

1 PLACE: Dobbs Building, Raleigh, North Carolina

2 DATE: September 20, 2017

3 DOCKET NO.: W-354, Sub 356

4 TIME IN SESSION: 3:00 P.M. TO 4:17 P.M.

5 BEFORE: Chairman Edward S. Finley, Jr., Presiding

6 Commissioner Bryan E. Beatty

7 Commissioner ToNola D. Brown-Bland

8 Commissioner Jerry C. Dockham

9 Commissioner James G. Patterson

10 Commissioner Lyons Gray

11 Commissioner Daniel G. Clodfelter

12

13 IN THE MATTER OF:

14 Application by Carolina Water Service, Inc. of North

15 Carolina, 5701 Westpark Drive, Suite 101, Charlotte,

16 North Carolina 28217 for Authority to Adjust and

17 Increase Rates for Water and Sewer Utility Service in

18 All of Its Service Areas in North Carolina, Except

19 Corolla Light and Monteray Shores Service Area and

20 Elk River Development.

21

22 VOLUME 8

23

24

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

2 CHAIRMAN FINLEY: So the Commission has made a
3 first cut at attempting to review the Public Staff
4 testimony and the Stipulation. I wouldn't say that we
5 have made a complete analysis -- as complete analysis as
6 we would have liked, but we have some questions to ask of
7 the witnesses at this stage, and we will ask those this
8 afternoon with the understanding that if we get through
9 these questions this afternoon, we will reserve the right
10 to go back and continue to analyze what we've got here,
11 and we may have additional questions, and we may have to
12 reconvene at a subsequent time. And we're going to -- I
13 think we're going to be asking for some late-filed
14 details as well that we would hope the parties can
15 provide to us, if that's okay.

16 All right. I think we want to ask the Public
17 Staff some questions first, and if could talk to Ms.
18 Johnson.

19 MS. HOLT: Sonya Johnson.

20 CHAIRMAN FINLEY: Freda, did you give these
21 questions out in advance?

22 MS. HILBURN: I didn't.

23 CHAIRMAN FINLEY: All right. So you'll be
24 seeing these for the first time. Okay.

1 SONJA R. JOHNSON; Having been previously sworn,
2 testified as follows:

3 EXAMINATION BY CHAIRMAN FINLEY:

4 Q Ms. Johnson, on your Exhibit 1, Schedule 3-4,
5 line 1, column (c) --

6 A I'm sorry. What was that schedule?

7 Q Johnson Exhibit 1, Schedule 3-4, line 1, column
8 (c).

9 A Okay.

10 Q The amount of the rate case expense for the
11 current proceeding is \$424,336, right?

12 A Correct.

13 Q Would the Public Staff please be willing to
14 file a late-filed exhibit which details the major
15 components of that amount, that is, legal fees, postage,
16 and stock for customer notices, consulting fees,
17 allocated salaries and wages?

18 A Yes, sir.

19 Q And if you could -- to the extent that you have
20 legal fees, if you could put the rate per hour and the
21 number of hours expended, we would appreciate that as
22 well.

23 A I sure will.

24 Q And on your Exhibit 1, Schedule 3-4, line 5,

1 column (c)' --

2 A Okay.

3 Q -- you have an amount of \$285,939 as listed and
4 described as Sub 344 unamortized rate case expense,
5 right?

6 A Correct.

7 Q And Footnote 3 indicates that the 285,939
8 amount is calculated based on amount approved in prior
9 rate cases. Would you please provide a late-filed
10 exhibit which details the specific rate case proceedings
11 and unamortized amounts which comprise that \$285,939?

12 A I will.

13 Q All right. And turning to your prefiled
14 testimony, on page 16, line 19 --

15 A Okay.

16 Q -- you discuss your adjustment to Miscellaneous
17 Expense which included an adjustment for amortization of
18 excess deferred income taxes, correct?

19 A Yes.

20 Q You testified that the treatment of excess
21 deferred income taxes is consistent with the treatment in
22 the Company's last rate case proceeding, Sub 344. Did
23 the Company or the Public Staff include in this
24 proceeding an adjustment to excess deferred income taxes

1 for the decrease from 4 percent to 3 percent in the state
2 corporate tax rate effective January 1, 2017?

3 A We did.

4 Q All right. Could you please provide a late-
5 filed exhibit which provides a summary of that
6 calculation, then?

7 A Okay.

8 Q Okay. And we will -- we will give you these
9 questions so that there won't be any misunderstanding as
10 to exactly what we're asking for after we go through
11 these.

12 A Okay.

13 Q Turning, then, to the Stipulation, page 8,
14 paragraph 2 --

15 A Okay.

16 Q -- the Test Period -- Test Period, it indicates
17 that the test period is for the 12 months ended December
18 31, 2016, adjusted for changes occurring or becoming
19 known through July 31, 2017. In the last sentence it
20 states, "In addition, several major construction projects
21 completed and placed in service by the date of this Joint
22 Stipulation have been included in the rate base," whereas
23 on your prefiled direct testimony, page 8, lines 16
24 through 18, you state, "Direct plant in service was also

1 adjusted to include actual cost for CWIP projects that
2 have been completed or are in service as of September 13,
3 2017." So which date is correct, July 31, 2017, as
4 stated in the Stipulation, or September 13, 2017?

5 A September the 13th was the last update that we
6 received, so that's what was included.

7 Q Okay. Can you tell us what those major
8 completed projects are and/or point us to an exhibit of
9 such projects?

10 A They are included in, let's see, deferred
11 maintenance and repair. And I don't believe there is a
12 schedule that was filed that shows these projects, but
13 there is one in existence that I can get to you.

14 Q All right. If you would, as a late-filed
15 exhibit, provide us the major completed projects, please.

16 A Okay.

17 Q All right. In regard to lease revenues
18 received from cellular phone companies for antenna space
19 on elevated storage tanks, you state in your prefiled
20 direct testimony at page 14, line 22, that the Company
21 recorded these revenues as purchased water for Bradfield
22 Farms and Fairfield Harbour.

23 A Correct.

24 Q And you made a -- you made a correction to

1 include these in miscellaneous revenues.

2 A Correct.

3 Q Now, based on your audit of the current rate
4 case application, does the Public Staff believe that the
5 Company has improved the accuracy of its accounting
6 classifications and journal entries in its books and
7 records since the last case in 2015?

8 A I don't have knowledge of how they kept their
9 records in the prior rate case. I can only speak for
10 what happened in this case. And once we brought it to
11 their attention, they were more than willing to, you
12 know, agree that it needed to be reclassified.

13 Q Well, how many other types of reclassifications
14 such as this did you -- did you find that you had to
15 point out to the Company?

16 A I think this may have been the only case.

17 Q So in your view, the audit that you conducted
18 of the Public -- of the Company's books and records
19 indicated that for the most part their accounting
20 practices are pretty accurate?

21 A They are.

22 Q Okay.

23 CHAIRMAN FINLEY: Does anybody else have any
24 questions of Ms. Johnson?

1 (No response.)

2 CHAIRMAN FINLEY: Okay. Then we have some
3 questions -- thank you, Ms. Johnson. We have some --
4 does anybody have any -- let's see if anybody has any
5 follow-up questions of Ms. Johnson based on what we've
6 asked.

7 MS. HOLT: No.

8 MS. SANFORD: No, sir.

9 CHAIRMAN FINLEY: All right.

10 (The witness is excused.)

11 CHAIRMAN FINLEY: We'd ask Ms. Casselberry if
12 she will take the stand now.

13 GINA Y. CASSELBERRY; Having previously been sworn,
14 Testified as follows:

15 EXAMINATION BY CHAIRMAN FINLEY:

16 Q All right, Ms. Casselberry. On page 9, lines
17 14 and 15 of your prefiled testimony --

18 A Could you repeat that again?

19 Q Yes. Page 9, lines 14 and 15.

20 A Correct.

21 Q -- you state that, "...approximately 75 percent
22 of the cost to provide water service is fixed, and
23 approximately 90 percent of the cost to provide sewer
24 service is fixed." Would you please tell us what is the

1 source of these percentages?

