

1 PLACE: Dobbs Building, Raleigh, North Carolina  
2 DATE: Tuesday, May 14, 2024  
3 TIME: 9:30 a.m. - 1:08 a.m.  
4 DOCKET: W-1034, Sub 13  
5 BEFORE: Hearing Examiner Freda Hilburn  
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12 IN THE MATTER OF:

13 Application of Water Resources, Inc.,  
14 for Authority to Adjust and Increase Rates for Water  
15 Utility Service in Rocky River Plantation Subdivision  
16 in Cabarrus County and River Walk Subdivision in  
17 Mecklenburg, County North Carolina  
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A P P E A R A N C E S:  
FOR WATER RESOURCES, INC.:  
Edward S. Finley, Jr., Esq.  
Edward S. Finley, Jr., PLLC  
2024 White Oak Drive  
Raleigh, North Carolina 27608  
  
FOR THE USING AND CONSUMING PUBLIC:  
Gina C. Holt, Esq.  
Public Staff - North Carolina Utilities Commission  
4326 Mail Service Center  
Raleigh, North Carolina 27699-4326

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

1  
2 HEARING EXAMINER HILBURN: Good morning  
3 everyone. We're going to go back on the record and  
4 continue with Witness Feasel.

5 Mr. Finley, if you'd like to take up where  
6 you left off.

7 MR. FINLEY: Thank you.

8 CONTINUED CROSS EXAMINATION BY MR. FINLEY:

9 Q Ms. Feasel, one of the things that we had talked  
10 about yesterday had to do with the frequency of  
11 rate cases for Water Resources Inc., right?

12 A Correct.

13 Q And you did hear the Company Witness Abbott  
14 testified that before the construction of the  
15 interconnection with the Town of Harrisburg and  
16 the time it took to do that, he would have come  
17 in more sooner than he did; you heard him testify  
18 that, did you?

19 A I heard about that, yes.

20 Q Now, when was the last time, if you know, that  
21 Water Resources Inc., was earning its authorized  
22 rate of return?

23 A Let me go back to my note and take a look at it.  
24 The last time Water Resources come in for rate

1 case is 2018. The final is Order is proved on  
2 November 21st, 2018.

3 Q You would agree with me, would you not, that in a  
4 time for relative high inflation and when there  
5 is not much growth in customers within the  
6 subdivision served by a small water or sewer  
7 utility, as time goes by, often the Company is  
8 unable to earn this authorized rate of return;  
9 would you agree with that?

10 A I'm not disagree with that, because the Company  
11 has the option to file rate case when they are  
12 ready and chose to file the rate case.

13 Q Okay. But, absent the filing of a rate case,  
14 when there is lack of growth and high inflation  
15 and is difficult between the rate cases no matter  
16 the frequency of them to earn the authorized rate  
17 of return; would you agree with that or not?

18 A Just repeat the question, please, again.

19 Q All right. Irrespective of the frequency between  
20 general rate cases, when there is high inflation  
21 and lack of growth in revenues within the  
22 subdivision it is difficult for small water or  
23 sewer utility to earn its authorized rate of  
24 return; would you agree with that or not?

1 A If the Company does not come in for rate case to  
2 recover the expenses due to high inflation, then  
3 the Company is not able to recover, but it's the  
4 Company's duty to come in for rate case to  
5 recover the expenses that actually incurred due  
6 to inflation and other factors.

7 Q So as we go forward, we are in a period of high  
8 inflation and no customer growth, then it would  
9 be incumbent upon the Company to extent it is not  
10 earning its rate of return to come in more  
11 quickly than five years?

12 A Would you repeat? I mean, believe I just said --

13 Q I won't repeat that. Never mind. I think that  
14 answers itself. I asked you yesterday about  
15 recovery of rate case expenses having to do with  
16 this Company and what you said in your testimony  
17 to justify your recommendation. And you gave a  
18 long answer where you cited authority that was  
19 not in your testimony of two electric rate cases;  
20 did you not?

21 A I gave the two electric rate cases as an example  
22 yesterday.

23 Q And one of them was Duke Energy Progress rate  
24 case, E-2, Sub 1300, right?

1 A Correct.

2 Q Let me -- despite the fact that we didn't have  
3 that before yesterday, we looked over the night  
4 to try to find that case. And I'm looking at  
5 Page 205 of the Order that you cited yesterday.  
6 Let me just read you a few sentences of it.

7 The Commission determines that in the  
8 ordinary course of ratemaking, the rate case  
9 expense amount to be recovered from customers  
10 should be established in the current general rate  
11 case proceeding and not reevaluated in the future  
12 rate case for recovery from customers.

13 Generally, it has been past practice of the  
14 Public Staff and the utility to work together to  
15 estimate an appropriate amount of rate case  
16 expense for approval of the Commission to reflect  
17 the activity occurring after the agreed upon  
18 update cuff-off date to the conclusion of the  
19 hearing and through the preparation of proposed  
20 orders.

21 Do you remember that part of the Order that  
22 you cited yesterday? Page 205.

23 A Which paragraph? I only have Paragraph 45 in my  
24 notes. I don't -- what you read is not showing

1 in my notes.

2 Q Do you want to look at it?

3 (Passing out document.)

4 (Perusing document.)

5 A Yes. I have finished reviewing.

6 Q Well, good. Now, let me ask you a question about  
7 a rate case expense for a large company like Duke  
8 Energy Carolinas and Duke Energy Progress. When  
9 those companies come in for a general rate case  
10 they spend millions of dollars in rate case  
11 expense; do they not?

12 A They do tend to have large rate case expenses.

13 Q And with respect to the total cost of service --  
14 the total revenue requirement, would you agree  
15 with me that the percentage of that, that is rate  
16 case expense is much lower than the total rate  
17 case expense for a small water and sewer company  
18 like Water Resources Inc., in this case?

19 A That really depends on how much revenue and how  
20 much rate case expenses are. So without the  
21 number here, I cannot give you an answer of yes  
22 or no.

23 Q Fair enough. Tell me whether or not the Public  
24 Staff recommends, in this case, that the Company

1 be allowed to recover its costs of rate case  
2 expense through the preparation of the proposed  
3 order as it's addressed in this DEP rate case?

4 A I did not do the DEP rate case, so I don't know  
5 whether it's through the proposed order or  
6 through the expert hearing, but this -- what you  
7 hand me here -- is from the settlement talk,  
8 which is not precedential.

9 Q Thank you for that. So the cases that you cited  
10 to us yesterday in opposition to this case, where  
11 the rate case expense is contested, were based on  
12 a settlement; is that what your last answer was  
13 or not?

14 A The regulatory liability then or, in other words,  
15 the new -- the methodology we use -- we recommend  
16 for WRI is not contested item. The Company  
17 willingly filed in their Application that they  
18 will return the over collection of rate case  
19 expenses to customers. So this is not new. This  
20 is not contested.

21 Q Let me ask you the question, again. And, Ms.  
22 Feasel, if you will please listen to the question  
23 and answer the question we would be through here  
24 a lot more quickly. In this case, is the Public

1 Staff recommending that the Company be allowed to  
2 recover through rate case expense in this case  
3 what they incur through the preparation of  
4 post-order or are you asking that the rate case  
5 expenses be cut off more quickly than that?

6 A By this case, do you mean WRI or DEP?

7 Q This case. I'm asking about this case.

8 A WRI. In the WRI case, we recommend to update  
9 rate case expense through the close of expert  
10 hearing.

11 Q But not through the preparation of proposed  
12 orders and other post-rate case hearing expenses,  
13 right?

14 A Correct. Because we need to audit expenses  
15 worded in invoices to include only prudent  
16 incurred cost into our schedule to calculate  
17 revenue requirement. Because we don't have any  
18 invoices post-expert hearing, we are not able to  
19 include any actual expenses post-expert hearing,  
20 but we do include our estimate mailing cost and  
21 postage expenses for the customer notice in our  
22 schedules because we are able to estimate that.  
23 But we are not able to estimate how many hours  
24 the Company will work after post-hearings through

1 the proposed order.

2 Q Well, you certainly can't look at invoices for  
3 work done after the close of the hearing today  
4 before the hearing ends, can you?

5 A Well, the Company do not provide any invoices  
6 after a hearing, so I cannot include anything  
7 after hearing.

8 Also under General Statute § 62-133,  
9 regarding how the rates is fixed, it's regulated  
10 that *the test-year include 12 months' historical*  
11 *operating experience prior to the date the rates*  
12 *are proposed to become effective. But the*  
13 *Commission shall consider such relevant material,*  
14 *and competent evidence as may be offered by any*  
15 *party to the proceeding tending to show actual*  
16 *changes in costs, revenues or the cost of the*  
17 *public utility's property used and useful, or to*  
18 *be used and useful within a reasonable time after*  
19 *the test period, in providing the service*  
20 *rendered to the public within this State,*  
21 *including construction work in progress, which is*  
22 *based upon circumstances and events occurring up*  
23 *to the time the hearing is closed.*

24 So my recommendation is based on the

1 schedule that applies based on updates through  
2 the date the hearing is closed, not through the  
3 proposed order is closed.

4 Q So it's your opinion that to the extent in the  
5 past, including this DEP rate case that you cited  
6 yesterday, the Commission has allowed the Company  
7 to recover rate case expense including proposed  
8 orders that that violates § 62-133; is that your  
9 testimony, then?

10 A You talk -- if you're talking about DEP, DEP is  
11 not written -- the testimony is not written by  
12 me, but this is the settlement. So if we -- in  
13 DEP case, if we did include repairs after hearing  
14 through proposed order, that is settlement which  
15 is not president.

16 Q Well, the Commission is not going to approve a  
17 settlement that is unlawful; is it?

18 A I don't hear anything about approving settlement  
19 is unlawful.

20 Q Well, if this was a settled case, those  
21 settlements, stipulations usually include a  
22 statement at the bottom that if the Commission  
23 does not approve this settlement in totality, it  
24 is null and void and it can't be enforced; do

1           they not?

2   A       If -- you mean if this is the settlement case?

3   Q       I'm talking about the type of settlement. You  
4           said this was a settled case that you cited  
5           yesterday. E-2, Sub 1300, and you said it was a  
6           settled case, and I'm asking you that when the  
7           Commission approves a settlement in a case like  
8           this if the settlement doesn't usually have the  
9           price at the bottom unless all these provisions  
10          are included in there entirety the settlement is  
11          null and void?

12                 MS. HOLT: I'm going to object to that. It  
13                 calls for a legal conclusion.

14                 MR. FINLEY: Madam Hearing Examiner, the  
15                 lady has just quoted the statute and told you that  
16                 that's the basis of her answer. Come on now.

17                 MS. HOLT: I think the case speaks for  
18                 itself.

19                 HEARING EXAMINER HILBURN: I'm gonna  
20                 overrule and have the witness just answer based on the  
21                 best of her ability.

22                 THE WITNESS: Your question is -- just  
23                 repeat. Your question is just too long.

24   Q       It says in this Order that you quoted yesterday

1 on Page 205 that the recovery is for preparation  
2 of the proposed orders, which is after the end of  
3 the hearing. And are you telling me that because  
4 that is in this Order that what the Commission  
5 did violates 62-133?

6 A I did not say that.

7 Q I didn't ask if you said it or not. I asked you  
8 to give me an answer to the question.

9 A Well, your question is, did I say the order has  
10 violate.

11 Q I didn't hear your answer. Sorry.

12 A Just repeat your question. You said --

13 Q We'll move on, Ms. Feasel. Let me ask you about  
14 this concept of regulatory liability if you don't  
15 mind. I'm correct, am I not, in my understanding  
16 that back to the rate case expense, the Public  
17 Staff is in effect asking for the creation of a  
18 regulatory asset/liability for case expenses to  
19 be set aside in a special regulatory account to  
20 be addressed outside of the recovery of the other  
21 cost of service elements?

22 A No. Regulatory, we do not ask the Company to set  
23 a regular asset account and regular liability  
24 account is under the Uniform System of Accounts

1 under 253. It specifically give the definition  
2 of what revenue liability account is. So the  
3 Company can have that account and does not defer  
4 accounting to do that.

5 Q Let me rephrase the question just a little bit  
6 differently. With respect to the rate case  
7 expenses, the Public Staff in effect is asking  
8 for the creation of a regulatory liability for  
9 rate case expenses to be set aside in a special  
10 regulatory account to be addressed outside of the  
11 recovery of the other cost of service elements?

12 A Yes. For -- to record over collection for rate  
13 case expenses.

14 Q And your recommendation is, in effect, that those  
15 costs be, what I'll say true-up, over time in  
16 future rate cases; will you accept that?

17 A I believe I did not use the word true-up. Can  
18 you direct me to the --

19 Q No, you didn't -- you didn't use that term. If  
20 you disagree with the question, just say you  
21 disagree.

22 A Can you redirect me to the pages where I wrote  
23 that, and let me review that again.

24 Q The pages are Pages 14, beginning at Line 10

1 through Page 15, Line 9, which we read into the  
2 record yesterday. And I'm asking you about the  
3 Mechanism that you asked the Commission to  
4 approve for rate case expenses, and I'm not  
5 trying to trick you. I'm just trying to  
6 understand what you're asking for so we can talk  
7 about it.

8 A Page 14. Starting from which line?

9 Q Ten. And I'll just use a shorthand recitation of  
10 what I understand you to be recommending. I'm  
11 not trying to trick you at this point.

12 A So --

13 Q Why don't you describe the -- why don't you  
14 describe the Mechanism that you're recommending  
15 so that we won't quibble over words?

16 A The mechanism I'm recommending is, if the Company  
17 comes in for a rate case after it fully recovers  
18 the rate case expenses approved in this current  
19 case, then the Company over collect money from  
20 the ratepayers. Therefore, the Company needs to  
21 put the over collection of the money, rate case  
22 expenses, starting from the first months after  
23 the Company fully recovered its rate case  
24 expenses in the regulatory liability account on a

1 monthly basis and this -- the Company will  
2 continue to record our collection of rate case  
3 expenses in this regulatory liability account.  
4 And, two, the final order of the next rate case  
5 issued because, from the date the Company started  
6 our collections through the final order date  
7 issued for the next rate case, the Company  
8 continues to collect rate case expenses from  
9 ratepayers for expenses the Company does not  
10 incur anymore.

11 That is over collection. We recommend the  
12 Company to report this amount in the regulatory  
13 liability account to be determined the amount to  
14 be refunded to customers in the next rate case  
15 along with interested calculated based on  
16 weighted average cost of capital.

17 Q In that answer you used three times the word,  
18 "regulatory liability account;" did you not? And  
19 my question to you is, that's one of the things  
20 that you're asking the Commission to do is to  
21 establish a regulatory liability account? I'm  
22 not trying to trick you. I'm just saying that's  
23 what you're asking. In order to do those things  
24 that you said in the future you've got to --

1 A The Company needs to --

2 Q Let me finish. You've got to establish the  
3 regulatory liability account in this case; isn't  
4 that right?

5 A Yes. If the Company does not already have one,  
6 then, yes.

7 Q And that is in a different situation from other  
8 expenses like maintenance expenses and general  
9 cases -- general expenses that don't go into a  
10 regulatory liability account, right?

11 A Different circum- -- I mean, those are different  
12 accounts.

13 Q Yes.

14 A So --

15 Q General rate case accounts, not regulatory  
16 liability accounts, right? Nothing. Nothing.  
17 I'm not trying to trick you. I'm just trying to  
18 get distinction.

19 A Those are different types of accounts.

20 Q Ms. Feasel, the rate case expense that the  
21 Company is incurring today, and has been  
22 incurring up till now, and will be incurring  
23 through the preparation of proposed orders is  
24 being financed by the equity investor of the

1 Company; would you agree with that?

2 A It's being financed by the investor. Which  
3 investor?

4 Q I'm sorry.

5 A Which investor you said? You said it's being  
6 financed?

7 Q But the investor. The investor?

8 A I'm not the account team, so I don't know which  
9 investor. This question should have been  
10 addressed by an expert in the accounting.

11 Q So you don't know the answer to that question,  
12 then?

13 A I don't know who financed the Company.

14 Q Well, hypothetically, Ms. Feasel, if the cost of  
15 this case is being financed by the investor in  
16 Water Resources Corporation, the longer it takes  
17 for it to recover those costs, the longer the  
18 investor goes without its investment unless the  
19 Commission allows a return on that unamortized  
20 portion; would you agree with that,  
21 hypothetically?

22 A Hypothetically, if there is -- well, let me make  
23 a correction here. When you just say unamortized  
24 portion.

1 Q Yeah?

2 A That is not correct statement, because rate case  
3 expense is not -- it's not an ongoing expenses.  
4 We normalize that. So if there is any remaining,  
5 that is not an amortized balance, which mean it  
6 does not get a return on the rate base.

7 Q Let's call it a normalized expense, but the  
8 longer the time goes by that the investor gets  
9 that normalized money back, the longer he goes  
10 without a return on it, right?

11 A The longer the rate case goes by, the longer time  
12 you said he went -- the investor?

13 Q Yes.

14 A The investor do what?

15 Q The longer the investor goes without recovery of  
16 his money?

17 A No. I disagree.

18 Q All right. All right. Let me -- let's talk a  
19 little bit then about regulatory liability  
20 account, if we might. And I'm going to ask you  
21 about a paragraph out of a DEC rate case, and the  
22 only thing I'm going to ask you about this for,  
23 is so we can set in front of us a definition in  
24 that case about what I think you're talking about

1           when you say regulatory liability account. So,  
2           please, just listen to me. It's a Docket Number  
3           E-7, Sub 1146, Order dated June 22, 2018. And  
4           I'm reading the Evidence and Conclusions for  
5           Finding of Fact Number 79, Pages 27 and Pages --  
6           and also Pages 326 and 327. And this is just a  
7           definition, and I want to see if you agree with  
8           what I read into the record here.

9           The Commission agrees with DEC's recommended  
10          approach, not only for CCR costs, but also for  
11          all costs for all accounts. A deferred cost is  
12          not the same as the cost of service expenses  
13          recovered in the Company's nonfuel-based rates.  
14          A deferred cost is an exception to the general  
15          principle that the Company's current cost of  
16          service expenses should be recovered as part of  
17          the Company's current revenues. When the  
18          Commission approves a typical cost of service,  
19          such as salaries and depreciation expense, there  
20          is a reasonable expectation that the expense will  
21          be -- will continue at essentially the same level  
22          until the Company's next general rate case, at  
23          which time it will be reset.

24          On the other hand, when the Commission

1 approves a deferred cost, the Commission  
2 identifies the specific amount that has already  
3 been incurred by the Company, or in the case of  
4 CCR cost, is estimated to be incurred by the  
5 Company.

6 In addition, the Commission sets the  
7 recovery of the amount over a specific period of  
8 time. Further, the Company is directed to record  
9 the recovery of the specific amount in a  
10 regulatory asset account rather than a general  
11 revenue account. If the Company continues to  
12 recover the deferred cost for a longer period of  
13 time than the amortization period approved by the  
14 Commission, that does not mean that DEC is then  
15 entitled to convert those deferred costs into  
16 general revenues and recording them in their  
17 general revenue accounts.

18 Rather, the Company should continue to  
19 record all amounts recovered as deferred costs in  
20 a specific regulatory asset account established  
21 for those deferred costs until the Company's next  
22 general rate case.

23 Now, this deals with a regulatory asset  
24 account, but the principle would apply to a

1 regulatory liability account; would it not?

2 A I disagree. In this WRI case --

3 Q You disagree with what I just said?

4 A Correct.

5 Q Now, are you familiar with that case? That's the  
6 case where the DEC and DEP were trying to recover  
7 their cost of coal ash remediation; are you  
8 familiar with those cases?

9 A I did not do the DEP/DEC, especially regarding  
10 the coal ash cases. I just know that for the DEC  
11 and DEP cases, the Company filed with the  
12 Commission in their Application to refund the  
13 over collection of rate case expenses to  
14 customers, which is not a contested issue. But  
15 if you ask me about any other issues regarding  
16 CPRE then, I don't know.

17 Q Fair enough. Do you know whether or not when --  
18 if you don't know what I just read anything more  
19 about the case, you don't know whether or not  
20 when the Commission approved the deferral of  
21 those costs that allowed a return on them.  
22 Nobody asked for that.

23 A I did not know.

24 Q Okay.

1 A But, in the WRI case, we did not say anything  
2 about deferral accounting.

3 Q You called it amortization.

4 A In the Company's rebuttal, the Company said  
5 deferred accounting, but in our recommendation, I  
6 recommend to put the over collection to regular  
7 liability, which we do not need a deferred  
8 accounting to do that.

9 Q Are you advocating that the Company earn a return  
10 on what is put in the regulatory liability  
11 account or not?

12 A The Company -- if the Company over-collect money  
13 from repairs then, yes, essentially the Company  
14 only over-collect the money for the amortization  
15 expenses, but it also earn a return for the  
16 amortization expenses, which is why we recommend  
17 the Company to return not only the over  
18 collection, but also with the interest.

19 Q What I'm asking you about is the establishment of  
20 the account, regulatory liability account in this  
21 case, not what happens in a future rate case.

22 And my question to you is, are you or are you not  
23 recommending to the Commission that on those  
24 funds, while they are accruing while they are in

1           that account, are you recommending that the  
2           Company earn a return or not?

3       A     Yes. I'm recomen- -- let me just clarify that.  
4           Yes, I'm recommending and, I mean, when the  
5           Company over-collect they put money under the  
6           regulatory liability account. There is a  
7           cost-free capital for the Company to use which  
8           the Company earn in the return, it should not  
9           have earned.

10                   MR. FINLEY: Can I just have a few minutes?

11       A     A few minutes to --

12                   HEARING EXAMINER HILBURN: Yes. We're going  
13           to take just a five minute break. Is that what you  
14           need, Mr. Finley? We're going to go off the record  
15           for just a few minutes.

16                                   (Brief recess.)

17       Q     Ms. Feasel, would you agree with me that when the  
18           Commission sets up a regulatory liability  
19           account, it has to do that through its Order and  
20           recognize it as such?

21       A     I do not believe that we have to have an Order to  
22           have the Company to set a regulatory liability  
23           account.

24       Q     So it's your opinion that, in order to set up a

1 regulatory liability account, it does not require  
2 the Commission's approval?

3 A That's correct.

4 Q Do you have any authority to back that up?

5 A Under the Uniform System of Accounts, under the  
6 253 we have the definition of the regulatory  
7 liabilities. This account shall include amounts  
8 of regulatory liabilities not included in other  
9 accounts imposed by -- imposed on the utility by  
10 the ratemaking actions of regulatory agencies.

11 The amounts to be included in this account  
12 are to be established by those credits which  
13 would have been included in net income  
14 determinations in the current period under the  
15 general requirements of the Uniform System of  
16 Accounts, but for it being probable that: One,  
17 such items will be included in a different  
18 periods for purpose of developing rates that the  
19 utility is authorized to charge its utility  
20 services or; two, refunds to customers not  
21 provided for in other accounts will be required.  
22 Therefore, it's technically defined in the  
23 Uniform System of Accounts under 253.1 that,  
24 regulatory liability account is used to record

1 the refund to customers.

2 So it does not require Commission Order for  
3 the Company to build this account.

4 Q So you don't care whether the Commission in this  
5 case issues an Order addressing and approving the  
6 regulatory liability account that you recommend  
7 in this case?

