentation for the Commission's approval. The Order included several references to the Aqua revised Appendix B as well as Staff's recommendations as follows[32]:

> (1) Revisions made to Uniform water project cost – In response to Public Staff data requests, Aqua provided to the Public Staff, a *revised Appendix B* for Uniform water operations reflecting a reduction of the total cost of several projects listed in the original filing. The combined reduction of these project costs is $9,193.
> (2) Correct accumulated deferred income tax (ADIT) – Aqua inadvertently calculated tax depreciation on land acquired as part of the 2019 projects costs for Uniform water operations. This error was subsequently corrected by Aqua in the *revised Appendix B* provided to the Public Staff.
> (3) Adjustment to Brookwood/LaGrange project cost – The Public Staff is recommending an adjustment to decrease the cost of the Strickland Road water main relocation project from $237,426 to $236,737 based on responses provided by Aqua to Public Staff data requests.

(emphasis added)

[32] Page 4 of January 6, 2020, "Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice", Docket No. W-218, Sub 497A

Thill Rebuttal Exhibit 7 shows relevant components of the initial filing and the approved Order. It is unclear why some discrepancies exist but Aqua notes that the Order reflects the AFUDC adjustments for:

- the full list of ANC Water projects,
- none of the ANC Sewer adjustments,
- and only one of three Brookwood adjustments.

As a note for completion, it appears that the Company did not provide the AFUDC adjustment amount of $1,829 for two ANC Sewer projects included in Henry and Junis Exhibit 3.

Thill Rebuttal Exhibit 7 shows definitively that the Company did provide, and Staff was aware of and considered, at least the majority of the October adjustments. Staff mistakenly states otherwise in its testimony[33]:

> The Company did not provide this credit to plant as an update to the WSIC/SSIC Application and therefore, since January 1, 2020, the Company has been recovering the incremental depreciation expense and capital costs associated with the $16,354 through the mechanism surcharges. The Public Staff will recommend the excess monies recovered between January 1, 2020, and the date of the rate case order in the present docket be refunded as part of the annual review and EMF as of the end of the year. The foregoing analysis shows that the Company is not consistently following its own accounting procedures to "allow 30 to 60 days for any trailing costs to be charged to these in-service activity numbers before closing the asset."

Public Staff's recommendation in the WSIC/SSIC Order, with these AFUDC adjustments in-hand, concludes in part[34]:

[33] Page 12, line 15 to page 13, line 3 of Joint Testimony
[34] Page 5 of January 6, 2020, "Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice", Docket No. W-218, Sub 497A

> The effect of the adjustments discussed above reduces the overall revenue requirement for Uniform water and Brookwood/LaGrange water operations, however, Aqua's proposed WSIC percentages did not change based on the projected 2020 non-WSIC revenues.

That conclusion by Staff would indicate that it felt at the time, and with knowledge of at least the majority of those adjustments, that rates were set appropriately.

The Company is in full agreement that the referenced WSIC/SSIC rates should be subject to recovery by customers of any excess collections, as all WSIC/SSIC adjustments are. However, the Company would argue strongly against Staff's claim that this incident is indicative of a variance in the Company's accounting procedures or that this event supports Staff's overall conclusion that a review of procedures is warranted. The specific incident that Staff brings to question here is the correction of an inadvertent processing error. The Company's immediate correction of that error and timely notice to Staff after filing its Application should be part of a normal course of business, not an action to be penalized.

Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND JUNIS EXHIBIT 4?

A. Henry and Junis Exhibit 4 summarizes Staff's review of assets included in the Company's May 1, 2019 WSIC/SSIC application. During Staff's application review, it identified concerns regarding the in-service dates of several projects and provided the Company an opportunity to review and challenge its conclusions. The Company did not challenge the Staff's conclusion as part of the WSIC/SSIC application, nor does it challenge the adjustment in this rate case. Staff's adjustment concerns modification of in-service dates on assets totaling $1.6 million, with a net reduction to the revenue requirement of approximately $4,400.

Q. HOW DOES THE COMPANY RESPOND TO THE SPECIFIC CONCERNS IDENTIFIED BY THE PUBLIC STAFF AS SUPPORTED BY HENRY AND JUNIS EXHIBIT 5?

A. I respectfully contend that this analysis does not take into account the reality of the every-day operations of the utility. While I believe the exercise undertaken in Henry and Junis Exhibit 5 is not relevant, since it has been included in public testimony, I provide the following comments. Henry and Junis Exhibit 5 applies Public Staff's <u>*own standard*</u> in waiving the accepted 30-60 day unitization period and changes the depreciation dates for a host of post-test year additions either to the system designated in-service date or, in some cases, an alternative date of its choosing. Having previously expressed its concerns as to possible delays in the unitization of some projects, Staff pivots to a new argument that because the Company is able to achieve the ideal objective of unitizing <u>some</u> projects in the month placed in service, the Company should be retroactively held to a standard requiring that <u>all</u> projects should have been unitized in the month of service, notwithstanding accepted policy or its own expressed list of factors that would appropriately delay unitization.

Staff states in its testimony[35]:

> As shown in **Henry and Junis Exhibit 5**, we adjusted the unitization date for 44 plant additions in the total amount of $1,381,871. For the majority of the plant additions listed, the Public Staff corrected the date to be the in service date inputted by the Company and/or a reasonable amount of time after the trailing costs had been sufficiently captured. End of year closings were considered to require the same level of expediency as employed by the Company for its unitizations in September 2019 and March 2020, a majority of which were same month closings.

Missing from Staff's explanation is clarification that it used its own estimate to somehow "correct" the unitization date to the ***earlier of*** the in-service date inputted by the Company or a reasonable amount of time after the trailing costs had been sufficiently captured. Interesting in this exercise is that Staff actually moved the unitization date in advance of the final vendor payment for ten (10) of the 44 line-items, *a practice unavailable to the Company as Staff has previously required that projects close a single time once all costs are final.* In each of these 10 cases, the last vendor payment was still in 2019, which matched the revised unitization year, but Staff's presentation serves to exaggerate the unitization lag.

In that Staff, as shown earlier, acknowledges that there are valid reasons that assets might be unitized beyond the service date, Aqua inquired in and Staff responded to, Question 8 of its Data Request No. 8 as follows[36]:

[35] Page 15, lines 5-13 of Joint Testimony
[36] Included in this Testimony as Thill Rebuttal Exhibit 9

Q. a. For EACH addition listed for which Staff has assigned its own in-service date rather than accepting the in-service date provided by the Company, please explain Staff's process and reason for conclusion.

b. For EACH addition listed for which Staff has accepted the Company's in-service date as the appropriate unitization date, please explain Staff's process of evaluating whether extenuating circumstances might have appropriately delayed the unitization.

A. Given the time allotted to respond to this and other data requests directed to witness Junis, the Public Staff cannot address each addition but can provide a more detailed description of the general process utilized to identify and recommend reasonable in-service dates. Page 15, lines 7-13, states as follows:

> For the majority of the plant additions listed, the Public Staff corrected the date to be the in service date inputted by the Company and/or a reasonable amount of time after the trailing costs had been sufficiently captured. End of year closings were considered to require the same level of expediency as employed by the Company for its unitizations in September 2019 and March 2020, a majority of which were same month closings.