2 A When we looked at the line items in the
3 Application, we kind of determined whether or not it's a
4 variable cost, such as chemicals or purchased power, and
5 then we look at the other ones to see if they are fixed,
6 and then that's the breakdown that we got, was
7 approximately 75/90.

8 Q Can you provide us an exhibit that shows your
9 calculations --

10 A Uh-huh.

11 Q -- as to how you came up with the 75 percent
12 and the 90 percent?

13 A Sure.

14 Q Are you aware, have there been any recent
15 updates published regarding these percentages of fixed
16 cost for water and sewer operations?

17 A Not that I'm aware of, when we determined in
18 last rate case.

19 Q Okay. And at page 24, turn to page 24. On
20 page 24 of your testimony you explain your adjustment to
21 purchased water expense.

22 A Correct.

23 Q And you state on lines 9 and 10 that you have
24 reduced purchased water expense for losses greater than

1 20 percent, right?

2 A Correct.

3 Q In the Company's last general rate case
4 proceeding, W-354, Sub 344, you made an adjustment to
5 reduce purchased water expense for losses greater than 15
6 percent, right?

7 A Correct.

8 Q Has the water loss situation worsened since the
9 2015 rate case proceeding, or why do you use a different
10 number, a different percentage?

11 A I'd have to check that, but off the top of my
12 head, I think it's about the same as far as the water
13 adjustment, but I'd like to go back and look as far as
14 the calculations go.

15 Q Okay. So sitting here today, you don't know
16 the difference between why you used 20 percent in this
17 case and 15 percent in the last case?

18 A Well, I do know the differences because we've
19 had conversations since then in some other meetings, and
20 the -- and the Company, in some of the meetings that
21 we've had over the years -- over the year has talked
22 about this, that -- that the loss has increased and that
23 20 percent would be a more appropriate level to use than
24 the 15. And in the last case we settled using 15 percent

1 versus 20, and so in this rate case we conceded that 20
2 percent would be a better percentage than the 15 percent.

3 Q So it's -- so it should have always been 20
4 percent, or have the line losses increased? Can you fill
5 me in a little bit?

6 A I think it was just a matter of a number. In
7 prior cases we've used 15 percent, and over time they
8 keep increasing the amount that they think should be lost
9 due to different issues that they bring up, so, you know,
10 now, you know, the other issue comes with meters, and so,
11 you know, it's -- it's an argument that they always think
12 it should be more, we always think it's less, and usually
13 we negotiate what we think that should be. In the last
14 rate case we used 15 percent because that was what we had
15 used in prior cases, and they argued 20 percent. And so
16 through our conversations over the year, we've decided
17 that 20 percent would be more appropriate.

18 Q Okay. So if I'm hearing you correctly, there's
19 always been a difference between the Public Staff and the
20 Company as to what that number should be.

21 A Correct.

22 Q And you argue about it, but it's not
23 necessarily a situation where the line losses have
24 increased or decreased; it's just a matter of a --

1 A It's just a matter of what we're going to use
2 to reduce that loss, is it -- is it going to be 15 or 20
3 percent?

4 Q Okay. On page 26, beginning on line 20, you
5 testified that in order to reduce rate shock for the
6 customers in Treasure Cove, the parties agreed to
7 recommend to the Commission the same rates stipulated for
8 the Fairfield and Bradfield Farms customers rather than
9 the stipulated CWSNC uniform rate, right?

10 A Correct.

11 Q Based on review of Exhibit F of the
12 Stipulation, it appears that the customers in the
13 Clearwater water operations and the Sapphire Valley sewer
14 operations will absorb rate increases significantly
15 greater than the other service areas listed on Exhibit F
16 if the stipulated rates are approved by the Commission.
17 What is the Public Staff's explanation to the Clearwater
18 water operations and the Sapphire water -- Sapphire
19 Valley sewer operations for the significant rate case
20 increase for those two service areas if the stipulated
21 rates are approved by the Commission?

22 A We felt -- the Public Staff felt that if you
23 look at the existing rates for Treasure Cove, they are
24 much, much lower than the uniform rates, and so those are

1 the only ones that we considered moving into -- to change
2 it and ease into the uniform rates, and we didn't look at
3 any of the other service areas other than Treasure Cove.
4 And we felt that Clearwater was -- was in the range as
5 some of the other ones were, and so we kept Clearwater in
6 the uniform rates at the -- at our recommended rates or
7 the proposed rates for -- in the -- as uniform rates and
8 we didn't isolate them out.

9 Q And Sapphire Valley sewer, likewise, you've
10 determined to be in the range --

11 A Correct.

12 Q -- of uniform rates? All right. On page 28 of
13 your testimony, beginning on line 6, you recommended that
14 the Company implement meter -- metered sewer rates for
15 customers in its Fairfield Harbour, Bradfield Farms, and
16 Sapphire Valley service areas in the Company's next
17 general rate case proceeding. Approximately how many
18 customers, if you could tell us, did this involve?

19 A I could get that answer to you. I do have that
20 in the billing analysis, but I could get that answer to
21 you.

22 Q If you would give that to us, please.

23 A Okay.

24 Q On Exhibit D, Rate Comparisons for CWSNC

1 Combined Operations attached to the Stipulation, at pages
2 1 of 10, in the Usage Charges for water under section C,
3 Purchased Water for Resale, for the White Oak Plantation,
4 Lee Forest, and Winston Plantation/Winston Point service
5 areas in Johnston County, it shows a recommended usage
6 charge of \$2.28 per 1,000 gallons, which is 30 percent
7 less than the existing and proposed charge of \$3.25 per
8 1,000 gallons. Is this the correct current rate?

9 A Yes, sir. That's the current contract.

10 Q Okay. In addition, on that same Exhibit D at
11 page 6 of 10, the Usage Charge for sewer for 1,000
12 gallons based on purchased water, the exhibit shows that
13 the White Oak Plantation/Lee Forest and Winston Point
14 service areas in Johnston County you have a recommended
15 usage charge of \$4.82 per 1,000 gallons, which is a 6
16 percent increase over the existing and proposed charge of
17 \$4.55 per 1,000 gallons. Is this the correct current
18 rate?

19 A Yes, it is.

20 Q Okay.

21 CHAIRMAN FINLEY: Anybody else have any
22 questions of -- go right ahead.

23 EXAMINATION BY COMMISSIONER CLODFELTER:

24 Q I want to go back to Exhibit F on the

1 Stipulation, and I want to ask some questions to be sure
2 I understand the exhibit, and if it reads the way I think
3 it reads, then I may follow your suggestion.

4 A Okay. Sure.

5 Q So -- so as I understand what is going to
6 happen here, is that the two SIC charges (sic) are going
7 to be reset to zero once the base rates are
8 reestablished, correct?

9 A Could you repeat that?

10 Q The two SIC charges, surcharges, are going to
11 be reset to zero as a result of this case, right?

12 A (No response.)

13 Q Did you prepare Exhibit F?

14 A (No response.)

15 Q Who prepared Exhibit F?

16 A I did.

17 Q Okay. So --

18 A I don't think I understand your question.

19 Q -- let me start back up with an average monthly
20 bill --

21 CHAIRMAN FINLEY: SSIC.

22 Q -- an average --

23 CHAIRMAN FINLEY: SSIC.

24 Q -- an average monthly bill includes multiple

1 items.

2 A It includes the base facility charge --

3 Q Right.

4 A -- and the usage charge.

5 Q Usage charge?

6 A Uh-huh.

7 Q Where are the two SIC charges shown? Are they
8 not shown on the bill?

9 A The WSIC and SSIC are shown on the bill; that
10 would be set back to zero, correct.

11 Q And are they shown on the bill?

12 A I believe so, yes.

13 Q So a customer today, before this rate case is
14 decided, gets a bill, an average customer consuming the
15 average gallon usage --

16 A Uh-huh.

17 Q -- and sewage usage gets a bill --

18 A Uh-huh.

19 Q -- shows an amount for the base charge, an
20 amount for the usage charge, and then the surcharges.

21 A Right.

22 Q Okay. So the customer looks at the bottom line
23 and says my monthly bill is "X," and that's what I write
24 a check for, is the sum of those charges.