8 A Can I repeat? Did you, in the beginning of your  
9 sentence, did you say, "I don't care?"

10 Q Okay. Do you care whether or not the Commission  
11 in this case approves your recommendation to set  
12 up a regulatory liability account in this Order  
13 in this case?

14 A I believe it's not up to my careness [sic] or  
15 not, but it's a fact that regulatory liability  
16 account is under the utilities Uniform System of  
17 Accounts. It's a fact. The Company doesn't need  
18 a Commission Order or we do not need to file a  
19 petition for the Commission order to authorize  
20 the Company to set up this account.

21 Q That's your opinion. Are you -- you are aware,  
22 are you not, that in past cases, the Commission  
23 has approved regulatory liability accounts and  
24 regulatory asset accounts in its -- in its

1 Orders?

2 A Yes.

3 Q And it's not the test there, Ms. Feasel. In  
4 order to do that, rather than recover those  
5 costs, is regular cost of service accounts that  
6 the cost is unusual, unexpected, and material;  
7 isn't that one of the tests that the Commission  
8 employ?

9 A What you are talking about is deferred  
10 accounting, but we were talking about regulatory  
11 liability. So they are different concepts.

12 Q So this is not a deferral you're asking for?

13 A Correct. This is not deferral.

14 Q And it's not the second test that it has the  
15 regulatory asset or liability as a material  
16 impact on earnings when the Commission sets up a  
17 deferral based on the creation of a regulatory  
18 asset or liability account?

19 A Well, I will repeat, again, this is not deferral  
20 accounting so we do not need a different  
21 accounting to set regulatory liability account.

22 Q But if the Commission were to disagree with you  
23 that it is a deferral despite what you say, would  
24 you agree with me that the test is that it's got

1 to be material, and unexpected, and that it has a  
2 meaningful material effect on earnings?

3 A Those are the test for deferred accounting but,  
4 again, this case is not related to the default  
5 accounting.

6 Q Are you familiar with -- well, I'll just give you  
7 a little preview that our witnesses disagree with  
8 you on that. Are you familiar with the concept  
9 of the two prongs of the test to create deferred  
10 account in some cases?

11 A Can you refer me to the pages of the Company's  
12 rebuttal. Just let me read the two tests.

13 Q No. No. I'm not asking you about that right  
14 now. I'm asking you just based on your general  
15 knowledge and accounting experience, are you  
16 familiar with what is referred to in this  
17 Commission as the two-pronged test? If you don't  
18 know anything about that, just let me know.

19 A I heard about these two-pronged tests for  
20 deferred accounting.

21 Q Does what I have said about it a moment ago, is  
22 that in accord or not in accord with what you  
23 know about it; the two-pronged test?

24 A In accord or not in accord?

1 Q Beg your pardon.

2 A I'm sorry. Could you repeat the question?

3 Q No, ma'am. I'm not going to repeat it. Let me  
4 read you another -- that page I gave you about  
5 the DEP Order, the Sub 1300 -- let me read you  
6 another paragraph below the one that I just read  
7 to you a minute ago. It says, concerning DEP's  
8 adjustment to include the unamortized portion of  
9 rate case expense in rate base, the Commission  
10 gives significant weight to the Public Staff's  
11 testimony that the amortization of rate case  
12 expense should reflect a normalization of the  
13 cost associated with the filing of the rate case  
14 based on an average of the number of years  
15 between the rate case filing. The Commission  
16 notes that in the 2019 first partial settlement  
17 expressly provided that the unamortized balance  
18 of the rate case expense would not be included in  
19 rate base.

20 The Commission concludes that DEP's request  
21 to include the unamortized balance of the right  
22 case expense in rate base is denied.

23 Have I read that?

24 A Yes, you read it.

1 Q Correctly. Now, the Company submitted to the  
2 Public Staff a data request asking for the  
3 authorities that the Public Staff relies upon in  
4 the recommendation that you make here on Pages 14  
5 and 15 of your prefiled testimony, correct?

6 A (No verbal response.)

7 Q And the first sentence that I want to read to you  
8 is, the Public Staff did not conduct an  
9 exhaustive research of the docket system which  
10 was available to the Company to find all dockets  
11 involving regulatory liability accounts. And  
12 then you cite the Aqua case W-218, Sub 73, right?

13 A Correct.

14 Q So are you basically saying there that the -- you  
15 basically said that the Company can find that  
16 information itself as opposed to the search in  
17 the docket system?

18 A Correct.

19 Q And this came up yesterday. So it is your view  
20 that it's the Company's position to refute  
21 recommendations that you make, not your -- not  
22 your responsibility to support them with  
23 authorities?

24 A It's the Company's responsibility to support it's

1 case. There's a question?

2 Q Is it -- is it the Company's respon- -- does the  
3 Company have the burden of proof to point out  
4 where your recommendations are invalid, or do you  
5 have to support them yourself?

6 A I believe I gave example to support myself  
7 already in our Response.

8 Q In your testimony, or the response that you give  
9 on the stand.

10 A Yeah. The Response to DR Request.

11 Q Let's see here. So let's talk about the  
12 Mechanism that you have -- you've discussed this.  
13 In your testimony you've discussed it today. So  
14 if -- so this is tracked. The rate case expenses  
15 are tracked going into the future; would you  
16 agree with the word "tracked"?

17 A You mean tracked the over collection?

18 Q Well, track -- yeah. Okay. Let's do over  
19 collection. Track over collection.

20 A Yeah. It's tracking.

21 Q And to the extent there's an over collection,  
22 based on examination of the account at the end of  
23 five years, that it's your recommendation that,  
24 if there's a general rate case at the end of the

1 five years, that what is over collected in the  
2 account be refunded to customers with interests?

3 A Correct.

4 Q But it's not really interest, is it? It's the  
5 full authorized return. It's not an interest  
6 return. It's the full authorized return. That's  
7 how you calculate it?

8 A Those two word are interchangeable. It's the  
9 over collection themselves plus the interest. Or  
10 if you say return.

11 Q Yeah. Okay. All right. Now, so if, in that  
12 next case, if it comes five years from now, but  
13 the third case is 10 years from now, then there's  
14 going to be a long period of time in there when  
15 that amortization, or whatever you want to call  
16 it, occurs, right?

17 A When there is a third case. You mean, this even  
18 case is the first case and then after is second,  
19 and then Company filed a third rate case in ten  
20 years?

21 Q Yeah. So then, there's a long period of time  
22 when this return of over collection, as you call  
23 it, with interest is taken place?

24 A That depends on when the Company comes in for

1 rate case.

2 Q Sure. But -- so we're asking, in your  
3 recommendation here, that some customers way off  
4 in the future be responsible for -- get credit  
5 for over collection of rate case expenses  
6 incurred today, not the customers that are on the  
7 system today, right?

8 A You're talking about the over collection, but, if  
9 the Company over-collect regarding the --  
10 regardless of the size of the company, they need  
11 to return the over collection to the customers in  
12 the manner that determine by the Commission.

13 Q Now, if -- if -- and you also address this in  
14 your testimony -- if there is an under collection  
15 there's got to be, I used the word tracked and I  
16 think you allowed me to use the word "tracked,"  
17 right?

18 A It's okay.

19 Q If it is tracked and there is an under  
20 collection, then you don't recommend that the  
21 Company earn a return on the under collection,  
22 and you leave it up to the Commission. You don't  
23 address exactly the Mechanism that you recommend  
24 the Commission to follow in addressing the under

1 collection; am I correct about that?

2 A I disagree with that statement.

3 Q What is wrong with it?

4 A Because the remaining balance of the current rate  
5 case that you have not got an opportunity to  
6 recover before you file the next rate case is  
7 added in the rate case expenses in the next rate  
8 case, which the total rate cases then amortize  
9 over certain years approved by the Commission is  
10 one of the factor in cash working capital, which  
11 the Company earn a return, therefore, the Company  
12 still earn a return on that remaining balance of  
13 the current rate case.

14 Q Let me talk to you, Ms. Feasel, about salary  
15 expense, okay?

16 A Yeah.

17 Q With respect to salary expense, the customary  
18 method of establishing test-year salary expenses  
19 look at the level of the expense at the end of  
20 the test period or at a level of salary expense  
21 to be incurred at the time of the hearing and the  
22 case concludes, unless for some reason the level  
23 of the salary expense is unrepresentative; would  
24 you agree with that?

1 A Yes.

2 Q You would?

3 A Yes.

4 Q And the Company has indicated that, with respect  
5 to its employee Beth Lockwood, she has been given  
6 increase in the salary that she is to receive  
7 beginning May 9, 2024; would you agree with that?

8 A The salary beginning effective May 9th is already  
9 beyond the test period and also beyond the  
10 updated test period in this case, so it would not  
11 apply to this case.

12 Q I think you just read a minute ago the definition  
13 of what's in the Statute § 62-133, and it talks  
14 about a reasonable period of time after the  
15 test-year up until the close of the hearing; does  
16 it not? Do you want to look at it again?

17 A It does say that, yes. But in the scheduling,  
18 Order, the Commission said the Company has up  
19 through March 12th to provide the updates to  
20 revenues expenses and other rate-based items.  
21 The Company has not been able to provide any  
22 supporting document to salaries regarding the  
23 rate or hours, nor did the Company give us any  
24 updates for the service as indicated effective

1 May the 9th. If we were update salary for May --  
2 effective through May, we will have to update all  
3 the other expenses. We will also have to update  
4 accumulated depreciation through the associated  
5 time period for the matching purpose.

6 Q Well, you mentioned the Commission's Order  
7 establishing the case and then you read § 62-133;  
8 do you think the Commission's establishing Order  
9 overrides the statute?

10 A I don't know. This is a legal question.

11 MR. FINLEY: May I pass out an exhibit,  
12 Madam Hearing Officer?

13 HEARING EXAMINER HILBURN: Yes.

14 MR. FINLEY: Can we have this marked, Madam  
15 Hearing Officer, as WRI Feasel Cross Examination  
16 Exhibit Number 1, please?

17 HEARING EXAMINER HILBURN: WRI -- can I say  
18 Feasel Cross Examine Exhibit 1. Okay. It will be so  
19 marked.

20 (WHEREUPON, WRI Feasel  
21 Cross Examination Exhibit 1  
22 is identified.)

23 Q Would you accept, Ms. Feasel, that, that is an  
24 indication of the salary of Ms. Lockwood as of

1 May 9, 2024?

2 A You mean the 15,000 as of May 9, 2024? I cannot  
3 accept that -- can I have a copy of that? I  
4 didn't see.

5 MR. FINLEY: Did I not give you a copy? I'm  
6 sorry.

7 Q Did you see that now?

8 A Yes.

9 Q Did the Public Staff not receive a copy of that  
10 last week?

11 A I -- yes.

12 Q Now, let me ask you about professional expenses.  
13 I think you addressed that on Page 13, Line 8.

14 A Line eight.

15 Q And I'm going to read a sentence out of the  
16 rebuttal testimony and ask you to comment on it.  
17 In the rebuttal testimony on Page 24, Line 17,  
18 rebuttal witness --

19 A Just give me a second. Let me go to that page.

20 Q Sure.

21 HEARING EXAMINER HILBURN: Mr. Finley, would  
22 you repeat that page number, please?

23 MR. FINLEY: I think it's Feasel --

24 HEARING EXAMINER HILBURN: Excuse me, of the

1 rebuttal.

2 MR. FINLEY: Of the rebuttal is on Page 24.  
3 I think it's Line 17.

4 HEARING EXAMINER HILBURN: Thank you.

5 THE WITNESS: Okay. I'm on the rebuttal  
6 page.

7 Q Rebuttal witnesses maintain that Witness Feasel  
8 has only left in amounts for the tax return  
9 preparation and preparation for the -- in  
10 preparation for the annual report. Basically,  
11 there are no ongoing levels of professional  
12 expense for customer complaints, bond filings, or  
13 other professional fees associated with the  
14 compliance with any Commission mandate.

15 While removing all of these fees, the Public  
16 Staff has stripped the Company of its opportunity  
17 to defend itself against any customer complaints  
18 or issues that may arise outside of the Company's  
19 control, and this is completely unfair.

20 What is your response to that?

21 A The reason as to why these are removed and not  
22 covered in my testimony, this is a question best  
23 be answered by Witness Houser.

24 Q You made the adjustment, but I should have asked

1 Mr. Houser; is that what you're telling me?

2 A I did not -- my schedule reflects the adjustment  
3 of Mr. Houser, but he recommends the adjustment.  
4 I only reflect the numbers.

5 Q Do you maintain that these are the only expenses  
6 that you've allowed here that the Company is  
7 likely to occur as professional expenses while  
8 these rates are in effect?

9 A Well, again, these are Houser adjustment so I  
10 think this question should be answered by Mr.  
11 Houser.

12 Q Well, I appreciate that, but it's sort of a  
13 simple question; do you have no opinion on it,  
14 then?

15 A Just -- do you mind if you repeat your question?  
16 Because I -- in my testimony, I have addressed  
17 this, what I have removed.

18 Q Well, is it your opinion that only the fees that  
19 you have recommended as professional expenses on  
20 a going forward basis are those, and only those,  
21 that the Company is likely to experience while  
22 these rates are in effect? And if you no opinion  
23 on that, just say I no opinion.

24 A I have to repeat my answer again. Those are

1 adjustment by Mr. Houser. By Mr. Houser. I only  
2 reflect the numbers in that schedule.

3 MR. FINLEY: Thank you, Ms. Feasel.

4 HEARING EXAMINER HILBURN: Mr. Finley, does  
5 that complete your cross of Ms. Feasel?

6 MR. FINLEY: Yes, ma'am.

7 HEARING EXAMINER HILBURN: Okay. Redirect.

8 MS. HOLT: Okay. Thank you.

9 REDIRECT EXAMINATION BY MS. HOLT:

10 Q Let's see. Ms. Feasel, Mr. Finley passed out an  
11 excerpt from the DEP, Sub 1300, rate case; and  
12 pertaining to rate case expense -- agreed upon  
13 rate case expense?

14 A Correct.

15 Q And in -- pertaining to the first highlighted  
16 period -- I'm sorry -- the first highlighted  
17 sentence; could you read that --

18 A Yes.

19 Q -- complete sentence?

20 A Generally it's been past practice for the Public  
21 Staff and the utility to work together to  
22 estimate an appropriate amount of rate case  
23 expense for approval by the Commission to reflect  
24 the activities occurring after the agreed upon

1 update cut off date to the conclusion of the  
2 hearing, or through the duration of proposed  
3 orders.

4 Q So this -- this conclusion of the -- of the  
5 Commission says, "or"?

6 A Correct.

7 Q It -- the cut off date through the conclusion of  
8 the hearing or through the preparation of the  
9 proposed order?

10 A That's correct.

11 Q Either or?

12 A Either or. Depends on which one is reasonable.  
13 The Commission has the decision to make.

14 Q Okay. Thank you. Now, with regard to staying on  
15 the same DEP case, let's see --

16 MS. HOLT: I'm going to hand out an excerpt  
17 of our testimony in the DEP case.

18 (Passing out document.)

19 Q Ms. Feasel, I'm going to direct everyone's  
20 attention to Page 31. On Page 31, Lines 13  
21 through 19, in the joint testimony of Zhang and  
22 Michelle Boswell. And the joint witnesses are  
23 discussing the adjustment of the unamortized  
24 balance in rate base, and they discuss a

1 normalization of the cost, correct?

2 A Correct.

3 Q Okay. And based on the number of years. And it  
4 also states that these costs would have to be  
5 extraordinary in nature in order to receive rate  
6 base treatment?

7 A That's correct.

8 Q So that would not be applicable in the case we're  
9 seeing today; would it?

10 A It would not, because the remaining balance would  
11 not be -- would not have a rate base treatment.

12 Q Okay. Thank you. And this was -- this treatment  
13 by the Public Staff was agreed upon -- I mean, it  
14 was approved by the Commission, correct?

15 A That's correct.

16 Q Okay. Thank you. Now, Mr. Finley had several  
17 questions regarding deferral accounting. Is the  
18 Public Staff proposing a deferral in this case?

19 A No, we did not.

20 Q Can a regulatory liability -- do you have to have  
21 a deferral in order to set up a regulatory  
22 liability account?

23 A No, we do not need deferral accounting to set up  
24 regulatory liability.

1 Q And that's based on?

2 A That is based on the Uniform System of Accounts  
3 under 253.1.

4 Q Okay. I'm sorry. I'm checking my notes.

5 Now, just to clarify, Ms. Feasel, Mr. Finley  
6 asked you if the Public Staff recommendation  
7 regarding the Company establishing regulatory  
8 liability for recovery for refunding --

9 A Refund.

10 Q -- the over collection to customers needed to be  
11 approved by the Commission. Now, to clarify, the  
12 proposal should be approved by the Commission,  
13 correct?

14 A The -- our recommendation should be --

15 Q Our recommendation?

16 A Yes, should be approved. But we do not need the  
17 approval from the Commission to set up the  
18 regulatory liability account.

19 Q Thank you. I'm sorry. Would a deferral be for  
20 costs that would otherwise be recovered from  
21 present rates if not for the referral?

22 A Could you repeat the question?

23 Q Would you have a deferral be for costs that would  
24 otherwise be -- not be recoverable?

- 1 A You mean, rate case expenses? Yeah. That is not  
2 going to be allowed with expenses, so we  
3 normalize to have the Company to recover this  
4 expense that the Company would otherwise not be  
5 able to recover.
- 6 Q Okay. Thank you. It's ongoing?
- 7 A It's --
- 8 Q I mean it's not an ongoing --
- 9 A It's not ongoing, but we normalize that.
- 10 Q You normalize it?
- 11 A Yes.
- 12 Q So that the Company --
- 13 A So that the Company can recover --
- 14 Q Can recover.
- 15 A -- the normalized amount.
- 16 Q Would the Company be allowed to continue to  
17 collect rate case expenses going forward if they  
18 come in early?
- 19 A Yes, they are allowed to. It's also stated in my  
20 testimony.
- 21 Q If the Company comes in before the end of the  
22 rate case amortization period, would the Company  
23 collect only the balance of the cost experienced?
- 24 A No. If they have any remaining balance when they

1           come before the end of the amortization period,  
2           the remaining balance will be added to the new  
3           rate case expenses in the next rate case, and,  
4           together with the new rate case expenses, they  
5           will earn the return on cash working capital,  
6           which one of the components is rate case  
7           expenses. So they will earn a return.

8   Q       They will continue to recover --

9   A       They will continue to recover the remaining  
10          balance, and the return associated with the  
11          remaining balance.

12   Q       Now, Ms. Feasel, you stated -- did you state  
13          correctly that there's a return on rate case  
14          expense?

15   A       Let me put it this way, rate case expense is  
16          normalized expense, which is under the income  
17          statement items. It's -- when we calculate the  
18          cash working capital, rate case expense is one of  
19          the factors, and the Company -- when the Company  
20          earn a return on the rate base, they earn a  
21          return on the rate base, which one of that cash  
22          working capital.

23   Q       Okay.

24   A       But, when -- if the Company over-collect money

1 from the ratepayers, they need to refund not only  
2 the over collection itself, but also the interest  
3 along with the over collection to prevent the  
4 Company from double dipping the return the  
5 Company collected based on the cash working  
6 capital.

7 Q Okay. But there is no return?

8 A Correct. You're correct.

9 Q On --

10 A There is no return.

11 Q -- rate case expense?

12 A Correct.

13 Q The Company just receives the actual amount of  
14 the amortization period?

15 A Correct.

16 Q Okay. Is the Company harmed in any way by  
17 setting up a regulatory liability account?

18 A Absolutely not. Because this regulatory  
19 liability account is used to track any over  
20 collection the Company has incurred, has  
21 collected from ratepayers after they fully  
22 collected the rate case expenses. If a do, they  
23 need to keep track of those over collections in  
24 this account so that in the next rate case, the

1 Company will know how much total over collection  
2 the Company has so that the Company can refund  
3 the customers of over collections.

4 Q Thank you. Ms. Feasel, you received updated  
5 salary last week, correct?

6 A I received the Company's printed copy showing  
7 15,000 effective, May 9th.

8 Q Okay. When did you file your testimony?

9 A April 12th. April 12th is the original direct  
10 testimony, and then I filed supplemental on  
11 April 26th.

12 Q Okay. Now, if you were to include the amount for  
13 this 2024 updated salary; would you need to  
14 update all the revenues and expenses?

15 A Yes. I would have to update all of the expenses.  
16 I will also have to update the accumulated  
17 depreciation associated with the plans to have --  
18 to meet the matching principle.

19 Q Okay.

20 A And it will take us a long time to do that.

21 Q Okay. So we would have -- would the Public Staff  
22 have to engage in additional work?

23 A That's correct. Three to six months at least.

24 Q And about how long would this take to complete?

1 A About three to six months.

2 Q Okay. Thank you. Ms. Feasel, going back, I  
3 think to yesterday, Mr. Finley asked you how the  
4 Public Staff determines the appropriate  
5 amortization period for a utility. Is it based  
6 on the size of the Company?

7 A No. It has nothing to do with the size. We  
8 normally analyze the acquisition period based on  
9 the Company's historical frequency of how  
10 frequent they file rate cases.

11 And based on my analyzation, the Company  
12 filed the historical tendency of the Company for  
13 all three cases normally from four to nine years.  
14 Therefore, we believe five years is a  
15 conservative reasonable estimate to use in this  
16 current case?

17 Q Okay.

18 A And, as I listed yesterday, their different rate  
19 cases also have the final Order approved and  
20 years' gap.

21 Q I'm sorry?

22 A As I stated yesterday, there are multiple rate  
23 cases -- historical tendency rate cases. I have  
24 listed each rate case docket number and the date

1 of the final approval. Therefore, we have the  
2 years gap between each case to prove that the  
3 frequency of the Company filed rate cases are  
4 from four to nine years.

5 MS. HOLT: Okay. Thank you. One moment.  
6 Let me -- we covered a lot of ground. Let me check my  
7 notes.

8 All right. Thank you. I have no further  
9 questions.

10 HEARING EXAMINER HILBURN: Okay. Thank you.

11 Ms. Feasel, I have just a couple questions  
12 to clarify.

13 EXAMINATION BY HEARING EXAMINER HILBURN:

14 Q Going back to this WRI Feasel Cross Examination  
15 Exhibit 1, that was passed out to you a few  
16 minutes ago and that Ms. Holt just asked you  
17 questions on. Regarding that May 9th, 2024,  
18 salary amount -- that annual amount; did the  
19 Company also provide you how many hours that  
20 represents and the hourly rate?

21 A No. The Company never provide any supporting  
22 documentation for the hourly rate or hours  
23 worked.

24 Q So this is all you have?

1 A That's all I have for the May 9th.

2 Q Okay. I'm going to follow-up with the Company on  
3 that question, then. That's just a heads up.

4 HEARING EXAMINER HILBURN: Mr. Finley --  
5 excuse me just one moment did we enter this into  
6 evidence? I just wanted to make sure for an abundance  
7 of caution.

8 MR. FINLEY: Not yet. It's just been  
9 marked. It's been marked. All right. We'll do that  
10 at the appropriate time, then. Ms. Feasel, also  
11 regarding professional fees disallowed, I believe  
12 Mr. Houser referred me to you yesterday when I asked  
13 the question on your Schedule 3-4, and it's going to  
14 be Line 3 where you removed nonrecoverable  
15 professional fees based on the supporting  
16 documentation, and the amount of the Public Staff's  
17 adjustment is \$10,399?