In general, the Public Staff reviewed the available detailed transaction listing supporting the final cost of each project, Aqua's internal work order and engineering project closure form, engineering certification and NCDEQ final approval, accounts payable invoices, and any associated data request response. Upon consideration of the available documentation, the Public Staff utilized either the unitization date, in-service date, or recommended a reasonable alternative in-service date.

The unitization date for 11 of 44 line-items was changed to a date other than the system in-service date. Staff has performed a detailed review of the assets in question but failed to provide that review for rebuttal by the Company in question (a) above. Thirty-two (32) of 44 line-items totaling $1,061,741 (79%) had in-service dates in November or December 2019, and allowing 30-60 days to ensure completion, brings those assets into

2020 within policy but, Staff has provided no indication of its post-in-service review as requested in question (b) above.

Adjustments proposed by Staff and comments in testimony imply that the Company is intentionally delaying unitization to enhance earnings to the detriment of its customers. Staff notes, "All of the adjustments result in the assets accumulating additional depreciation either in the pending rate case or in future rate cases.[37]" That comment reads as if 100% of a population, or at least of a representative sample, was found to be in error. Henry and Junis Exhibit 9 shows that asset additions recorded in the first quarter of 2020 totaled nearly $15 million. Staff has raised concerns on $1.3 million (9%), and has rejected past policy of a 30-60 day closing period to get to that level. Missing from the picture drawn by Staff's inferences is a more holistic picture of the Company's unitization practices. Thill Rebuttal Exhibit 8 shows that of $1.8 million unitized in December 2019 (excluding blankets which unitize without discretion), $1.6 million have in-service dates either in November or December 2019, which according to policy parameters could have been pushed to 2020 if return, rather than proper accounting, were the Company's primary concern. And further to that point, excluding the anomaly of 2018 spending that led up to that year's rate case, the month of December had the third most unitizations across those four years, including 42% unitized in the same month and 31% within 30 days (i.e. November in-

[37] Page 15, lines 13-15 of Joint Testimony

service). March and September top the list for unitizations as discussed earlier but if the Company were truly trying to manipulate unitization practices as implied by Staff, December should be at the bottom of the list, not near the top.

Q. DOES THE COMPANY AGREE WITH THE FOUR PROJECT SPECIFIC ADJUSTMENTS PROPOSED BY THE PUBLIC STAFF?

A. The Company concedes to Staff's adjustment on two projects and challenges the adjustments on the other two. Staff's rationale[38] and the Company's response are discussed individually below:

Field Tablets – 2019

Staff's rationale for the adjustment: The transaction detail includes one accounts payable in February 2019, one miscellaneous journal entry in February 2019, and eleven months of AFUDC. The project was unitized in March 2020. This technology procurement is not considered construction work in progress and the Public Staff recommends disallowance of the entire AFUDC amount of $12,526.25.

Company response: The facts provided are accurate. The project was run by Aqua America's IT staff and the February invoice procured tablets for several states at bulk pricing. Tablets were not distributed to North Carolina personnel until November 2019 when training took place. Staff's determination that this technology procurement is not considered

[38] Provided by Public Staff in response to question 11 of Aqua's Data Request No. 8

construction in progress ignores the very nature of AFUDC, which is to recognize the capital cost of financing such a purchase.

Bridgepoint #8 Instl AquaGuard

Staff's rationale for the adjustment: The latest accounts payable transaction was April 2018, the Company indicated an in-service date of May 2018, and the unitization occurred in December 2019. The Public Staff recommends disallowance of the net accrual of AFUDC in the amount of $856.55 from June 2018 through December 2018.

Company response: Aqua concedes to this adjustment.

RC New Generator Beachwood 02-196

Staff's rationale for the adjustment: Two accounts payable transactions occurred in July and September 2018, while the rest of the transactions were January 2012 or older. The Public Staff recommends those two accounts payable totaling $10,043.95 be included in plant.

Company response: Work performed began in 2011 to install a generator at this wastewater plant. Approximately $20,000 was spent during 2011 and 2012 to design and permit the project that included upgraded electrical, a concrete pad and other improvements. Approvals were obtained from required local officials with the exception of the Fire Marshall, who refused to sign-off, so the generator was not installed. The project laid dormant until 2018 at which time the Company re-initiated its effort to complete the install and expended an additional $10,044 in support of the project. Public Staff has recommended that only the 2018 spend of $10,044 be recoverable, ignoring that the work completed in 2011-12 to install the concrete slab and electrical upgrades provided integral components of the final product. Note that no AFUDC was recorded on this project since it sat idle for so long; the full amount of the costs that Staff proposes to write off were cash expenditures of the Company, advanced for eight years to the ultimate benefit of customers. Aqua's position is that the usefulness of the asset should determine whether or not it warrants recoverability, not the age of the Company's expense.

<u>Instl AquaGard Coachmans Trl #3</u>

Staff's rationale for the adjustment: Only two accounts payable transactions occurred in March and July 2017. AFUDC accruals occurred in every month between February 2017 and December 2018. The Company indicated an in-service date of August 2017. The Public Staff recommends disallowance of the net accrual of AFUDC in the amount of $2,296.21 from August 2017 through December 2018.

Company response: Aqua concedes to this adjustment.

Q. PLEASE PROVIDE SOME CONTEXT TO THE LEVEL OF EXPOSURE ASSOCIATED WITH PUBLIC STAFF'S REVIEW.

A. I appreciate the Public Staff's review but respectfully provide the following information for some context for the Commission. Henry and Junis Exhibit 9 shows the Staff was presented information on nearly $160 million of additions over 5.25 years; 3.5 yrs prior to the start of the test year in this case. Staff has used hindsight to go back in time and raise concerns regarding real-time processing of approximately $8.4 million of additions, a portion of which is within this review only as a result of Staff's retroactive application of a brand-new unitization policy for the Company, and without regard to the factors even Staff has acknowledged are appropriate for delayed unitizations. To give perspective on that $8.4 million, the only quantification of the impact of delayed unitizations has been regarding Henry and Junis Exhibit 4 where $1.6 million of reassigned dates yielded a $4,400 reduction in the revenue requirement of this rate case.

Q. WHAT IS AQUA'S RESPONSE TO PUBLIC STAFF'S RECOMMENDATION THAT THE COMMISSION ORDER THE COMPANY TO REVIEW ITS PROCEDURES CONCERNING UPIS AND FILE A SUBSEQUENT REPORT?

A. As stated above, the Company strongly believes that the appropriate processes and procedures are in place for documented utility plant in service. However, there is always room for improvement and Aqua is not opposed to reviewing these procedures. Aqua strongly disagrees with Public Staff's concerns and its references to potential "financial windfalls". Significant time and effort have already been exhausted by both Staff and the Company (and now the Commission) in reviewing this issue. We do not believe another report is required on this matter, but will stand ready, again, if that is what it takes to eradicate this issue once and for all.

Q. ARE THERE ANY OTHER OPEN ISSUES CONCERNING UPIS?

A. Yes, there are two open issues as of this writing.

As noted in Staff's testimony, Aqua previously informed the Public Staff of its intent to update its plant in service for certain assets acquired or completed after the post-test-year date of March 31, 2020, pursuant to N.C.G.S. § 62-133(c). The initial notice to Staff identified eleven additions totaling approximately $2.6 million. Nine of the eleven assets additions have been placed in service and are being unitized as of the filing of this rebuttal testimony. Aqua will continue to work with the Public Staff to ensure they obtain the necessary detail supporting the cost and inclusion of those assets in rate base within this case.