1 A Correct.

2 Q So after the rate case, the proposal here is
3 that the two surcharges go back to zero.

4 A Correct.

5 Q So then the customer looks at that monthly bill
6 after the rate case and sees the base charge, the usage
7 charge, and then a zero amount --

8 A Okay.

9 Q -- and they go to the bottom line and that's
10 their monthly bill and they write a check for that
11 amount. So my question is in the column that's titled
12 CWCSC (sic) Present, does that column include the SIC
13 surcharges or just the base charge and the usage charge?

14 A Just the base charge and the usage charge.

15 Q That's why I suspected.

16 A Uh-huh.

17 COMMISSIONER CLODFELTER: So Mr. Chairman, may
18 -- I might make a suggestion to the parties for the
19 benefit of customers --

20 THE WITNESS: Uh-huh.

21 COMMISSIONER CLODFELTER: -- who think that the
22 average monthly bill is the total on the bottom line, and
23 this chart might be more helpful to them in understanding
24 what their bottom line total is going to change to. If

1 somehow or other they could see that the SIC charges were
2 being zeroed out --

3 THE WITNESS: Okay.

4 COMMISSIONER CLODFELTER: -- and then you might
5 give apples-to-apples comparison and the customer might
6 look at these percentage increases and it wouldn't look
7 so large because they are being added against the fact
8 that the SIC charge is zeroed out. It might be useful
9 from the customers' standpoint to re-present Exhibit F.
10 Just a suggestion.

11 THE WITNESS: Okay. Thank you. Uh-huh.

12 COMMISSIONER CLODFELTER: With that, that's all
13 I have.

14 CHAIRMAN FINLEY: Okay. Other questions from
15 the Commission of Ms. Casselberry?

16 (No response.)

17 CHAIRMAN FINLEY: Any questions on the
18 Commission's questions of Ms. Casselberry?

19 MS. SANFORD: No questions.

20 MS. HOLT: No.

21 CHAIRMAN FINLEY: All right. Thank you, Ms.
22 Casselberry.

23 (The witness is excused.)

24 CHAIRMAN FINLEY: We have a question for Ms.

1 Quant.

2 LINDSAY QUANT; Having been previously sworn,

3 Testified as follows:

4 EXAMINATION BY CHAIRMAN FINLEY:

5 Q If you would please turn to page 3 of your
6 testimony. You discuss there on page 3 your adjustment
7 to testing expense. You testified that you -- your
8 recommendation for testing expense reflects, among other
9 things, new testing requirements. Could you please
10 describe and explain what these new testing requirements
11 are.

12 A The new testing requirements included systems
13 that were worked into the uniform rates that from the
14 last rate case were previously not included, and just for
15 if they had any change in their testing schedule due to
16 sampling overages going back, you know, if they were on a
17 minimum schedule and then they go -- they get a -- they
18 get a hit and then they would have to go to more frequent
19 testing. It reflects the current of what all the systems
20 are currently at for frequency and any new additional
21 samples that would be needed.

22 Q Any new -- any what? Any new -- you said any
23 new something. I didn't hear it.

24 A Any new additional samples that may be required

1 that weren't required last rate case.

2 Q So what would be some of the new samples that
3 would be required? I mean, you mentioned a -- a change
4 in the schedule where they have to do more tests.

5 A Uh-huh.

6 Q Are there different tests, any new tests that
7 they have to undertake?

8 A It wouldn't be additional new testing. It
9 would just most likely be a change of frequency --

10 Q All right.

11 A -- in the new -- the new systems that were
12 being brought into the uniform rates.

13 Q Okay. That's helpful.

14 CHAIRMAN FINLEY: That's all the questions that
15 we have, unless someone else has some questions for Ms.
16 Quant.

17 (No response.)

18 CHAIRMAN FINLEY: Are there any questions on
19 the Commission's questions?

20 MS. SANFORD: No.

21 MS. HOLT: No.

22 CHAIRMAN FINLEY: No more questions. Thank
23 you, ma'am.

24 (The witness is excused.)

1 CHAIRMAN FINLEY: All right. We have a few
2 questions for the Company.

3 MS. SANFORD: Mr. Linneman?

4 CHAIRMAN FINLEY: I guess he's the man.

5 MS. SANFORD: And we also have others here
6 available if --

7 CHAIRMAN FINLEY: All right.

8 MS. SANFORD: -- there are topics you wish to
9 explore that Mr. Linneman can't answer.

10 CHAIRMAN FINLEY: All right. If he can't
11 answer it, you'll point us to the right person.

12 MS. SANFORD: Okay. Well, we'll ask Mr.
13 Linneman to take the stand.

14 RICHARD LINNEMAN; Having previously been sworn,

15 Testified as follows:

16 EXAMINATION BY CHAIRMAN FINLEY:

17 Q We had a presentation, an informal
18 presentation, on GenX test results. Could you please, or
19 someone on behalf of the Company, give us an update
20 regarding the recent GenX test results that the Company
21 has received?

22 A That would not be best answered by myself.
23 That would be Mr. Klein or Mr. Mendenhall from the
24 operations side.

1 Q All right. Well, let's hold that one a minute
2 and we can come back to that one. Regarding your call
3 center operations, are the customer service
4 representatives provided specific information or training
5 concerning CWSNC's regulated operations in North
6 Carolina? For example, Public Staff Witness Casselberry
7 states on page 20, lines 2 through 6, of her prefiled
8 testimony that the a customer in the Carolina Trace
9 community testified at the Raleigh public hearing that
10 the call center was not familiar with the 18 different
11 property owners' associations, and that many times there
12 were boil notices required in the context -- in the
13 context of the wrong POA representatives. What
14 information/training does the Company provide to the
15 customer service representatives to improve that
16 situation?

17 A Again, that's probably a question that would be
18 the best answered by the operational folks.

19 Q Okay. Strike two.

20 (Laughter.)

21 Q Public Staff Witness Johnson adjusted
22 maintenance expenses, salaries, and wages on her Johnson
23 Exhibit 1, Schedule 3(a) and 3(b), pages 1 and 2 -- 1 of
24 2. For CWSNC water operations the increase in column (b)

1 to water salaries and wages was \$114,589, an increase of
2 approximately 4 percent. For CWSNC sewer operations an
3 increase in column (b) for sewer salaries and wages is
4 \$225,915, an increase of approximately 17 percent. Can
5 you explain the overall increase in salaries and wages
6 for the Company's operations uniform rate divisions, and
7 in particular the significant increase in sewer salaries
8 and wages expense?

9 A Yes. Those -- those increases are related to
10 several factors, one being new hires or additional hires.
11 In this -- this rate case there was a total of five new
12 positions hired, with three of them being in the field
13 and then the other two being administrative office type
14 positions that get allocated out to the operations side.
15 And then also we did what we believe was necessary as far
16 as a market rate wage adjustment so that we could bring
17 the operators as well as the administrative staff
18 salaries up to the current market wages based upon an
19 outside consultant study that was performed out of our
20 Northbrook office. And the -- just the distribution of
21 the increase is based upon how much time each individual
22 spends in each of our systems, and that's why you may see
23 the sewer side have a little bit larger increase than the
24 water side, dependent upon which employees got -- got the

1 larger increases or where the new employees were hired,
2 how much time they are spending on -- on a sewer-related
3 system versus a water-related system.

4 Q The consultant study that was conducted out of
5 the Northbrook office, did the Public Staff audit that?
6 Did they look at that study, to your knowledge?

7 A I believe we -- I believe they did.

8 Q All right. Are you up to --

9 A We -- we can provide the -- the results of the
10 study. We have all the documentation from it.

11 Q That would be -- that would be good. And is it
12 your view now that the -- the salaries that you adjusted
13 from the market study, are they up to market now, in your
14 view?

15 A As a whole, we still believe we are just shy of
16 where we believe we need to be from a market standpoint,
17 but this was a large step in the right direction. A lot
18 of this decision was made to help reduce some of our
19 turnover, and we're starting to see that, but we feel
20 like we're still one step away from being at market
21 wages.

22 Q So with this adjustment you've reduced the
23 turnover based on what can you observe?

24 A The frequency, correct.

1 Q On Stipulation Exhibit B, line 16, the revenue
2 requirement impacts of the adjustment to include actual
3 GL additions was significant for each of the four rate
4 divisions listed. Could you please describe some of the
5 significant plant improvements which were completed after
6 the end of the test year, but prior to today's hearing,
7 which contributed to the total stipulated increase in the
8 revenue requirement?