18 A Correct.

19 Q You're there. Okay. So do you have the --

20 A I'm sorry. Excuse me. Are you talking about the  
21 direct testimony -- or direct schedule or the  
22 supplemental schedule?

23 Q I'm actually on the direct.

24 A Direct.

1 Q It may be the same for the supplemental, but I'm  
2 on the direct.

3 A Okay. Schedule 3-4.

4 Q Yes.

5 A The total of adjustment we have is \$10,665.

6 Q Yes. That's the total adjustment, and I am -- so  
7 I'm wondering on Line 3 -- let's see, is it Line  
8 3. It's Line 3. Recalculation -- it's not  
9 recalculation. It's the adjustment to remove  
10 nonrecoverable professional expense. I don't  
11 think it has a line number by it, but it -- there  
12 it is. Line 4 with documentation with the word  
13 "documentation," and it says \$10,399; do you see  
14 that?

15 A Yes.

16 Q So that, as I'm understanding it, is where the  
17 Public Staff has removed professional fees  
18 related to matters such as bonding, complaint  
19 proceedings, perhaps items outside of the  
20 test-period. Do you have any breakdown of what  
21 that is?

22 A Yes.

23 Q What those amounts are and could you provide that  
24 for the record.

1 A We have copies.

2 Q So you're going to provide that?

3 A Yes, we can provide that.

4 HEARING EXAMINER HILBURN: Okay. All right.  
5 Okay. Thank you.

6 Ms. Feasel, I think that's all the questions  
7 I have for you, so let's see if there's any  
8 follow-up -- or any redirect on Commissioner  
9 questions.

10 MR. FINLEY: None from us.

11 MS. HOLT: Out of an abundance of caution,  
12 the exhibit that I passed out, it's public record but  
13 I would like to have that marked --

14 HEARING EXAMINER HILBURN: Okay.

15 MS. HOLT: -- as Public Staff Feasel  
16 Redirect Exhibit 1.

17 HEARING EXAMINER HILBURN: Exhibit 1.

18 MS. HOLT: Yes. And admitted into evidence.

19 HEARING EXAMINER HILBURN: Okay. Without  
20 objection.

21 MR. FINLEY: Part of a Commission's Order, I  
22 don't see why you have to do that, but no objection.

23 HEARING EXAMINER HILBURN: No objection.

24 All right.

1 MS. HOLT: Out of an abundance of caution.

2 HEARING EXAMINER HILBURN: So without  
3 objection, that will be so admitted as Public Staff  
4 Feasel Redirect Exhibit 1.

5 (WHEREUPON, Public Staff  
6 Feasel Redirect Exhibit 1  
7 is received into evidence.)

8 MR. FINLEY: Company would move introduction  
9 of WRI Feasel Exhibit -- Cross Examination Exhibit  
10 Number 1.

11 HEARING EXAMINER HILBURN: And, without  
12 objection, that will be so marked and identified into  
13 the record and accepted as evidence.

14 (WHEREUPON, WRI Feasel  
15 Cross Examination Exhibit 1  
16 is received into evidence.)

17 HEARING EXAMINER HILBURN: So with that, Ms.  
18 Feasel, you are excused. Thank you for your testimony  
19 today and yesterday.

20 MR. FINLEY: May I inquire when the  
21 Commission is going to have its morning break?

22 HEARING EXAMINER HILBURN: We -- is  
23 Mr. Finley -- are you asking that we take it now,  
24 perhaps? Because we can do that now.

1 MR. FINLEY: We would appreciate that and  
2 it'd give us a chance to touch base and be prepared  
3 for the rebuttal.

4 HEARING EXAMINER HILBURN: Absolutely.  
5 We'll take a 10 minute break and come back a minute  
6 after 11. We're going off the record. Thank you.

7 (A recess was taken from 10:51 a.m. to 11:01 a.m.)

8 HEARING EXAMINER HILBURN: We're going to go  
9 back on the record.

10 Mr. Finley, you have your witnesses up. Let  
11 me swear them in.

12 Mr. Abbott, I'll remind you that you're  
13 still under oath from your previous swearing in.

14 THE WITNESS: Yes, ma'am.

15 DENNIS ABBOTT;  
16 having been previously sworn,  
17 testified as follows:

18 JULIE PERRY AND DARLENE PEEDIN;  
19 having been duly sworn,  
20 testified as follows:

21 DIRECT EXAMINATION BY MR. FINLEY:

22 Q Ms. Perry, will you identify yourself for the  
23 record, please?

24 A (Ms. Perry) My name is Julie Perry and I'm a

1 principle consultant with Peedin and Perry  
2 Consulting.

3 Q Ms. Peedin, will you identify yourself?

4 A (Ms. Peedin) My name is Darlene Peedin, and I am  
5 a principle consultant with Peedin and Perry  
6 Consulting, LLC.

7 Q Mr. Abbott, you've already identified yourself  
8 and been subject to cross examination once,  
9 right?

10 A (Mr. Abbott) Yes, sir.

11 Q Madam Hearing Examiner we would -- let me ask  
12 you -- the three of you these questions; did you  
13 cause to be prefiled in this docket rebuttal  
14 testimony in question and answer form consisting  
15 of 32 pages?

16 A (Ms. Perry) Yes.

17 A (Ms. Peedin) Yes.

18 A (Mr. Abbott) Yes.

19 Q Are there additions or corrections that you need  
20 to make to your prefiled rebuttal testimony?

21 A (Ms. Peedin) I have two corrections. One is on  
22 Page 24, Line one, and the date should read  
23 May 2024.

24 HEARING EXAMINER HILBURN: I'm sorry.

1 Repeat that page number.

2 THE WITNESS: Page 24, Line 1, and the date  
3 should read May, 2024.

4 HEARING EXAMINER HILBURN: Okay. Thank you.

5 A The second correction is on page -- I think my  
6 tab got messed up -- give me one second. I had  
7 it tabbed, and I think my tab has jumped off the  
8 page. I can't find it. If I discover it, I will  
9 be glad to let you know what page it's on.

10 HEARING EXAMINER HILBURN: Yes, that'll be  
11 fine. You can -- we'll accept that once you find it.  
12 Thank you.

13 THE WITNESS: (Ms. Peedin) Okay. If there  
14 is another error. I had it tabbed and apparently it's  
15 not sticky enough to stick to the page so.

16 HEARING EXAMINER HILBURN: You can let us  
17 know. Thank you.

18 Q So I will ask you if the questions of the  
19 prefiled rebuttal testimony were asked of you  
20 today, except for that one correction and the  
21 missing correction, would your answers be the  
22 same?

23 A (Ms. Peedin) Yes.

24 A (Ms. Perry) Yes.

1 A (Mr. Abbott) Yes.

2 MR. FINLEY: Madam Hearing Examiner we move  
3 that the rebuttal testimony of the three witnesses be  
4 copied in to the record as if given orally from the  
5 stand.

6 HEARING EXAMINER HILBURN: Without  
7 objection, that will be allowed.

8 (WHEREUPON, the prefiled  
9 rebuttal testimony of  
10 DENNIS ABBOTT, DARLENE  
11 PEEDIN, AND JULIE PERRY is  
12 copied into the record as  
13 if given orally from the  
14 stand.)

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NORTH CAROLINA UTILITIES  
COMMISSION RALEIGH

RALEIGH

DOCKET NO. W-1034, SUB 13

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF:  
APPLICATION BY WATER RESOURCES, INC  
FOR AUTHORITY TO ADJUST AND INCREASE RATES  
FOR PROVIDING WATER UTILITY SERVICE IN ITS SERVICE  
AREAS IN NORTH CAROLINA

JOINT REBUTTAL TESTIMONY OF

PEEDIN & PERRY

CONSULTING LLC

AND

DENNIS ABBOTT

ON BEHALF OF

WATER RESOURCES, INC.

April 29, 2024

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

2  
3

4 A. Dennis C. Abbott. 6201 Fairview Rd. Suite 200, Charlotte, North Carolina 28210

5  
6

7 **Q. WITH WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8  
9

10 A. I am President of Water Resources, Inc.

11  
12

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

13  
14

14 A. Darlene Peedin and Julie Perry, Principal Consultants with Peedin & Perry, LLC.  
15 3440 Bizzell Grove Church Road, Princeton, NC 27569.

16  
17

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

18  
19

19 A. The purpose of our rebuttal testimony is to support the request by Water  
20 Resources, Inc. (WRI or the Company) for an increase in rates. There are some  
21 adjustments recommended in the testimony of the Public Staff that WRI agrees  
22 with, and other adjustments that WRI accepts because for WRI they are not worth  
23 the time and expense to litigate. We are providing rebuttal testimony on the  
24 following issues of concern to WRI:

- 25 • Plant in Service adjustments for litigation charges related to the Town of
- 26 Harrisburg Interconnection for the removal of all Department of Justice
- 27 (DOJ)-related legal fees (referred to by the Public Staff as Consent
- 28 Judgement-related charges), the removal of 1/2 of all the compliance-related
- 29 filings with DEQ, NCUC and others related to the Interconnection, all costs
- 30 associated with Well #1, and the removal of legal fees that were not
- 31 supported by invoices from 2021 related to the Interconnection.
- 32 • Plant in Service adjustments for the removal of the Development Fee from
- 33 the depreciable Interconnection total project costs;

- 1 • Plant in Service change in the service life from 20 to 50 years for the Town
- 2 of Harrisburg Interconnection;
- 3 • Plant in Service-related adjustments to remove pump repairs;
- 4 • Disallowance of the website charges in plant in service;
- 5 • The level of salaries expenses allowed for WRI's bookkeeper;
- 6 • The annualization of a water line repair in Maintenance & Repair Expenses
- 7 over a 3-year period proposed by Witness Houser;
- 8 • The adjustment to professional fees to remove legal fees related to bonding
- 9 requirements, customer complaints, and basically only allow charges for
- 10 annual report charges incurred during the test period;
- 11 • The amount of Regulatory Expense, rate case expense cut-off period, the
- 12 amortization period, and the new classification of rate case expense as a
- 13 regulatory asset/liability which includes along along with refunding with
- 14 interest language; and
- 15 • Rate design.

16  
17

**REGULATORY FEES TOWN OF HARRISBURG INTERCONNECTION**

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21 **Q. BEGINNING ON LINE 6 PAGE 30 OF HIS TESTIMONY PUBLIC STAFF WITNESS**  
22 **HOUSER RECOMMENDS ADJUSTMENTS TO REMOVE LITIGATION EXPENSES WRI**  
23 **WAS FORCED TO INCUR IN OBTAINING THE HARRISBURG INTERCONNECTION.**  
24 **HE STATES:**

25

26 WRI incurred legal fees associated with responding to DEQ's Injunctive  
27 Complaint and Show Cause Motion alleging possible contempt, making court  
28 appearances, and engaging in discussions regarding these actions. In  
29 consultation with the Public Staff Legal Division, I removed (1) unsupported  
30 legal fees for 2021; (2) all legal fees related to preparing for hearing, consulting  
31 with WRI and other parties, and representing WRI in contempt and other  
32 proceedings relating to WRI's failure to comply with the Consent Judgment  
33 entered into between WRI and DEQ on July 15 2021; and the (3) half of the legal  
34 invoices related to the Consent Judgment and Amended Consent Judgments  
35 dated November 8, 2022, issued by the Court. Legal fees related to the  
36 Consent Judgment were incurred due to a prolonged period of noncompliance

1           when Well #1 was taken offline for an extended period and should not solely  
2           be borne by WRI's customers. However, I recommend that a portion of the  
3           Company's legal fees related to reporting to the Cabarrus County Superior  
4           Court, the Commission, and DEQ on the progress of the interconnection with  
5           the Town of Harrisburg be allowed.

6  
7           **WHAT IS THE COMPANY'S RESPONSE TO THIS SIGNIFICANT DISALLOWANCE?**

8  
9           A.    The Commission should reject these disallowances. These disallowances are  
10           in direct conflict with Commission precedent. Public Staff Witness Houser cites no  
11           credentials justifying his ability to express an opinion on this issue. Witness Houser  
12           cites no authority whatsoever for his position other than consultation with  
13           unidentified consultants within the Public Staff Legal Division. The substantial legal  
14           fees Witness Houser recommends for disallowance were incurred by the Company  
15           in its successful efforts to resist fines and penalties in court actions undertaken by  
16           DEQ and successful efforts to avoid potential DEQ efforts to hold the Company in  
17           contempt for its inability to rectify the removal from service of Well #1 within the time  
18           the DEQ wished.

19  
20           **Q.    DOES THE PUBLIC STAFF ARGUE THAT THE LEGAL/LITIGATION COSTS INCURRED**  
21           **BY WRI FOR WHICH IT SEEKS DISALLOWANCES WERE UNREASONABLE OR**  
22           **IMPRUDENT?**

23  
24           A.    No. Witness Houser makes no allegations that the fees were excessive or that the  
25           fees could have been avoided, for example, by refusing to participate in the litigation.

26  
27           **Q.    DOES THE PUBLIC STAFF ARGUE THAT WRI ACTED IMPRUDENTLY OR**  
28           **UNREASONABLY IN ACTIONS OR INACTIONS THAT LEAD TO THE UNDERLYING**  
29           **LITIGATION IN THE CABARRUS COUNTY SUPERIOR COURT?**

1  
2 A. No. The Public Staff makes no allegations that WRI should have taken action that  
3 would have prevented taking Well #1 offline. Likewise, the Public Staff makes no  
4 allegation that actions WRI took or failed to take ultimately leading to the  
5 replacement of the capacity from Well #1 with the Interconnection with the Town of  
6 Harrisburg were unreasonable or imprudent. The Public Staff makes no allegations  
7 that WRI should have taken actions that would have resulted in activating the  
8 Interconnection with the Town of Harrisburg sooner than it did.  
9

10 Q. **WHAT STANDARD FOR ASSESSING COST RECOVERY IN A PUBLIC UTILITY**  
11 **GENERAL RATE CASE DOES PUBLIC STAFF WITNESS HOUSER RELY UPON TO**  
12 **ARGUE THAT HIS PROPOSED DISALLOWANCES SHOULD BE ACCEPTED BY THE**  
13 **COMMISSION?**

14  
15 A. Witness Houser recites and refers to no standard. He simply expresses the opinion  
16 that in his view as an engineer it would be unfair for consumers to bear some of the  
17 costs.  
18

19 Q. **HOW DOES WITNESS HOUSER JUSTIFY HIS PROPOSAL TO ALLOW SOME OF THE**  
20 **LITIGATION COSTS AND DISALLOW OTHERS?**

21  
22 A. Witness Houser fails to explain the justification for the distinction he draws.  
23

24 Q. **WITNESS HOUSER INTRODUCES HIS DISCUSSION OF HIS SUBSTANTIAL**  
25 **PROPOSED DISALLOWANCES BY STATING, “AS NOTED EARLIER IN THE HISTORY**  
26 **OF WRI VIOLATIONS, WRI INCURRED LEGAL FEES...” WHAT IS YOUR**  
27 **RESPONSE?**  
28

1 A. The Public Staff is unwilling to acknowledge that the alleged violations to which it  
2 refers arose from exceedances of radium levels beyond the Company’s control. The  
3 Public Staff makes no allegation that Well #1 was improperly installed, improperly  
4 located or that the filtering system or other operations of the well contributed to the  
5 exceedances. WRI had no ability to prevent an increase in the level of radium in the  
6 groundwater above required environmental standards. The exceedances were not a  
7 result of failure of WRI to take appropriate actions. There are no allegations on behalf  
8 of the Public Staff that WRI should have done anything differently to prevent taking  
9 the well offline.

10

11 **Q. WERE CUSTOMERS DEPRIVED OF ANY SERVICE AS A DIRECT RESULT OF THE**  
12 **FACT THAT BEFORE THIS SITUATION WAS RECTIFIED THE COMPANY WAS**  
13 **OPERATING WITH ONLY ONE WELL AND STORAGE?**

14

15 A. No. While WRI was unable to immediately rectify the absence of a second well as  
16 required by environmental regulations, the Public Staff provides no evidence that any  
17 customer was deprived of any service as a direct result of the fact that before the  
18 situation was rectified the Company was operating with only one well and storage.  
19 While there were brief outages, the Public Staff provides no evidence that, based on  
20 the location of customers that might have been affected by the temporary outages,  
21 these outages would have been avoided had the Well #1 not been taken offline or the  
22 interconnection with the Town of Harrisburg been in place.

23

24 **Q. ON PAGE 12 LINE 8 OF HIS TESTIMONY PUBLIC STAFF WITNESS HOUSER STATES,**  
25 **“WELL #1 WAS TAKEN OFFLINE ON JUNE 30, 2019, DUE TO REPEATED**  
26 **EXCEEDANCES OF THE COMBINED RADIUM MAXIMUM CONTAMINANT LEVEL**  
27 **(MCL) AND IS NOT USED IN USEFUL. I RECOMMEND IT ALL COSTS ASSOCIATED**  
28 **WITH THE WELL BE REMOVED. WHAT IS THE COMPANY'S RESPONSE TO THIS**  
29 **RECOMMENDATION?**

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A. In the first place the insinuation, not allegation, of Witness Houser that the well was taken offline as a result of unnecessary actions or inactions on behalf of WRI is unfounded.

**Q. LIKEWISE, ON PAGE 22 OF HIS TESTIMONY WITNESS HOUSER STATES THAT MR. ABBOTT “APPEARS TO ARGUE THAT BECAUSE THE SYSTEM EXPERIENCED OUTAGES THAT WERE NOT DUE TO LACK OF WATER SUPPLY AVAILABILITY, THE SYSTEM SHOULD NOT BE CONSIDERED TO HAVE BEEN IMPAIRED.” HE CONTINUES ON LINE 15 OF THAT PAGE,” THUS, DURING THIS PERIOD, THE SYSTEM WAS NOT OPERATING AS INTENDED, AND WHILE THE MECHANICAL FAILURES AND LINE BREAKS MAY NOT HAVE BEEN ENTIRELY PREVENTABLE, I BELIEVE THAT THE SYSTEM WAS IMPAIRED BETWEEN THE WELL #1 DISCONNECTION AND INTERCONNECTION COMPLETION.” WHAT IS YOUR RESPONSE?**

A. Witness Houser has miscast and has misinterpreted Mr. Abbott's testimony. Mr. Abbott testified, “But for a brief encounter that did not arise from the inability to meet demand from the remaining well, service to customers was not interrupted. Fortunately the customers in the subdivision have not actually experienced a lack of water supply during the discontinuation of the second well. Still, Water Resources has continued to undertake efforts to rectify the fact the there is only one well in operation and did not minimize the seriousness of the situation.” Mr. Abbott acknowledged that the absence of the second well created an unavoidable risk.

**Q. HAS WITNESS HOUSER CONNECTED THE MECHANICAL AND SERVICE LINE OUTAGES HE ADDRESSES TO THE FACT THAT WELL #1 WAS OFFLINE?**

1 A. No. Witness Houser fails to connect the mechanical and service line cut outages in  
2 any way to the fact that Well #1 was offline. Nor could he have.

3  
4 If a customer is located on the water distribution system beyond a point where a main  
5 is cut when the telecommunication provider unlawfully digs into the line, even if the  
6 company has numerous wells and storage tanks, if the customer has no access to  
7 the source of supply or the storage due to its location, the outage has nothing to do  
8 with the number of wells or the amount of storage. However, if having Well #1 offline  
9 had contributed to outages from service line cuts, that would only mean that there  
10 was another factor contributing to the outage that, like the others, that was beyond  
11 WRI's control.

12

13 Q. **WAS WRI AT FAULT FOR THE NEED TO TAKE WELL #1 OFFLINE?**

14

15 A. No. The Public Staff seems intent to assess blame against WRI in an effort to disallow  
16 costs. A retrospective view of the months where only one well was online but no  
17 service disruptions directly resulted therefrom and in seeking disallowances as a  
18 result of alleged "impairment" should be disregarded.

19

20 Q. **DID THE DELAYS WRI EXPERIENCED IN COMPLETING THE INTERCONNECTION  
21 WITH THE TOWN OF HARRISBURG RESULT IN INCREASED COSTS TO  
22 CUSTOMERS BEYOND THOSE THE CUSTOMERS WOULD HAVE EXPERIENCED  
23 HAD THE INTERCONNECTION BEEN COMPLETED SOONER?**

24

25 A. No. While WRI experienced substantial delay in completing its interconnection with  
26 the Town of Harrisburg, the Public Staff provides no evidence that the cost to  
27 consumers would have been less had the interconnection been completed sooner.  
28 Witness Houser maintains that customers were in greater risk while there was only

1 one well for the system, but as Well #2 remained in operation and as storage was  
2 available, the risk never materialized into service disruptions.

3

4 Q. PLEASE DESCRIBE THE CONSENT JUDGMENT AND THE AMENDED CONSENT  
5 JUDGMENT ADDRESSED BY THE PUBLIC STAFF RECOMMENDED  
6 DISALLOWANCES.

7

8 A. The November 8, 2022 Amended Consent Judgment, paragraph 16, states in its  
9 description of the July 16, 2021 Consent Judgment, “The parties initially reached a  
10 resolution of the injunctive relief sought by Plaintiff through this suit and  
11 memorialized the agreement in a Consent Judgment, which was entered by the Court  
12 on July 16, 2021.” As cited in paragraph 23 of the November 2022 Amended Consent  
13 Judgment, “The parties seek to memorialize the actions that Defendant will take in  
14 the future in this Amended Consent Judgment.”

15

16 Q. WERE THESE THE TYPES OF COMPROMISES SUCH AS SOCS ADDRESSED BY THE  
17 COMMISSION IN RECENT DEC AND DEP RATE ORDERS?

18

19 A. Yes. These were the types of compromises such as SOCs addressed by the  
20 Commission in recent DEC and DEP rate cases in which the Commission rejected  
21 almost identical proposed disallowances in those cases, which the Public Staff  
22 makes in this docket. Although DEQ initially fined WRI \$4,500 and threatened  
23 additional ongoing fines, at the conclusion of the litigation, DEQ withdrew the \$4,500  
24 fine and imposed no others. WRI has not been penalized and has paid no fines, hence  
25 there are no fines and penalties in this rate case docket.

26

27 Q. IN ITS LITIGATION WITH DEQ DID WRI ADMIT OR CONCEDE THAT IT VIOLATED  
28 ANY ENVIRONMENTAL REGULATIONS?

29

1 A. No. Throughout the litigation, WRI maintained that it did not willfully violate any  
2 environmental regulations or DEQ requirements that would have justified holding  
3 WRI in contempt. WRI justified its difficulties in complying with the timelines by  
4 demonstrating justifications for delays. DEQ never formally requested the Court to  
5 hold WRI in contempt, and the Court never held WRI in contempt. The costs WRI  
6 incurred to achieve these results are those for which it seeks recovery in this docket  
7 and for which the Public Staff seeks disallowances. The consent decrees are the  
8 types of compromises addressed by the Commission in the DEC and DEP cases. WRI  
9 never conceded actionable violations or admitted to guilt.

10

11 **Q. WHAT AUTHORITY DOES PUBLIC STAFF WITNESS HOUSER CITE FOR HIS**  
12 **RECOMMENDED DISALLOWANCE FOR LITIGATION EXPENSES?**

13

14 A. Public Staff Witness Houser relies upon his opinion without citation to any authority  
15 other than advice of unidentified counsel. It is unclear whether the unidentified  
16 counsel advising Public Staff Witness Houser is/are the same unidentified counsel  
17 recommending the adjustments sponsored by Public Staff Witness Junis in the DEC  
18 case addressed below.