Also, the Company and Public Staff continue to address computational differences regarding the balances of Accumulated Depreciation on UPIS and Accumulated Amortization on CIAC. Accounting teams for both sides have expressed agreement in principle on the appropriateness of rolling balances through the post-test year date of March 31, 2020 and continue to work through the "math" of the corresponding adjustment. In that the differences are not conceptual, and the parties continue to work toward proper resolution, rebuttal here is limited to notice of the open issue. The Company believes the appropriate balance of Accumulated Depreciation on

UPIS included in rate base should be $151.2 million. The Public Staff last provided figures to Aqua using a balance of $155.0 million and has verbally agreed that an additional adjustment is required in the amount of $3.8 million, which would fully bridge the gap. The adjustment represents a duplication of depreciation for the three months October through December 2019 already included in the original application and subsequently duplicated in Staff's adjustments. A similar process was conducted by both Staff and the Company to determine an adjustment for Accumulated Amortization on CIAC. Staff has provided a preliminary adjusted figure of $80.0 million for this account, which materially agrees with Aqua's computation.

5. WORKING CAPITAL

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. To rebut specific portions of the testimony of Public Staff Witness Henry and the Joint Testimony of Public Staff Witnesses Henry and Junis concerning elements of Working Capital.

Q. WHAT ARE THE COMPANY'S SPECIFIC CONCERNS WITH REGARD TO WORKING CAPITAL?

A. The Company will address three different, but conceptually related, types of payments that Aqua has made on behalf of customers for which it does not believe it is being appropriately compensated in the rate base working capital computation as proposed by the Public Staff. The three payments to be discussed are the Johnston County transmission fee, tank painting, and rate case expenses.

Q. PLEASE DISCUSS IN GENERAL THE RATIONALE FOR INCLUDING WORKING CAPITAL AS A COMPONENT OF RATE BASE.

A. The courts have opined, and the Commission has operated in a manner consistent with the philosophy, that[39]:

> To fix rates that do not allow a utility to recover its costs, including the cost of equity capital, would be an unconstitutional taking.

Past Orders of the Commission provide extensive defense of this position and are therefore not recounted here. A utility is entitled to a fair return on all its property prudently employed for the benefit of its customers. Property, in this context, includes not just utility plant, but also any funds provided by shareholders on behalf of customers. Such funds are loosely termed here as working capital. This rationale has been consistently applied in the Company's prior rate cases.

Q. PLEASE DESCRIBE THE ISSUE REGARDING THE JOHNSTON COUNTY TRANSMISSION FEE.

A. The Commission stated in its Sub 497 Order that:

> While the Commission determines to treat the $785,000 transmission fee as an expense, it further concludes, in its discretion, that this expense should not be recognized entirely in one cost of service year, but instead should be amortized

[39] Page 138 of Docket No. W-218, Sub 497, Order Approving Partial Settlement Agreement and Stipulation, Granting Partial Rate Increase, and Requiring Customer Notice, quoting rate of return on equity decisions established by the United States Supreme Court Decisions in Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679 (1923), and Fed. Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944)

> and recovered over six years with no unamortized balance in rate base…."

The Company is requesting reconsideration of the Commission's position regarding the exclusion of this prepayment from rate base. The Public Staff opposes the Company's request. The statutory authority for the Commission to engage in the reconsideration process is clearly set forth in G.S. 62-80, which provides, in pertinent part, that:

> The Commission may at any time upon notice to the public utility and to the other parties of record affected, and after opportunity to be heard as provided in the case of complaints, rescind, alter or amend any order or decision made by it….

Q. WHAT ARE THE PUBLIC STAFF'S SPECIFIC OBJECTIONS AND HOW DOES AQUA RESPOND?

A. The Public Staff provides the following three objections to the Company's position:

<u>Staff Objection</u>: Aqua's customers should not pay a higher cost in rates for a return on an expenditure determined to be an expense by the Commission.

<u>Aqua Response</u>: Staff's objection here was novel and prompted the Company to inquire in Question 17 of its DR 8(d) as follows:

> Is it Staff's position that long-term assets recovered through an expense mechanism, such as amortization in the case of the transmission fee, have no related financing cost and therefore should not be included in rate base?

<u>Staff's Response was</u>:

> No. Please see response to Item 17.c. above.

That response read:

> The Commission determined how this cost should be recovered from ratepayers in the Sub 497 rate case proceeding and the Public Staff agrees with the Commission's decision.

As alluded to in the above-referenced discovery question to the Public Staff, Aqua asserts that all expenditures are recovered as expenses – even UPIS is recovered as depreciation expense. The accounting mechanism is irrelevant to the argument of return. Return is the Company's compensation for employing capital for the benefit of customers, recognizing an opportunity cost of those funds during the lag between the Company's date of expenditure and the customers' reimbursement to the Company. In the case of the transmission fee, the Company paid $785,000 for an asset with undisputed benefit for its customers. The exclusion of the unreimbursed portion of that payment from rate base is an interest-free loan from Aqua shareholders to its customers, which is in direct conflict with precedent that explicitly states that the utility should be allowed a reasonable opportunity to recover its costs, including the cost of equity capital.

Staff Objection: The Company fully litigated the issues associated with the payment of the wastewater capacity fee and transmission fee to Johnston County, and to the extent the Company took issue with the Commission's decision on this issue, the Company should have filed a motion for reconsideration or appealed from the decision.

Aqua Response: The Company agrees in principle with the Public Staff's position and hereby withdraws its proposal for the amount included in its Rate Case Application related to the retroactive recovery to the Sub 497 Order date. However, the Company believes it appropriate and fully within the authority of the Commission to reconsider its position regarding rate base treatment in this case pursuant to G.S. 62-80 for the remaining unamortized balance of the transmission fees, as of the post-test year date, March 31, 2020, to be included in the working capital computation for purposes of setting new rates in this proceeding.

Staff Objection: The Public Staff further notes that the Company began to recover the expense as of the effective date of the new Sub 497 rates on December 18, 2018, and, if considered rate base, the transmission fee would not have been used and useful just the same as the wastewater capacity fee because the interconnection was not complete and in service. Said another way, it could be argued that the Company received accelerated recovery of the transmission fee.

Aqua Response: The used and useful argument is generally used in reference to UPIS where AFUDC will replace rate base inclusion to provide the Company with an appropriate cost of capital until placed in-service. As currently ordered as a non-earning asset, there is no such recovery alternative. The transmission fee has been recorded as a prepaid expense and, as such, the "used and useful" criteria would have served only to delay the beginning of the amortization, resulting in a higher asset balance today (and higher rate base). Instead, the balance of the asset has appropriately decremented simultaneously with recovery in rates since the date of the Order, but without the unamortized balance having been included in rate base with a return as part of the Company's allowance for working capital.