9 A I don't have a list of all of the projects that
10 was -- that were completed in front of me, but I can file
11 it as a -- as an exhibit.

12 Q Well, please file it. Can you sort of, off the
13 top of your head, give us some ballpark understanding of
14 what we're talking about here?

15 A It -- I would probably defer that question to
16 the operations side on what they are considering the
17 large significant projects.

18 Q Okay. Public Staff Witness Casselberry discuss
19 on page 20 of her testimony her adjustment to purchased
20 water expense. She states on lines 9 and 10 that she has
21 reduced purchased water expense for losses greater than
22 20 percent. What is the Company's -- what is the Company
23 presently doing or planning to do in order to reduce its
24 percentage of water losses, whatever that percentage

1 happens to be?

2 A Yes. So currently we are conducting full water
3 audits by an outside consultant to not only show us what
4 the current water loss level is, but also the economic
5 impact of that water loss to see is it -- is it worth
6 spending the additional capital to offset the lost water,
7 so we are currently conducting those studies across our
8 system.

9 Q What is your understanding, if any, as to
10 whether the amount of amount of water losses has
11 increased or decreased over the years, if you know?

12 A In my opinion, it has not -- it has neither
13 decreased or increased. It's remained constant.

14 Q All right. Okay. Regarding the Company's
15 embedded cost --

16 (Off-the-record discussion between
17 Chairman Finley and Commissioner Clodfelter.)

18 EXAMINATION BY COMMISSIONER CLODFELTER:

19 Q Mr. Linneman, if I understand the exhibits to
20 the Application correctly, all of the long-term debt
21 allocable to the Applicant is carried at the parent
22 company level; is that right?

23 A That's correct.

24 Q Okay. And what is the -- is that debt -- that

1 debt is rated, isn't it?

2 A It is.

3 Q And who rates that? Who rates it?

4 A I don't know that off the top of my head.

5 Q Do you know what the current ratings are on the
6 long-term debt?

7 A I -- I do not. I'd have to check with the
8 staff at the parent company. We do not have regular
9 access to that information.

10 Q Have you seen Mr. Craig's prefiled testimony in
11 support of the Stipulation?

12 A I have.

13 Q Do you have it close at hand?

14 A I do.

15 Q I don't want to ambush you. You can read along
16 with me. On page 18 --

17 A Yes.

18 Q -- he says that based on the recommended
19 capital structure cost of debt and equity return of 9.6
20 percent, the pretax interest coverage ratio is
21 approximately 3.7 times. This level of pretax interest
22 coverage should allow the Company to qualify for a BBB
23 bond rating. And that was really what my question was
24 going to, is what is the current rating? Is it BBB or

1 higher or lower?

2 A I'll -- like I said, I'll have to -- I don't
3 have that data available. I'll have to check.

4 Q I would be very interested in knowing that.

5 A Okay.

6 Q I'll ask Mr. Craig. He may know it, too.

7 A Okay.

8 Q And so -- but since you're up first, you get
9 the questions first, okay?

10 A Yeah, yeah. Okay.

11 Q Do you know what the pretax interest coverage
12 ratio is currently?

13 A I don't know how that's allocated down to the
14 subsidiary companies like the Applicant, so I don't know
15 really how you do that calculation, but...

16 Q Can you tell me what the current interest
17 coverage ratio is?

18 A So they actually don't do the interest coverage
19 ratio by the subsidiaries. They do it at the parent
20 company level. I don't have the exhibit in front of me,
21 but that exhibit was actually submitted to the Public
22 Staff as part of a data request.

23 Q That has been submitted to the Public Staff?

24 A Yes. We have to do that on a quarterly basis

1 for the debt covenants.

2 Q Okay. I'm going to ask you some questions that
3 I know I can get the answer to from public sources, but I
4 need to get them in the record --

5 A Yeah.

6 Q -- so I'll ask them of you.

7 A Yeah.

8 Q Do you know what the current yield is on long-
9 term treasury bonds?

10 A I do not know off the top of my head.

11 Q You don't know what recent yields have been
12 over the last three months, six months, or so forth?
13 Okay.

14 A No.

15 Q And I take it, then, to be fair, you probably
16 wouldn't know what the typical risk premium is over long-
17 term treasuries for companies having the same bond rating
18 as Utilities, Inc. because you don't know the rating?

19 A No.

20 Q Okay. Well, I had to ask for the purpose of
21 the record --

22 A Yes.

23 Q -- you understand. Let me look back again at
24 Mr. Craig's testimony, and he's got an exhibit there,

1 it's CCC-3, in which he analyzes some financial metrics
2 for -- for companies that he contends are peer companies
3 for the Applicant. Would you look down that list of
4 companies and tell me, do you agree with Mr. Craig that
5 those are appropriate peer companies for a comparison of
6 those financial information?

7 A I agree.

8 Q Okay. Are there any there that don't belong
9 there?

10 A Not in my opinion.

11 Q Are there any that should be added to that
12 list, in your opinion?

13 A Not in my opinion, no.

14 Q Okay. Now, these are all -- do you know
15 whether these are all publicly-held companies? Do you
16 know if any of them are privately owned?

17 A I believe they are all publicly-held companies.

18 Q Okay. And Utilities, Inc. is not, correct?

19 A Correct.

20 Q Okay.

21 MS. HOLT: Excuse me, Commissioner Clodfelter.

22 Our Witness Calvin Craig is here.

23 COMMISSIONER CLODFELTER: I understand --

24 MS. HOLT: Okay.

1 COMMISSIONER CLODFELTER: -- but since this
2 witness is up first, he's the Company witness --

3 MS. HOLT: Okay.

4 COMMISSIONER CLODFELTER: -- I thought I'd ask
5 him first and --

6 MS. HOLT: I just wanted to make sure.

7 COMMISSIONER CLODFELTER: -- your witness is
8 getting a preview of the questions. He can be prepared
9 with his answers.

10 BY COMMISSIONER CLODFELTER:

11 Q In your -- in the last rate case, the
12 Applicant's return on common equity was allowed at 9.75
13 percent, and you said in your testimony in support of the
14 Stipulation that you've actually only been able to
15 achieve a return on common equity of 5.18 percent. These
16 papers in front of us are full of explanations for why
17 that might be, but I would like to just hear you, for
18 purposes of encapsulating and summarizing, what are the
19 factors, in your judgment, that have produced a situation
20 in which the Company can only achieve approximate -- just
21 a little over half of the allowed rate of return on
22 common equity?

23 A Right. So the two largest factors are going to
24 be the capital spend lag, as well as the O&M lag. So

1 during the rate case proceedings when you look at a test
2 year, for example, in this case looking at the test year
3 ending December 31st, 2016, by the time we get the
4 proposed rates into a final order and in place, we're
5 looking at the end of 2017, beginning of 2018, so by that
6 time frame we've already gone a year out, so you've built
7 in 2 to 3 percent of a headwind right there. And then
8 the same thing on the capital spend, with the projects
9 being allowed to be recovered -- proposed to be recovered
10 in this rate case, the cutoff date was the beginning of
11 September. Again, once -- by the time we get the rates
12 into effect, we're going to be five to six months down
13 the road already. And as everyone knows, in a utility
14 there's constantly capital needs. So those are the two
15 biggest factors.

16 Q Have you made any effort to try to quantify
17 those two in terms of the --

18 A We actually do that internally on a monthly
19 basis that I can provide as an exhibit.

20 Q Have you provided that to the Public Staff
21 already?

22 A I have not, no.

23 COMMISSIONER CLODFELTER: Given the initial
24 answers I got, I think I'll defer the other questions,

1 okay? Thank you.

2 CHAIRMAN FINLEY: Other questions for Mr.
3 Linneman?

4 (No response.)

5 CHAIRMAN FINLEY: Questions on the questions of
6 the Commission?

7 MS. SANFORD: No, sir.

8 CHAIRMAN FINLEY: All right. If you'll put an
9 operations person up, please.

10 MS. SANFORD: And Chairman Finley, we'll
11 certainly put Mr. Mendenhall up. It's possible that the
12 answers -- I don't know what your questions are, but it
13 could be that they lie between Mr. Mendenhall and Mr.
14 Klein. We're happy to put them both up as a panel, if
15 you'd like.