19

20 **Q. PLEASE ADDRESS THE AUTHORITY AND RECENT COMMISSION ORDERS THAT**  
21 **PROVIDE CONTROLLING PRECEDENT FOR DISAPPROVING THE PUBLIC STAFF**  
22 **PROPOSED DISALLOWANCES.**

23

24 A. In the January 24, 2018 testimony of Public Staff Witness Charles Junis in Docket No.  
25 E-7, Sub 1146, Witness Junis recommended disallowance of legal expenses incurred  
26 by Duke Energy Carolinas (DEC) in defending claims against DEC for environmental  
27 exceedances and violations.

28

29 On page 90 of his testimony Public Staff Witness Junis maintained,

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I recommend disallowance of all legal expenses incurred by DEC in the course of defending and resolving state litigation involving the Allen, Belews Creek, Buck, Cliffside, Dan River, Marshall and Riverbend plants (Mecklenburg Sup. Ct. 13-CVS-9352 and 13-CVS-14661). . . . This includes costs for third party assistance (expert witnesses, consultants and other contractors) and for internal labor that should be assigned or allocated to the defense of that case.

On page 87 of his testimony Witness Junis testified,

In particular, the Public Staff recommends that the following expenditures be excluded from rate recovery: (1) DEC litigation costs incurred during the test year in cases where there are environmental violations; (2) costs to remedy environmental violations where the costs exceed what CAMA [Coal Ash Management Act] would have required in the absence of environmental violations.

On page 88 of his testimony Witness Junis testified,

The first category is litigation costs where there are environmental violations. It is routine in ratemaking to disallow from the utility’s revenue requirement any costs of fines and penalties. Legal counsel informs me that North Carolina law also supports exclusion of other expenses related to violations of utility law. The North Carolina Supreme Court ruled that legal expenses incurred by a water utility in defense of a penalty proceeding must be excluded from rate recovery as a matter of law:

Glendale [Glendale Water, Inc. a regulated utility] was penalized for violating serious administrative regulations, including its failure to

1                    notify its customers of contaminants in the water. It would be improper  
 2                    to require the very class of people the DHS sought to protect in  
 3                    assessing the penalty against Glendale to indirectly pay for the penalty  
 4                    through the inclusion of related legal fees into Glendale’s operating  
 5                    expenses. Furthermore, since these legal fees could have been  
 6                    avoided had Glendale initially carried out its responsibility of providing  
 7                    adequate water service to its subdivisions, this expense cannot  
 8                    properly be considered reasonable and necessary.

9  
 10                    According to counsel, the principle set forth in this ruling is applicable to the  
 11                    present rate case for litigation expenses related to DEC's failure to comply with  
 12                    environmental laws and regulations, as is the ratemaking principle that it is  
 13                    not reasonable for consumers to bear costs of utility misfeasance or  
 14                    malfeasance. These principles of a disallowance for litigation costs should  
 15                    apply to all lawsuits alleging environmental violations to the extent that either:  
 16                    (a) there is a final order finding DEC liable for environmental violations; (b)  
 17                    there is a resolution of the lawsuit other than a finding of liability-such as  
 18                    settlement or dismissal due to CAMA, and there is compelling evidence of  
 19                    environmental violations . . . .

20  
 21    **Q.    DID THE COMMISSION IN ITS ORDER ACCEPT THE PUBLIC STAFF PROPOSED**  
 22    **DISALLOWANCES?**

23  
 24    **A.**    No. In its September 18, 2018 Order the Commission rejected the Public Staff  
 25    recommendations that the litigation expenses at issue be disallowed.

26  
 27                    The Public Staff, through Witness Junis, asserts that disallowance of the  
 28                    Company's litigation expense and groundwater costs is justified because  
 29                    these costs flow from violations of the law. Tr. Vol.26, pp.728-34. For the

1 reasons discussed below, the Commission based on its assessment of the  
2 evidence and in the exercise of its discretion determines not to authorize the  
3 Public Staff proposed disallowances of legal expense and groundwater  
4 extraction and treatment costs. The evidence does not support a finding that  
5 DEC violated the law..., nor does it support a finding of imprudence with  
6 respect to these costs.

7  
8 Regarding the legal expenses, Witness Junis cites the Glendale Water case  
9 (State ex rel. Utilities Commission v. Public Staff, 317 N. C. 26, 343 S.E.2d. 828  
10 (1986)) for the proposition that the legal expense should be excluded. In that  
11 case the North Carolina Supreme Court held that legal expense associated  
12 with a penalty proceeding in which the utility had been found to have violated  
13 the law should be excluded. Witness Junis suggests that the same rationale  
14 would apply to his exclusion of the Company's litigation expense related to  
15 what he terms DEC's failure to comply with environmental laws and  
16 regulations. He claims that compelling evidence of such violations is shown  
17 by the SOC's and DEQ reports of exceedances. Tr. Vol. 26, p. 728- 29.

18  
19 The distinction between this case and Glendale Water is that... there is no  
20 finding in the other litigation brought against the Company, or admission by  
21 the Company in that litigation, that any violation actually occurred. No  
22 intervenor introduced evidence in this case that any violation actually  
23 occurred. Witness Junis' testimony that the Company's legal expense for state  
24 litigation of coal ash complaints resulted from "violations" is based on DEQ's  
25 reports of groundwater exceedances and the fact that DEQ sought SOCs to  
26 address seeps at the Allen, Marshall and Rogers (Cliffside) stations, both of  
27 which Junius interprets as compelling evidence of DEC's violations. Tr. Vol. 26,  
28 pp. 730-31.

29



1 of evidence, for example, prohibit parties from using the existence of a  
2 settlement as evidence of liability. Likewise, in other matters before the  
3 Commission, the Public Staff has defended the regulatory policy of  
4 encouraging reasonable and prudent settlement.  
5

6 **Q. ARE PUBLIC STAFF WITNESS HOUSER’S RECOMMENDED DISALLOWANCES OF**  
7 **LEGAL EXPENSE INCURRED BY WRI WITH RESPECT TO THE HARRISBURG**  
8 **INTERCONNECTION PROJECT COMPARABLE TO THE RECOMMENDED**  
9 **DISALLOWANCES OF THE PUBLIC STAFF IN THE DEC AND THE DEP CASES**  
10 **DISCUSSED ABOVE?**

11  
12 **A.** Yes. Let me repeat, on page 30 of his testimony Witness Houser states:

13  
14 As noted earlier in the history of WRI's violations, WRI incurred legal fees  
15 associated with responding to DEQ's Injunctive Complaint and Show Cause  
16 Motion alleging possible contempt, making court appearances, and engaging  
17 in discussions regarding these actions. In consultation with the Public Staff  
18 Legal Division, I have removed (1) unsupported legal fees from 2021, (2) all  
19 legal fees related to preparing for hearing, consulting with WRI and other  
20 parties, and representing WRI in contempt and other proceedings relating to  
21 WRI’s failure to comply with the Consent Judgment entered into between WRI  
22 and DEQ on July 15, 2021, and (3) half of all legal invoices related to the  
23 Consent Judgment and Amended Consent Judgment dated November 8, 2022  
24 issued by the Court. Legal fees related to the Consent Judgment were incurred  
25 due to the prolonged period of noncompliance when Well #1 was taken offline  
26 for an extended period and should not solely be borne by WRI's customers.”  
27

1 Q. **PLEASE ADDRESS HOW THE DISALLOWANCES PROPOSED BY THE PUBLIC STAFF**  
2 **IN DEC AND DEP RATE CASES REJECTED BY THE COMMISSION ARE**  
3 **COMPARABLE TO THOSE ADVOCATED BY THE PUBLIC STAFF IN THIS DOCKET.**

4  
5 A. Much of the litigation expenses addressed in the DEC and DEP cases involved  
6 potential violations for exceedances of environmental standards such as seepages  
7 from coal ash basins. In this case, the alleged violations arise from the fact that Well  
8 # 1 was taken offline due to exceedances of radium standards arising from increasing  
9 levels of radium from the groundwater from which the well drew its supply. The  
10 alleged violations did not arise from actions or inactions taken by WRI. WRI entered  
11 into Consent Judgments with DEQ to address the discontinuation of Well #1 and  
12 entered into agreements establishing timelines to rectify the alleged violations.

13  
14 Q. **ON PAGE 31, LINE 1 PUBLIC STAFF WITNESS HOUSER TESTIFIED, “I ALSO**  
15 **REMOVED LEGAL FEES ASSOCIATED WITH THE PROCEEDING TO INCREASE**  
16 **WRI’S BOND, WHICH WAS FILED BY THE PUBLIC STAFF DUE TO WRI’S**  
17 **NONCOMPLIANCE.” PLEASE RESPOND.**

18  
19 A. For reasons relied upon by the Commission to reject the Public Staff’s recommended  
20 disallowances in the DEC and DEP cases with respect to alleged violations, the  
21 Commission should reject this recommendation. The noncompliance to which the  
22 Public Staff refers was the discontinuation of Well #1. WRI’s reason for  
23 discontinuation of Well #1, high levels of radium, was beyond the Company’s control.  
24 WRI successfully resisted punishment from DEQ for an alleged failure to comply with  
25 environmental regulations and potential contempt allegations addressing the timing  
26 for rectifying of the loss of Well #1 and the Interconnection with the Town of  
27 Harrisburg. By Commission order WRI was required to substantially increase its  
28 bond. Expenses incurred by WRI to comply with a Commission order are costs that  
29 should not be subject to disallowance. The bond itself constitutes a substantial

1 expense born by the Company. The bond is a substantial benefit to customers. No  
2 reasonable justification exists for disallowing the costs incurred to address and  
3 increase the bond in compliance with the Commission’s requirement.  
4

5 **Q. WHAT AUTHORITY DOES THE PUBLIC STAFF CITE IN SUPPORT OF ITS PROPOSED**  
6 **DISALLOWANCES?**  
7

8 A. The Public Staff cites no instance where the Commission has disallowed legal  
9 expenses incurred by a public utility in making filings required by and in compliance  
10 with Commission orders. Public Staff Witness Houser provides no support  
11 whatsoever for this unique recommendation of removing one half of the compliance  
12 filing charges that were required to be done other than his opinion as an engineering  
13 witness.  
14

15 **Q. ON PAGE 31 BEGINNING ON LINE 3 PUBLIC STAFF WITNESS HOUSER STATES,**  
16 **FROM THE INTERCONNECTION PROJECT COSTS, I RECLASSIFIED THE ONE-TIME**  
17 **\$97,565 HARRISBURG DEVELOPMENT FEE AS A PLANT IN SERVICE ITEM WITH AN**  
18 **IN-SERVICE DATE OF 2023. WRI WAS REQUIRED TO PAY A ONE-TIME**  
19 **DEVELOPMENT FEE TO THE TOWN OF HARRISBURG IN ORDER TO CONNECT TO**  
20 **THEIR SYSTEM. THE DEVELOPMENT FEE ALLOWS THE COMPANY PERPETUAL**  
21 **ACCESS TO PURCHASE WATER FROM THE TOWN OF HARRISBURG AND SHOULD**  
22 **BE NON-DEPRECIABLE. I RECLASSIFIED \$3,575 IN COST RELATED TO METER FEE**  
23 **PAID TO THE TOWN OF HARRISBURG AS A PLANT IN SERVICE ITEM AND**  
24 **ASSIGNED A 15-YEAR LIFE, CONSISTENT WITH THE PUBLIC STAFF TYPICAL**  
25 **RECOMMENDATION FOR METERS. PLEASE ADDRESS THESE PROPOSED**  
26 **ADJUSTMENTS.**  
27

28 A. These costs address items that were essential components of the Town of Harrisburg  
29 Interconnection. Without payment of the development fee and the meter fee it would

1 have been impossible for WRI to interconnect. The length of time the interconnection  
2 permits WRI to have access to purchase water from the Town of Harrisburg is  
3 dependent upon all costs incurred by the Company required by the Town to make the  
4 interconnection. No justification exists for separating the development fee and meter  
5 fee in a piece meal fashion to treat them any differently than the vault, the Zurn valve,  
6 the piping, the engineering costs, financing costs, DEQ permitting costs, the costs to  
7 obtain an easement and costs to obtain DOT's approval to install facilities in the DOT  
8 right-of-way.

9  
10 **Q. WHAT JUSTIFICATION DOES WITNESS HOUSER PROVIDE FOR SEPARATING OUT**  
11 **LIMITED COSTS INCURRED TO MAKE THE INTERCONNECTION WITH THE TOWN**  
12 **OF HARRISBURG FOR COST RECOVERY PURPOSES?**

13  
14  
15 **A.** None. All of the costs incurred by WRI to interconnect with the Town of Harrisburg  
16 should be combined into a single project for a determination of depreciation  
17 expense and an appropriate depreciation rate. The most expensive items of the  
18 project were the meter valve, vault, electrical and signaling equipment with useful  
19 lives much shorter than pipes. In a response to a WRI data request to the Public  
20 Staff, Witness Houser compares the Development Fee to capacity fee payments  
21 in an Aqua Rate Case, Docket No. W-218, Sub 497. This is not comparable.  
22 Capacity fees discussed in the Aqua Order are for capacity to serve future  
23 customers, whereas if the Development Fee was not paid, the Company would not  
24 be allowed to Interconnect with the Town of Harrisburg. In other words, you can't  
25 have one without the other. Therefore, the development fees should be included  
26 in the total project cost and depreciated.

27

1 The 50-year useful life of the project as advocated by Public Staff Witness Houser  
2 should be summarily rejected. This is another instance in which his  
3 recommendation is based upon an unsupported conclusion without any backup  
4 facts or rational justification whatsoever. In addition, in the Sub 8 rate case, the  
5 Public Staff approved a 25-year life for the installation of the water system,  
6 therefore the Company was consistent its use of its recommended service life.

7  
8 **Q. PLEASE ADDRESS WITNESS HOUSER’S JUSTIFICATION FOR HIS PROPOSED**  
9 **ADJUSTMENT TO DISALLOW ALL COSTS FOR WELL #1 AS ADDRESSED ON PAGE**  
10 **12, LINE 8 OF HIS TESTIMONY.**

11  
12 **A.** It is inappropriate to remove all of the costs for discontinued Well # 1. The North  
13 Carolina Supreme Court has addressed cost recovery where water/wastewater  
14 facilities have been taken offline prior to the amortization of the cost of the facilities  
15 through rates. The court held that when facilities are retired and taken offline they are  
16 no longer used and useful and cannot be included in rate base to allow a return on its  
17 investment at the expense of the ratepayers. “We do not allow such a return for  
18 property that will not be used or useful within the future.” However, the court made  
19 clear that the utility is still entitled to recover the unamortized portion of the cost of  
20 the facilities. The court held that, “costs for abandoned property may be recovered as  
21 operating expenses through amortization, but a return on the investment may not be  
22 recovered by including the unamortized portion of the property in rate base. *State ex*  
23 *rel. Utilities Commission v. Carolina Water Service, Inc.*, 439 S.E.2d 127, 335, N.C 493  
24 (1994). Based on this controlling precedent, the Public Staff recommended  
25 disallowance of all costs with respect to Well #1 should be rejected. Unamortized  
26 costs may be recovered as operating expenses.

27  
28 **Q. DO YOU AGREE WITH MR. HOUSER’S ADJUSTMENT TO REMOVE**  
29 **UNSUPPORTED LEGAL FEES FROM 2021?**

1  
2  
3 A. No. While I understand why Mr. Houser removed the legal charges, the Company  
4 has the invoices that support these charges and is providing them to the Public  
5 Staff today. The Company had thought these invoices had been provided to the  
6 Public Staff during discovery and had not heard otherwise until now.

7

8 **Q. PLEASE DISCUSS MR. HOUSER'S REMOVAL OF PUMP REPAIRS FROM**  
9 **2022 THAT HE CONCLUDES ARE NO LONGER USED AND USEFUL**  
10 **BECAUSE THE PUMP AND MOTOR WERE REPLACED IN 2023.**

11  
12 A. As discussed above, regarding the Public Staff's removal of costs of Well #1, the  
13 Company believes that it is inappropriate to remove all the 2022 capitalized pump  
14 repair costs from recovery. Although not used and useful for providing service due  
15 to the fact that the pump and motor were later replaced in 2023, the undepreciated  
16 plant should be amortized over the remaining useful life of the plant as an expense.  
17 The utility is still entitled to recover the undepreciated portion of the cost of the  
18 facilities as this was a reasonable and prudent investment at the time. Therefore,  
19 the net book value or undepreciated costs of the 2022 pump repairs amortized  
20 over the remaining useful life should be included as an operating expense.

21

22 **SALARIES EXPENSE**

23

24

25 **Q. PLEASE DISCUSS YOUR CONCERNS WITH THE PUBLIC STAFF'S**  
26 **ADJUSTMENT TO THE SALARY EXPENSE FOR WRI'S BOOKKEEPER.**

27

1 **A.** First, we agree with the Public Staff's adjustment to reclassify the personal phone  
2 reimbursement expense to administrative and office expense. Our concerns  
3 mainly encompass the number of hours that the Public Staff included for WRI's  
4 bookkeeper, as well as the rate of pay that was used to calculate the salary  
5 expense. WRI's bookkeeper/office manager, Beth Lockwood, was initially hired  
6 in 2021 as the customer service representative. After the owner determined that  
7 the current bookkeeper was not doing a good job, he asked Beth Lockwood to  
8 take on the duties of bookkeeper beginning in 2023. However since that time,  
9 her job duties have increased substantially, including administrative assistant  
10 duties as well. WRI's bookkeeper/office manager/administrative assistant has  
11 a wide variety of duties for WRI that encompass all of the following: general  
12 bookkeeping duties (accounts payable and accounts receivable, reconciliation  
13 work, work with the accountant on various issues and maintain files); providing  
14 customer service during and outside of normal business hours (via telephone  
15 and email – answering billing question set up new accounts; respond to service  
16 requests/issues by troubleshooting and dispatching the contract operator or  
17 other professional service; communications with contractors, attorneys, local  
18 authorities, etc.), answering inquiries from the bank, the lab that prepares  
19 samples, the Public Staff and the Utilities Commission by preparing documents  
20 such as customer logs and any other requirements to be submitted to the  
21 Commission; compiling and preparing the Annual Report for submission to the  
22 Commission, CCR mailings to customer and other state reporting that may be  
23 required, manage billing, enter meter readings, generate monthly bills and

1 mailings to customers and any other special project that she is assigned. Ms.  
2 Lockwood is pretty much available 24/7 should the contract operator, or any  
3 customer have issues that need to be handled in a timely manner.

4  
5 The Company maintains that the number of hours included by the Public Staff  
6 for this employee are way too low. We maintain that the hours worked are 15  
7 hours per week. The Company commits to implementing a timesheet  
8 requirement for this employee to track time going forward.

9  
10 Our second concern with the Public Staff's adjustment has to do with the rate of  
11 pay for someone that does general bookkeeping/ administrative assistant and  
12 customer service for a Company. Based on our research, the average rates of  
13 pay for a bookkeeper in Charlotte, North Carolina ranges anywhere from \$24 per  
14 hour to \$28 per hour for this type of work. This is consistent with other  
15 bookkeeper salaries for small water and sewer utilities that have been approved  
16 by this Commission. We can provide documentation from the owner to establish  
17 what her salary will be effective May 1, 2024. In addition, the Company would  
18 like to mention that when the Public Staff requested its native files as part of Data  
19 Request No. 1, there was an error in the Notes section on Schedule 3-2 that was  
20 uploaded to the Public Staff's Share file site that had not been corrected by the  
21 Company, which may have caused a bit of confusion.

22

1 In conclusion, we maintain that based on the number of hours worked and the  
2 rate of pay for a bookkeeper in the Charlotte area, the salary expense  
3 recommended by the Company is reasonable.

4  
5 **MAINTENANCE AND REPAIR EXPENSE**

6  
7 **Q. PLEASE EXPLAIN YOUR CONCERN WITH WITNESS HOUSER'S**  
8 **ADJUSTMENT TO ANNUALIZE COSTS RELATED TO A REPAIR OF PIPING**  
9 **OVER A 3-YEAR PERIOD.**

10 **A.** Mr. Houser indicates in his testimony that he "annualized costs related to repair of  
11 the piping in the filter building at Rocky River's Well #2 over a three-year period to  
12 reach a reasonable ongoing level of expense. Given the magnitude and atypical  
13 frequency of this event, this type of repair should not be expected on an annual basis."  
14 Our concern with Witness Houser's adjustment is that water leaks and or breaks are  
15 not atypical. Actually, it is quite the opposite. Due to the nature of a water system,  
16 this is a very normal expense and can actually occur rather frequently over the course  
17 of a year. Witness Houser provides no discussion in his testimony as to how he came  
18 to this determination and conclusion that this type of event is infrequent. We disagree  
19 that this expense is of such magnitude and infrequent occurrence that it requires  
20 annualization over a 3-year period.

21  
22 **Q. DO YOU AGREE WITH THE PUBLIC STAFFS POSITION ON DISALLOWING THE**  
23 **COSTS OF IMPLEMENTING AND DESIGNING THE WEBSITE?**

1 A. No. The Company plans to implement the website in early May 2020, which will take  
2 place before the close of the hearing in this case. The Company provided invoices to  
3 the Public Staff for payments made to date along with a proposal and did not include  
4 these costs in the rate case. It is unfair for Witness Houser to impute deadlines with  
5 potential fines without allowing the Company to recover its costs in this case.

6  
7 **PROFESSIONAL FEES**

8  
9 **Q. PLEASE DISCUSS YOUR DISAGREEMENT WITH WITNESS FEASEL'S**  
10 **ADJUSTMENT TO PROFESSIONAL FEES.**

11  
12 **A.** The Company strongly disagrees with Witness Feasel's adjustment to Professional  
13 fees. It appears that Witness Feasel has only left in amounts for the tax return  
14 preparation and preparation of the Annual Report. Basically, there are no ongoing  
15 levels of professional expense for customer complaints, bond filings, any other  
16 professional fees associated with compliance with any Commission mandate, or fees  
17 for any questions for regulatory professionals that may come up. While removing all  
18 of these fees, the Public Staff has stripped the Company of its opportunity to defend  
19 itself against any customer complaint or issues that may arise outside of the  
20 Company's control or just need clarification or guidance on regulatory issues, and this  
21 is completely unfair.

22  
23 **RATE CASE EXPENSE**

24

1 **Q. PLEASE DESCRIBE THE PUBLIC STAFF POSITION ON RATE CASE**  
2 **EXPENSE (ALSO CALLED REGULATORY EXPENSE).**

3 **A.** In its prefiled testimony that was filed on April 12, 2024, the Public Staff did not  
4 include actual rate case expenses for invoices that had been provided to the  
5 Public Staff. The Public Staff filed its supplemental testimony, on April 26, 2024,  
6 and the Public Staff only included a portion of the actual rate case expense for  
7 which invoices were provided. The Public Staff is incorrectly utilizing a 5-year  
8 amortization period for rate case expense based on its analysis of historic rate  
9 case filings. In addition, the Public Staff is incorrectly limiting the recovery of rate  
10 case expense incurred through the close of the Evidentiary Hearing, as well as  
11 incorrectly characterizing rate case expense as a regulatory asset/liability.