Q. PLEASE SUMMARIZE AQUA'S POSITION ON THE PREPAID TRANSMISSION FEE.

A. The Public Staff's primary objection is that this matter was ruled on in the Sub 497 case. Aqua asserts that it is within the Commission's authority to revisit this decision, particularly as the Commission's decision to treat the transmission fee as a non-earning, long-term prepaid expense was offered in that case by neither the Company nor the Public Staff and was therefore not subject to discussion. The Company requests the Commission to recognize the cost of capital associated with this long-term asset and give rate base treatment to the transmission fee.

Q. PLEASE DESCRIBE THE COMPANY'S CONCERN REGARDING TANK PAINTING.

A. Tank painting has been a recognized component of the rate base working capital computation in prior cases and continues to be included in the Staff's current proposal. Tank painting occurs on a routine basis and is amortized over a 10-year life. The Sub 497 case included the full balance of the account in rate base, updated through the end of the post-test year. Under the Public Staff's current proposal, Staff has modified past practice by amortizing one year of expense from the test-year balance.[40]

Q. ARE OTHER WORKING CAPITAL COMPONENTS REDUCED BY AN AMORTIZATION AMOUNT AND, IF SO, WHY SHOULD TANK PAINTING BE CALCULATED DIFFERENTLY?

A. One-time working capital components such as rate case expenses do have a year's amortization deducted from the prepaid balance in determining rate base. The distinction here is that for rate case expenses, the amortizing balance is not added to after the case is completed. As time passes, the Company collects reimbursement from customers via the amortization expense component of the revenue requirement, and the prepaid balance reduces accordingly. Tank painting is different in that there is a continual requirement for further capital advancement. In fact, the test year saw $223,900 in expenditures against only $151,100 in amortization. The Company does not believe Staff's proposed change is appropriate and requests that the Commission reaffirm past practice, eliminating the Staff's amortization projection and fixing the rate base balance at the post-test year date. This treatment would appropriately recognize the cost of an ongoing obligation of the Company to advance capital for this long-term operational expense for the benefit of its customers.

[40] In effect, the Public Staff's proposal on this issue, which differs from past precedent, is in the nature of a motion for reconsideration.

Q. PLEASE DESCRIBE STAFF'S POSITION REGARDING RATE CASE EXPENSES.

A. In his pre-filed testimony at page 19, Witness Henry stated that:

> The Public Staff has reevaluated the past practice of the water and/or wastewater utility's unamortized rate case expense balance being included in rate base upon which the utility earns a return. The Public Staff sees no reason for this practice to continue. The Public Staff recommends in this rate case proceeding and all future water and/or wastewater utility general rate cases that the unamortized rate case expense balance not be included in rate base with the utility earning a return. The unamortized balance would continue to be amortized in the Commission approved revenue requirement, thereby allowing the Company recovery of the expenses, but not allowing the utility to earn a profit on the rate case expenses.[41]

Q. WHAT IS AQUA'S POSITION?

A. Aqua, as a firm rule, is against providing interest-free loans. To do so willingly would be an imprudent use of shareholder funds, and to be forced to do so would seem to violate the previously quoted Court opinion regarding "unconstitutional taking." Witness Henry opines that the Company should not be allowed to "earn a profit on the rate case expenses". Inclusion in rate base is not the equivalent of earning a profit. As noted earlier, the courts have held that a utility is allowed "to recover its costs, including the cost of equity capital". Only after consideration of this cost of capital can "profit" be determined. As it is, the Company has already advanced significant sums in support of this rate case and will continue to

[41] Here again, the Public Staff's proposal on this issue, which differs from past precedent, is in the nature of a motion for reconsideration.

do so without recovery or return until the Commission's Final Order. When recovery does begin, even if the Commission were to hold consistent with prior practice, the Company would still only recover its cost of funds on two-thirds of the balance (assuming a three-year amortization period[42]) due to the Public Staff's standard practice of rolling the balance forward a full year that resultantly deducts one year's amortization from cost of capital recovery in rate base. It is the Company's position that where the Company's prudent expenditures are not timely offset by recovery in rates, the cost of capital must be recognized in the rate base calculation.

Q. PLEASE SUMMARIZE THE AQUA'S POSITION ON WORKING CAPITAL.

A. The inclusion of working capital in rate base is a recognition of the cost of capital prudently employed by the utility for the benefit of its customers. The courts have long held that a utility is entitled to a fair return on all such property, and the Company submits that obtaining a fair return on that property is an important element in providing the Company with a reasonable opportunity to achieve its authorized return.

[42] The Public Staff has proposed a three-year amortization. The Company has proposed a two-year amortization in recognition of the increased frequency of its current and expected future rate cases.

6. CONSUMPTION ADJUSTMENT MECHANISM

Q. HAS THE COMPANY UPDATED ITS REQUEST TO INCLUDE THE GUIDANCE PROVIDED BY THE COMMISSION IN ITS ORDER ON THE CONSUMPTION ADJUSTMENT MECHANISM ("CAM"), ISSUED ON MAY 12, 2020?

A. The Company has not. Aqua appreciates the issuance of the Order in Docket No. W-100, Sub 61, and thanks the Commission for the courtesy of allowing the Company an opportunity to adjust its position in this case. However, the Company elects respectfully to proceed with this case in a timely fashion and has made the decision not to pursue the CAM in this docket, but rather to incorporate a CAM proposal, developed in light of the Commission's rules, in its next base rate request. As such, Aqua formally withdraws its request to utilize the CAM in this rate case.

7. DEFERRED ACCOUNTING TREATMENT

Q. PLEASE EXPLAIN WHY AQUA PURSUED WHAT HAS BEEN DESCRIBED BY THE PUBLIC STAFF AS A "NOVEL" DEFERRED ACCOUNTING TREATMENT IN THIS CASE?

A. As highlighted in witness Becker's direct testimony, Aqua has been persistently unable to achieve its authorized return on equity in North Carolina in any year since it began operations in the state in 2003. In the more recent years, this has been amplified as a result of rate lag on the significant increased level of investment required to maintain utility infrastructure. Aqua invested $154 million in North Carolina over the last five years, which is significant considering Aqua's total plant, net of CIAC, at the end of 2019 was approximately $271 million. As highlighted by Witness Junis, Aqua's capital spend has increased over the last several years. These investments were required to maintain and improve Aqua's ability to provide safe, reliable, and environmentally compliant service to our customers. It is significant to note that within 12 months after the issuance of the Commission's Order in Docket No. W-218 Sub 497, with an authorized ROE of 9.7%, Aqua's adjusted ROE in North Carolina was already less than 7%. Per Book ROE is approaching 5% and is lower than adjusted ROE since it includes further dilution from the $14.7 million of goodwill recorded on Aqua North Carolina's balance sheet and certain one-time items that are not considered for recovery in rate base or the revenue requirement calculations.

In an attempt to reduce regulatory lag and minimize the amount of depreciation that is permanently lost to the utility, Aqua endeavors to utilize mechanisms that exist under the current regulatory construct and exhaust every reasonable construction of the statutes.

We are charged with the responsibility of providing safe and reliable service to Aqua North Carolina's water and wastewater service. Part of this directive is to make sure the company is financially healthy. As such, we are attempting to utilize every available tool to combat regulatory lag, and it was our decision to pursue a "novel" use of the deferral accounting mechanism by requesting its application be based on the aggregate of its post-test year capital expenditures.