16 CHAIRMAN FINLEY: It's up to you.

17 MS. SANFORD: Let's do it.

18 CHAIRMAN FINLEY: They ought to know what they
19 are because I just asked them of somebody else.

20 MS. SANFORD: Well -- well, we'll let Mr.
21 Mendenhall go since he's taken the stand.

22 CHAIRMAN FINLEY: Okay. If he can --

23 MR. MENDENHALL: Might as well go.

24 MS. SANFORD: Okay.

1 CHAIRMAN FINLEY: We can go do a double handoff
2 if we have to.

3 MS. SANFORD: That's right.

4 CHAIRMAN FINLEY: All right. I guess you need
5 to be sworn, Mr. Mendenhall.

6 BRYCE MENDENHALL; Having first been duly sworn,
7 Testified as follows:

8 EXAMINATION BY CHAIRMAN FINLEY:

9 Q Can you provide the Commission an update
10 regarding any recent GenX test results received by the
11 Company?

12 A Yes, sir. We actually tested seven locations.

13 Q Give us your name for the record, please.

14 A I'm sorry. Name is Bryce Mendenhall.

15 Q Go right ahead.

16 A We did test seven locations in the Belvedere,
17 Mason Landing, Olde Point area. All seven of those areas
18 that were tested came back as nondetects.

19 Q Thank you. That's good.

20 MR. GRANTMYRE: Commissioner, I don't think
21 he's been sworn, has he?

22 CHAIRMAN FINLEY: Yes.

23 THE WITNESS: Just did.

24 MR. GRANTMYRE: Okay. I'm sorry.

1 BY CHAIRMAN FINLEY:

2 Q Regarding your call center operations, are the
3 customer service representatives provided specific
4 information/training concerning CWSNC's regulated
5 operations in North Carolina?

6 A The questions I think in regard -- you were
7 referring to Ms. Casselberry's testimony from Carolina
8 Trace --

9 Q Right.

10 A -- and the 18 POAs?

11 Q Right.

12 A I will say that's a -- it's a challenge to
13 chase 18 POAs in one subdivision, to say the least.
14 That's probably one of the largest subdivisions we have
15 with that many POAs. With turnover within customer
16 service, it does present a challenge. I would also say
17 that it comes back to making sure we are provided with
18 the right information from the POAs when we meet with
19 Carolina Trace, with Mr. and Mrs. Roy on a regular -- on
20 a quarterly basis. So that's been a standing order even
21 before I came here. What I can assert to the Utilities
22 Commission is that we can work with Mr. Roy to make sure
23 we've got updated names, to make sure we try and pinpoint
24 the contact number for that.

1 One of the other things that I think has been
2 challenging is communication within the subdivisions
3 themselves when we're trying to pinpoint a specific area
4 and a problem, and then it starts to become word of mouth
5 across the subdivision, in and of itself, for those that
6 were not actually intended to be contacted.

7 Q Of course, you can understand when somebody is
8 out of water, they -- they can expect to be reconnected
9 as quickly as possible, so...

10 A Yes, sir.

11 Q Let's see. On Stipulation B Exhibit, line 16 ,
12 the revenue requirement impacts of the adjust -- of the
13 adjusted -- of the adjustment to include actual GNL
14 additions were significant for the each of four rate
15 divisions listed. Could you please describe some of the
16 significant plant improvements which were completed after
17 the end of the test year, but prior to today's hearing?

18 A I'm trying to remember the actual projects
19 that we submitted after the original hearing, and that's
20 -- I don't have that right in front of me right now, Mr.
21 Chairman. We can provide you, obviously, a list of what
22 was presented and time frames accordingly.

23 Q All right. Please do.

24 A If there were specific project names, then we

1 could address those as well.

2 Q All right. I appreciate it. Tell me
3 something, Mr. Mendenhall, about your usage. Are you
4 experiencing a dramatic or moderate decrease in usage for
5 customers? Are you -- and how are your customer head
6 counts? Are they declining or increasing?

7 A I'm going to address part of this, and I may
8 defer to FP&A, Mr. Linneman, for part of it. Consumption
9 has gone down. Based on what we've seen is this has been
10 a wet year, and I somewhat anticipated that. I live just
11 north of Wake County in Granville County. So April was a
12 very wet time, and so we have seen actually consumption
13 rates go down. Whether that's a full scale trend or
14 whether it's going to change as we go into next year,
15 depending on the rainfall we receive, I'm not sure yet.
16 I think our head counts have remained consistent, have
17 consistently grown, but consumption has gone backwards,
18 yes, sir.

19 Q You're still experiencing reductions in usage
20 not only from lawn watering, that type of thing, but from
21 the differences of toilets and other types of water usage
22 equipment within the home?

23 A If I can beg on 25 years of being in government
24 before I came to the private sector, yes, sir, I think it

1 made a significant difference. Obviously, in a wet year
2 we see the reduction in lawn irrigation and nonessential
3 uses of water, but I do think that the more water
4 friendly devices have certainly changed patterns for us,
5 absolutely. I think -- matter of fact, not long ago I
6 think City of Raleigh actually did a report on where they
7 are actually having a significant loss of consumption
8 based on water savers.

9 CHAIRMAN FINLEY: Other questions? Go right
10 ahead, Commissioner Gray.

11 EXAMINATION BY COMMISSIONER GRAY:

12 Q Mr. Mendenhall, is your call center located in
13 North Carolina?

14 A So that's a multi-faceted question. We have a
15 call center in our Charlotte office. We have two
16 additional call centers as well, one in Florida and one
17 out West. So depending on time of day and when you call,
18 or volume that's hitting a specific call center at that
19 time, your call may roll to an alternate site, and then
20 we have an after-hours call center as well contracted out
21 by the Company.

22 Q So a subcontractor could have received the
23 question about -- from the 18 POAs?

24 A That is a possibility. Depends on when the

1 call came in.

2 Q And that possibility is that the subcontractor
3 had not been trained or notified of the various
4 complications in all these various sites?

5 A There is a possibility of that, yes, sir.

6 Q That's an instruction.

7 A Yes, sir.

8 COMMISSIONER GRAY: Thank you.

9 CHAIRMAN FINLEY: Commissioner Brown-Bland has
10 a question or so.

11 EXAMINATION BY COMMISSIONER BROWN-BLAND:

12 Q Mr. Mendenhall, would you remind me of your
13 position and title with the Company?

14 A Vice President of operations.

15 Q And how long have you been in that position?

16 A I'm just shy of seeing six months.

17 Q All right. And all of that time for -- you've
18 worked for this system in North Carolina?

19 A Since March 27th, yes, ma'am.

20 Q All right. I had a few questions about the --
21 some of the testimony we received at some of the public
22 hearings from the customers. I have just a few.

23 A Yes, ma'am.

24 Q But when we were in Wilmington, we heard from a

1 Frank or Frances Carroll --

2 A Uh-huh.

3 Q -- and I appreciate the reports that the
4 Company filed in response, but I just had some follow-
5 ups.

6 A Okay.

7 Q So Mr. Carroll asked about the use of chlorine,
8 and one of his questions was why was chlorine the
9 chemical of choice as opposed to another, and I think he
10 was getting at would a use of another chemical avoid the
11 creation of the by-product contamination. Do you know?

12 A Well, throughout time, chlorine has been the
13 most common disinfectant that's been used, obviously, in
14 10, 20 years, and even the City of Raleigh does it right
15 here, have started to use chloraminated water. With
16 chlorine disinfection you have the chance of disinfection
17 by-products with THMs or HA5s. It's a common practice.
18 It's one that I have used my entire career.

19 I'm not sold on the -- the process of
20 chloramination personally, but that's a personal
21 professional opinion. I think it has just as many issues
22 that can be found from it as with the disinfection by-
23 products. But obviously we fall up under monitoring
24 rules with THMs and HA5s that -- and especially in the

1 past three to five years, we have -- those have been
2 tightened down on us, where instead of going from system
3 requirements, we're looking at site requirements, so it's
4 something we're having to pay more and more attention to
5 as well.