12  
13 **Q. WHAT IS YOUR CONCERN WITH LIMITING RATE CASE EXPENSE TO THE**  
14 **AMOUNT INCURRED THROUGH THE CLOSE OF THE EVIDENTIARY**  
15 **HEARING?**

16  
17 **A.** Post-hearing expenses incurred by WRI are just as necessary as legal,  
18 consultant, mailing, and filing expenses incurred prior to the close of hearing.  
19 Utilities must engage in rate cases if they are to have enough revenue to provide  
20 reliable utility service to customers. Therefore, the costs of conducting rate cases  
21 are a reasonable and necessary expense, subject to Public Staff review for any  
22 invoices that reflect costs not reasonably related to the rate case or costs  
23 exceeding a reasonable price.

24

1 The premise behind utility ratemaking in North Carolina is that utilities may  
2 recover their reasonable costs. This Commission has repeatedly recognized that  
3 rate case expense is appropriate for recovery in rates. The position that a utility  
4 may only recover part of its reasonably incurred rate case expense is contrary to  
5 the ratemaking premise that all reasonable costs may be recovered.

6  
7 **Q. HOW HAS THE COMMISSION ADDRESSED THIS IN OTHER CASES?**

8  
9 **A.** We have reviewed several other rate cases to evaluate how rate case expense  
10 is typically decided by the Commission. While other types of costs are often  
11 subject to a Commission-ordered update deadline before Public Staff testimony  
12 is due, this is not how rate case expense is handled. The Commission has  
13 recognized the appropriateness of allowing rate recovery for post-hearing rate  
14 case expense. Recovery of rate case expense incurred through the filing of  
15 proposed orders and the customer notice is normal and routine for this  
16 Commission.

17 The Public Staff's recommendation in the present case would eliminate recovery  
18 of actual rate case expense incurred by WRI after the evidentiary hearing. That  
19 would be a departure from past practice and would be unfair to WRI.

20  
21 **Q. WHAT IS YOUR CONCERN WITH THE PUBLIC STAFF POSITION ON**  
22 **AMORTIZATION PERIOD FOR RATE CASE EXPENSE?**

1 **A.** Witness Feasel testified that she “amortized the total regulatory expense over 5  
2 years “to recognize the frequency of the Company’s historic rate case filings.” This  
3 is unreasonable because the amortization period should be based on a normal  
4 interval between rate cases. Five years is not going to be the normal for WRI filing  
5 rate cases. WRI was trying to finish the Town of Harrisburg Interconnection, at the  
6 same time COVID arose. In addition, WRI reached out to its attorney to file a rate  
7 case in 2021, only to realize that the Interconnection would not be completed in  
8 time to obtain recovery if it filed a rate case. Therefore, WRI waited to file a rate a  
9 case. The Interconnection was completed and placed in service in December  
10 2023, and WRI filed its rate case December 29, 2023. Five years is not indicative  
11 of the likely interval between the present case and WRI’s next rate case now that  
12 the Interconnection is complete.

13  
14 **Q. WHY DO SOME SMALL UTILITIES HAVE A LONG INTERVAL BETWEEN RATE  
15 CASES?**

16  
17 **A.** While not representative of good ratemaking practice, long intervals between rate  
18 cases can occur because the effort and up-front expense of conducting a rate case  
19 is often overwhelming for small utilities. Companies like WRI do not have the level  
20 of regulatory expertise that exists with Duke Energy, Aqua North Carolina, or  
21 Carolina Water Service. Management may be overseeing other businesses at the  
22 same time as running the utility, so the time they have available to devote to the

1 many hours needed to prepare for a rate case, undergo discovery, and participate  
2 in hearings is quite limited. These are certainly concerns for WRI.

3  
4 The result is that such utilities may operate for years at a loss. To some extent the  
5 losses may be subsidized by the owner or other businesses of the owner. However,  
6 any time a utility operates at a loss, there is the risk that investment may not keep  
7 pace with needs, and the utility could fall into disrepair or a condition that poses  
8 reliability concerns. We do not agree that WRI has fallen into poor condition, but  
9 the Company has sustained losses due to insufficient rates. For WRI and all utilities  
10 there is a public policy interest in having rate cases frequently enough to fund  
11 adequate quality of utility service from utility revenues. A shorter, more normal  
12 amortization period is supportive of that public policy interest.

13  
14 **Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

15  
16 **A.** We recommended a three-year amortization in our rate case application, and we  
17 continue to maintain that is most reasonable timeframe. WRI plans to seek rate  
18 increases more frequently to mitigate the one-time impact on customers' rates  
19 and to keep up with rising costs; therefore, a shorter amortization period is  
20 appropriate.

21  
22 We have reviewed amortization periods for other North Carolina utilities, and  
23 three years is the common rate case amortization period for small water and

1 sewer utilities. A three-year amortization recommendation is aligned with what the  
2 Commission has normally approved for other small water and sewer utilities. It is  
3 fair and reasonable for WRI.

4 **Q. WHAT ARE YOUR CONCERNS WITH WITNESS FEASEL'S NEW RATE CASE**  
5 **EXPENSE METHODOLOGY?**

6  
7  
8 A. Witness Feasel stated in her Supplemental Testimony that,

9 (T)the Company shall record any overcollection of rate case expense,  
10 beginning the first month after the five-year amortization period ends in a  
11 regulatory liability account on a monthly basis, to be returned to ratepayers  
12 with interest based on the weighted average cost of capital, in a manner  
13 determined in the Company's next rate case. Should the Company file for a  
14 rate case before the expiration of the amortization period, any unrecovered  
15 rate case expense balance will be added in the new rate case expense and  
16 amortized over the number of years approved by the Commission in that  
17 rate case. Finally, the Public Staff intends to include audited rate case  
18 expense deemed prudently incurred through the close of the expert witness  
19 hearing and will reflect the final rate case expense and subsequent revenue  
20 requirement in its proposed order in the present case.

21  
22 This is a completely new methodology thought up by the Public Staff and has,  
23 based on our understanding, never been argued in front of this Commission and  
24 has no merit or precedence in Orders issued by this Commission. Over the years,  
25 the Commission has approved deferral accounting requests from utilities for

1 various types of matters, including extraordinary maintenance costs, post in-  
2 service costs for new electric generating plants, natural gas pipeline safety costs,  
3 and storm damage, but no utility has been allowed deferred accounting treatment  
4 on rate case expenses in the past. In addition, regulatory assets/liabilities also can  
5 be allowed rate base treatment, and this Commission has been disallowing the  
6 unamortized rate case amount in rate base for years now. Hence – rate case  
7 expense is not a regulatory asset.

8  
9 When asked for supporting cases that reflect this new Public Staff position, the  
10 Public Staff responded that a recent Aqua settlement contained similar wording.  
11 Based on our experience in other recent rate cases, it appears the Public Staff has  
12 been working to include this language in recent settled cases by holding the utilities  
13 hostage and not allowing a settlement in a rate case unless they agreed to this  
14 unprecedented rate case expense language. Small water and sewer utilities  
15 cannot afford to litigate just because of this language, and if they did, their rate  
16 case expense would increase significantly and so would the customers' rates.

17  
18 An even larger concern is the fact that the Public Staff is, in essence,  
19 recommending that rate case expense be tracked and basically be considered a  
20 “quasi” regulatory asset with even more restrictions than regulatory assets  
21 currently approved before this Commission.

22

1 Based on our extensive review of other cases to evaluate deferral of regulatory  
2 asset/liabilities, any party, including the Public Staff, must file a petition for an  
3 accounting order to defer certain expenses with the Commission requesting  
4 authority to set up a regulatory asset. The Commission's Order<sup>1</sup> in Docket No. E-  
5 7, Sub 1181, set forth that the Commission's two-prong test in considering a  
6 deferral request. The two-prong test that the Commission has often utilized to  
7 determine whether cost deferral is justified is: (1) whether the costs in question are  
8 unusual or extraordinary in nature and (2) whether, absent deferral, the costs  
9 would have a material impact on the utilities financial condition.

10  
11 The fact that the Public Staff has not requested authority in a separate petition to  
12 defer, track and refund rate case expenses with the Commission should be an  
13 automatic dismissal of this language from this rate case. Even so, the fact that rate  
14 case expense is included in every case that is filed shows that there is no case to  
15 be made for it to be considered unusual or extraordinary in nature. In addition, rate  
16 case expenses can be material, especially when lengthy litigation arises, as well  
17 as a significant amount of discovery requests and onsite audits, although the  
18 amortization period helps smooth out high-rate case expenses for customers. The  
19 Company strongly disagrees with the Public Staff's position since the tracking of  
20 overcollections of rate case expense would also be considered single-issue  
21 ratemaking. Items that require the tracking of this magnitude, including regulatory

---

<sup>1</sup> Docket No. E-7, Sub 1181 Commission Order Allowing Deferral Accounting, Denying Public Staff's Motion for Reconsideration, Granting Transfer of CPCN's and Qualifying the Transferred Facilities as New Renewable Energy Facilities, dated June 5, 2019.

1 assets and liabilities along with calculated interest, are typically handled in a  
2 separate rider outside of a rate case, and are not consistent with the regulatory  
3 treatment for reasonable and prudent rate case expenses approved by this  
4 Commission.

5  
6 **Q. DOES WRI ACCEPT WITNESS HOUSER'S RATE DESIGN.**

7  
8 A. No. The Company is concerned with the recommended rate design because a  
9 higher base charge provides better stability for the utility. WRI has been losing  
10 money for several years now while it has been completing the Interconnection  
11 project. WRI maintains the 40:60 rate design for both service areas is still relevant  
12 for WRI and should be approved. This is consistent with recent cases on rate  
13 design, for example Aqua's rate design in its most recent general rate case,  
14 Docket No. W-218, Sub 873 was 35:65 for water operations, and the Commission  
15 approved a rate design of 40:60 for Carolina Water Service in Docket No. W-354,  
16 Sub 400.

17  
18 **Q. DOES THIS CONCLUDE YOUR PREFILED REBUTTAL**  
19 **TESTIMONY?**  
20

21 A. Yes.  
22  
23

1 MR. FINLEY: Now, we have a few additional  
2 questions to ask the panel based on some of the  
3 testimony that we received yesterday and that we did  
4 not anticipate, if the Chair will allow it.

5 Ms. Holt, without objection, to clarify the  
6 record.

7 MS. HOLT: What is it about? I'm sorry.

8 MR. FINLEY: It is -- in particular, it is  
9 about the testimony that Mr. Houser gave that had  
10 nothing to do with his direct testimony about the  
11 delay that he maintained existed having to do with the  
12 early period when there were problems with Well Number  
13 1 and the actions that the Company took. He  
14 maintained in his testimony for the first time that  
15 that was not proper activity that it took or failed to  
16 take.

17 MS. HOLT: I'm sorry. This is -- is he  
18 correcting something that he said in his rebuttal --

19 MR. FINLEY: No. No. He is adding --  
20 testimony came out yesterday that was not in the  
21 prefiled direct testimony that we heard for the first  
22 time about the reasonableness and prudence of the  
23 Company's activity with respect to Well Number 1. And  
24 I think it's the Commission's practice to allow the

1 rebuttal witnesses to address those types of issues  
2 when they come up when they were not anticipated.

3 We couldn't have filed any rebuttal  
4 testimony to it because there wasn't anything to rebut  
5 until now.

6 MS. HOLT: Well, counsel had an objection to  
7 the Public Staff opining on additional information and  
8 deemed it surrebuttal. So based on that same  
9 objection, I object to -- I mean, you can ask him on  
10 redirect to clarify information.

11 HEARING EXAMINER HILBURN: And I'm going to  
12 overrule the objection there and allow Mr. Finley to  
13 have this clarification of testimony because that  
14 information was received into the record yesterday  
15 after the objection of Mr. Finley. So we will have  
16 some clarification on that, but it will be brief.

17 MR. FINLEY: And the only thing we'd like to  
18 do, Madam Hearing Examiner, that there's been a lot of  
19 talk about this interconnection point with the Town of  
20 Harrisburg, and we some pictures that we would like to  
21 address for illustrative purposes. Just so the people  
22 will be able to see what we're talking about.

23 HEARING EXAMINER HILBURN: If you will show  
24 a picture -- you'll give a copy to counsel and a copy

1 to myself.

2 MS. HOLT: Counsel would need to object to  
3 these. No foundation has been laid. We don't know  
4 when these were taken or these pictures were taken.  
5 We -- our witness has not had an opportunity to  
6 examine them --

7 MR. FINLEY: Well --

8 MS. HOLT: -- our engineering witness  
9 Houser, so I object to them.

10 HEARING EXAMINER HILBURN: Mr. Finley, would  
11 you lay foundation of when these pictures were taken  
12 and -- as she requested?

13 MR. FINLEY: Be happy to do that. And,  
14 again, this is just for illustrative purposes just so  
15 we can see what we're talking about.

16 Q So, panel, tell me when these pictures were  
17 taken, please.

18 A (Ms. Perry) He's going to give you a date.

19 A (Mr. Abbott) While I'm looking up the date, I  
20 will tell you that Mr. Houser did view these  
21 exact items that are in this photo when he did  
22 his field examination. We went to where this  
23 interconnection is and everything that's seen in  
24 those photos, Mr. Houser has seen with his own



1           yesterday when Public Staff witness Houser  
2           testified about the discontinuation of Well  
3           Number 1 on your system and the replacement of  
4           that well ultimately with the interconnection  
5           with the Town of Harrisburg; were you not?

6   A       (Mr. Abbott)   Yes.

7   Q       And, as I heard his testimony, he suggested that  
8           in the early period, when there was difficulty  
9           with Well Number 1, it was his view that you  
10          should have acted more quickly, and had you done  
11          so, perhaps some of these legal fees that we're  
12          talking about -- I guess that was the point would  
13          not have been incurred when they were.   Could you  
14          address that, please?

15   A       Sure.   So first, I think it's important to note  
16          that we received notice of a violation in  
17          December of 2018.   So I want to make sure that  
18          everyone -- when we talk about 2018, we're not  
19          thinking this was January or it was a full year.  
20          It was really -- I believe it December the 17th  
21          of 2018.   So it wasn't even a full month.   So if  
22          we want to talk about a timeline that really, you  
23          could look at the beginning of January.

24                 Second point I'll make is, when we received

1           this notice of violation we immediately reached  
2           out to DEQ because we realized the seriousness of  
3           this violation that was not of our doing. Radium  
4           is a natural causing event that happens in rock  
5           formations, and radium can get in the groundwater  
6           through soil and also decaying rocks. Is not  
7           from a lack of operational -- proper operation of  
8           the system or maintenance or anything like that.

9           So we were in constant communication with  
10          DEQ in how we would move forward in -- in  
11          addressing this. Felt like they good partners in  
12          guiding and directing us and working with us on  
13          what our options were. So, again, when  
14          Mr. Houser says we weren't acting prudently, we  
15          were. We were doing the right thing and having  
16          conversations with the State Regulatory Agency.  
17          And how we went about doing this what we learned  
18          was that we could, as a result of a failed  
19          test -- by the way, the violation letter said  
20          that our levels were at six and we're only  
21          allowed five. So we were just over the allowable  
22          levels according to the letter we received from  
23          DEQ. Once you have a failed test, you have to  
24          test once a quarter after that. And in that

1 period of time, they will average over the next  
2 four samples over that quarter whether or not you  
3 can come back into compliance. And so that's  
4 what we were intending to do in discussions with  
5 DEQ.

6 When it became evident later on in 2019 that  
7 we were not going to be able to come back into  
8 compliance by following that method, that's when  
9 we began looking at other alternatives to correct  
10 the situation. One of the alternatives that was  
11 presented to us by our engineer is, you can  
12 actually combine the readings of two wells if you  
13 mix the raw water of both wells together, you can  
14 look at the combined radium levels of those two  
15 together. We knew our other well had very low  
16 radium levels even though this one reached the  
17 allowable limit, but we thought maybe by mixing  
18 the two together that would lower the total  
19 radium level and bring us back in to compliance.

20 So there was some -- some time spent with  
21 the engineer taking a look at that and studying  
22 that, and, ultimately, we decided that was not  
23 going to be a viable option for us either. So we  
24 then looked to the Town of Harrisburg and the

1 possibility of tieing into the Town of  
2 Harrisburg.

3 My first contact with the Town of  
4 Harrisburg, was in the summer of 2019, to start  
5 the tie-in and begin the tie-in process. It  
6 wasn't until, after many attempts, until  
7 November of 2019 that I actually got a reply from  
8 them stating that, yes, they had the capacity.  
9 They could serve our community. And so once I  
10 got that okayed, then I could move forward with  
11 spending money on engineering, surveys, and start  
12 the process.

13 We began with looking at, we have two  
14 entrances to these communities. At both  
15 entrances there's a water main stubbed out to the  
16 main road, which is Rocky River Road, which is  
17 where the water main for the Town of Harrisburg  
18 is. And what I preferred was one particular  
19 entrance that, after engineering work was looked  
20 into it and done and surveys conducted, was  
21 decided by engineering that was not a viable  
22 option. And so we had to start over and we  
23 looked at the second entrance.

24 And that's when we decided that was the

1 entrance that we would pursue for this tie-in.  
2 So -- and from that point forward, we continue to  
3 move down that path, and we realize, as a result  
4 of that survey and the engineering work, we had  
5 to an easement. I thought that we would be able  
6 to just take that line and run it straight down  
7 the utility easement go across the road and  
8 tie-in. What we learned is that it was not  
9 possible, and we were going to have to go across  
10 an individual owner's property and we had to get  
11 an easement. And things really came to a very  
12 slow stall at that point in time and trying to  
13 secure an easement from the homeowner who was  
14 unresponsive to us for quite a few months despite  
15 phone calls, emails, and letters. She just  
16 wouldn't respond.

17 Ultimately, she did respond and say she  
18 wasn't interested in providing us with an  
19 easement, and redirected us to her neighbor  
20 across the street which wouldn't work for us  
21 because that was the opposite side of the road  
22 that the water main was on.

23 By now, we're in the middle of a pandemic,  
24 and getting things done really slows down. It's

1           difficult. The economy is shut down. Getting  
2           engineers to do work and all the things that are  
3           implied with the pandemic and the economy shut  
4           down. Water Resources was not exempt from the  
5           pandemic and the things that impact the  
6           businesses operating during a pandemic. And that  
7           was a big part of the -- the stall in 2022 --  
8           excuse me -- in 2020 that caused us some  
9           problems.

10           We were ultimately able it to secure the  
11           easement through -- as I testified yesterday  
12           after engaging with an attorney and threatening  
13           to condemn the property, and she ultimately came  
14           to the table, made some pretty -- what I felt  
15           were outrageous demands -- but we weren't in a  
16           position to let this project stall anymore, so we  
17           paid what we believe was double about what we  
18           should have for an easement plus some other  
19           stipulations she put on it so we could continue  
20           moving the project along. So all along through  
21           this, we had a number of issues. We were in  
22           communication with DEQ. We were giving them  
23           quarterly updates as to what we were doing along  
24           and along throughout this project. In all of

1 this, nobody knew when the pandemic was going to  
2 end. So our projects didn't anticipate that the  
3 pandemic would drag on until, I think officially  
4 it was over in April of 2023, is when the  
5 pandemic was officially termed as over. And then  
6 coming out of the pandemic, there would be a  
7 shortage of supplies, materials, for us to be  
8 able to buy the materials in order to start the  
9 construction.

10 Also coming out of the pandemic as the  
11 economy ramped back up, it was a high demand for  
12 contractors and construction work that been  
13 stalled during the pandemic. This is a very  
14 small project. We contacted a lot of different  
15 contractors and, ultimately, only had one that  
16 really was willing to enter into a contract to do  
17 the work. Many of them went dark on us after  
18 initial conversations. The job was just too  
19 small based on the amount of work that they had  
20 going on. So in all of this, while we were  
21 moving forward, we continued to consult with our  
22 engineer. We also explored expanding our green  
23 sand filter to remove the radium from the water.  
24 There conversations with DEQ about that option.

1 Those were informal conversations but, again,  
2 throughout all of this we continued to have  
3 conversations with DEQ and trying to keep them  
4 up-to-date about what we were doing about the  
5 issue and getting their guidance and direction.

6 On the green sand filter, the DEQ engineers  
7 didn't like the fact that would cause us to have  
8 a backwash of the filter that would discharge  
9 basically radium particles, or filter media, that  
10 had been use to filter out the radium and  
11 discharge that into the wastewater system for the  
12 City of Concord. They weren't comfortable with  
13 that piece of it. And so as a result of that, we  
14 had to abandon that option as well. So it took  
15 us back to the Town of Harrisburg in that time.

16 So that's a brief summary to tell you.  
17 There's a lot more detail. We could spend two  
18 hours talking about it. But that's a high  
19 summary of what caused the delays. But the core  
20 of all of it was the pandemic that none of us can  
21 control. And we all know the impact that had on  
22 the economy here in the United States.

23 Q Thank you, sir.

24 MR. FINLEY: We passed out a -- we

1 understood from the Commission, that you were looking  
2 for summaries. Somebody prepared a summary for this  
3 testimony, but in light of time constraints as  
4 occurred yesterday would ask that, that be copied into  
5 the record as if given orally rather than have the  
6 witnesses read the summary.

7 HEARING EXAMINER HILBURN: Without  
8 objection, that will be allowed. The summary will be  
9 copied into the record as if given orally from the  
10 stand.

11 MR. FINLEY: The rebuttal witnesses are  
12 available for cross examination.

13 MS. HOLT: Does this summary include -- does  
14 this summary include what Mr. Abbott -- the additional  
15 testimony he made today?

16 MR. FINLEY: No, ma'am. The summary was  
17 provided as the request of the Commission before we  
18 came in to our hearing yesterday, and we weren't  
19 expecting that testimony from Mr. Houser, and so we  
20 couldn't possibly have provided the summary in the  
21 time constraints allowed.

22 MS. HOLT: Is this -- I'm sorry. This is a  
23 summary of his rebuttal testimony?

24 MR. FINLEY: Correct. If, Ms. Holt, wants

1 to review the summary and look at it, that's fine with  
2 us.

3 HEARING EXAMINER HILBURN: Do you need a few  
4 minutes?

5 MS. HOLT: Yes. Just a minute. Ms. Holt  
6 you can certainly take a few.

7 MR. FINLEY: We'll be happy to have the  
8 witnesses read it if that's what Public Staff would  
9 like.

10 HEARING EXAMINER HILBURN: And, Ms. Holt, if  
11 you'd rather it be read, we can certainly do that.  
12 You can let us know.

13 MS. HOLT: Did the Company make any changes  
14 or additions to its summary that was not in the  
15 testimony? We found one area that wasn't in the  
16 testimony regarding rate design.

17 HEARING EXAMINER HILBURN: Ms. Holt, if  
18 you'll take a minute and refer us to -- point us to  
19 where your question --

20 MS. HOLT: Okay. You added some information  
21 regarding the 35/65 rate design.

22 THE WITNESS: (Ms. Perry) Yeah. That was  
23 in our testimony but we are agreeing -- we were -- so  
24 I think one of the things for our rebuttal is --

1 because there's no way to do this through rebuttal  
2 thing is that we were kind of acquiesced to, on the  
3 stand, that we would do a 35/65 instead of a 40/60  
4 that we had -- I mean, 30/70 that we had filed and we  
5 had cited in our rebuttal that, you know, Aqua and  
6 Carolina Water had some similar rate designs as well  
7 and I think that was all we were trying to say was, to  
8 help customers out in this we're just trying to -- I  
9 think sometimes your position does change and we're  
10 going to have to probably explain some things on the  
11 stand today that we've heard since, you know, since we  
12 filed and since you guys have filed. And so that --  
13 this is us just saying, you know, we know rates are  
14 going up and we're -- we're willing to help the  
15 customers by going 35/65 if that helps the position.  
16 And that's all we're trying to say.