Q. DO YOU UNDERSTAND THAT THIS "VERSION" OF DEFERRED ACCOUNTING---PRINCIPALLY WITH RESPECT TO APPLICATION FOR IT BASED ON YOUR POST-TEST YEAR PROJECTS, IN THE AGGREGATE---HAS NOT BEEN APPROVED BY A PRIOR COMMISSION ORDER?

A. Yes, I do. However, I do not believe that fact precludes a utility from making such a request. We researched the Commission's exercise of its authority and discretion to utilize deferred accounting, and we agree that the tool has not been used in the manner that we request. However, Aqua believes it is a reasonable request, that the Commission has the authority to utilize the tool in this fashion, and that it would be an effective and warranted means to afford the utility a reasonable opportunity to earn its authorized return. With the use of deferred accounting, as Aqua has requested it, a utility like Aqua that invests robustly in this state can both make that necessary investment and avoid sacrificing its reasonable financial interests in the process.

Q. DO YOUR RESPONSES AS SET FORTH ABOVE ALSO APPLY TO AQUA'S REQUEST FOR PROSPECTIVE AUTHORIZATION TO DEFER DEPRECIATION AND CARRYING COSTS ON POST-RATE CASE

CAPITAL EXPENDITURES, OTHER THAN ROUTINE REPLACEMENTS, UNTIL INCLUDED IN RATES IN THE COMPANY'S NEXT GENERAL RATE CASE?

A. Yes. As noted by witness Becker in his direct testimony, the Company expects to continue to invest capital at significantly heightened levels and, as such, anticipates needing to file rate cases at a higher frequency – every 12-15 months - in order to attain its authorized ROE. For the same reasons that Aqua has requested authorization for deferral accounting for the post-test year additions, the Company continues to request prospective authorization to defer depreciation and carrying costs on post-rate case capital expenditures, other than routine replacements, until included in rates in our next rate case.

Q. DOES THIS CONCLUDE THIS SECTION OF YOUR REBUTTAL TESTIMONY?

A. Yes.

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Quantification of Volumetric Revenue in PS Rate Design

Thill Rebuttal Exhibit 1

	[1] ANC	[2] Brookwood	[3] Fairways	Total	
Water					
Measured bills					
BFC	$ 11,087,309	$ 1,742,673	$ 316,721	$ 13,146,703	30%
Gallonage	$ 25,739,979	$ 4,075,986	$ 730,378	$ 30,546,343	70%
Unmeasured	$ 108,125	$ -	$ -		
Availability	$ 10,020	$ -	$ -		
	36,945,433	5,818,659	1,047,099		
Total Service Revenue - Water			**43,811,191**		

	[4] ANC		[5] Fairways	Total	
Sewer					
Measured bills					
BFC	$ 5,226,513		$ 1,167,104	$ 6,393,617	60%
Gallonage	$ 3,502,282		$ 790,078	$ 4,292,360	40%
Unmeasured	$ 6,050,302		$ 86,876		
Pass-thru	$ 1,244,425		$ -		
Availability	$ 50,155		$ -		
	$ 16,073,676		$ 2,044,058		
Total Service Revenue - Sewer			**18,117,734**		

Total Measured Bills - BFC	$ 19,540,320	36%
Total Measured Bills - Gallonage	$ 34,838,703	64%
Total Subject to Rate Design	$ 54,379,023	
Total Other	$ 7,549,902	
	$ 61,928,926	

[1] Junis Exhibit 7, col (11)
[2] Junis Exhibit 9, col (10)
[3] Junis Exhibit 13, col (11)
[4] Junis Exhibit 15, col (10)
[5] Junis Exhibit 17, col (11)

Aqua North Carolina, Inc. **Thill Rebuttal Exhibit 2**
Docket No. W-218, Sub 526
Quantification of Increase in Volumetric Revenue in PS Rate Design

Recalibration of BFC and Volumetric charges to ratios authorized under Sub 497 Order.

Water	Public Staff Sub 526 Proposal *	Sub 497 Ratio	Sub 526 Revenue at Sub 497 Ratio	Change
BFC	$ 13,146,703	40%	$ 17,477,218	
Volumetric	$ 30,546,343	60%	$ 26,215,828	$ 4,330,515
	$ 43,693,046		$ 43,693,046	
Sewer				
BFC	$ 6,393,617	100%	$ 10,685,977	
Volumetric	$ 4,292,360	0%	$ -	$ 4,292,360
	$ 10,685,977		$ 10,685,977	
Net increase to volumetric element				$ 8,622,875
Volumetric increase as % of all revenue subject to rate design				**16%**

* See Thill Rebuttal Exhibit 1

Aqua North Carolina
Docket No. W-218, Sub 526
Sewer Consumption Factors

Thill Rebuttal Exhibit 3

Metered water usage for ANC Sewer customers for whom ANC Water provides water billing

	2017			2018			2019			2020			Three-year Total					
	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Test-Yr Average	Variance Test Yr vs 3-Yr Avg	Consumption Factor
Jan				7,368	32,972	4.475	8,136	31,087	3.821	8,786	36,474	4.151	24,290	100,533	4.139	3.821	0.318	8.3%
Feb				7,656	29,280	3.824	8,186	31,140	3.804	8,817	33,801	3.834	24,659	94,221	3.821	3.804	0.017	0.4%
Mar				7,674	28,119	3.664	8,237	28,982	3.518	8,853	31,554	3.564	24,764	88,655	3.580	3.518	0.062	1.7%
Apr	7,388	33,010	4.468	7,731	29,501	3.816	8,303	30,552	3.680				23,422	93,063	3.973	3.680	0.294	8.0%
May	7,419	36,015	4.854	7,762	37,586	4.842	8,352	38,798	4.645				23,533	112,398	4.776	4.645	0.131	2.8%
Jun	7,421	41,794	5.632	7,794	43,678	5.604	8,396	54,476	6.488				23,611	139,948	5.927	6.488	-0.561	-8.6%
Jul	7,492	45,220	6.036	7,317	51,278	7.008	8,525	54,613	6.406				23,334	151,111	6.476	6.406	0.070	1.1%
Aug	7,278	38,368	5.272	7,837	39,900	5.091	8,571	49,775	5.807				23,686	128,042	5.406	5.807	-0.402	-6.9%
Sep	7,515	43,967	5.851	7,786	41,894	5.381	8,629	52,480	6.082				23,930	138,341	5.781	6.082	-0.301	-4.9%
Oct	7,560	43,349	5.734	8,018	40,678	5.073	8,679	49,586	5.713				24,257	133,613	5.508	5.073	0.435	8.6%
Nov	7,579	33,803	4.460	8,053	30,761	3.820	8,699	39,409	4.530				24,331	103,973	4.273	3.820	0.453	11.9%
Dec	7,596	31,359	4.128	7,993	33,513	4.193	8,747	30,803	3.522				24,336	95,675	3.931	4.193	-0.261	-6.2%
												Residential Customers	288,153	1,379,573	4.788	4.797	-0.010	-0.2%
												Commercial Customers	65,723	391,189	5.952	6.561	-0.608	-9.3%
												Total Commercial and Residential	353,876	1,770,762	5.004	5.116	-0.113	-2.2%