6 Q Now, is that contamination a natural by-product
7 of the chlorine regardless, or is that -- Mr. Carroll
8 seemed to question whether that contamination was
9 possible because too much chlorine was being used.

10 A It has multiple factors that go into it. It's
11 the level of chlorination that go in, as well as age of
12 water and how long the water stays in the lines,
13 obviously. We have done multiple testing down at
14 Belvedere, and in each case we have found our chlorine
15 levels to be acceptable and within the ranges that are
16 prescribed for us by regulatory agencies. We've not
17 found in any case that it exceeded.

18 In any given time if you are close to the
19 injection point of the chlorine and disinfection source,
20 it's going to be higher at that point because we have to
21 maintain that minimum throughout the system. We've heard
22 from those in Belvedere who have never had a complaint,
23 and we've heard from those that have. I think it also
24 comes back to, same as the difference between my wife and

1 I, she has a much more sensitive palate than I do, and so
2 I think that's part of the origination of some of those
3 complaints as well.

4 Q In your professional opinion, is there any
5 reason that the sampling should be done more frequently
6 than quarterly?

7 A If we had found any instances of the chlorine
8 levels being above the allowance we have, certainly it
9 would encourage me to -- to do more. Based on some
10 concerns of the citizens, as a Company we would be
11 willing to certainly provide some additional testing and
12 provide a timeline and show what our levels were and to
13 let me them know that they were in accordance. So, no,
14 we would not object to that.

15 Q And other than Mr. Carroll, have you heard -- I
16 mean, he seemed to indicate he would favor more frequent
17 testing, that's one customer, so are you hearing that
18 that's something that the Belvedere customers want?

19 A I think he was speaking for it, and the best I
20 can tell one residence, and we have tested at that
21 residence, and each time the levels have come back to be
22 in -- in scope, in range. We actually -- ironically, I
23 have an employee that lives in very close proximity to
24 the house that I think you're speaking of, or that Mr.

1 Carroll was speaking to, and they've never complained and
2 have never had an issue with chlorine levels, but I think
3 once again, that comes back to possibly differences in
4 palates of people.

5 Q There was also testimony about repairs of --
6 street repairs, I guess, on Green--- Greenview Court, and
7 the report indicated those repairs had been made, but if
8 you looked in the transcript on that, and I can read that
9 if I need to for you, but there were just several
10 different kinds of complaints that -- that he leveled
11 about the way the Company responded or didn't respond,
12 and he ended up saying it took two months to repair. Did
13 you do any checking into that, or can you explain why in
14 that particular -- with that particular case that it took
15 two months?

16 A That particular case, I cannot. I know in a
17 couple of instances we tried to -- when we were
18 mitigating asphalt patches there or utility cuts, as I
19 refer to them, it makes a little more sense or it's a
20 little bit easier to bring -- to have several cuts that
21 you bring in and have the asphalt contractor come in or
22 the paving contractor come in and hit several areas at
23 one time. They're not having to mobilize multiple times
24 going across. The cuts are maintained. Aesthetically

1 they may not be pleasing because it's gravel rather than
2 blacktop, but the cuts are maintained regardless.

3 Q If it takes two months, and given the area --
4 you know the area; I don't -- if it takes two months, is
5 that problematic or does the customer have a legitimate
6 complaint, in your view?

7 A Putting myself in their shoes, I would probably
8 be upset and alarmed if it took two months, considering
9 that if we were asking the same question of it being in
10 the mountains, then I would have a different argument for
11 you. But two months is probably a little bit too long of
12 a time for an open cut to be -- or for a utility cut to
13 go unpatched.

14 Q Given that response, if you're able, could --
15 could you perhaps provide us a late-filed exhibit
16 indicating what your review and investigation shows --

17 A Yes.

18 Q -- about what happened and why?

19 A Okay.

20 Q And in particular, looking at those things in
21 the complaint that he complained about with respect to
22 Greenview.

23 A Okay. Just with the asphalt patching, correct?

24 Q Right.

1 A Okay.

2 Q There was -- he also made a reference, which I
3 followed up on and he couldn't explain in great detail,
4 but he had indicated that someone in the field who worked
5 for the Company mentioned that a pump that had been
6 installed in July or August, so close to the time we were
7 there, that the pump was not the most appropriate pump
8 for the well in question. Did you look into that
9 complaint and make sure that that pump is appropriate?

10 A The pump, that is a designed and engineered
11 project for well number two at Belvedere that was
12 certified on August the 16th, so a professional engineer
13 stamp on there. That was not something that we shopped
14 and decided to put in there, so it was an engineered
15 project. The quote -- I'll have to say I'm having the
16 same trouble that you are, that I've not got -- I do not
17 have an employee that has said that was a statement that
18 they made, and I don't -- they would not have been
19 qualified to make such a statement.

20 Q All right. Then there was a Witness Danny
21 Conner from Treasure Cove, and he made a complaint of
22 being unable to reach a service representative or get an
23 answer to his call. Have you -- taking him at his word,
24 should that have occurred, or have you been able to

1 investigate or determine what happened?

2 A I do not remember investigating that one. I
3 don't -- based on the timing, he's either going to call a
4 call center, and as I had said before earlier in my
5 testimony, it's going to roll from one to the other if
6 one is occupied and all lines are taken. At that point
7 we do have an after-hours contact as well, so there
8 should not have been any means by which we could not have
9 been reached somehow --

10 Q All right.

11 A -- unless there were extraordinary
12 circumstances that we would be unaware of.

13 Q And did the Company have any response to the
14 claims -- I believe this was a Mr. Chance who made the
15 claim, but just the idea that repairs are being made
16 without notice? Is it customary or reasonable, in your
17 view, that -- that some notice should be given before
18 repairs are made?

19 A I'm going to go back on a lot of years of
20 experience and a lot of leaks under my belt. We try our
21 best to notify the public that's going to be affected.
22 From my standpoint, too, the greater item that needs to
23 be addressed is the repair at hand to avoid and alleviate
24 any damage that may be caused to personal property or the

1 system in and of itself. We do consider customer contact
2 first and foremost, but if it comes to a point if we
3 cannot make initial contact, the repair and protection of
4 service, to me, is the most important, vital thing.

5 Q Ms. Mandy Ware testified. She was the mother
6 with the young children. And she -- she generally said
7 she had two complaints, one was water quality and the
8 other was communication. And she complained generally
9 about the timeliness of the boil water alerts, and her
10 issue was being able to be prepared for that in advance
11 and have enough bottled water on hand and that kind of
12 thing. Is there anything that the Company can add to
13 address that concern that she raised?

14 A She -- to me, she would be a prime example --
15 leaks don't happen when we want them to. We don't want
16 them to happen at all, but they don't happen when we
17 would want them to. We generally take a stance, and it's
18 hard to say when the leaks are that she's addressing, but
19 a leak, you know, at midnight, 2, 3:00 in the morning, I
20 don't know whether I'm going to win by making a phone
21 call and waking them up out of bed to alert them or if
22 I'm going to be just as much trouble calling them the
23 next morning at 7:00 after they've gotten up to take
24 their shower.

1 In the case of this young lady and having two
2 children, and it's been a long time since I've had two
3 children to worry about, but having that wake-up call at
4 2:00 in the morning and waking up my babies, I don't know
5 that I'm going to win in that situation. We certainly
6 made the call to her, and I understand her -- certainly,
7 her concerns of timeliness of the phone call.

8 It's almost, Commissioner, a no-win situation.
9 We do make the contact. It's a -- I think it's more of a
10 call by the operator.

11 Q And sitting here, I can't remember what
12 precipitated the need for her to need the bottled
13 water --

14 A The --

15 Q -- or what the alert was for, but are there
16 circumstances where you are able to give advance notice?

17 A If I remember correctly, the situation that she
18 was referring to, it was when we had a contractor strike
19 a line, so there was not an ability to give advance
20 notice. Certainly, if we've got predesigned construction
21 work going on in an area, we're going to make an attempt,
22 certainly, be it door hangers or through a voice reach,
23 to reach out to these customers. But in her case, like I
24 said, if I remember back, and I think I know the young

1 lady you're speaking of, that -- that was an emergent
2 situation where we clouded the water, yes, ma'am.