17 THE WITNESS: (Ms. Peedin) I want to say  
18 one thing, too, and I don't want overtalk. That's one  
19 thing I -- I'm trying not to do, but we did recommend  
20 40/60. The Public Staff in its testimony recommended  
21 30/70 rate design.

22 MS. HOLT: Certainly.

23 Can we take a break, please, so we can  
24 review this?

1 HEARING EXAMINER HILBURN: Absolutely.  
2 We'll go off the record for 10 minutes and come back  
3 on at 11:35.

4 (A recess was taken from 11:25 a.m. to 11:34 a.m.)

5 HEARING EXAMINER HILBURN: We're going to go  
6 back on the record and we're with Ms. Holt ready for  
7 cross examination of these rebuttal witnesses.

8 MS. HOLT: Yes, thank you. The Public Staff  
9 reviewed the summary of the rebuttal testimony that  
10 counsel asked to admit into, and we would move to  
11 strike as it not being totally representative of the  
12 rebuttal testimony. We found additions, additional  
13 verbiage that was not -- not discussed in the rebuttal  
14 at all as to the pump, the level of salaries regarding  
15 rate case expense, rate design. That's certainly an  
16 addition. So we would just move to strike the whole  
17 thing.

18 HEARING EXAMINER HILBURN: The whole thing.  
19 Okay. Well, let me ask you this, I mean, were you  
20 speaking to, just a minute ago, specific bullet  
21 points, or you're thinking the whole thing is --  
22 you're moving to strike the whole thing, but are  
23 you --

24 MS. HOLT: Well, I don't see how you can --

1 I think I would recommend that -- move that the  
2 Company resubmit it perhaps and limit it to the  
3 rebuttal testimony without any additions.

4 There were significant additions and I don't  
5 see how today we can just go through it and redact  
6 certain portions. We haven't done very exhaustive  
7 review of it and --

8 HEARING EXAMINER HILBURN: Okay.

9 MS. HOLT: -- we might miss some things.

10 MR. FINLEY: Madam Hearing Examiner, I want  
11 to ask that the Company make -- the Public Staff make  
12 its motion to strike in greater detail than what it  
13 has done today. But I will say that we heard  
14 yesterday and today a quite expansive list of things  
15 that were not in the Public Staff's -- that actually  
16 changed in great magnitude the cases that we prepared  
17 for to come here today. So if they would please  
18 identify what they want to strike and give us an  
19 opportunity to respond to it, and if you would take  
20 that under advisement, we would request that.

21 MS. HOLT: Certainly. And I might add that  
22 counsel prompted the responses that it did through its  
23 questions of the Public Staff's witnesses, and the  
24 Company could have requested to update its rebuttal

1 testimony, rather than add things -- additional  
2 information to the summary.

3 Thank you.

4 HEARING EXAMINER HILBURN: Ms. Holt, you say  
5 the Company could have asked to update its rebuttal  
6 testimony; do you mean in a prefiled manner?

7 MS. HOLT: Yes.

8 HEARING EXAMINER HILBURN: As opposed to  
9 today on the witness stand?

10 MS. HOLT: That's correct.

11 HEARING EXAMINER HILBURN: Okay. All right.  
12 Thank you.

13 MR. FINLEY: It's pretty hard to rebut -- to  
14 give rebuttal testimony that you haven't heard in  
15 advance of the testimony being presented.

16 HEARING EXAMINER HILBURN: Duly noted, Mr.  
17 Finley. So what we're going to do, we are going to  
18 ask that, in regards to Ms. Holt's request, that we  
19 strike this summary because it includes more than what  
20 was in the rebuttal testimony so she doesn't have a  
21 chance right now to actually pinpoint specific items.  
22 Public Staff is just aware that there are some. The  
23 Public Staff may request to strike that as they've had  
24 time to review it and can seek, from the Hearing

1 Examiner, a ruling on that.

2 And so for now, we will admit the summary  
3 into the record as if given orally from the stand, but  
4 we will be waiting for the Public Staff's -- I guess  
5 that's proper procedure. Ms. Holt's looking at me --  
6 to -- to strike certain components. Or, let me do  
7 this.

8 Let me just back let me just backtrack for  
9 just a moment. Let's not enter this into the record  
10 right now, and let's give Public Staff an opportunity  
11 to provide their items that they would like to strike  
12 and then the Hearing Examiner will admit those  
13 portions based on its ruling.

14 MS. HOLT: Thank you. That would be our  
15 preference.

16 HEARING EXAMINER HILBURN: Thank you-all for  
17 your patience on that. Okay. Now you may proceed,  
18 Ms. Holt, with the cross examination of these  
19 witnesses.

20 MR. FINLEY: Sorry. One other thing.

21 HEARING EXAMINER HILBURN: Yes, Mr. Finley.

22 MR. FINLEY: Ms. Peedin has found her second  
23 correction.

24 HEARING EXAMINER HILBURN: Okay. Thank you

1 so we'll take that, Ms. Peedin, at this time.

2 THE WITNESS: (Ms. Peedin) Yes, thank you.  
3 It's on Page 32. The last page of the rebuttal, Line  
4 14. And that docket number should read W-218, Sub  
5 573, not 873.

6 HEARING EXAMINER HILBURN: Thank you. We've  
7 got that noted.

8 CROSS EXAMINATION BY MS. HOLT:

9 Q Good afternoon.

10 A Still morning.

11 Q Oh. Is it morning? Still morning. All right.  
12 Good morning. Let's see. Mr. Abbott, I'd like  
13 to go back to your -- revisit your testimony  
14 regarding what you encountered after  
15 December 2018, when you received notification of  
16 the violations. You note that you went into the  
17 middle, you know, of a pandemic and could point  
18 do any work; what specifically couldn't you do  
19 during the pandemic?

20 A Well, couldn't -- we had difficulty engaging  
21 people to do the work that needed to be done as  
22 far as engineering work, preliminary work, and  
23 surveys, and that type of thing to look at  
24 getting the tie-in done. All of those were

1           either, typically, drawn out to get somebody to  
2           do that because they had very limited workforce,  
3           obviously, to go out in the field and do things.

4    Q       I didn't know that they weren't exempt from some  
5           of the COVID moratoriums. You know, engineers  
6           and that sort, people.

7    A       Well, engineers aren't, obviously, government  
8           employees, but there's a lot of individuals who  
9           opted not to go into the office, opted not to  
10          work as teams out in the field during that time.  
11          All companies really were in a position that if  
12          someone -- I can't speak for them -- but, you  
13          know, if you have an employee who says, "I'm not  
14          comfortable leaving my home to work in this  
15          environment," companies really weren't in a  
16          position to say, "Well, no. You got to report to  
17          work or you're fired." That's -- that was -- you  
18          just weren't able to do that during the pandemic.

19   Q       Certainly. Now, you state that coming out of the  
20          pandemic you continued to consult with engineers  
21          and then you had informal conversations with DEQ;  
22          with whom did you have conversations?

23   A       We had conversations -- most of our conversations  
24          were Haris Ali and Clinton Cook.

1 Q And during what time period? Were these  
2 consistent conversations from -- what time  
3 period?

4 A Well, once we got the violation we engaged in  
5 dialogue and also emails on various items. We  
6 emailed them on the quarterly updates, but we had  
7 telephone conversations on a regular basis  
8 starting right after the violation which was  
9 December 17th of 2018.

10 Q So were you having conversations between -- up  
11 until February 6, 2021, when you received a  
12 penalty of \$4,500?

13 A Yes, ma'am.

14 Q So, notwithstanding your communication with these  
15 DEQ employees, they assessed you with the fine?

16 A Yes, ma'am. They were put in and there was  
17 actually a phone call to me prior to levying the  
18 fine. Said, "Look. We're in a rock and a hard  
19 place. We're only allowed to give you a 12 month  
20 extension, and that's all we can do. And after  
21 that, we are forced to turn it over and take more  
22 harsh measures. It's out of our hands. It's a  
23 DEQ policy. We understand the situation you're  
24 in, but this is something we want you to

1 understand we have to do." And so those were the  
2 types of conversations we were having. And so  
3 they actually told us that they were going to be  
4 levying that before they sent us the letter that  
5 said, "Let's understand. We know you're doing  
6 what you and given the circumstances, but our  
7 hands are tied on this."

8 Q And you were in conversation with DEQ when DEQ  
9 filed a complaint and motion for injunctive  
10 relief against you?

11 A Yes, ma'am. Again, there was a phone call prior  
12 to that ever happening. We had a conversation.  
13 They said, "Remember I told you we could give you  
14 a 12 month extension, and if we couldn't get  
15 things done by the end of that 12 month  
16 extension, we would have to turn it over to DOJ  
17 at point in time." He said, "So our hands are  
18 tied. We can't -- we can't be involved. This is  
19 a required step for us to take the next step."

20 And so, yes, there was conversation even up until  
21 that point. And there was conversations they at  
22 the court appearances as well, and we would have  
23 conversations there. They were very amicable and  
24 empathetic from their side, but they were doing

1           what they had to do and they were required to do,  
2           and I understood that.

3   Q       Their position is noncompliance, is  
4           noncompliance?

5   A       That's correct.  Regardless of the circumstances.

6   Q       Did you request any relief in writing during this  
7           time period?

8   A       When you say "relief"?

9   Q       Or, did you provide an account of your  
10           circumstances in writing during this interim  
11           before the fine was imposed and before the  
12           complaint was filed?

13  A       No, not in writing.  I mean, I think everyone  
14           knew we were in a pandemic.  I didn't think I  
15           needed to document that we were in a pandemic and  
16           that caused a lot of these delays.

17           MS. HOLT:  Okay.  Thank you.

18           MR. FINLEY:  Be sure to speak up into the  
19           microphone, Mr. Abbott, so everybody can hear you.

20           THE WITNESS:  Yes, sir.

21  Q       Sorry, Mr. Abbott, hold on one minute.  Mr.  
22           Abbott, how much does your water bill run on  
23           average?

24  A       In my home?

1 Q Yes, in your home?

2 A My average water bill is about \$250 a month.

3 Q And that's just water only?

4 A Yes, ma'am.

5 Q Okay.

6 A Excuse me. No, I take that back. I'm on sewer  
7 as well.

8 Q Do you live in the subdivisions that you serve?

9 A No, ma'am.

10 Q Would you find it to be extraordinary if your  
11 water bill went up 384 percent?

12 A Well, it'd depend on the circumstances for that  
13 increase.

14 Q Okay.

15 A It would certainly cause me to ask questions as  
16 to why. Is there justification for this  
17 increase?

18 Q And do you think you provided such justification  
19 to your customers?

20 A I do, yes, ma'am.

21 Q Do you think the situation that the Company  
22 faced -- with the well gone bad et cetera, and  
23 needing to obtain a connection to Harrisburg  
24 could be characterized as an extraordinary event?

1 A No. I don't know that it's extraordinary  
2 otherwise DEQ wouldn't require monitoring for  
3 radon in wells. You know, that's a regular  
4 monitoring. Clearly they want to make sure  
5 there's not an event that would happen that would  
6 cause radon to be de-potable water supply we're  
7 providing. And so, I wouldn't think they would  
8 ask us to monitor for that if we would be  
9 considered extraordinary that there would be a  
10 problem there.

11 Q No. But, what you had to go through to resolve  
12 the issue?

13 A Well, regardless, I mean, there had to be a  
14 resolution to the problem and I don't want to  
15 talk to symptoms and you have to go to root  
16 cause. What is the root cause? And the root  
17 cause is no one's fault that there's radium now  
18 in the ground water we're pumping to serve our  
19 clients that we didn't -- obviously, no one wants  
20 to provide them, and, regardless of what the  
21 solutions, there were three options.

22 One was to drill a new well. Buy land.  
23 Drill a new well. Couldn't find any land in the  
24 area where we could tie it back into the water

1 distribution system; anything close by.

2 The second option was -- excuse me -- four  
3 options. The second option was, the green sand  
4 filter, which I spoke about earlier.

5 The third option was the combined -- the mix  
6 the water from both of the wells together.

7 And then the fourth option was the Town of  
8 Harrisburg tieing that in. So three of the four  
9 were eliminated that only left the Town of  
10 Harrisburg tie-in as the viable option.

11 Q Is that the last resort option?

12 A It was. For us, we wanted to pursue other  
13 options. We knew it was an option from early on  
14 because we knew we would be dealing with a lot  
15 of -- for lack of a better way to put it,  
16 government agencies and red tape and approvables  
17 [sic] -- approvals from multiple state agencies.  
18 We were concerned it would take also the longest  
19 amount of time to get done, and so we -- we  
20 continued down that path while we're exploring  
21 the other options as well. But we really  
22 explored all of our options all simultaneously at  
23 the same time. But it was -- at the end, it was  
24 the least-preferred option.

1 Q In recognition of the fact that you had to do  
2 what you had to do; is this still not a  
3 considerable increase on customers?

4 A No. It is a considerable increase on the  
5 customers. There's no ifs, ands, or buts about  
6 that. They also currently, and have for many  
7 years, enjoyed some of the lowest water rates in  
8 the State of North Carolina.

9 Q And are you familiar with the term "rate shock"?

10 A I would assume that means the same thing as  
11 sticker shot.

12 Q Exactly.

13 A When you go to buy a car these days.

14 Q Exactly. Exactly.

15 A And I understand it. I'm very empathetic. I do  
16 understand that that would cause rate shock, and,  
17 you know, I have been a very empathetic operator  
18 of our water systems. I've done everything I can  
19 to keep their rates as low as I possibly can for  
20 many, many years. And as much to my expense and  
21 my reputation. I have been accused by Public  
22 Staff of being a rogue operator. And so -- which  
23 I'm not. I'm very responsible. I've tried to  
24 operate a system as cost-efficiently as possible

1 knowing that to do otherwise would mean an  
2 increase in rates to my homeowners.

3 So I kind of feel like I'm damned if I do  
4 and dammed if I don't. In this particular  
5 situation, I had no choice. This was something  
6 that I had to do, and I knew that doing this I  
7 needed to get a return on the money. I mean, we  
8 have -- the dollars are the dollars. We provided  
9 invoices in support of what we paid. I've  
10 lost -- from an operation perspective, another  
11 \$150,000. In the last several years I have  
12 personally put \$600,000 into this system in  
13 operating this system. And at great expense to  
14 me. So should I be allowed to recover that  
15 through rates? According to statute, yes. And  
16 that's all we're trying to do here today. It's  
17 not my -- it's not my customer's fault, nor is it  
18 my fault. It's no one's fault that radium  
19 entered into the groundwater source. That's just  
20 a natural occurring thing. And -- but something  
21 had to be done. And the regulatory agencies did  
22 their part in holding my feet to the fire. Much  
23 to -- quite frankly -- in private conversations  
24 their empathy. We understand you're doing all

1           that you can, but we no choice. And we know this  
2           is not -- this is quite frankly not our favorable  
3           path, but we have no choice to go -- but go down  
4           this path. I said, I understand. I don't take  
5           it personally and you got to do what you got to  
6           do. I'm doing everything I can.

7           So all of this was a very unfortunate set of  
8           circumstances. All set in motion due to no one's  
9           fault. And, unfortunately, I've had to pay for  
10          it. I've had my reputation and integrity  
11          questioned in public, in private, and my client's  
12          and my customers, they're going to have to pay  
13          higher rates as a result of that so we can  
14          recover this tremendous amount of money we've put  
15          into this system.

16        Q     Have you -- you been here when Mr. Finley  
17               mentioned the 2017 Duke Energy rate case, where  
18               Mr. Junis testified?

19        A     Yes, ma'am.

20        Q     Are you aware that both the 200 -- I'm sorry --  
21               2017 Duke Energy Progress and the Duke Energy  
22               Carolinas rate cases were reversed and remanded  
23               in part because the North Carolina Supreme Court  
24               determined that the Commission did not properly

1 consider and make findings and conclusions  
2 concerning all material facts as required under §  
3 62-133 (d)?

4 A No, ma'am. I'm not familiar with the details of  
5 the case.

6 Q Well, would you accept, subject to check, that as  
7 a fact?

8 A Yes.

9 Q I'll move on. Are you aware -- I'm sorry -- that  
10 a number of your customers are very dissatisfied  
11 with the Company and have filed formal and  
12 informal complaints, sent in numerous customer  
13 statements, testified at the customer hearing  
14 where you were present, and even signed a  
15 petition to remove Water Resources as operator?

16 A I'm not -- I'm not surprised, but the issues they  
17 brought to the table, in my opinion, are old  
18 issues that have been resolved.

19 Q Old issues, like what?

20 A Well, they talked about poor customer service was  
21 one of them for instance. We -- that came to  
22 light to us that we had an employee who wasn't  
23 doing what they should do and timely returning  
24 phone calls. And we immediately terminated that

1 employee.

2 Since that time, that hasn't been the case.  
3 In fact, I found it -- I did find it interesting  
4 Mr. Houser's written testimony that he's talked  
5 about the complaints that have been received by  
6 the Public Staff, but we know that there have  
7 been some customers also sending some  
8 complimentary emails to the Public Staff about  
9 the change and the improvement in the customer  
10 service that we provided, but he didn't speak to  
11 those items. So it seemed that he was trying to  
12 provide a slanted view.

13 So we have improved that, and we've  
14 corrected that. And we keep -- as we turned in  
15 the customer logs, as we're required to, I think  
16 that's reflective in the customer logs. Most of  
17 our calls are questions about -- about a bill.  
18 Other questions, if it's about the service, or  
19 concerns or a low pressure for instance, we  
20 respond to those very quickly and correct those.  
21 Obviously during an outage, you're going to have  
22 a lot of phone calls; during an outage. And we  
23 understand that.

24 Q When the petition -- and I might add that, the

1 petition to remove Water Resources was filed as  
2 an exhibit to Mr. Lenny Davito's statement --

3 A Yes, ma'am.

4 Q -- and admitted into evidence. When this  
5 petition was filed and this led to news -- a news  
6 investigation a couple times; do you recall that?

7 A Well, it wasn't because of Mr. DeVito's petition,  
8 that was due to a resident who claimed that we  
9 hadn't responded to a leaking water meter that he  
10 had on his property. That's what the news  
11 stories were about. And Mr. Devito has been a  
12 long critic of Water Resources, so it didn't  
13 surprise me that he filed that petition. As you  
14 all know, there was an investigation and Public  
15 Staff did -- did not recommend that our  
16 Certificate of Convenience and Necessity be  
17 revoked.

18 A (Ms. Peedin) Can I add something to that?

19 Q Sure.

20 A If he were to be removed as the operator, the  
21 Commission would have to find an operator and,  
22 you know, be subject to, you know, have to find  
23 an emergency operator operate the system. And  
24 these costs would be imposed on those customers

1           anyway. We don't want the rates to go up anymore  
2           than anybody else does. It's just the fact of  
3           the case. But there would be other proceedings  
4           that would be costly, too, if he were removed.  
5           And he has been, you know, use his own resources,  
6           and he has not walked away from this system and  
7           I'm sure there are probably times he may have  
8           wanted to.

9    Q    At any time, Mr. Abbott, did you contact the  
10       customers and explain your situation, explained  
11       what you were going through, explain the delays  
12       that you encountered in replacing the Well Number  
13       2? I'm sorry -- Well Number 1?

14   A    I'd have to go back and look. We did send out  
15       some correspondence about -- a couple of times  
16       about some things. I didn't -- we did notify  
17       them when the -- as required by statute. When  
18       Well Number 1 was exceeded the -- the allowable  
19       limit for radium, we did notify them then, and we  
20       did notify them that we were taking that off of  
21       line; that well off of line.

22                I don't know that we did on a regular basis  
23       but, periodically. We didn't see that it  
24       impacted them per se on an ongoing basis unless

1           there was an outage. And so, dealing with that  
2           didn't directly impact them, even though folks  
3           were aware of it, because we -- we did make them  
4           aware that we were pursuing the tie-in with the  
5           Town of Harrisburg, but I don't know that we gave  
6           them regular updates on the progress of it.

7    Q       Do you not think that the threat of the  
8           ramifications of having only one well in  
9           violation of state statute doesn't warrant  
10          concern? Do you think they actually have to be  
11          impact- -- customers have to actually be impacted  
12          in order to have concerns and to complain?

13   A       No. I think we had -- we had made them aware of  
14          the situation. I think what you're asking is,  
15          did we provide them updates about the tie-in to  
16          the Town of Harrisburg, and not on a regular  
17          basis. I think we sent out a couple of letters  
18          and make them aware we're continuing to work on  
19          it, but it met some obstacles and some unforeseen  
20          delays. But -- so that perspective, we -- we  
21          communicated with them in that regard, but it was  
22          known in the community. Residents knew that we  
23          were pursuing that tie-in, yes.

24   Q       Right. But didn't they have valid concerns did

1           you forget interim? You gave them notice --

2    A       I think they had the same concerns that we all  
3           did. You know, that we needed to get this  
4           remedied and certainly their concern was no  
5           different than mine or anybody else's of trying  
6           to move as expeditiously as we possibly could to  
7           remedy the situation. I certainly understand  
8           that. I was concerned as -- and understood that  
9           they were as well.

10   Q       Because you would concede that, after you notify  
11           customers I imagine in 2018, 2019, and then you  
12           inform them this is the situation, you'll have to  
13           resolve the situation, correct?

14   A       Correct.

15   Q       And then it takes four and a half years for it to  
16           be resolved?

17   A       Well, they're not living under a rock. They know  
18           there's a pandemic and what all is going on with  
19           the economy being shut down in this country. So  
20           they understand things are moving pretty slowly.

21   Q       Certainly. But with all due respect, pandemic  
22           wasn't four and a half years.

23   A       Pandemic started on March 15th, 2020, officially  
24           and it wasn't over officially until April of

1 2023. So it's three years.

2 Q Okay.

3 MS. HOLT: I'd like to hand out an exhibit  
4 that I'd like to have identified as Public Staff Panel  
5 Cross Exhibit 1.

6 HEARING EXAMINER HILBURN: It'll be so  
7 identified Public Staff Panel Cross Exhibit 1.

8 (WHEREUPON, Public Staff  
9 Panel Cross Exhibit 1 is  
10 identified.)

11 Q Mr. Abbott, I'll give you a minute to review  
12 this. It's entitled "Site Visit Report" for  
13 Rocky River Plantation dated, March 29th, 2018.  
14 Would you agree, Mr. Abbott, that this is a sit  
15 visit report from DEQ's public water supply  
16 section?

17 A Yes, ma'am.

18 Q On this date, March 29th, 2018. And could you  
19 please read the first paragraph of the comments  
20 from the site vision [sic] section on Page 1?

21 A "The water system is not operated or maintained  
22 in accordance with approved plans and specs. The  
23 approval letter for project 89-7189 states that  
24 Well Number 1 and Well 2 will be operating

1           separately with an alternator. Well 1 can only  
2           be operated manually. The motor on the pump in  
3           Well 2 is not functional."