Metered water usage for Fairways Sewer customers for whom Fairways Water provides water billing

	2017			2018			2019			2020			Three-year Total					
	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Sum of Bills	Sum of Cons WT (kG)	Average	Test-Yr Average	Variance Test Yr vs 3-Yr Avg	Consumption Factor
Jan				2,598	11,520	4.434	2,822	9,598	3.401	2,871	10,378	3.615	8,291	31,495	3.799	3.401	0.398	11.7%
Feb				2,610	10,506	4.025	2,821	9,539	3.381	2,871	10,283	3.582	8,302	30,328	3.653	3.381	0.272	8.0%
Mar				2,617	9,182	3.508	2,822	9,431	3.342	2,877	9,582	3.331	8,316	28,194	3.390	3.342	0.048	1.5%
Apr	2,564	13,185	5.142	2,681	12,326	4.598	2,830	12,670	4.477				8,075	38,181	4.728	4.477	0.251	5.6%
May	2,580	18,271	7.082	2,697	16,620	6.162	2,831	19,957	7.049				8,108	54,848	6.765	7.049	-0.285	-4.0%
Jun	2,581	21,546	8.348	2,691	20,837	7.743	2,847	30,765	10.806				8,119	73,148	9.009	10.806	-1.797	-16.6%
Jul	2,584	21,860	8.460	2,694	22,444	8.331	2,855	25,241	8.841				8,133	69,545	8.551	8.841	-0.290	-3.3%
Aug	2,588	19,403	7.497	2,709	16,115	5.949	2,864	29,405	10.267				8,161	64,923	7.955	10.267	-2.312	-22.5%
Sep	2,591	17,656	6.814	2,552	19,944	7.815	2,863	25,579	8.934				8,006	63,179	7.891	8.934	-1.043	-11.7%
Oct	2,581	16,416	6.360	2,791	19,142	6.859	2,860	24,537	8.579				8,232	60,095	7.300	6.859	0.442	6.4%
Nov	2,592	15,527	5.990	2,808	15,426	5.494	2,868	19,942	6.953				8,268	50,895	6.156	5.494	0.662	12.1%
Dec	2,605	11,706	4.494	2,799	11,438	4.086	2,867	11,510	4.015				8,271	34,654	4.190	4.086	0.103	2.5%
												Residential Customers	98,282	599,484	6.100	6.426	-0.327	-5.1%
												Commercial Customers	1,090	13,521	12.404	12.106	0.298	2.5%
												Total Commercial and Residential	99,372	613,005	6.169	6.486	-0.318	-4.9%

**PUBLIC STAFF
RESPONSE TO
AQUA NORTH CAROLINA, INC.
DATA REQUEST NO. 7 TO PUBLIC STAFF**

DOCKET NO. W-218, SUB 526

**DATE OF REQUEST: FRIDAY, MAY 29, 2020
DATE OF RESPONSE: WEDNESDAY, JUNE 3, 2020**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

The individual making the response and responsible for the subject matter addressed in herein is Charles Junis, Engineer with the Water, Sewer, and Telephone Division of the Public Staff.

Subject of Data Request: Charles Junis Testimony and Exhibits

Request:

7. Page 24, lines 17-19 read "It would be reasonable to expect the Brookwood Water average monthly consumption to eventually flatten …". Junis Exhibit 2, page 4 of 6, shows a definitive and consistent decline from 6,128 gpm to 5,083 gpm in the 3-year average for these customers over Staff's eleven-year analysis period.

   a. On what basis does Staff opine the reasonableness of its expectation for an eventual flattening?
   b. How does declining consumption affect the revenue sufficiency and adequacy of a utility?
   c. Is it Staff's position that no modification to past ratemaking practices should be considered presently because "eventually" consumption will flatten?

Response:

a. Consumption cannot decline in perpetuity as there is some minimum level of nondiscretionary usage. The average consumption of ANC Water and Fairways Water customers declined from 2008 until 2013 and has since stabilized.
b. Declining total consumption will negatively affect the revenue sufficiency and adequacy for a utility.
c. The Public Staff would not totally rule out modification to ratemaking practices, but we are opposed to the Conservation Normalization Factor proposed by the Company.

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Public Staff Adjustments to Utility Plant In Service

Thill Rebuttal Exhibit 5

#	description	Rate Entity	cpr_activity_wo_number	cpr_activity_wo_desc	Category	gl_posting_mo_yr	PS Adj In-Service	activity_cost	PS Adj	PS Adj Cost	in_service_date	Last Vendor Payment
1	340500-Office Furniture & Equipment	Allocated	35900186922	Field Tablets - 2019	Non-routine, Non- WSIC/SSIC	Mar-20	Dec-19	218,901.28	(12,526.25)	206,375.03	Dec-19	Feb-19
2	304000-Structures & Improvements	Brookwood	35740078384	Wellhouse Reno Cliffdale West #72	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	66,595.03	-	66,595.03	Nov-19	Dec-19
3	333400-Services	Brookwood	35740088876	2WSIC Creeks Edge Apt Srvc Rplc	WSIC/SSIC	Feb-20	Nov-19	164,651.19	-	164,651.19	Nov-19	Oct-19
4	334400-Meters & Meter Installations	Brookwood	35740088876	2WSIC Creeks Edge Apt Srvc Rplc	WSIC/SSIC	Feb-20	Nov-19	61,303.42	-	61,303.42	Nov-19	Oct-19
5	320300-Water Treatment Equipment	Brookwood	35740007783	Simmons Hgts Filter Replace	Non-routine, Non- WSIC/SSIC	Jan-20	Nov-19	103,149.42	-	103,149.42	Nov-19	Dec-19
6	340500-Office Furniture & Equipment	Allocated	35900191943	SIEM Transition to Splunk	Non-routine, Non- WSIC/SSIC	Jan-20	Nov-19	80,504.35	-	80,504.35	Nov-19	Dec-19
7	320300-Water Treatment Equipment	Brookwood	35740085897	Braxton Hills Filter Replacement	Non-routine, Non- WSIC/SSIC	Jan-20	Nov-19	64,001.55	-	64,001.55	Nov-19	Dec-19
8	330400-Dist Reservoirs & Standpipes	ANC Water	35801065085	South Hill Est Rplc 5k NonCode Tk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	32,468.04	-	32,468.04	Nov-19	Dec-19
9	331400-T&D Mains	ANC Water	35801065085	South Hill Est Rplc 5k NonCode Tk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	10,715.79	-	10,715.79	Nov-19	Dec-19
10	309200-Supply Mains	ANC Water	35801065085	South Hill Est Rplc 5k NonCode Tk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	4,038.11	-	4,038.11	Nov-19	Dec-19
11	311000-Pumping Equipment	ANC Water	35801065085	South Hill Est Rplc 5k NonCode Tk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	3,264.74	-	3,264.74	Nov-19	Dec-19
12	304000-Structures & Improvements	ANC Water	35801065085	South Hill Est Rplc 5k NonCode Tk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	2,262.63	-	2,262.63	Nov-19	Dec-19
13	331400-T&D Mains	ANC Water	35801065101	WSIC Hickory Creek Replace Valves	WSIC/SSIC	Jan-20	Nov-19	50,100.00	-	50,100.00	Jan-20	Oct-19
14	371000-Pumping Equipment	ANC WW	35101588420	SSIC Sterling Frm Membrane Pmp Rplc	WSIC/SSIC	Jan-20	Nov-19	28,125.55	-	28,125.55	Nov-19	Nov-19
15	371000-Pumping Equipment	ANC WW	35101005553	SSIC Salem Glen GB LS Pump Rplc	WSIC/SSIC	Jan-20	Dec-19	12,040.00	-	12,040.00	Jan-20	Dec-19
16	371000-Pumping Equipment	ANC WW	35101008643	SSIC Willow Creek LS #5 Pump Rplc	WSIC/SSIC	Jan-20	Dec-19	4,818.94	-	4,818.94	Jan-20	Nov-19