3 Q And she -- also, she provided the exhibit of
4 the wipe, the baby wipe, where she'd filled up her tub
5 with water and then drained it out, and then she said
6 this was the residue that was left, and that's what the
7 exhibit showed us. Is that -- was that the one -- was
8 that due to the sand that was discussed?

9 A Yes, ma'am.

10 Q And that's that well number two issue?

11 A Well number -- well number two, yes, ma'am.

12 Q And that's been repaired now?

13 A We're in the final throes of repairing that.
14 It was inspected, I think, on the 27th of August. We
15 have a contractor that is onsite now and should be
16 finalizing if not the end of this week, the first of next
17 week, any additional repairs to well number two, and we
18 plan to put it back in service shortly thereafter.

19 Q And will you be able to follow up with her in
20 particular to be sure that that has ended the problem?

21 A Yes, certainly.

22 Q And you'll let us know?

23 A I will. And to knock -- I hate to even say
24 this -- knock on wood, we had a successful follow-up

1 meeting with an additional POA from Belvedere, I think it
2 was going to be last -- last Tuesday, and we received
3 some great reports. They've seen improvement. And we've
4 still had -- we've had a couple of leaks since then,
5 don't get me wrong, but overall, the changes we made in
6 the system appear to be working.

7 Q All right.

8 A I didn't get beat up too bad, I'll say that.

9 Q And then the other sort of -- well, at least it
10 was a repeated complaint that we were hearing also
11 concerned boil water alerts, but it seemed to be more of
12 a little bit of an emphasis on the cessation of the
13 alert, when it was over, and they seemed to indicate that
14 even if they heard on the front end, maybe there wasn't
15 as great of attention paid to making sure they received
16 the cessation alert. Are you able to indicate whether
17 you've looked into that, what the Company is doing about
18 that, or whether, in fact, that -- that's not the case,
19 in your view?

20 A I don't -- I think one of the instances, and I
21 think that you were with us at -- in Asheville, and I
22 think one of the cases that was brought to us was a
23 situation Connestee Falls where they made a reference to
24 an excess of five days before a rescission order was

1 issued. The order was issued. The leak was on a Friday,
2 samples were taken over the weekend. Dealing with the
3 lab, trying to get a turnaround, there was five days
4 between rescissions. In 99 percent percent of the time I
5 get not only the voice reach that goes out, but the
6 rescission that comes -- goes out as well. And I think
7 that the Company and the operators are keenly aware to
8 put the rescissions out there. It still comes back to
9 communication with did we reach, were they available at
10 the number we called, and I think that's part of what
11 we're seeing as well.

12 Q I think one inference from the Connestee
13 Falls --

14 A Uh-huh.

15 Q -- hearing and what was said about that was
16 that I think the boil water alert went out on a
17 Thursday --

18 A Uh-huh.

19 Q -- and then the cessation was on a Tuesday.
20 And I looked at the boil water alerts, and they indicate
21 -- there's at least one line in there that says when --
22 that when this situation ends, you will receive another
23 call.

24 A That's correct.

1 Q It seems that if the situation goes on 48,
2 maybe 72 hours, folks get antsy and they're wanting to
3 hear.

4 A Right.

5 Q And I believe the one man indicated he --
6 Witness, probably Levine, indicated that he tried to get
7 through, but he couldn't, and I mean, there may be -- I
8 think the fact is that you would still be working on that
9 during the interim. So your information to them may not
10 be any different because you've already said if it ends,
11 we will -- or when it ends --

12 A Right.

13 Q -- we will let you know, but does the Company
14 think that it's reasonable or -- or a preference to in
15 certain -- have a certain interim or a certain interval
16 of time to at least get back to them and say just to let
17 you know, it's still going on --

18 A Yeah.

19 Q -- or I mean, would that help alleviate the
20 situation --

21 A Yeah. I think --

22 Q -- or is that too much?

23 A -- that's one thing to look at operationally,
24 is, you know, if we're -- especially if we're challenged

1 with a weekend and there's not somebody there at the lab
2 to read a sample, you know, if we're pushing 36, 48 hours
3 and we've not been able to rescind, that maybe we, you
4 know, start to send out an additional alert to let them
5 know that the boil water or whatever the condition is, is
6 still standing and that we're waiting on the test
7 results. And I -- I think that's certainly important.

8 Q I would just think it's -- it's sort of human
9 nature, after a little when you haven't heard, that you
10 begin to question, well, maybe it's good. How do I know?
11 I want to know.

12 A Right.

13 Q And so they begin to call and ask and --

14 A Well, and it's -- you know, the average person
15 is not going to know that there is a time requirement on
16 that sample. It's not the fact, obviously, that we take
17 it, test it on the back end of the truck, know it's safe,
18 and we're ready to go, so -- and that's an education
19 factor that certainly we could help with as well.

20 Q All right.

21 COMMISSIONER BROWN-BLAND: Thank you.

22 THE WITNESS: Yes, ma'am.

23 CHAIRMAN FINLEY: Any questions on the

24 Commission's questions here?

1 MS. SANFORD: Sir, I have a couple questions,
2 please.

3 CHAIRMAN FINLEY: All right.

4 EXAMINATION BY MS. SANFORD:

5 Q Mr. Mendenhall, you were asked when you began
6 your employment with -- with Carolina Water --

7 A Yes.

8 Q -- and I'd like to ask you if you could very
9 briefly summarize for us your employment in the water and
10 wastewater industry prior to joining this Company.

11 A I've been in water and wastewater for 25 years.
12 Started with the Town of Boone after I graduated from
13 Appalachian State. Most recently spent almost 13 years
14 as the Director of Utilities for Franklin County just
15 north of Wake County.

16 Q Okay. Thank you.

17 A Yes, ma'am.

18 Q I had another question about chlorine and --

19 A Uh-huh.

20 Q -- with respect to the earlier discussion you
21 had with Commissioner Brown-Bland.

22 A Okay.

23 Q You indicated that one of the issues leading to
24 complaints about chlorine has to do with the age of the

1 water in the pipe; is that correct?

2 A I think there was two parts to the question
3 that we spoke about. That was disinfection
4 by-products.

5 Q Uh-huh.

6 A Age of the water leads to a reduction in the
7 chlorine levels as well, but it can increase the
8 disinfection by-products that are a result of --

9 Q Right.

10 A -- chlorine treatment.

11 Q And is it correct that one of the remedies for
12 that is to try to keep this water or get this water in
13 circulation in a -- in a more robust way?

14 A We certainly look for dead ends or ways to
15 circulate through the system.

16 THE WITNESS: And, Commissioner, just to let
17 you know, we have already started to install automatic
18 flushers in response to some of the comments that were
19 offered to us in Wilmington in an attempt to address some
20 of that aged and dead end water, just to let you know. I
21 forgot to tell you that a while ago. I apologize.

22 Q And that answered my question.

23 MS. SANFORD: Thank you very much.

24 THE WITNESS: Thank you.

1 CHAIRMAN FINLEY: Okay. Thank you, Mr.
2 Mendenhall.

3 THE WITNESS: Thank you, Mr. Chairman.

4 CHAIRMAN FINLEY: Yes, sir.

5 (The witness is excused.)

6 CHAIRMAN FINLEY: I'm going to call Mr. Craig.
7 Mr. Craig, if you will come around, please. Put your
8 left hand on the -- well, let's see. Mr. Grantmyre has
9 been sworn in on your behalf.

10 MR. GRANTMYRE: He is not. I'm right this
11 time.

12 (Laughter.)

13 CHAIRMAN FINLEY: All right.

14 CALVIN C. CRAIG, III; Having been duly sworn,

15 Testified as follows:

16 CHAIRMAN FINLEY: Commissioner Clodfelter has
17 some questions for you.

18 EXAMINATION BY COMMISSIONER CLODFELTER:

19 Q Mr. Craig, good afternoon.

20 A Good afternoon.

21 Q You were here when I asked Mr. Linneman
22 questions --

23 (Off-the-record discussion.)

24 Q You were here earlier when I was asking some

1 questions of Mr. Linneman?