4    Q       Is it your understanding from this document that  
5           Rocky River Plantation Well 2 was offline at the  
6           time of DEQ's site visit on March 29th, 2018?

7    A       No, ma'am. She had inverted the well numbers.  
8           What she referred to as Well 2 is actually 1.

9           MR. FINLEY: May I object for clarification?  
10          Does this have to do with the legal fees we're talking  
11          about here, Ms. Holt?

12          MS. HOLT: This has to do with the condition  
13          of the system.

14          MR. FINLEY: For what purposes of your  
15          recommendation exhibit?

16          MS. HOLT: When the Company knew what it  
17          knew about the compliance of Well 1, and the length of  
18          time it took to remedy the situation.

19          MR. FINLEY: Madam Chair, you know, we've  
20          drifted so far. We started off with issues about  
21          legal fees. And that was the recommendation of the  
22          Public Staff. And my question -- I've tried very  
23          carefully to say, "You don't say in your testimony  
24          this, that, or the other," but then, primarily from

1 the Chair -- questions from the Chair, we got into the  
2 reasonableness and prudence of this Well Number 2. I  
3 mean, I'm going to have a different -- a whole  
4 different case. We need to sort of know about that in  
5 advance. The recommendations of the Public Staff do  
6 not have to do with reasonableness of the costs;  
7 recovery of those costs. As far as I'm concerned, it  
8 doesn't have to do with service after having read the  
9 report from the customer testimony.

10 MS. HOLT: With all due respect, it is the  
11 position of the Public Staff that the -- there were  
12 substantial delays, unreasonable delays in rectifying  
13 the system and making needed repairs, which led to  
14 increase cost. And this line of questioning pertains  
15 to our -- our position.

16 MR. FINLEY: Increase costs in the  
17 rectification of the situation, or legal fees?

18 MS. HOLT: Both. They're connected.

19 MR. FINLEY: Are you now making --

20 MS. HOLT: Which I will get to --

21 MR. FINLEY: Are you making recommendations  
22 that part of the \$470,000 cost for the interconnection  
23 should be disapproved when you didn't make that  
24 recommendation in your testimony anywhere?

1 MS. HOLT: We are not.

2 MR. FINLEY: Okay.

3 HEARING EXAMINER HILBURN: We're going to  
4 proceed with this line of questioning. That objection  
5 is overruled.

6 Q This is pertaining to Well Number 1, correct?

7 A Right. She's referring to Well 1 and Well 2.

8 Q Okay. And do you -- do you dispute the  
9 observation of DEQ regarding Well 1?

10 A I do.

11 Q You do?

12 A I do.

13 Q Okay. In what way?

14 A Well, Meredith was a -- was a new engineer for  
15 DEQ, if I recall correctly. And she was  
16 replacement for an engineer named Paul Judge, who  
17 had been the engineer for that site for many,  
18 many years. God rest his soul. Unfortunately  
19 Paul died a tragic death.

20 Paul had given me permission -- let me back  
21 up. So from Well Number 1, which is  
22 approximately 100 yards from Well Number 2,  
23 across the street and there was -- when it was  
24 originally constructed, not by our Company but by

1 the original operator -- they had run electrical  
2 wire from Well Number 1 all the way up to Well  
3 Number 2 and the controls. And that signal, that  
4 wire, was to send a signal to Well Number 1 to  
5 come on or off. Based on the equipment that was  
6 there to monitor pressure and telling the wells  
7 when to turn on and off and that sort of thing.

8 At some point, that -- that electrical wire  
9 was cut during construction of a home. Paul  
10 Judge took the position -- and I have an email  
11 from him that I can dig out if I have to, because  
12 this was back in probably 2014 -- he -- at his  
13 suggestion, he said, "Why don't you -- "I am okay  
14 with you just operating Well Number 2 as a  
15 regular well and you only use Well Number 1 for  
16 emergency purposes. You still are in compliance  
17 with the two wells, but you only have -- "so in  
18 an emergency situation, you can manually turn on  
19 Well Number 1 in order to provide you with the  
20 supply you need in emergency situations."

21 That was Paul Judge, field Engineer for DEQ.  
22 That was his position. Again, I have an email  
23 from him. I provided that email to Meredith when  
24 she sent me this -- this notification. And her

1 response was, "I don't care." That, that's not  
2 according to plans. I said, "But, I have an  
3 engineer from DEQ that's changed that approval  
4 and giving me approval to operate it as it is."  
5 And she said, "I don't care. That's not  
6 according to the original plans that were  
7 approved and so I'm directing you to return that  
8 well back to full service."

9 Q Okay?

10 A So, in my mind, I was operating according to what  
11 was approved by DEQ and the field engineer had  
12 approved, Mr. Paul Judge.

13 Q Okay. Do you recall when the first sample above  
14 the radium standard was?

15 A I'd have to go back and look. I know what the  
16 violation was issued to me. The violation was  
17 issued on December 17th of 2018.

18 Q Okay. Was it May of 2018?

19 A To be honest with you, I don't know, because I  
20 have a contracted operator that was pulling those  
21 samples. So I don't know without referring and  
22 pulling up all the lab tests. By the way, if I  
23 may say, after -- not long after receiving this  
24 report that you gave me, I fired that operator

1 and hired a new operator because I did not find  
2 this acceptable.

3 Q I'm sorry? You fired an operator --

4 A The contracted operator I had at the time.

5 Q Okay.

6 A He and I separated ways, and I hired a new  
7 operator because I didn't find this acceptable.

8 Q You did not find what acceptable?

9 A I didn't find that an inspection like this is  
10 acceptable to how we want to operate our systems.

11 Q In light of the existing issue with only one well  
12 active, at least as early of March of 2018,  
13 with -- according to what we've seen radium  
14 levels above the MCL beginning in May of 2018,  
15 and the subsequent enforcement and legal actions  
16 of DEQ and DEJ -- DOJ. I'm sorry. Is it  
17 reasonable that a reliable source of supply with  
18 adequate flow was not functional until December  
19 of 2023?

20 A No, ma'am. I wouldn't agree to that. The  
21 testing -- you do a series of testings because  
22 you can have one test that's an anomaly that  
23 doesn't represent what the regular currents of  
24 radium in the water may be. So that's why

1           they -- you do a series of tests. And, in this  
2           particular case, that's why if you say that's  
3           when I took the first sample, a violation wasn't  
4           entered into until December to say you're in  
5           violation. So you can -- and that -- that well  
6           was available. It was operational. It was just,  
7           again, according to what Mr. Judge had agreed to,  
8           was only to be used for emergency purposes. So  
9           it's fully operational, but because of -- and I  
10          can't pronounce her last name, so that's why I  
11          refer to her as Meredith -- Googlyomi [spelling  
12          uncertain] I think is maybe the way you pronounce  
13          it -- it was at her direction that it be brought  
14          back on full-time, and it was her direction that  
15          said you've got to go through, like, a full  
16          battery of tests just like you've never had that  
17          well online before and go through all of that.  
18          So we were following her direction on what to do  
19          here.

20        Q     Isn't it true that the test results, though,  
21              started trending up and, specifically, into the  
22              next two quarters?

23        A     They did. And then after that, they trended  
24              down. Tests that were taken in 2019, they

1 actually trended down from what it was earlier.  
2 So that's my point being is these samples can go  
3 up and down. And that's why you do a series of  
4 them and they averaged them together.

5 Q Okay. So did they trend down after the  
6 violations?

7 A They did, but they didn't trend down enough to  
8 come in compliance.

9 Q Okay. All right. Thank you. Is there a  
10 specific period of time over which the Town of  
11 Harrisburg will supply water to the Rocky River  
12 system?

13 A They haven't given me any -- that's never really  
14 been discussed with me to be honest with you.

15 Q So there's no expiration date on how long you can  
16 use the interconnect?

17 A They haven't given me one but, you know how  
18 politicians can be. They can change that policy  
19 to whatever they want to do with a -- with an  
20 election, so. But there hasn't been anything  
21 discussed with me about it one way or the other.

22 Q But what was your expectation when you entered  
23 into the agreement?

24 A As long as I pay my bills, I can have access to

1 the water supply.

2 Q Okay. Indefinitely?

3 A But there's no contract that says that, yeah.

4 MS. HOLT: Can we have a short break before  
5 we wrap it up?

6 HEARING EXAMINER HILBURN: Yes. Let's take  
7 a 10-minute break. We'll go off the record. Thank  
8 you.

9 (A recess was taken from 12:22 p.m. to 12:29 p.m.)

10 HEARING EXAMINER HILBURN: We're going to go  
11 back on the record.

12 MS. HOLT: The Public Staff has no  
13 additional questions.

14 HEARING EXAMINER HILBURN: Thank you,  
15 Ms. Holt.

16 Mr. Finley.

17 MR. FINLEY: A few questions.

18 REDIRECT EXAMINATION BY MR. FINLEY:

19 Q Mr. Abbott you were asked a lot of questions  
20 about what your bill is in Charlotte and whether  
21 it's high or low and the impact on customers and  
22 Water Resources's big increase and rate shock and  
23 that type of thing; do you recall those  
24 questions?

1 A Yes, sir.

2 Q Is it not a fact that, one of the determinates  
3 that determines any particular customer's bill is  
4 the rate design that the Company has to assess  
5 those customers?

6 A Yes, sir.

7 Q Some of the costs to recover through a usage  
8 charge that is fixed and some are cost to recover  
9 through a usage charge; is that right?

10 A Yes, sir.

11 Q In your opinion, what is the fairest way to split  
12 out those costs as far as the ratio between fixed  
13 recovery and usage recovery?

14 A Well, I believe it's a 40/60 split is a -- is a  
15 fair split between those two.

16 Q Why is that?

17 A Well, the rate base at that level gives us, what  
18 we believe, is a proper return on what we've  
19 invested to improve the system, and then the  
20 60 percent gives us a return we need for  
21 continuing operation, normal operation, repeating  
22 expenses that we incur in operating system and  
23 also meeting regulatory requirements.

24 Q Again, you were asked questions about the period

1 over when -- over which the radium levels were  
2 being identified as being high and communications  
3 with DEQ and the notice of violations and all  
4 that type of thing, correct?

5 A Yes, sir.

6 Q And were you or were you not going without the  
7 revenue that you thought you needed to run the  
8 system during that period of time?

9 A Yes, sir. Just even on the operational side, we  
10 did not have enough revenue coming in to meet  
11 expenses and so I was personally -- invested  
12 personal funds to continue to meet those  
13 shortfalls in addition to investing the use of  
14 personal funds to provide a revenue to make these  
15 capital improvements that were necessary.

16 Q So there is going to be some -- what we can  
17 legitimately call rate shock, right?

18 A Yes, sir.

19 Q But part of it is based on where we're starting.  
20 The level of which we're starting and what you're  
21 coming up to, correct?

22 A That's correct.

23 Q And you're not asking the Commission to do  
24 anything go but allow you recover the legitimate

1 cost under the North Carolina General Statutes  
2 that you're entitled to in this case, correct?

3 A That's correct, yes, sir.

4 Q And you were at the hearing in Charlotte to hear  
5 the customers?

6 A Yes, sir.

7 Q And what did we hear, 19 or so customers?

8 A Nineteen sounds like the right number, yes, sir.

9 Q And you filed a report?

10 A I did.

11 Q And the Public Staff reviewed that report and  
12 filed their response to it, right?

13 A Yes, sir.

14 Q And they took some issue with some of the things  
15 you said but, by in large, not?

16 A That's correct.

17 MR. FINLEY: No further questions.

18 HEARING EXAMINER HILBURN: Okay. And I have  
19 just a few questions for the panel.

20 EXAMINATION BY HEARING EXAMINER HILBURN:

21 Q First, Mr. Abbott, I think you were going to give  
22 me some clarification regarding the pump that got  
23 replaced because it was hit by lightning.

24 A (Mr. Abbott) Yes, ma'am. What would you like to

1 know?

2 Q Okay. So there seems to be a lot of testimony  
3 about that. So the pump had just recently been  
4 installed, I think it was in 2022 and then it got  
5 replaced in 2023?

6 A Yes, ma'am.

7 Q I think it was a several-thousand dollar pump,  
8 maybe 15,000?

9 A 15,000; Thereabouts.

10 Q So it was a pretty good amount of money that had  
11 only been in service for a short period of time?

12 A Yes, ma'am.

13 Q It was hit by lightning, but it was not -- you  
14 were not able to recover insurance from it, as I  
15 understand?

16 A That's correct. Yes, ma'am. It was not under  
17 warranty -- or, it's not covered by warranty in  
18 the lightning and I wasn't able to recover any  
19 insurance either.

20 Q Okay. And so, what happened to the pump? It  
21 just got --

22 A It was disposed.

23 Q Disposed of?

24 A Yes, ma'am.

1 Q Okay. It was --

2 A (Ms. Perry) And, if I could add to that?

3 Q Yes?

4 A I don't mean to be -- there was a data request  
5 that they sited yesterday that you guys have as  
6 Public Staff redirect -- anyway, exhibit 1. This  
7 was a one-day turnaround on this data request  
8 response. So if we -- there was an error in the  
9 tweaking of the language and it basically said  
10 the warranty would apply. It would not apply --  
11 basically an act of God, and I think almost  
12 everything I've ever read when it comes to these  
13 warranties that an act of God, which -- such as,  
14 you know, this happened. Lightning. They call  
15 an act of God. There is no warranty for that.

16 Q Okay.

17 A And so that was -- that was -- I'll take the full  
18 responsibility for that one. That was a typo.  
19 But given that we were trying to get this turned  
20 around to the Public Staff as soon as we could  
21 and we promised we would. And we did. But I  
22 apologize. We didn't do a very good job of -- of  
23 reviewing.

24 Q Okay.

1 A That -- that is what the -- the Gopher guys  
2 tell -- or whatever the guy's name is.

3 A (Mr. Abbott) Gopher.

4 A (Ms. Perry) Gopher -- I can't remember what his  
5 name was -- told us, and so -- told Beth. And  
6 so.

7 Q Okay. That helps. That helps a lot. That helps  
8 tremendously, because I was just confused there.

9 A That was my editing error. Or non-editing.

10 Q Okay. That -- that helps. Thank you for  
11 clarifying. And on the salaries and wages, you  
12 know, you were in the room when I asked Ms.  
13 Feasel, regarding the WRI Cross -- WRI Feasel  
14 Cross Examination Exhibit 1, which was the  
15 printout from Paychex Flex regarding the May 9th  
16 salary of Ms. Lockwood, the annual amount was  
17 given; how many hours is that?

18 A (Ms. Peedin) That is 15 hours a week.

19 Q Okay.

20 A Ms. Feasel and Ms. Strickland, from the Public  
21 Staff, went on a field audit to Charlotte to --  
22 to visit WRI, and we were there and she asked the  
23 question on the field audit how many hours and  
24 then we also followed -- she asked another

1 question to Ms. Lockwood and we sent a response

2 --

3 A (Ms. Perry) An email.

4 A (Ms. Peedin) -- an email on 4-4-24 at 3:00 in the  
5 afternoon where she stated that she worked 15  
6 hours a week.

7 A (Ms. Perry) So their payroll just -- they do  
8 basically an annual payroll with their company --  
9 with all their employees, and then they break it  
10 out into a weekly. And I think, you know, Ms.  
11 Feasel, I think she used 40 weeks even -- instead  
12 of 42 weeks when she did her calculation.

13 A (Ms. Peedin) 52.

14 A (Ms. Perry) What?

15 A (Ms. Peedin) 52.

16 A 52. I'm sorry. She did 40 -- yeah. She did 40  
17 weeks instead of the 52 weeks that you should  
18 have used anyway. So we were just -- but we --  
19 we -- we do realize that she's taking on three  
20 new roles. You know, and if you can hear the  
21 history, you know, they had to fire. They had  
22 bad customer service, so now they hired Beth to  
23 do the customer service. And they had a terrible  
24 bookkeeper, because we have gaps in the records.

1 I think the Public Staff was aware that, some of  
2 the data request, we did have some gaps because  
3 we had -- and so they -- she fired the bookkeeper  
4 and added duties to Ms. Lockwood to do. And so  
5 now, she's also the administrative assistant. So  
6 she has increased her duties, and I think just  
7 with the interconnection, the boss hadn't gotten  
8 around to giving her a raise that she needed and  
9 so we think we put in rebuttal when we filed that  
10 by the -- you know, by May, by the hearing, we  
11 would -- he would have that rate in with the  
12 payroll company. And he did. So that's where  
13 that comes around. We sent it -- we got  
14 confirmation last week, and we sent it to the  
15 Public Staff in an email.

16 Q Okay. All right. Thank you for that  
17 clarification on that. Also, talk to me a little  
18 bit about the interconnection to the Town of  
19 Harrisburg from the accounting side, the  
20 depreciable life of 20 years. You know, when  
21 Mr. Houser got on the stand, you know, he  
22 explained that, you know, the bulk of those  
23 assets, the Public Staff's recommending to  
24 depreciate it over 50 years. And his reason and

1 his rationale is, you know, his view -- most of  
2 the infrastructure is pipe, which has a 50-year  
3 life or longer.

4 So when the Company presents its  
5 recommendation of a 20-year life -- or actually  
6 the entire group of assets as I understand it,  
7 let me hear your rationale of how you got to 20  
8 years?

9 A (Ms. Peedin) So I think we were trying to come  
10 up with some kind of composite rate. When I was  
11 looking at the pictures of that asset, you know,  
12 I initially probably thought a lot of it was  
13 pipe, but it doesn't look like it's all pipe to  
14 me. I'm very visual. Looks like there's the  
15 meter, there's wiring, there's valves, there's  
16 all kinds of equipment there and just to say that  
17 it's just all pipe I don't think is correct.

18 Mr. Houser did point yesterday, which I did  
19 go look up, he pointed out an exhibit NS from the  
20 Aqua case in the W-218, Sub 526. It's not the NS  
21 Schedule, it actually should be the NW Schedule.  
22 And I did find where he recommended the  
23 distribution and transmission mains from Aqua and  
24 the rate that I think he said on the record was

1 58 years and they recommended 50 years. But it  
2 just seems to me that there should be, you know,  
3 some kind of composite rate, not just -- not just  
4 mains and pipes. I mean, when I look at these  
5 water utility accounts, I mean, I'm, you know,  
6 I'm at a loss for exactly all the things that  
7 this piece of equipment involves that, you know,  
8 where it would fit in one category. I think it  
9 fits in maybe several categories.

10 Q How did the -- I'm sorry go ahead.

11 A The Public Staff, you know, they just state in  
12 their testimony that it's similar to Aqua and  
13 Carolina Water which he did provide this, you  
14 know, but, it's really, you know, I can't  
15 determine that the whole interconnection project  
16 is applicable to just one line item. They never  
17 gave us anything until yesterday to look at.  
18 We've looked at depreciable lives over assets of  
19 other utility companies and 25 years seems to be  
20 a typical use. We just have worked on companies  
21 that, you know, a major portion of a plant just  
22 got 25 years. So we thought the 20 was  
23 reasonable.

24 Q Okay. All right. That's helpful.

1 A And for --

2 Q Yes.

3 A I'm sorry. But -- we -- you know, when I was an  
4 accounting manager, our division, the engineers  
5 didn't look at the depreciation studies as much  
6 as the accountants did, which is horrible,  
7 honestly.

8 But, you know, you say transmission makes --  
9 and I think that Mr. Houser was right with there  
10 are definitely transmission -- distribution  
11 really because 4 inch to 6 inch is really  
12 distribution. And so, but, in those categories  
13 that you get in these studies, there are  
14 different components, and they do break out them  
15 all and at the end of the day you might have, you  
16 know, somewhat of a composite, you know, even in  
17 the transmission or distribution area.

18 And so what we were trying to figure out  
19 was, when they put the initial system in that was  
20 approved in like a Sub 2 case or something and  
21 they used a 25-year composite back then for the  
22 initial system. And so I think that's kind of  
23 where we were coming from at that point in time.  
24 But, you know, we do recognize that, even though

1           it might be a trans- -- a distribution-type main,  
2           there are so many components listed, you know, in  
3           the depreciation schedules that -- that we see  
4           that we've seen in our past that -- that show  
5           electronics or the, you know, these compressed --  
6           you know, just all the different just a back flow  
7           there's a -- you know, and I work for a water and  
8           sewer company now, so I'm really getting way too  
9           much information on a daily basis about water and  
10          sewer because we rehab water and sewer pipes  
11          after the, you know, 40 -- 40 year to 50 years  
12          when they go bad. So we're learning a lot in my  
13          old age. But I just think -- we were just trying  
14          to find a happy medium and maybe -- maybe 20  
15          wasn't the best one. 25 maybe we could have gone  
16          with, but -- but that's kind of where we're at  
17          with this.

18        Q     Okay.

19        A     (Ms. Peedin) And I will say, in our testimony,  
20          we did say that, you know, the most expensive  
21          parts of the project were the meter valve, the  
22          vault, the electrical, the signaling equipment,  
23          and it does have much shorter lives than pipes.

24                I think if you're considering it all as one

1 component instead of breaking out every little  
2 part, that 50 years is a little bit too long.

3 Q And how did the Company record it on its books;  
4 as one lump sum, or did they break it out into,  
5 like, the valves? I mean, did they do any break  
6 down on their accounting?

7 A I think it's a lump sum. I don't think she broke  
8 it out into any individual components.

9 Q Okay. All right. Regarding the -- that one time  
10 fee, the one time development fee, because I was  
11 going to ask how that was recorded on the books  
12 too, and it sounds like it was all one piece.  
13 But based on your accounting experience and any  
14 review of the USOA, any familiarity with how to  
15 record -- how the Company would properly record a  
16 perpetual asset that's not land, that's not an  
17 easement, any -- any past experience with that  
18 based on your accounting experience that you  
19 offered up to the Company?

20 A I think we just looked at the development fees as  
21 part of an integral cost of the whole entire  
22 project. We didn't try to break out individual  
23 components of the project. You know, you  
24 can't -- you can't interconnect if you don't

1 have -- if you don't pay the development fee.  
2 The equipment is no good if you can't  
3 interconnect with the Town. So we looked at it  
4 as part of one complete project and, in my  
5 experience with working for the Public Staff for  
6 over 30 years, I mean, we looked at the project  
7 as a complete project. And if the project was  
8 reasonable and prudent and it was used and useful  
9 in providing service to customers, it was able to  
10 be recovered in rates.

11 A (Ms. Perry) And we've had lots of -- we work in  
12 electric and gas for years -- I mean, they would  
13 connect into the FERC pipelines. You know,  
14 they'd have connections. They would have gas  
15 pipelines connecting to FERC pipelines. And they  
16 would have connected to municipal systems, and I  
17 don't ever recall anything being pulled out  
18 separately. And -- and, once again, the  
19 accountants looked at a lot of plant in the -- in  
20 the gas section of this stuff and so the  
21 development fee -- and what they -- when we ask  
22 for support for it -- if I just -- if you don't  
23 mind -- but, when they ask for support for it  
24 from the Staff quick data request, you know,

1 quick turnarounds and they provided this Aqua  
2 case for this capacity fee and said it's related.  
3 It's similar to this. This is why we pulled it  
4 out. And that capacity fee was for future  
5 customers. And in that Order, the Commission  
6 sort of basically states that they wanted to put  
7 a capacity fee in rate base. The Commission said  
8 no because it was not used and useful for  
9 providing service to customers now. It was for  
10 future customers.