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Public Staff Adjustments to Utility Plant In Service

Thill Rebuttal Exhibit 5

#	description	Rate Entity	cpr_activity_wo_number	cpr_activity_wo_desc	Category	gl_posting_mo_yr	PS Adj In-Service	activity_cost	PS Adj	PS Adj Cost	in_service_date	Last Vendor Payment
17	380000-Treatment & Disposal Equip	ANC WW	35101009029	SSIC Salem Gln Aeration BlwrMtr Rpl	WSIC/SSIC	Jan-20	Nov-19	1,998.90	-	1,998.90	Jan-20	Oct-19
18	371000-Pumping Equipment	ANC WW	35101009612	SSIC Willow Crk Rplc EQ Pump	WSIC/SSIC	Jan-20	Dec-19	1,596.67	-	1,596.67	Jan-20	Dec-19
19	330400-Dist Reservoirs & Standpipes	ANC Water	35800051774	Bell Ridge Tank Replacement	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	41,061.31	-	41,061.31	Dec-19	Dec-19
20	304000-Structures & Improvements	ANC Water	35800051774	Bell Ridge Tank Replacement	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	6,060.66	-	6,060.66	Dec-19	Dec-19
21	311000-Pumping Equipment	ANC Water	35800051774	Bell Ridge Tank Replacement	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	1,318.67	-	1,318.67	Dec-19	Dec-19
22	309200-Supply Mains	ANC Water	35800051774	Bell Ridge Tank Replacement	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	1,306.58	-	1,306.58	Dec-19	Dec-19
23	330400-Dist Reservoirs & Standpipes	ANC Water	35800065335	Greymoss Replace Tank	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	37,340.14	-	37,340.14	Dec-19	Dec-19
24	309200-Supply Mains	ANC Water	35800065335	Greymoss Replace Tank	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	4,104.13	-	4,104.13	Dec-19	Dec-19
25	304000-Structures & Improvements	ANC Water	35800065335	Greymoss Replace Tank	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	2,962.47	-	2,962.47	Dec-19	Dec-19
26	355000-Power Generation Equipment	ANC WW	35881078157	Castaways Rplc portable generator	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	38,466.51	-	38,466.51	Jan-20	May-19
27	380000-Treatment & Disposal Equip	ANC WW	35881007655	RC River Park Rebed Filters	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	35,126.28	-	35,126.28	Jan-20	Oct-19
28	354000-Structures & Improvements	Fairways WW	35640108163	Rebld LS West Telfair @ The Cape	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	34,692.88	-	34,692.88	Feb-20	Jul-19
29	307200-Wells & Springs	ANC Water	35800085610	Bridgepoint #8 Instl AquaGuard	Non-routine, Non- WSIC/SSIC	Dec-19	May-18	32,639.47	(856.55)	31,782.92	May-18	Apr-18
30	355000-Power Generation Equipment	ANC WW	35880026554	RC New Generator Beachwood 02-196	Non-routine, Non- WSIC/SSIC	Feb-20	Oct-18	30,136.36	(20,092.41)	10,043.95	Nov-19	Sep-18

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Public Staff Adjustments to Utility Plant In Service

#	description	Rate Entity	cpr_activity_wo_number	cpr_activity_wo_desc	Category	gl_posting_mo_yr	PS Adj In-Service	activity_cost	PS Adj	PS Adj Cost	in_service_date	Last Vendor Payment
31	354000-Structures & Improvements	ANC WW	35881007654	RC Bridgeport Reline 3 Lift Sta	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	29,473.00	-	29,473.00	Jan-20	Oct-19
32	340500-Office Furniture & Equipment	Allocated	35900103002	Security Enhancements - 2019	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	28,762.64	-	28,762.64	Dec-19	Dec-19
33	393700-Tools, Shop & Garage Equip	Fairways WW	35640107578	RC Pur 4" Diesel Pump/Acc	Non-routine, Non- WSIC/SSIC	Jan-20	Nov-19	28,307.69	-	28,307.69	Nov-19	Dec-19
34	330400-Dist Reservoirs & Standpipes	ANC Water	35800051771	Ridgebrook Bluffs Tank Replace	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	18,267.61	-	18,267.61	Dec-19	Dec-19
35	309200-Supply Mains	ANC Water	35800051771	Ridgebrook Bluffs Tank Replace	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	5,724.50	-	5,724.50	Dec-19	Dec-19
36	304000-Structures & Improvements	ANC Water	35800051771	Ridgebrook Bluffs Tank Replace	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	3,592.66	-	3,592.66	Dec-19	Dec-19
37	307200-Wells & Springs	ANC Water	35800051758	Instl AquaGard Coachmans Trl #3	Non-routine, Non- WSIC/SSIC	Dec-19	Aug-17	26,700.42	(2,296.21)	24,404.21	Aug-17	Jul-17
38	355000-Power Generation Equipment	ANC WW	35881078174	Willowbrook WWTP Rplc Generator	Non-routine, Non- WSIC/SSIC	Jan-20	Dec-19	19,858.49	-	19,858.49	Jan-20	Oct-19
39	309200-Supply Mains	ANC Water	35801007801	Ph 2 AIA Improvements Knob Crk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	13,758.80	-	13,758.80	Nov-19	Mar-17
40	304000-Structures & Improvements	ANC Water	35801007801	Ph 2 AIA Improvements Knob Crk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	2,345.29	-	2,345.29	Nov-19	Mar-17
41	333400-Services	ANC Water	35801007801	Ph 2 AIA Improvements Knob Crk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	1,052.05	-	1,052.05	Nov-19	Mar-17
42	331400-T&D Mains	ANC Water	35801007801	Ph 2 AIA Improvements Knob Crk	Non-routine, Non- WSIC/SSIC	Feb-20	Nov-19	718.37	-	718.37	Nov-19	Mar-17
43	340500-Office Furniture & Equipment	Allocated	35900186909	FIS Business Need Support 2019	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	13,943.87	-	13,943.87	Dec-19	Dec-19

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Public Staff Adjustments to Utility Plant In Service

Thill Rebuttal Exhibit 5

#	description	Rate Entity	cpr_activity_wo_number	cpr_activity_wo_desc	Category	gl_posting_mo_yr	PS Adj In-Service	activity_cost	PS Adj	PS Adj Cost	in_service_date	Last Vendor Payment
44	340500-Office Furniture & Equipment	Allocated	35900103354	Customer Service Improvements -2019	Non-routine, Non- WSIC/SSIC	Feb-20	Dec-19	13,614.53		13,614.53	Dec-19	Dec-19
							Total	**$ 1,381,870.99**	**$ (35,771.42)**	**$ 1,346,099.57**		

The transaction listings in the table above were compiled from Aqua's response to Public Staff Data Request No. 82 in Docket No. W-218, Sub 526.