2 A Yes, I was.

3 Q I'm going to try them out on you.

4 A Okay.

5 Q We'll see where they go.

6 A All right.

7 Q Do you know the current debt rating on

8 Utilities, Inc. debt, long-term debt?

9 A I do not. That was not a part of my rate of
10 return study, but I will be more than happy to research
11 that information and provide it to you.

12 Q I think it would be useful to know. And the
13 cost of capital includes both debt and equity, and all of
14 my questions are really going to focus on the debt
15 portion.

16 A Okay.

17 Q Do you -- do you know, subject to check, what
18 the current yield is on long-term treasury bonds?

19 A Not off the top of my head. I would have to
20 research it. I know what the current yields are on A
21 rated bonds, but --

22 Q On A rated bonds.

23 A Correct.

24 Q But you don't know what the rating is on the

1 treasury bonds?

2 A Not on treasuries. I would have to go research
3 it.

4 Q Okay.

5 A Yeah.

6 Q Do you have any information about what the risk
7 premium is over long-term treasuries on debt issued to
8 companies having characteristics of this Applicant? Do
9 you know what the typical premium is?

10 A Well, the premium sort of fluctuates depending
11 on the industry. And based on my research, the premiums
12 in the gas industry most closely resemble the premiums in
13 the water industry. And so I would have to look at my
14 documents, but I believe I can provide an answer.

15 Q Please do so.

16 A The current risk premium is roughly about five
17 and a quarter in the water utility industry.

18 Q Is that the risk premium for equity or is --
19 I'm just talking about the premium for long-term debt
20 over treasuries, premium charged by a commercial lender.

21 A Right. That is the premium of equity over
22 debt, yes.

23 Q And my question -- again, none of my questions
24 focus on equity. All of them are about debt.

1 A Okay.

2 Q Do you know what the mark-up is for a
3 commercial lender over long-term treasuries for a company
4 of these -- of the characteristics of this Applicant?

5 A Not -- I can research that information, but I
6 do not currently have that information.

7 Q Okay. It's -- we'll leave it as a pending
8 question, then, okay?

9 A Okay. Thank you.

10 Q With respect to the group of peer companies
11 that you looked at and that are listed in Exhibit CCC-3
12 of your testimony, do you -- did you investigate and make
13 a determination about what the debt ratings were of the
14 long-term debt of those companies?

15 A No, we did not.

16 Q Did you make any investigation or determination
17 of what the average cost of debt was for those companies?

18 A No, we did not.

19 Q Did you make any investigation at all as to
20 whether the embedded debt of this Applicant, which
21 appears to be 5.93 percent, is typical, or is high, or is
22 low relative to the group of peer companies or relative
23 to the industry?

24 A We didn't look at it relative to the peer

1 companies that are on the DCF, but based on my knowledge
2 of the current financial market conditions and so forth
3 it seemed reasonable, yes.

4 Q Reasonable compared to?

5 A Other similarly situated companies.

6 Q In water utilities.

7 A Well, just to some degree, yeah, water
8 utilities, yeah.

9 Q What sources of information did you consult in
10 order to arrive at that judgment?

11 A I've looked at -- we looked at various
12 databases that we use when we're compiling our reports,
13 regulatory research analyst reports and things like that,
14 so...

15 Q With respect to the stipulated capital
16 structure of 48 percent long-term debt and 52 percent
17 common equity, did you conduct any investigation of what
18 the capital structure was of the peer companies that you
19 used for analysis?

20 A We looked at the capital structures of other
21 water companies that are operating in the United States,
22 not necessarily the same companies that we looked at when
23 compiling the DCF, but we did look at approved capital
24 structures over the last couple of years across the

1 United States for water companies, yes.

2 Q And what did you find?

3 A Basically, the range at the present time for
4 the last couple of years for water companies has been
5 between -- in terms of -- now, are you asking for the
6 debt component or the equity component?

7 Q Well, I can -- I can do the math, so give me
8 whichever --

9 A Okay.

10 Q -- one you want --

11 A All right.

12 Q -- and I'll do the subtraction with the other
13 one.

14 A Okay. They usually don't deviate greatly from
15 50/50. That's usually the norm. For 2016, in fact, the
16 average capital structure was roughly 50/50 for water
17 companies. And so it -- it generally doesn't deviate
18 greatly more than 1 or 2 percent away from a 50/50
19 capital structure. So a 52 percent capital structure is
20 in the range of reasonableness.

21 Q So if I understand you, it would surprise you
22 if published market data showed that the average capital
23 structure was 53.71 percent debt and 47.6 percent equity?
24 That would surprise you?

1 A Depending on the industry --

2 Q In the water utility industry.

3 A -- and the year.

4 Q Among the peer group of companies that you used
5 in 2016.

6 A Yeah. That would surprise me, yeah.

7 Q But you haven't made any specific investigation
8 of this group of companies in 2016?

9 A No, we did not.

10 Q We'll leave some of those questions pending. I
11 think, as I understand it, you're going to do some more
12 looking at some of those things.

13 A Yes. Absolutely.

14 Q Great. We'll talk more.

15 A All right. Thank you.

16 COMMISSIONER CLODFELTER: Thank you.

17 CHAIRMAN FINLEY: Okay. The Commission has
18 asked about documents in support, and maybe on some
19 occasions we identified that a document was out there
20 that we didn't have, but we may not have completely asked
21 for it. So to the extent that you all have indicated
22 that a document is available to us, if you would present
23 it. Even though we might not have formally at the time
24 asked for that, we would appreciate it. And we'll go

1 back and look at the transcript, and to the extent that
2 we get a little bit crossed up, we'll get it straightened
3 out as we can.

4 Any other questions on the Commission's
5 questions of Mr. Craig?

6 (No response.)

7 CHAIRMAN FINLEY: All right. Thank you, sir.

8 THE WITNESS: Thank you.

9 (The witness is excused.)

10 CHAIRMAN FINLEY: All right. I think that has
11 exhausted our questions for this afternoon, and as I said
12 earlier in the afternoon, we're going to continue to
13 study to -- we and the staff will continue to study to
14 see if we have other questions so that we can make an
15 informed judgment on what we've been presented here
16 today. So we'll do that and let you know as quickly as
17 we're able, and if we have to reschedule another hearing,
18 we'll do that, but for the moment we are adjourned.

19 Let me ask one question of the parties. As I
20 understand it, there are two projects that were after the
21 end of the test year, but they were worked on. And there
22 is a difference, again, as between the Company and the
23 Public Staff as to whether those should be included in
24 the case. And so in the Stipulation they have been left

1 out; is that right?

2 MS. SANFORD: I don't think that's exactly
3 right. There were two projects that the Company -- and I
4 stand to be corrected by many people in the room -- there
5 are two projects that the Company -- of several projects,
6 there were two that the Company was trying to finish by
7 the agreed upon date or close of hearing or filing of the
8 Stipulation. They were not finished, and so there is
9 agreement that they are not included.

10 CHAIRMAN FINLEY: Okay. Well, I guess my point
11 is, my understanding that that's what the Stipulation is
12 based on, that those two projects will not be included.

13 MS. SANFORD: That's correct.

14 CHAIRMAN FINLEY: Okay. Now, we're going to
15 have to extend the hearing a little bit because of the
16 fact that the Stipulation came in right before we were
17 scheduling. And my understanding is even if there is
18 some finishing of that project, it's still not going to
19 be included?

20 MS. SANFORD: That's correct.

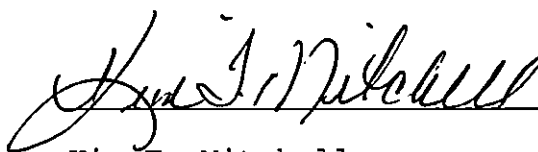
21 CHAIRMAN FINLEY: All right. All right.
22 That's helpful. All right. We'll be adjourned.

23 (The hearing was adjourned.)

24

C E R T I F I C A T E

I, Kim T. Mitchell, Court Reporter for the
North Carolina Utilities Commission, do hereby certify
that the foregoing proceedings were reported by me in
stenographic shorthand and were transcribed under my
supervision; and that the foregoing pages are a true
and accurate transcript of said proceeding.



Kim T. Mitchell

Court Reporter II