11 I'm sure there's a lot more information in  
12 there. That's what we got in the Response for  
13 our data -- rebuttal data request. And so, as we  
14 were looking through it, we were just going --  
15 this is providing service now and you can not  
16 have one without the other. And I know we're not  
17 engineers. We've talked to our friends that are  
18 engineers that have retired from this place, and  
19 they're, like, if it's part of the project cost,  
20 it's part of the project cost. And that's how  
21 we've always viewed it as far as in all of our  
22 plant in service. You know, you make sure it's  
23 used and useful by today. You know. And it is.  
24 And it's providing service. And they wouldn't

1 have service. And if they didn't have -- it's  
2 like a permit fee. I mean, you pay the one time  
3 permit fee and, you know, to get your CPCN or to  
4 get whatever you need to do to put this project  
5 in and, you know, then you keep rolling. You pay  
6 it. You start building. You know.

7 I don't know -- I've never seen where you  
8 pull something like that out separately and I  
9 don't -- that was surprising to us, and the  
10 example they gave us did not match because all  
11 the Commission said was it wasn't used and  
12 useful, so we're pull -- you can pull it out.  
13 And in this case it is. So.

14 A (Ms. Peedin) But it's an integral part of this  
15 project.

16 A (Ms. Perry) You can't do on without the other.  
17 So.

18 A (Ms. Peedin) That's -- that's a key point. It  
19 is integral.

20 Q I appreciate that clarification there and that  
21 input. All right. I'm going to switch gears for  
22 a minute and ask about the website. How is that  
23 going? Is it -- is it up and running today as  
24 you had hoped?

1 A (Mr. Abbott) It's -- it's not accessible to the  
2 public. We're in the final testing phases. We  
3 started earlier this month doing the actual  
4 testing -- field testing, if you will. And we  
5 did find some glitches in it. So those are being  
6 worked through now. We still are very hopeful  
7 that we're going to be able to roll it out to our  
8 customers with this month's billing at the end of  
9 the month, but we're very confident if not  
10 because the glitches haven't been fixed and we  
11 find new glitches that the billing at the end of  
12 June, that we'll be able to roll that out to our  
13 customers.

14 Q And I know that Public Staff Witness Houser had a  
15 recommendation about that timeline for, I guess,  
16 completing the website, or getting it functional  
17 to the customers, and I believe that was a  
18 6-month deadline. And I believe in the rebuttal  
19 testimony you stated that you didn't really  
20 believe the Public Staff should establish a  
21 deadline of that nature; do you want to speak to  
22 that, some of what your opposition to that is, or  
23 do you think it can be done in the six months?

24 A We won't have a problem getting it done within

1           that timeframe.

2   Q       Okay.

3   A       In fact, I would say we'd probably -- for the  
4           6-month deadline, we'd be under promising and  
5           over delivering, which is what we prefer to do.

6   A       (Ms. Peedin) I think he recommended fines, if it  
7           wasn't.

8   Q       And that may be what y'all objected to.

9   A       (Mr. Abbott) I think that's what we objected to  
10          was the fines.

11   A       (Ms. Peedin) He's recommending fines and,  
12          reporting. Which, you know, leads to another  
13          issue, professional fees being incurred. I mean,  
14          so.

15   Q       Okay. All right. Thank you for that  
16          clarification on that. So -- but I do hear you  
17          say that you -- the website itself will be up and  
18          running for customers within 6 months, or sooner,  
19          actually. Okay. All right.

20                 And speaking of recommendations from the  
21          Public Staff, just to -- if you could maybe  
22          address just verbally for just a few minutes.  
23          This is on Page 16, starting on Page 16 of  
24          witness Houser's supplemental testimony. I

1 believe this is supplemental. Let me make sure.  
2 It's the testimony that was filed on April the  
3 15th. Is that the supplemental? That's the  
4 original. I'm sorry. It's the original that was  
5 filed on April the 15th, and it's -- or the chief  
6 clerk stamped it the 15th. It was probably filed  
7 on the 12th, the day it's dated?

8 A (Ms. Perry) What page, again?

9 Q And I'm on Page 16.

10 A Okay.

11 Q And this starts -- I'm on 16 -- hold on just a  
12 second. Oh. I'm sorry. I'm on Page 17. The  
13 top of Page 17, a question and answer starts  
14 that, says, "What recommendations do you have to  
15 address the issues regarding the Rocky River  
16 system raised at the customer hearing," and  
17 Mr. Houser lists several there including a  
18 recommendation regarding the website. And I  
19 wondered if you had a chance to review that and  
20 if there was any opposition to these  
21 recommendations by the Public Staff?

22 A (Mr. Abbott) Regarding the effectiveness of the  
23 filter, depends on what he considers evaluation.  
24 We are -- we are taking weekly samples of the

1 water supply after filtration to make sure the  
2 filter is still being effective in removing iron  
3 and manganese. So if that's his definition of  
4 what evaluation is, then we're fine doing that.  
5 That will be an ongoing thing that we're doing  
6 now. Investigate the need for interior cleaning  
7 of the elevated storage tank. I believe we're  
8 due for an inspection this year on the storage  
9 tank, and that will be part of the inspection so  
10 we're happy to do that.

11 Q Okay.

12 A In regards to Public Staff data request that it  
13 never replaced the media and its filter, we had  
14 previously given updates to the Public Staff  
15 about that and explained to them that we -- field  
16 tests had shown that it wasn't necessary, and I  
17 would ask him to explain why we would have  
18 that -- they would want us to have that expense  
19 when it wasn't necessary? We never got an  
20 objection from Public Staff that we had not  
21 replaced the media. They didn't comment on our  
22 field test, and the fact that it showed that it  
23 was being effective. So that's why we haven't  
24 moved forward with that expense.

1           Continuing on to Page 18 about the Line 1  
2           there, opt-in customer email communication to  
3           regularly send announcements. Part of our  
4           website rollout, they will have to register and  
5           part of that registration will include capturing  
6           their email address.

7           HEARING EXAMINER HILBURN: We've got a  
8           little bit of feedback; don't we?

9           A     (Ms. Perry) And the deadline for the implement  
10           of the website was -- I think that was the one  
11           you just said; six months.

12          A     (Mr. Abbott) Yep.

13          A     (Ms. Perry) It should be operational by June.

14          Q     And you're speaking to which one now?

15          A     The last one you had. Because you already asked  
16                them about sort of the deadline on the website.

17          Q     Yes.

18          A     And I think it should be done by June. No later  
19                than June anyway.

20          A     (Mr. Abbott) Line 15 of Page 18.

21          Q     Yes. That we just spoke about, yes. And then I  
22                think the last one is the top of Page 19 that the  
23                Company continue its three-month reporting of  
24                customer contacts; what's the Company's position

1 on that?

2 A We're fine doing that.

3 A (Ms. Perry) But we need professional fees to do  
4 it. Just kidding.

5 A (Mr. Abbott) That's right.

6 HEARING EXAMINER HILBURN: Noted. All  
7 right. Okay. Thank you for going through those one  
8 by one.

9 I think that's all of my questions. I'm  
10 going to allow Public Staff.

11 MS. HOLT: Yes, I have just a few.

12 EXAMINATION BY MS. HOLT:

13 Q I believe, Ms. Peedin, you stated that you used a  
14 composite rate to determine the life of the  
15 interconnect to the pipe; did you break it down  
16 into different components at all?

17 A No. I looked at, you know, other cases where the  
18 service lines have been approved by this  
19 Commission. It just seems to me that it would  
20 represent some kind of composite rate. I didn't  
21 do the calculation.

22 Q Okay. Did you consider choosing the 20-year life  
23 based on how quickly the Company would get  
24 recovery?

1 A No. I think that we -- we looked, like I said,  
2 at other cases. Some of the cases that we looked  
3 at had 25 years. We did recommend 20. We also  
4 know that sometimes general plan is 30 years, but  
5 we didn't think it would be 50. Fifty is just  
6 way too long.

7 Q Okay. Now, you contend that the development fee  
8 and the actual interconnection pipe should be  
9 considered one project, correct?

10 A Yes.

11 A (Ms. Perry) Yes.

12 Q Okay. Now, isn't it true, however, that the  
13 development they're paid -- they were paid for  
14 separately? The development fee was paid to the  
15 Town of Harrisburg, correct?

16 A Every cost of the project was paid separately.  
17 KIP Corporation was the contractor for the case.  
18 He was paid separate and may have been paid in  
19 several invoices, and what we tried to do was  
20 just include every line item on how they were  
21 paid by the Company.

22 A (Mr. Abbott) We paid engineers. We paid  
23 surveyors. We paid electrical contractors that  
24 were separate from the other contractor we paid

1 to Town of Harrisburg. We paid a contractor to  
2 do boring underneath the roads. So we paid a lot  
3 of people a lot of money.

4 A (Ms. Peedin) And we separated it out so it would  
5 be easy to -- for us to provide the invoices to  
6 you to support what we were requested.

7 Q But the bulk of the cost was paid to the  
8 contractor, KIP Corporation?

9 A Yes, I would say --

10 Q The cost of the actual interconnection project?

11 A (Ms. Perry) If he's the contractor then --

12 A (Ms. Peedin) I know it was upward of  
13 \$230,000ish.

14 Q 232,150; would that be correct?

15 A That sounds correct. Subject to check.

16 Q Subject to check.

17 A (Ms. Perry) But, once again, you would not be  
18 able to use any of that that was built if you  
19 didn't pay the development fee. You didn't  
20 connect to the Town of Harrisburg, and this is  
21 the only reason we -- this is the only reason  
22 why -- because you think he really wants to pay  
23 \$99,000 -- or whatever -- it was 101, they pulled  
24 the meter out. But who wants to pay \$101,000 to

1 another entity, you know, I mean, that would not  
2 be my first choice, but you have to. In order to  
3 get service and to provide service to customers  
4 as required, you have to. And it's just part of  
5 the project cost.

6 Q But, isn't -- but, generally, aren't different  
7 components of a project given different, separate  
8 depreciation lines?

9 A You gave none. We have no depreciation on this  
10 one. So.

11 Q On what?

12 A (Ms. Peedin) On the development fee.

13 Q No. Correct.

14 A Which one can see as part of the entire project.  
15 I mean, you can't just say this part of the  
16 project was not integral, so we're not giving you  
17 depreciation? You to give depreciation to the  
18 whole entire project. I've never seen -- I've  
19 never seen -- I don't recall that you don't get  
20 depreciation on the entire project. I haven't  
21 even seen an example from the Public Staff that  
22 has indicated that in this case at all. There's  
23 no citations for not including it --

24 A (Ms. Perry) Well, Evan broke out the meter and

1 so because -- Mr. Houser -- sorry. Let me use  
2 the correct names, Public Staff Engineer Houser  
3 pulled out the meter. That was not us pulling it  
4 out. That was the Public Staff pulling it out.  
5 And they put a 15-year life on it. You know, and  
6 we think there's other components in there  
7 that -- that in the composite that we're trying  
8 to look at that may have different lives, but the  
9 development fee is part of the project and it is,  
10 I mean, you can't do one without the other. It  
11 is completely -- I mean, it's the reason for the  
12 project. I mean this is the reason for the  
13 project.

14 Q Is land depreciated?

15 A Land is not depreciated.

16 A (Ms. Peedin) No.

17 Q But that could also be part of a project as well,  
18 correct?

19 A (Ms. Perry) True. I don't think we have any in  
20 here though.

21 A (Ms. Peedin) That is true.

22 A (Ms. Perry) I think -- and we also don't have  
23 any AFUDC. We also didn't accrue AFUDC on  
24 anything. There's no financing, charges which we

1           could have done, had you contacted us a couple  
2           years ago. I mean, so there's no financing cost  
3           in this -- any of this money.

4    A       (Ms. Peedin) Well, we don't separate that out as  
5           the part of the project either. It's just  
6           incorporated as --

7    A       (Ms. Perry) You would just incorporate that as  
8           part of the main project. So, I mean -- all  
9           right. Enough said. But, yes.

10                 MS. HOLT: No further questions. Thank you.  
11    Enjoy your lunch.

12                 HEARING EXAMINER HILBURN: Mr. Finley?

13                 MR. FINLEY: Just a few.

14    EXAMINATION BY MR. FINLEY:

15    Q       Mr. Abbott, we passed out, at the beginning of  
16           the examination on rebuttal these pictures, and  
17           if we flipped through those pictures to show the  
18           interconnection. Somebody can look at those and  
19           see some of the components that we're talking  
20           about here on this project in determining  
21           depreciation expense; can we not?

22    A       (Mr. Abbott) Yes, sir.

23    Q       And you got pipes. Some pipes. You got valves.  
24           You got meters. You got wires. You got stuff

1           that --

2   A       Electronic equipment.

3   Q       Yeah.  Electronic equipment.  Does that help  
4           illustrate what we're discussing here?

5   A       Yes, sir.

6                       MR. FINLEY:  No further questions.

7                       HEARING EXAMINER HILBURN:  Thank you,  
8   Mr. Finley.

9                       I think that concludes the Company's case.  
10   So thank you, witnesses.  You may be excused.  We  
11   thank you for your testimony today and yesterday,  
12   Mr. Abbott.

13                      And with that, we'll talk about how to bring  
14   this case to a conclusion.  And one thing we'd like to  
15   mention is, there are some late filed exhibits that  
16   are going to be filed.  And, Mr. Finley, you will have  
17   an opportunity to look at those -- those late filed  
18   exhibits.  I think they're all from the Public Staff  
19   if I recall correctly.

20                      I would also like to request proposed orders  
21   to be filed.  And I would wonder if that could be  
22   done -- or what timeframe you would like?  Let me ask  
23   that, because I know everybody's got a certainly busy  
24   schedule.  Are you thinking 30 days after the

1 transcript or something longer than that?

2 MR. FINLEY: Thirty days is what we prefer.

3 HEARING EXAMINER HILBURN: All right.

4 Thirty days after the receipt of the transcript, which  
5 may be early next week. Maybe Monday.

6 MS. HOLT: That'll be fine.

7 HEARING EXAMINER HILBURN: And then, let's  
8 talk about, Mr. Finley, the date that the Company  
9 expects to file their supplemental report. How many  
10 days do you need for that? This was the Response on  
11 the -- and I'm speaking to the report on customer  
12 concerns.

13 MR. FINLEY: I hope, Madam Chair, that I'm  
14 going to leave the country today about 4:00 in the  
15 morning to go to Bolivia for ten days. Mission trip.  
16 I'm going to try to help people be fitted with  
17 glasses. Somebody needs to fit me with glasses, too.  
18 But 20 days.

19 HEARING EXAMINER HILBURN: Yeah. And the  
20 Public Staff will get two days to respond; two  
21 business days so.

22 MS. HOLT: Twenty days.

23 HEARING EXAMINER HILBURN: Okay. That will  
24 be allowed. And then I want to ask, when the parties

1 file their proposed orders, the Commission Staff would  
2 like the Excel schedules that we get -- or customarily  
3 get that support your calculations of the revenue  
4 requirement and rates that each of the parties will be  
5 proposing in their -- in their proposed orders.

6           And I would ask, if it's not burdensome,  
7 if -- if the parties have Excel schedules that are  
8 ready at this point in time, and that would be the  
9 Public Staff Lynn Feasel and the consulting firm  
10 Darden [sic] and Peedin, if we could -- if Commission  
11 Staff could have what is ready, and it may be your  
12 final position, but if it's not, you can still file an  
13 updated with the proposed orders. But Commission  
14 Staff would just like to go ahead and start getting  
15 familiar during this 30-day period we have between now  
16 and when you file your proposed orders on how your  
17 schedules are working. So that would be helpful. If  
18 you could just email those to Jenny Li. All right.  
19 Thank you.

20           Is there anything else from the parties? I  
21 know, Ms. Holt, you objected to the summary so you can  
22 follow-up on that. Is there anything else that was  
23 pending before we bring this matter to a close? All  
24 right. Well --

1 MS. HOLT: I need to move the admission  
2 of~-- if I haven't already -- Public Staff WRI Panel  
3 Cross Exhibit~-- WRI Rebuttal Cross Exhibit 1 [sic]  
4 into evidence.

5 HEARING EXAMINER HILBURN: Okay. Without  
6 objection, that will be allowed.

7 (WHEREUPON, Public Staff  
8 Panel Cross Exhibit 1 is  
9 received into evidence.)

10 HEARING EXAMINER HILBURN: And I'm glad you  
11 said that, Ms. Holt, because you reminded me, I would  
12 was also like the parties -- if there's no  
13 objection -- I would like to enter into evidence  
14 the -- the Report on Customer Concerns. That is a  
15 report of Dennis Abbott for Water Resources Inc., on  
16 customer testimony that was filed on April the 8th in  
17 the docket.

18 And then the Public Staff's Verified  
19 Response to the Verified Report on Customer Comments  
20 from the Public Staff by Water Resources Inc., that  
21 was filed on April 22nd. So that will be so entered  
22 since there's no objection to that.

23 And I think we'll have all of the evidence  
24 and Mr. -- your affidavit of your Public Staff witness

1 from the Economic Research was accepted in the  
2 testimony by Order, but, just in abundance of caution,  
3 the Affidavit of Gregory Reger is entered into the  
4 record as well as if given orally from the stand.

5 (WHEREUPON, Report of  
6 Dennis Abbott for Water  
7 Resources, Inc. on Customer  
8 Testimony is received into  
9 evidence.)

10 (WHEREUPON, Verified  
11 Response of the Public  
12 Staff to Verified Reports  
13 on Customer Comments from  
14 Public Hearing by Water  
15 Resources, Inc., is  
16 received into evidence.)

17 (WHEREUPON, the prefiled  
18 Affidavit of GREGORY J.  
19 REGER is copied into the  
20 record as if given orally  
21 from the stand.)  
22  
23  
24

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. W-1034, SUB 13

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of  
Application of Water Resources, Inc., for )  
Authority to Adjust and Increase Rates for )  
Water Utility Service in Rocky River )  
Plantation Subdivision in Cabarrus County )  
and River Walk Subdivision in Mecklenburg )  
County, North Carolina )

**AFFIDAVIT OF  
GREGORY J. REGER  
PUBLIC STAFF –  
NORTH CAROLINA  
UTILITIES COMMISSION**

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Gregory J. Reger, being first duly sworn do depose and say:

I am a Public Utilities Regulatory Analyst with the Economic Research Division of the Public Staff of the North Carolina Utilities Commission (Public Staff), which represents the using and consuming public.

I received a Bachelor of Arts degree in Business, with a Minor in Mathematics from Lake Forest College in 2008, and a Master of Public Administration degree from Syracuse University in 2012. Prior to joining the Public Staff in December of 2023, I held data analytics, budget and performance management, and process improvement roles at the local and federal government level for ten years; I was awarded a one-year local government management fellowship with the City of Hamilton, Ohio Electric Department; and I was a

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Contractor Operations Specialist/Assessor & Final Inspector for two years in the Weatherization Department of a nonprofit in Chicago. Since joining the Public Staff, I have conducted rate of return and financial viability studies in water and wastewater utility cases and filed an affidavit on fair rate of return in a small water and sewer utility rate case in Docket No. W-1263, Sub 4. In addition, I have been involved in the evaluation of ferry operations, as well as the investigation and analysis of electric utilities' proposed riders, avoided cost rates, and integrated resource plans.

The purpose of my affidavit is to make a recommendation to the North Carolina Utilities Commission (Commission) regarding the fair rate of return to be employed as a basis for determining the appropriate revenue requirement for Water Resources, Inc. (WRI), to provide water utility services in the Rocky River Plantation Subdivision in Cabarrus County and the River Walk Subdivision in Mecklenburg County, North Carolina.

For the water utility service in the Rocky River Plantation service area, I recommend that WRI be granted a 7.00% return on rate base. After investigation, the Public Staff has determined that WRI's rate base for this service area is greater than the reasonable level of operating expenses. As allowed under N.C. Gen. Stat. § 62-133, I have used the rate base method to evaluate the Company's proposed rate increase for the Rocky River Plantation service area. This recommended overall rate of return recommendation is based on a cost rate of long-term debt of 4.20%, and a cost rate for common equity of 9.80%. The overall rate of return is to

be used in conjunction with a reasonable capital structure consisting of 50% debt and 50% equity.

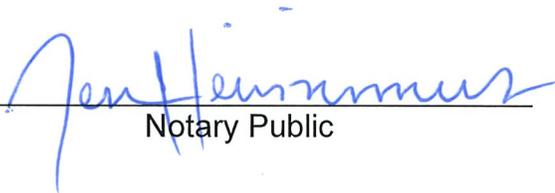
For the water utility service in the River Walk service area, I recommend that WRI be granted a 7.00% margin on expenses. After investigation, the Public Staff has determined that the Company's rate base is less than the reasonable level of operating expenses for this service area. As allowed under N.C. Gen. Stat § 62-133.1, I have used the operating ratio method to evaluate WRI's proposed rate increase for the River Walk service area.

As outlined in Docket No. W-173, Sub 14, Montclair Water Company, several factors should be considered when judging the adequacy of a return. These are interest coverage, adequacy of the income level after interest expense, the level of inflation, and the quality of service. In considering these factors in conjunction with this proceeding, I have not incorporated any consideration with respect to quality of service. Interest coverage has been provided at an adequate level. The level of inflation has been factored into the interest rate on bonds that reflect investor expectations of the future levels of inflation. In my opinion, the recommended rate of return on rate base for Rocky River Plantation and recommended operating margin for River Walk provide an adequate level of income after interest expense. The 7.00% overall rate of return on rate base for the Rocky River Plantation service area and 7.00% margin on expenses for the River Walk service area are also consistent with other approved overall rates of return for other water and sewer utilities in North Carolina.

For these reasons, I recommend to the Commission that WRI be granted a 7.00% rate of return on rate base for the Rocky River Plantation service area and 7.00% margin on expenses for the River Walk service area. This concludes my affidavit.

  
\_\_\_\_\_  
Gregory J. Reger

Sworn to and subscribed before me,  
This the 10th day of April 2024.

  
\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Jessica Heironimus  
Printed Name



My Commission expires: June 4, 2028

**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing has been served on all parties of record or their attorneys, or both, in accordance with Commission Rule R1-39, by United States Mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 12th day April, 2024.

Electronically submitted  
/s/ Gina C. Holt  
Staff Attorney

1 MS. HOLT: Thank you.

2 HEARING EXAMINER HILBURN: So we'll have  
3 everybody into evidence.

4 MR. FINLEY: I guess I would move that these  
5 pictures for illustrative purposes only be made apart  
6 of the record.

7 HEARING EXAMINER HILBURN: Yes, and without  
8 objection, that is allowed.

9 (WHEREUPON, WRI Rebuttal  
10 Exhibit 1 is received into  
11 evidence.)

12 HEARING EXAMINER HILBURN: And with that, I  
13 thank everyone for their testimony and for coming out  
14 yesterday and today, and thank you for being good  
15 witnesses and good attorneys. So thank you.

16 And we're off the record.

17 (Proceedings were adjourned.)

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C E R T I F I C A T E

I, KAYLENE CLAYTON, DO HEREBY CERTIFY that  
the Proceedings in the above-captioned matter were  
taken before me, that I did report in stenographic  
shorthand the Proceedings set forth herein, and the  
foregoing pages are a true and correct transcription to  
the best of my ability.

*Kaylene Clayton*

Kaylene Clayton