PUBLIC STAFF
RESPONSE TO
AQUA NORTH CAROLINA, INC.
DATA REQUEST NO. 8 TO PUBLIC STAFF

DOCKET NO. W-218, SUB 526

DATE OF REQUEST: FRIDAY, MAY 29, 2020
DATE OF RESPONSE: WEDNESDAY, JUNE 3, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

The individuals making the response and responsible for the subject matter addressed in herein are Windley Henry, Accounting Manager of the Water and Sewer/Communications Section of the Public Staff Accounting Division, and Charles Junis, Engineer with the Water, Sewer, and Telephone Division of the Public Staff.

Subject of Data Request: Joint Testimony and Exhibits of Windley Henry and Charles Junis

Request:

1. Page 7, lines 7-8 read "Ideally, the in service date will occur in the same month as the unitization date."
   a. Is this ideal new since the Sub 274 rate case referenced later on that same page of testimony?
   b. Are there reasons this is stated as an ideal rather than a rule?
      i. If so, what factors might appropriately cause a delay in the unitization beyond the in-service date?
      ii. Are these factors new considerations?
      iii. Were there factors in the Sub 274 case that are no longer deemed worthy of consideration?

Response:

a No.
b. Yes. The reason the Public Staff utilizes ideal instead of rule is because there are circumstances or factors that could legitimately delay a complete and accurate unitization after the in-service date.
   i. Such factors include, but are not be limited to, receipt of accounts payable from vendors, invoicing disputes, and mechanical, structural, and/or efficacy issues that develop upon start-up.
   ii. No.
   iii. No.

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
Evaluation of AFUDC adjustments in Q3-2019 WSIC/SSIC Application

Thill Rebuttal Exhibit 7

Revenue Requirement	As Filed *{1}	Revisions to Appendix B for excess AFUDC	Aqua Revised WSIC/SSIC Revenue Req	Approved WSIC/SSIC Revenue Requirement *{2}	Variance - Aqua Revised vs Public Staff Submittal	
ANC Water	$ 484,479	$ (3,020)	$ 481,459	$ 481,459	$ 0	Revision FULLY reflected in Final Order
ANC Sewer	$ 134,186	$ (315)	$ 133,871	$ 134,186	$ 315	Revision NOT reflected in Final Order
Fairways Water	$ -	$ -		$ -	$ -	
Fairways Sewer	$ -	$ -		$ -	$ -	
Brookwood Water	$ 89,912	$ (180)	$ 89,732	$ 89,852	$ 120	Revision PARTIALLY reflected in Final Order

Plant Additions totals supporting the above revenue requirements per filed and revised Appendix B

	As Filed	AFUDC Adjustment	Aqua Revised
ANC Water	$ 4,417,549	$ (9,193)	$ 4,408,356
ANC Sewer	$ 1,292,691	$ (3,484)	$ 1,289,207
Fairways Water		$ -	
Fairways Sewer		$ -	
Brookwood Water	$ 884,111	$ (1,848)	$ 882,262
	$ 6,594,351	$ (14,526)	$ 6,579,825
AFUDC adjustment omitted from revised Appendix		$ (1,829)	
Total AFUDC adjustment		$ (16,354)	

* From Docket No. W-218, Sub 497A, "Order Approving Water and Sewer System Improvement Charges on a Provisional Basis and Requiring Customer Notice" as filed January 6, 2020.
{1} Page 2
{2} Page 5

Aqua North Carolina, Inc.
Docket No. W-218, Sub 526
In-service Dates of Dec-2019 Unitizations

Thill Rebuttal Exhibit 8

	Unitization Period
gl_posting_mo_yr	December-19

In Service Date	**Non-routine, Non-WSIC/SSIC**	**WSIC/SSIC**	**Grand Total**
8/31/2017	26,700		26,700
5/31/2018	37,884		37,884
3/31/2019	24,223		24,223
9/30/2019	12,343	4,632	16,975
10/31/2019	112,183		112,183
11/30/2019	772,330	552,145	1,324,475
12/15/2019	222,639		222,639
12/20/2019	34,869		34,869
12/30/2019	710		710
(blank)	26,332		26,332
Grand Total	**1,270,214**	**556,777**	**1,826,991**

Total Dec-2019 unitizations with Nov & Dec-2019 in-service date	1,582,694
Percentage unitized within 0-30 days	87%

Source data was provided to Public Staff in response to Public Staff Data Request No. 82 in Docket No. W-218, Sub 526, which also served as the source for Henry and Junis Exhibits 1, 2, 3, 5, 9-13.

PUBLIC STAFF
RESPONSE TO
AQUA NORTH CAROLINA, INC.
DATA REQUEST NO. 8 TO PUBLIC STAFF

DOCKET NO. W-218, SUB 526

DATE OF REQUEST: FRIDAY, MAY 29, 2020
DATE OF RESPONSE: WEDNESDAY, JUNE 3, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

The individuals making the response and responsible for the subject matter addressed in herein are Windley Henry, Accounting Manager of the Water and Sewer/Communications Section of the Public Staff Accounting Division, and Charles Junis, Engineer with the Water, Sewer, and Telephone Division of the Public Staff.

Subject of Data Request: Joint Testimony and Exhibits of Windley Henry and Charles Junis

Request:

8. Page 15 introduces Henry and Junis Exhibit 5.

    a. For EACH addition listed for which Staff has assigned its own in-service date rather than accepting the in-service date provided by the Company, please explain Staff's process and reason for conclusion.
    b. For EACH addition listed for which Staff has accepted the Company's in-service date as the appropriate unitization date, please explain Staff's process of evaluating whether extenuating circumstances might have appropriately delayed the unitization.
    c. Has Staff quantified the net impact of this adjustment on revenue requirement? If so, please provide that analysis.

Response:

Given the time allotted to respond to this and other data requests directed to witness Junis, the Public Staff cannot address each addition but can provide a more detailed description of the general process utilized to identify and recommend reasonable in-service dates. Page 15, lines 7-13, states as follows:

> For the majority of the plant additions listed, the Public Staff corrected the date to be the in service date inputted by the Company and/or a reasonable amount of time after the trailing costs had been sufficiently captured. End of year closings were considered to require

the same level of expediency as employed by the Company for its unitizations in September 2019 and March 2020, a majority of which were same month closings.

In general, the Public Staff reviewed the available detailed transaction listing supporting the final cost of each project, Aqua's internal work order and engineering project closure form, engineering certification and NCDEQ final approval, accounts payable invoices, and any associated data request response. Upon consideration of the available documentation, the Public Staff utilized either the unitization date, in-service date, or recommended a reasonable alternative in-service date.

a. Please see the Public Staff's response above to item 8.
b. Please see the Public Staff's response above to item 8.
c. No, page 15, lines 13-15, of the joint testimony states, "All of the adjustments result in the assets accumulating additional depreciation either in the pending rate case or in future rate cases." The cost adjustments in the pending rate case were netted against post-test year plant additions. The Public Staff has not quantified the net impact in future rate cases.